

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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 30, 2019
or
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission File Number: 001-38603

SONOS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	3577 (Primary standard industrial code number)	03-0479476 (I.R.S. Employer Identification No.)
614 Chapala Street Santa Barbara, CA 93101 (805) 965-3001 (Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)		

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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☐
	Emerging growth company ☐

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange where registered
Common Stock, \$0.0001 par value	SONO	NASDAQ

As of May 3, 2019 the registrant had 105,004,158 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SONOS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except par values)

	As of	
	March 30, 2019	September 29, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 295,276	\$ 220,930
Restricted cash	183	190
Accounts receivable, net of allowances	64,130	73,214
Inventories	103,725	193,193
Prepays and other current assets	15,485	10,073
Total current assets	478,799	497,600
Property and equipment, net	71,559	85,371
Deferred tax assets	474	941
Other noncurrent assets	3,508	3,586
Total assets	\$ 554,340	\$ 587,498
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 86,074	\$ 195,159
Accrued expenses	31,945	38,687
Accrued compensation	26,946	33,371
Short-term debt	10,000	6,667
Deferred revenue	12,914	11,615
Other current liabilities	17,914	10,858
Total current liabilities	185,793	296,357
Long-term debt	29,801	33,097
Deferred revenue	42,319	39,352
Other noncurrent liabilities	9,558	10,334
Total liabilities	267,471	379,140
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, \$0.001 par value	106	101
Treasury stock	(11,638)	(11,072)
Additional paid-in capital	463,677	424,617
Accumulated deficit	(164,768)	(203,611)
Accumulated other comprehensive loss	(508)	(1,677)
Total stockholders' equity	286,869	208,358
Total liabilities and stockholders' equity	\$ 554,340	\$ 587,498

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

SONOS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands, except share and per share amounts)

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Revenue	\$ 210,173	\$ 186,720	\$ 706,544	\$ 655,670
Cost of revenue	119,760	105,379	420,842	378,128
Gross profit	90,413	81,341	285,702	277,542
Operating expenses				
Research and development	40,080	35,237	77,175	68,766
Sales and marketing	49,371	59,233	115,223	153,258
General and administrative	23,900	20,585	47,724	42,959
Total operating expenses	113,351	115,055	240,122	264,983
Operating income (loss)	(22,938)	(33,714)	45,580	12,559
Other income (expense), net				
Interest income (expense), net	611	(1,085)	213	(2,250)
Other income (expense), net	(710)	2,808	(4,708)	3,429
Total other income (expense), net	(99)	1,723	(4,495)	1,179
Income (loss) before provision for (benefit from) income taxes	(23,037)	(31,991)	41,085	13,738
Provision for (benefit from) income taxes	(213)	601	2,242	633
Net income (loss)	\$ (22,824)	\$ (32,592)	\$ 38,843	\$ 13,105
Net income (loss) attributable to common stockholders - basic	\$ (22,824)	\$ (32,592)	\$ 38,843	\$ 3,753
Net income (loss) attributable to common stockholders - diluted	\$ (22,824)	\$ (32,592)	\$ 38,843	\$ 4,028
Net income (loss) per share attributable to common stockholders - basic	\$ (0.22)	\$ (0.55)	\$ 0.38	\$ 0.06
Net income (loss) per share attributable to common stockholders - diluted	\$ (0.22)	\$ (0.55)	\$ 0.35	\$ 0.05
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders - basic	102,331,529	59,606,879	101,239,817	59,189,760
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders - diluted	102,331,529	59,606,879	111,474,057	73,365,673
Total comprehensive income (loss)				
Net income (loss)	\$ (22,824)	\$ (32,592)	\$ 38,843	\$ 13,105
Change in foreign currency translation adjustment, net of tax	660	(17)	1,169	362
Comprehensive income (loss)	\$ (22,164)	\$ (32,609)	\$ 40,012	\$ 13,467

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

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

Three Months Ended March 30, 2019								
	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance at December 29, 2018	101,042,703	\$ 101	\$ 434,111	(807,040)	\$ (11,072)	\$ (141,944)	\$ (1,168)	\$ 280,028
Issuance of common stock pursuant to equity incentive plans	4,649,929	5	18,480	—	—	—	—	18,485
Purchase of treasury stock	—	—	—	(54,314)	(566)	—	—	(566)
Stock-based compensation expense	—	—	11,086	—	—	—	—	11,086
Net loss	—	—	—	—	—	(22,824)	—	(22,824)
Change in foreign currency translation adjustment	—	—	—	—	—	—	660	660
Balance at March 30, 2019	<u>105,692,632</u>	<u>\$ 106</u>	<u>\$ 463,677</u>	<u>(861,354)</u>	<u>\$ (11,638)</u>	<u>\$ (164,768)</u>	<u>\$ (508)</u>	<u>\$ 286,869</u>

Three Months Ended March 31, 2018										
	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 December 30, 2017	32,482,590	\$ 90,341	59,945,378	\$ 60	\$ 212,117	(790,034)	\$ (10,816)	\$ (142,310)	\$ (1,786)	\$ 57,265
Issuance of common stock pursuant to equity incentive plans	—	—	761,854	—	2,076	—	—	—	—	2,076
Purchase of treasury stock	—	—	—	—	—	(9,140)	(137)	—	—	(137)
Stock-based compensation expense	—	—	—	—	9,528	—	—	—	—	9,528
Net loss	—	—	—	—	—	—	—	(32,592)	—	(32,592)
Change in foreign currency translation adjustment	—	—	—	—	—	—	—	—	(17)	(17)
Balance at March 31, 2018	<u>32,482,590</u>	<u>\$ 90,341</u>	<u>60,707,232</u>	<u>\$ 60</u>	<u>\$ 223,721</u>	<u>(799,174)</u>	<u>\$ (10,953)</u>	<u>\$ (174,902)</u>	<u>\$ (1,803)</u>	<u>\$ 36,123</u>

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

Six Months Ended March 30, 2019								
	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
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	4,824,382	5	18,942	—	—	—	—	18,947
Purchase of treasury stock	—	—	—	(54,314)	(566)	—	—	(566)
Stock-based compensation expense	—	—	20,118	—	—	—	—	20,118
Net income	—	—	—	—	—	38,843	—	38,843
Change in foreign currency translation adjustment	—	—	—	—	—	—	1,169	1,169
Balance at March 30, 2019	<u>105,692,632</u>	<u>\$ 106</u>	<u>\$ 463,677</u>	<u>(861,354)</u>	<u>\$ (11,638)</u>	<u>\$ (164,768)</u>	<u>\$ (508)</u>	<u>\$ 286,869</u>

Six Months Ended March 31, 2018										
	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 September 30, 2017	32,482,590	\$ 90,341	59,339,336	\$ 59	\$ 200,301	(746,462)	\$ (10,161)	\$ (188,007)	\$ (2,165)	\$ 27
Issuance of common stock pursuant to equity incentive plans	—	—	1,367,896	1	4,355	—	—	—	—	4,356
Purchase of treasury stock	—	—	—	—	—	(52,712)	(792)	—	—	(792)
Stock-based compensation expense	—	—	—	—	19,065	—	—	—	—	19,065
Net income	—	—	—	—	—	—	—	13,105	—	13,105
Change in foreign currency translation adjustment	—	—	—	—	—	—	—	—	362	362
Balance at March 31, 2018	<u>32,482,590</u>	<u>\$ 90,341</u>	<u>60,707,232</u>	<u>\$ 60</u>	<u>\$ 223,721</u>	<u>(799,174)</u>	<u>\$ (10,953)</u>	<u>\$ (174,902)</u>	<u>\$ (1,803)</u>	<u>\$ 36,123</u>

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

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

	Six Months Ended	
	March 30, 2019	March 31, 2018
Cash flows from operating activities		
Net income	\$ 38,843	\$ 13,105
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	18,964	18,887
Stock-based compensation expense	20,118	19,065
Other	1,607	337
Deferred income taxes	441	146
Foreign currency transaction (gain) loss	2,300	(2,248)
Changes in operating assets and liabilities:		
Accounts receivable, net	7,933	12,081
Inventories, net	86,814	27,979
Other assets	(5,433)	(2,095)
Accounts payable and accrued expenses	(111,227)	(75,692)
Accrued compensation	(6,205)	(9,340)
Deferred revenue	4,562	3,659
Other liabilities	6,388	(1,297)
Net cash provided by operating activities	65,105	4,587
Cash flows from investing activities		
Purchases of property and equipment	(8,087)	(21,870)
Net cash used in investing activities	(8,087)	(21,870)
Cash flows from financing activities		
Proceeds from borrowings, net of borrowing costs	—	30,000
Repayments of borrowings	—	(30,000)
Payments for purchase of treasury stock	(566)	(792)
Proceeds from exercise of common stock options	18,947	4,356
Payments of offering costs	(585)	(1,288)
Net cash provided by financing activities	17,796	2,276
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(475)	2,224
Net increase (decrease) in cash, cash equivalents and restricted cash	74,339	(12,783)
Cash, cash equivalents and restricted cash		
Beginning of period	221,120	130,788
End of period	\$ 295,459	\$ 118,005
Supplemental disclosure		
Cash paid for interest	\$ 1,244	\$ 2,383
Cash paid for taxes, net of refunds	\$ 1,941	\$ 503
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment in accounts payable and accrued expenses	\$ 2,426	\$ 3,133
Deferred offering costs in accounts payable and accrued expenses	\$ —	\$ 1,125

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

SONOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Business overview and basis of presentation

Description of business

Sonos, Inc. and its wholly owned subsidiaries (collectively, “Sonos,” the “Company,” “we,” “us” or “our”) 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 throughout the home over the customer’s wireless network.

The Company’s products are sold through third-party physical retailers, 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.

Basis of presentation and preparation

The accompanying condensed consolidated financial statements are unaudited. The condensed consolidated balance sheet as of March 30, 2019 has been derived from the audited financial statements of the Company. The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information, and in management’s opinion, includes all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of the Company’s financial position, its results of operations and cash flows for the interim periods presented. The results of operations for the six months ended March 30, 2019 are not necessarily indicative of the results to be expected for the full fiscal year or any other period.

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended September 29, 2018 (the “Annual Report”), filed with the Securities and Exchange Commission (“SEC”) on November 28, 2018. Certain prior period amounts have been reclassified to conform to the current period presentation.

The Company has a 4-4-5 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 months followed by a 5-week “month.” An additional week is included in the fourth fiscal quarter approximately every five years to realign fiscal quarters with calendar quarters. This last occurred in the fourth quarter of the Company’s fiscal year ended October 3, 2015. The six months ended March 30, 2019 and March 31, 2018 spanned 13 weeks each. As used in this Quarterly Report on Form 10-Q, “fiscal 2019” refers to the fiscal year ending September 28, 2019 and “fiscal 2018” refers to the fiscal year ended September 29, 2018.

Initial public offering

On August 6, 2018, the Company completed its initial public offering (the “IPO”) of its common stock, in which it sold 6,388,888 shares of its common stock, including 833,333 shares of its common stock pursuant to the underwriters’ over-allotment option, and selling stockholders sold 9,583,333 shares of the Company’s common stock, including 1,250,000 shares pursuant to the underwriters’ over-allotment option. 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. Additionally, offering costs incurred by the Company totaled approximately \$4.6 million. 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.

SONOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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 condensed consolidated financial statements has 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 condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, the Company evaluates its estimates and judgments compared to historical experience and expected trends.

2. Summary of significant accounting policies

There have been no changes in the Company's significant accounting policies, recently adopted accounting pronouncements, or recent accounting pronouncements pending adoption from those disclosed in the Annual Report, except as noted below.

Recently adopted accounting pronouncements

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 the actual achievement. 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.

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 in this Quarterly Report on Form 10-Q. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. ASU 2016-16 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.

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 in this Quarterly Report on Form 10-Q. 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.

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

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, *Disclosure Update and Simplification*, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule became effective November 5, 2018. In the first quarter of fiscal 2019, the Company adopted this standard for all periods presented in this Quarterly Report on Form 10-Q, presenting the activity of the stockholders' equity accounts in the accompanying consolidated statements stockholders' equity (deficit) for the periods presented.

Recent accounting pronouncements pending adoption

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, and other subsequent amendments to amend historical lease accounting in order to increase transparency and comparability among entities. The standard requires lessees to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. This standard is effective for public entities for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company expects to adopt the new lease standard in the first quarter of fiscal 2020. Upon adoption, the Company will recognize any qualifying right-of-use assets and lease liabilities on its condensed consolidated balance sheets, which will increase the Company's total assets and total liabilities. The Company is currently evaluating the impact of adoption on its 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, *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 guidance is effective for public entities for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the timing of the adoption and its 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 (Subtopic 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.

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 March 30, 2019 and September 29, 2018 as the debt carries a variable rate or market rates that approximate those currently available to the Company.

SONOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The following table summarizes fair value measurements by level for the assets measured at fair value on a recurring basis as of March 30, 2019 and September 29, 2018 :

March 30, 2019				
(In thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (cash equivalents)	\$ 225,000	\$ —	\$ —	\$ 225,000

September 29, 2018				
(In thousands)	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 includes the applicable service revenue attributable to each region and is based on ship-to address, as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Americas	\$ 116,344	\$ 92,985	\$ 375,071	\$ 324,723
Europe, Middle East and Africa (“EMEA”)	79,307	83,941	295,387	299,205
Asia Pacific (“APAC”)	14,522	9,794	36,086	31,742
Total revenue	\$ 210,173	\$ 186,720	\$ 706,544	\$ 655,670

Revenue is attributed to individual countries based on ship-to address and includes the applicable service revenue attributable to each country. Revenue by significant countries is as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
United States	\$ 109,852	\$ 86,120	\$ 346,964	\$ 296,143
Germany	20,085	19,517	76,140	77,208
United Kingdom	15,729	16,227	70,226	70,490
Other countries	64,507	64,856	213,214	211,829
Total revenue	\$ 210,173	\$ 186,720	\$ 706,544	\$ 655,670

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

Revenue by product categories includes the applicable service revenue attributable to each product category. Revenue by major product category is as follows:

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
(In thousands)				
Wireless speakers	\$ 71,499	\$ 85,933	\$ 297,368	\$ 359,318
Home theater speakers	89,006	68,790	299,243	217,220
Components	38,499	28,977	89,405	71,247
Other	11,169	3,020	20,528	7,885
Total revenue	<u>\$ 210,173</u>	<u>\$ 186,720</u>	<u>\$ 706,544</u>	<u>\$ 655,670</u>

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

5. Balance sheet components

Accounts receivable, net of allowances

Accounts receivable, net of allowances, consist of the following:

	March 30, 2019	September 29, 2018
(In thousands)		
Accounts receivable	\$ 77,117	\$ 85,840
Allowance for doubtful accounts	(970)	(872)
Allowance for sales incentives	(12,017)	(11,754)
Accounts receivable, net of allowances	<u>\$ 64,130</u>	<u>\$ 73,214</u>

Inventories

Inventories, net, consist of the following:

	March 30, 2019	September 29, 2018
(In thousands)		
Finished goods	\$ 86,480	\$ 176,181
Component parts	17,245	17,012
Inventories	<u>\$ 103,725</u>	<u>\$ 193,193</u>

The Company writes down inventory as a result of excess and obsolete inventories, or when it believes that the net realizable value of inventories is less than the carrying value.

Accrued expenses

Accrued expenses consisted of the following:

	March 30, 2019	September 29, 2018
(In thousands)		
Accrued advertising and marketing	\$ 10,208	\$ 11,613
Accrued taxes	3,808	4,175
Accrued inventory	644	4,179
Accrued manufacturing, logistics and product development	6,897	8,290
Accrued general and administrative expenses	5,396	3,322
Other accrued payables	4,992	7,108
Total accrued expenses	<u>\$ 31,945</u>	<u>\$ 38,687</u>

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

Deferred revenue

Amounts invoiced in advance of revenue recognition are recorded as deferred revenue on the condensed consolidated balance sheets. Changes in deferred revenue balances as of March 30, 2019 and March 31, 2018 were as follows:

	<u>March 30, 2019</u>	<u>March 31, 2018</u>
(In thousands)		
Deferred revenue, beginning of period	\$ 50,967	\$ 45,567
Recognition of revenue included in beginning of period deferred revenue	(6,040)	(6,014)
Revenue deferred, net of revenue recognized on contracts in the respective period	10,306	9,831
Deferred revenue, end of period	<u>\$ 55,233</u>	<u>\$ 49,384</u>

The Company expects the following recognition of revenue as of March 30, 2019 :

	<u>For the fiscal years ending</u>					
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023 and Beyond</u>	<u>Total</u>
(In thousands)						
Revenue expected to be recognized	\$ 6,634	\$ 12,351	\$ 11,048	\$ 9,202	\$ 15,998	\$ 55,233

Other current liabilities

Other current liabilities consist of the following:

	<u>As of</u>	
	<u>March 30, 2019</u>	<u>September 29, 2018</u>
(In thousands)		
Reserve for returns	\$ 10,950	\$ 5,005
Product warranty liability	3,726	2,450
Other	3,238	3,403
Total other current liabilities	<u>\$ 17,914</u>	<u>\$ 10,858</u>

The following table presents the changes in the Company's warranty liability for the six months ended March 30, 2019 and March 31, 2018 :

	<u>March 30, 2019</u>	<u>March 31, 2018</u>
(In thousands)		
Warranty liability, beginning of period	\$ 2,450	\$ 2,437
Provision for warranties issued during the period	6,934	4,544
Settlements of warranty claims during the period	(5,658)	(4,889)
Warranty liability, end of period	<u>\$ 3,726</u>	<u>\$ 2,092</u>

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

6. Debt

The Company's short- and long-term debt as of March 30, 2019 and September 29, 2018 was as follows:

	March 30, 2019		September 29, 2018	
	Rate	Balance	Rate	Balance
(dollars in thousands)				
J.P. Morgan Chase Bank, N.A Secured Term Loan (the "Term Loan") ⁽¹⁾	5.1%	\$ 40,000	4.8%	\$ 40,000
Unamortized debt issuance costs ⁽²⁾		(199)		(236)
Total indebtedness		\$ 39,801		\$ 39,764
Less short-term portion		(10,000)		(6,667)
Long-term debt		<u>\$ 29,801</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 recorded as interest expense over the term of the agreement.

The Company's Secured Credit Facility with J.P. Morgan Chase Bank, N.A. (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 March 30, 2019 and September 29, 2018 , the Company was in compliance with all financial covenants.

The Company's obligations under 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. As of both March 30, 2019 and September 29, 2018 , the Company did not have any outstanding borrowings and \$ 4.5 million in undrawn letters of credit that reduce the availability under the Credit Facility. As of March 30, 2019 and September 29, 2018 , the Company had \$ 39.8 million outstanding on the Term Loan.

7. Commitments and contingencies

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 March 30, 2019 and September 29, 2018 .

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

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

8. Stock-based compensation

In 2003, the Company's board of directors (the "Board") established the 2003 Stock Plan (as amended, the "2003 Plan"). In July 2018, the Board adopted the 2018 Equity Incentive Plan (the "2018 Plan") and ceased granting awards under the 2003 Plan. The 2018 Plan became effective in connection with the IPO. Any remaining shares of common stock available for issuance under the 2003 Plan on the effective date of the 2018 Plan were added to the shares of common stock reserved for issuance under the 2018 Plan as of such date, and additional shares of common stock that become available for issuance under the 2003 Plan in the future will instead become available for issuance under the 2018 Plan, as further discussed in the Annual Report.

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 stock price on 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 basis thereafter, and are exercisable for a period not to exceed ten years from the date of grant.

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	1,214,328			
Exercised	(4,794,807)			
Forfeited	(3,198,652)			
Outstanding at March 30, 2019	<u>41,725,051</u>	\$ 10.95	6.5	\$ 79,001
At March 30, 2019				
Options exercisable	27,505,569	\$ 9.19	5.5	\$ 79,001
Options vested and expected to vest	39,490,352	\$ 10.75	6.4	\$ 79,001

As of March 30, 2019 and September 29, 2018, the Company had \$58.3 million and \$71.5 million, respectively, of unrecognized stock-based compensation expense, which is expected to be recognized over a weighted-average period of 2.3 and 2.6 years, respectively.

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

Restricted stock units

Pursuant to the 2018 Plan, the Company issues restricted stock units (“RSUs”) to employees. The fair value of RSUs is based on the Company’s stock price on 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)
Unvested at September 29, 2018	—	\$ —	\$ —
Granted	6,124,663		
Vested	(29,575)		
Forfeited	(26,730)		
Unvested at March 30, 2019	<u>6,068,358</u>	\$ 11.46	\$ 62,443
At March 30, 2019			
Units expected to vest	4,561,416	\$ 11.47	\$ 46,937

As of March 30, 2019, the Company had \$ 50.1 million of unrecognized stock-based compensation expense related to their RSUs, which is expected to be recognized over a weighted-average period of 3.8 years.

Stock-based compensation

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

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
(In thousands)				
Cost of revenue	\$ 218	\$ 51	\$ 403	\$ 107
Research and development	4,284	3,384	7,888	6,766
Sales and marketing	3,128	4,037	5,809	8,022
General and administrative	3,456	2,056	6,018	4,170
Total stock-based compensation expense	<u>\$ 11,086</u>	<u>\$ 9,528</u>	<u>\$ 20,118</u>	<u>\$ 19,065</u>

9. Income taxes

The Company’s tax provision and the resulting effective tax rate for interim periods is determined based upon its estimated annual effective tax rate, adjusted for the effect of discrete items arising in that quarter. The impact of such inclusions could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings or losses versus annual projections. In each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual tax rate changes, a cumulative adjustment is made in that quarter.

The Company had an income tax benefit of \$0.2 million and income tax expense of \$0.6 million for the three months ended March 30, 2019 and March 31, 2018, respectively. The Company had income tax expense of \$ 2.2 million and income tax expense of \$ 0.6 million for the six months ended March 30, 2019 and March 31, 2018,

SONOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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respectively. For the three and six months ended March 30, 2019, we calculated our U.S. income tax provision using the discrete method as though the interim year to date period was an annual period. The Company believes that the application of the estimated annual effective tax rate ("AETR") method generally required by ASC 740 is impractical for the U.S. tax provision given that normal deviations in the projected pre-tax net income (loss) in the U.S. could result in a disproportionate and unreliable effective tax rate under the AETR method.

For the quarter-ended March 30, 2019, 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.

Tax Cuts and Jobs Act

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act (the "Tax Act") into law, introducing significant changes to U.S. income tax law. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017 and the transition of U.S. international taxation from a worldwide tax system to a territorial system.

The Company is subject to certain of the provisions of the Tax Act during the year ending September 28, 2019. These provisions include a new tax on global intangible low-taxed income ("GILTI"), a deduction for foreign derived intangible income ("FDII") and a minimum tax on certain transactions deemed to erode the U.S. tax base ("BEAT"). The Company has elected to account for GILTI as a period cost. In fiscal 2019, the Company does not believe that its effective tax rate will be materially impacted by GILTI or FDII, but the Company may be subject to BEAT. The total BEAT provision for the year is subject to change based on the Company's results of operations and new Internal Revenue Service guidance issued during the year.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118, which allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. During the three months ended December 29, 2018, the Company completed the accounting for the elements of the Tax Act. The Company had previously not recorded a provision related to the Tax Act and has determined further adjustment was not required.

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

10. Net income (loss) per share attributable to common stockholders

Basic and diluted net income (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 income (loss) attributable to common stockholders per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding less shares subject to repurchase. Diluted net income (loss) per share attributable to common stockholders adjusts the basic net income (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 income (loss) per share attributable to common stockholders:

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
(In thousands, except share and per share data)				
Numerator:				
Net income (loss)	\$ (22,824)	\$ (32,592)	\$ 38,843	\$ 13,105
Less: noncumulative dividend to preferred stockholders	—	—	—	(7,293)
Less: undistributed earnings to participating securities	—	—	—	(2,059)
Net income (loss) attributable to common stockholders—basic	\$ (22,824)	\$ (32,592)	\$ 38,843	\$ 3,753
Add: undistributed earnings reallocated to holders of common stock	—	—	—	275
Net income (loss) attributable to common stockholders—diluted	\$ (22,824)	\$ (32,592)	\$ 38,843	\$ 4,028
Denominator:				
Weighted-average shares of common stock—basic	102,331,529	59,606,879	101,239,817	59,189,760
Effect of potentially dilutive stock options	—	—	9,901,628	14,175,913
Effect of RSUs	—	—	332,612	—
Weighted-average shares of common stock—diluted	102,331,529	59,606,879	111,474,057	73,365,673
Net income (loss) per share attributable to common stockholders:				
Net income (loss) per share attributable to common stockholders—basic	\$ (0.22)	\$ (0.55)	\$ 0.38	\$ 0.06
Net income (loss) per share attributable to common stockholders—diluted	\$ (0.22)	\$ (0.55)	\$ 0.35	\$ 0.05

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

The following potentially dilutive shares were excluded from the computation of diluted net income (loss) per share attributable to common stockholders because including them would have been antidilutive:

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Convertible preferred stock	—	32,482,590	—	32,482,590
Stock options to purchase common stock	41,602,128	45,171,937	34,926,238	30,546,921
Restricted stock units	3,215,651	—	1,410,272	—
Shares subject to repurchase	—	53,892	—	—
Total	44,817,779	77,708,419	36,336,510	63,029,511

11. Defined contribution 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 defined contribution plans for employees in Germany, France and Netherlands. In the second quarter of fiscal 2019, the Company began making contributions towards the 401(k) Plan, as well as towards the defined contribution plans in Germany, France and Netherlands.

Item 2. Management's discussion and analysis of financial condition and results of operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report.

We have a 4-4-5 fiscal year ending on the Saturday nearest September 30 each year. Our fiscal year is divided into four quarters of 13 weeks, each beginning on a Sunday and containing two 4-week months followed by a 5-week "month."

Forward-looking statements

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, 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 II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings, including our Annual Report. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results may differ materially and adversely from those anticipated or implied in the forward-looking statements. You should read this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

Overview

Sonos was founded with a clear mission—to fill every home with music. This mission led us to invent wireless multi-room home audio. Sonos transforms the way people live and interact by restoring the shared experience of music throughout the home. Our home 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 generate substantially all 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 home sound systems. Our wireless speakers include Play:1, Play:3 and Play:5, as well as Sonos One, which includes native voice control. Our home theater products include Playbar, Playbase and Sub, as well as the recently released Sonos Beam, which includes native voice control. Our component products include Connect, Connect:Amp and Sonos Amp, as well as our architectural speakers recently released in connection with our Sonance partnership. We also generate revenue from other sources, such as module revenue from our IKEA partnership, the sale of Sonos and third-party accessories like speaker stands and wall mounts, as well as licensing revenue. We sell our products primarily through over 10,000 third-party physical retailers, including custom installers of home audio systems. We also sell through select e-commerce retailers and our website sonos.com. Our products are distributed in over 50 countries. We operate offices and development labs worldwide, with a significant presence in the United States, the Netherlands and China.

Key metrics

In addition to the measures presented in our condensed 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 products sold, adjusted EBITDA and adjusted EBITDA margin.

Net income (loss) is the most directly comparable financial measure calculated under U.S. GAAP for adjusted EBITDA. In the three months ended March 30, 2019 and March 31, 2018, we had net loss of \$22.8 million and \$32.6 million, respectively. In the six months ended March 30, 2019 and March 31, 2018, we had net income of \$38.8 million and \$13.1 million, respectively.

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
(in thousands, except percentages)				
Products sold	785	778	3,170	3,071
Adjusted EBITDA	\$ (2,757)	\$ (14,845)	\$ 84,662	\$ 50,511
Adjusted EBITDA margin	(1.3)%	(8.0)%	12.0%	7.7%

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 and components. Products sold excludes the sale of other products, such as module units from our IKEA partnership and 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 income (loss) adjusted to exclude the impact of stock-based compensation expense, depreciation, interest expense, net, other income (expense), net and provision for (benefit from) income taxes. We define adjusted EBITDA margin as adjusted EBITDA divided by revenue. See “Non-GAAP financial measures” below for information regarding our use of adjusted EBITDA and adjusted EBITDA margin and a reconciliation of net income to adjusted EBITDA.

Non-GAAP financial measures

To supplement our condensed 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.

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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 believe that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater transparency with respect to key financial metrics 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 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 income tax 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 income (loss) to adjusted EBITDA:

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
(in thousands, except percentages)				
Net income (loss)	\$ (22,824)	\$ (32,592)	\$ 38,843	\$ 13,105
Depreciation	9,095	9,341	18,964	18,887
Stock-based compensation expense	11,086	9,528	20,118	19,065
Interest (income) expense, net	(611)	1,085	(213)	2,250
Other (income) expense, net	710	(2,808)	4,708	(3,429)
Provision for (benefit from) income taxes	(213)	601	2,242	633
Adjusted EBITDA	\$ (2,757)	\$ (14,845)	\$ 84,662	\$ 50,511
Revenue	\$ 210,173	\$ 186,720	\$ 706,544	\$ 655,670
Adjusted EBITDA margin	(1.3)%	(8.0)%	12.0%	7.7%

Factors affecting performance

New product introductions. To date, new product introductions have had a positive impact on our revenue. New product launches and changes in our product mix can contribute to significant year-over-year revenue variability. When new products are introduced, initial sales of the product to our retail channel partners can lead to revenue that is higher than normal for the period. Additionally, although channels are typically filled before general availability, revenue recognition related to new product introductions is delayed until the date of general availability, which can magnify the impact of a new product launch in quarters where there is a general availability launch.

Seasonality . Historically, we have experienced the highest levels of revenue in the first fiscal quarter of the year, coinciding with the holiday shopping season. Our promotional discounting activity is higher in the first fiscal quarter as well, which negatively impacts gross margin during this period. 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.

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 a small portion of our revenue from other revenue sources, such as module revenue from our IKEA partnership, the sale of Sonos and third-party accessories like speaker stands and wall mounts, as well as professional services and licensing revenue. We attribute our revenue from our IKEA partnership to our other product category and to our APAC region, which is determined by the address we ship the module units to. 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.

Cost of revenue

Cost of revenue consists of product costs, including costs of our contract manufacturers for production, component costs, shipping and handling 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 consist of salaries, bonuses, benefits and stock-based compensation expenses.

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 mix through which we sell our products and the foreign currency in which our products are sold. As we increase the pace of our product introductions, we expect our gross margin to decline in the near to intermediate term as new products gain a larger share of our overall product mix. 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. In this regard, we believe our ability to achieve these results could potentially be impacted through calendar year 2019 due to an industry-wide supply shortage of certain electrical components, arising from an imbalance of global demand and supply capacity and related increases in the costs of these components.

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, prototype materials and related 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 to continue to invest in research and development as we develop new 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.

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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, information technology, litigation expenses, patent costs, related overhead 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 becoming a public company.

Other income (expense), net

Interest income (expense), net. Interest income consists primarily of interest income earned on our cash and cash equivalents balances. Interest expense consists primarily of interest expense associated with our debt financing arrangements and amortization of debt issuance costs.

Other income (expense), net. Other income (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 (benefit from) income taxes

We are subject to income taxes in the United States and foreign jurisdictions in which we operate. Foreign jurisdictions have statutory tax rates different from those in the United States. Accordingly, our effective tax rate 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 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.

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Results of operations

The following table sets forth our condensed consolidated results of operations for the periods indicated. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
(in thousands)				
Revenue	\$ 210,173	\$ 186,720	\$ 706,544	\$ 655,670
Cost of revenue ⁽¹⁾	119,760	105,379	420,842	378,128
Gross profit	90,413	81,341	285,702	277,542
Operating expenses				
Research and development ⁽¹⁾	40,080	35,237	77,175	68,766
Sales and marketing ⁽¹⁾	49,371	59,233	115,223	153,258
General and administrative ⁽¹⁾	23,900	20,585	47,724	42,959
Total operating expenses	113,351	115,055	240,122	264,983
Operating income (loss)	(22,938)	(33,714)	45,580	12,559
Other income (expense), net				
Interest income (expense), net	611	(1,085)	213	(2,250)
Other income (expense), net	(710)	2,808	(4,708)	3,429
Total other income (expense), net	(99)	1,723	(4,495)	1,179
Income (loss) before provision for (benefit from) income taxes	(23,037)	(31,991)	41,085	13,738
Provision for (benefit from) income taxes	(213)	601	2,242	633
Net income (loss)	\$ (22,824)	\$ (32,592)	\$ 38,843	\$ 13,105
Adjusted EBITDA ⁽²⁾	\$ (2,757)	\$ (14,845)	\$ 84,662	\$ 50,511

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

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Cost of revenue	\$ 218	\$ 51	\$ 403	\$ 107
Research and development	4,284	3,384	7,888	6,766
Sales and marketing	3,128	4,037	5,809	8,022
General and administrative	3,456	2,056	6,018	4,170
Total stock-based compensation expense	\$ 11,086	\$ 9,528	\$ 20,118	\$ 19,065

(2) Adjusted EBITDA is a financial measure that is not calculated in accordance with U.S. GAAP. See the section titled “Non-GAAP Financial Measures” above.

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The following table sets forth selected condensed consolidated financial data for the periods indicated, expressed as a percentage of revenue (the table may not foot due to rounding):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Revenue	100.0 %	100.0 %	100.0%	100.0%
Cost of revenue ⁽¹⁾	57.0	56.4	59.6	57.7
Gross profit	43.0	43.6	40.4	42.3
Operating expenses				
Research and development ⁽¹⁾	19.1	18.9	10.9	10.5
Sales and marketing ⁽¹⁾	23.5	31.7	16.3	23.4
General and administrative ⁽¹⁾	11.4	11.0	6.8	6.6
Total operating expenses	53.9	61.6	34.0	40.4
Operating income (loss)	(10.9)	(18.1)	6.5	1.9
Other income (expense), net				
Interest income (expense), net	0.3	(0.6)	—	(0.3)
Other income (expense), net	(0.3)	1.5	(0.7)	0.5
Total other income (expense), net	—	0.9	(0.6)	0.2
Income (loss) before provision for (benefit from) income taxes	(11.0)	(17.1)	5.8	2.1
Provision for (benefit from) income taxes	(0.1)	0.3	0.3	0.1
Net income (loss)	(10.9)	(17.5)	5.5	2.0
Adjusted EBITDA margin ⁽²⁾	(1.3)%	(8.0)%	12.0%	7.7%

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

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Cost of revenue	0.1%	—%	0.1%	—%
Research and development	2.0	1.8	1.1	1.0
Sales and marketing	1.5	2.2	0.8	1.2
General and administrative	1.6	1.1	0.9	0.6
Total stock-based compensation expense	5.3%	5.1%	2.8%	2.9%

(2) Adjusted EBITDA is a financial measure that is not calculated in accordance with U.S. GAAP. See the section titled “Non-GAAP Financial Measures” above.

Comparison of the three and six months ended March 30, 2019 and March 31, 2018

Revenue

Comparison of the three months ended March 30, 2019 and March 31, 2018

	Three Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars and products sold in thousands)				
Americas	\$ 116,344	\$ 92,985	\$ 23,359	25.1 %
EMEA	79,307	83,941	(4,634)	(5.5)%
APAC	14,522	9,794	4,728	48.3 %
Total revenue	<u>\$ 210,173</u>	<u>\$ 186,720</u>	<u>\$ 23,453</u>	<u>12.6 %</u>
Total products sold	785	778	7	0.9 %

Total revenue increased by \$23.5 million, or 12.6% , from \$186.7 million for the three months ended March 31, 2018 to \$210.2 million for the three months ended March 30, 2019 , primarily due to strong growth in home theater products related to the launch of our newest home theater product, Sonos Beam, which launched in July 2018, and an increase in sales of our Sub product. Revenue growth was also attributed to the launch of Sonos Amp in November 2018. This growth was partially offset by an overall decrease in revenue from our wireless speakers category, primarily driven by decreases in sales in the Play:1, due to volume mix shifting from Play:1 to Sonos One, and Play:3 speakers due to discontinuing Play:3 from our product portfolio in fiscal 2018. The decrease from our wireless speakers category was offset in part by increases in sales of Sonos One speakers.

Products sold increased by 0.9% for the three months ended March 30, 2019 compared to the three months ended March 31, 2018 . The volume growth was primarily driven by sales of Sonos Beam, Sonos One and Sub products. Volume growth was partially offset by a decrease in sales of our wireless speaker products, Play:3 and Play:1 speakers.

Revenue from the Americas increased \$ 23.4 million, or 25.1% , from \$ 93.0 million for the three months ended March 31, 2018 to \$ 116.3 million for the three months ended March 30, 2019 . The increase in Americas revenue was driven by strong growth in home theater products related to the launch of Sonos Beam, the addition of retailers, and growth in component products. Revenue growth in the period was partially offset by decreased revenue in wireless speaker products due to reduced sales of our Play:1 and Play:3 speakers.

Revenue from EMEA decreased \$ 4.6 million, or 5.5% , from \$ 83.9 million for the three months ended March 31, 2018 to \$ 79.3 million for the three months ended March 30, 2019 . The decrease in EMEA revenue was driven by decreases in sales of wireless speaker products, partially offset by increased sales of home theater products and components.

Revenue from APAC increased \$ 4.7 million, or 48.3% , from \$ 9.8 million for the three months ended March 31, 2018 to \$ 14.5 million for the three months ended March 30, 2019 . The increase in APAC revenue was primarily driven by revenue related to our partnership with IKEA.

In constant U.S. dollars, total revenue increased by 17.1% for the three months ended March 30, 2019 compared to the three months ended March 31, 2018 , which excludes the impact of foreign currencies weakening 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.

Comparison of the six months ended March 30, 2019 and March 31, 2018

	Six Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars and products sold in thousands)				
Americas	\$ 375,071	\$ 324,723	\$ 50,348	15.5 %
EMEA	295,387	299,205	(3,818)	(1.3)%
APAC	36,086	31,742	4,344	13.7 %
Total revenue	\$ 706,544	\$ 655,670	\$ 50,874	7.8 %
Total products sold	3,170	3,071	99	3.2 %

Total revenue increased by \$ 50.9 million, or 7.8% , from \$ 655.7 million for the six months ended March 31, 2018 to \$ 706.5 million for the six months ended March 30, 2019 , primarily due to strong growth in home theater products related to the launch of our newest home theater product, Sonos Beam, which launched in July 2018, and an increase in sales of our Sub product. We also saw revenue growth in our components products driven by the launch of Sonos Amp in November 2018. This growth was partially offset by an overall decrease in revenue from our wireless speaker category, primarily driven by decreases in sales of our Play:1, Play:3 and Play:5 speakers due to discontinuing Play:3 from our product portfolio in fiscal 2018 and volume mix shifting from Play:1 to Sonos One, offset in part, by increases in sales of Sonos One speakers.

Products sold increased by 0.1 million, or 3.2% , from 3.1 million for the six months ended March 31, 2018 to 3.2 million for the six months ended March 30, 2019 . Volume growth was driven by the launch of Sonos Beam, Sonos AMP and sales of Sonos One. Volume growth was partially offset by a decrease in sales of our Play:1, Play:3 and Play:5 speakers.

Revenue from the Americas increased \$ 50.3 million, or 15.5% , from \$ 324.7 million for the six months ended March 31, 2018 to \$ 375.1 million for the six months ended March 30, 2019 . The increase in Americas revenue was driven by strong growth in home theater products related to the launch of Sonos Beam, the addition of retailers and growth in component products. Although sales of Sonos One increased year-over-year, revenue growth in the period was partially offset by decreased revenue in wireless speaker products due to reduced sales of our Play:1, Play:3 and Play:5 speakers.

Revenue from EMEA decreased \$ 3.8 million, or 1.3% , from \$ 299.2 million for the six months ended March 31, 2018 to \$ 295.4 million for the six months ended March 30, 2019 . The decrease in EMEA revenue was driven by decreases in wireless speaker products, and was partially offset by increased sales of home theater products related to the launch of Sonos Beam.

Revenue from APAC increased \$ 4.3 million, or 13.7% , from \$ 31.7 million for the six months ended March 31, 2018 to \$ 36.1 million for the six months ended March 30, 2019 . The increase in APAC revenue was primarily driven by sales revenue related to our partnership with IKEA.

In constant U.S. dollars, total revenue increased by 10.3% for the six months ended March 30, 2019 compared to the six months ended March 31, 2018 , which excludes the impact of foreign currencies weakening 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.

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Cost of revenue and gross profit

Comparison of the three months ended March 30, 2019 and March 31, 2018

	Three Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
Cost of revenue	\$ 119,760	\$ 105,379	\$ 14,381	13.6%
Gross profit	\$ 90,413	\$ 81,341	\$ 9,072	11.2%
Gross margin	43.0%	43.6%		

Cost of revenue increased \$14.4 million, or 13.6% , from \$105.4 million for the three months ended March 31, 2018 to \$119.8 million for the three months ended March 30, 2019 , primarily due to the 12.6% increase in revenue.

Gross margin decreased to 43.0% for the three months ended March 30, 2019 compared to 43.6% for the three months ended March 31, 2018 , primarily due to the impact of lower margins in connection with the launch of our new Sonos Beam product in July 2018.

Comparison of the six months ended March 30, 2019 and March 31, 2018

	Six Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
Cost of revenue	\$ 420,842	\$ 378,128	\$ 42,714	11.3%
Gross profit	\$ 285,702	\$ 277,542	\$ 8,160	2.9%
Gross margin	40.4%	42.3%		

Cost of revenue increased \$ 42.7 million, or 11.3 % , from \$ 378.1 million for the six months ended March 31, 2018 to \$ 420.8 million for the six months ended March 30, 2019 , primarily due to the 7.8% increase in revenue and higher costs related to a shift in product mix driven by the launch of Sonos Beam in July 2018.

Gross margin decreased to 40.4% for the six months ended March 30, 2019 compared to 42.3% for the six months ended March 31, 2018 , primarily due to shift in product mix driven by the launch of our new Sonos Beam product in July 2018.

Research and development

Comparison of the three months ended March 30, 2019 and March 31, 2018

	Three Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
Research and development	\$ 40,080	\$ 35,237	\$ 4,843	13.7%
Percentage of revenue	19.1%	18.9%		

Research and development expenses increased \$4.8 million, or 13.7% , from \$35.2 million for the three months ended March 31, 2018 to \$40.1 million for the three months ended March 30, 2019 . The increase was primarily due to higher personnel-related expenses of \$3.9 million as we increased our headcount, particularly in software personnel as we continue to invest in new products and features.

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Comparison of the six months ended March 30, 2019 and March 31, 2018

	Six Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
Research and development	\$ 77,175	\$ 68,766	\$ 8,409	12.2%
Percentage of revenue	10.9%	10.5%		

Research and development expenses increased \$ 8.4 million, or 12.2 %, from \$ 68.8 million for the six months ended March 31, 2018 to \$ 77.2 million for the six months ended March 30, 2019 . The increase was primarily due to higher personnel-related expenses of \$7.7 million as we increased our headcount, particularly in software personnel as we continue to invest in new products and features.

Sales and marketing

Comparison of the three months ended March 30, 2019 and March 31, 2018

	Three Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
Sales and marketing	\$ 49,371	\$ 59,233	\$ (9,862)	(16.6)%
Percentage of revenue	23.5%	31.7%		

Sales and marketing expenses decreased \$ 9.9 million, or 16.6% , from \$ 59.2 million for the three months ended March 31, 2018 to \$ 49.4 million for the three months ended March 30, 2019 . The decrease was due to a decline of \$4.8 million in marketing and advertising costs primarily related to reduced marketing expenses as we continue to transition away from traditional paid media and adopt more efficient direct-to-consumer and digital marketing tools, and a decrease of \$4.6 million in personnel-related costs and lower overhead costs.

Comparison of the six months ended March 30, 2019 and March 31, 2018

	Six Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
Sales and marketing	\$ 115,223	\$ 153,258	\$ (38,035)	(24.8)%
Percentage of revenue	16.3%	23.4%		

Sales and marketing expenses decreased \$ 38.0 million, or 24.8 %, from \$ 153.3 million for the six months ended March 31, 2018 to \$ 115.2 million for the six months ended March 30, 2019 . The decrease was primarily due to a decline of \$24.7 million in marketing and advertising costs primarily related to reduced marketing expenses as we continue to transition away from traditional paid media and we adopt more efficient direct-to-consumer and digital marketing tools. The decrease was also due to \$11.2 million in reductions from personnel-related costs and lower overhead costs.

General and administrative

Comparison of the three months ended March 30, 2019 and March 31, 2018

	Three Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
General and administrative	\$ 23,900	\$ 20,585	\$ 3,315	16.1%
Percentage of revenue	11.4%	11.0%		

General and administrative expenses increased \$3.3 million, or 16.1% , from \$20.6 million for the three months ended March 31, 2018 to \$23.9 million for the three months ended March 30, 2019 . The increase was primarily due to an increase in personnel-related costs of \$2.8 million, predominantly driven by higher wages and incentive compensation as we invest in the personnel and programs necessary to support our public company infrastructure.

Comparison of the six months ended March 30, 2019 and March 31, 2018

	Six Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
General and administrative	\$ 47,724	\$ 42,959	\$ 4,765	11.1%
Percentage of revenue	6.8%	6.6%		

General and administrative expenses increased \$ 4.8 million, or 11.1% , from \$ 43.0 million for the six months ended March 31, 2018 to \$ 47.7 million for the six months ended March 30, 2019 . The increase was primarily due to an increase in personnel-related costs of \$3.9 million, predominantly driven by higher wages and incentive compensation as we invest in the personnel and programs necessary to support our public company infrastructure.

Interest income (expense), net and other income (expense), net

Comparison of the three months ended March 30, 2019 and March 31, 2018

	Three Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
Interest income (expense), net	\$ 611	\$ (1,085)	\$ 1,696	*
Other income (expense), net	\$ (710)	\$ 2,808	\$ (3,518)	*

* not meaningful

The change in interest income (expense), net was primarily due to higher investment yields on our cash balances and a lower effective interest rate as a result of refinancing our term loan. The change in other income (expense), net was primarily due to foreign currency exchange gains and losses.

Comparison of the six months ended March 30, 2019 and March 31, 2018

	Six Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
Interest income (expense), net	\$ 213	\$ (2,250)	\$ 2,463	*
Other income (expense), net	\$ (4,708)	\$ 3,429	\$ (8,137)	*

* not meaningful

The change in interest income (expense), net was due to higher investment yields on our cash balances and a lower effective interest rate as a result of refinancing our term loan . The change in other income (expense), net was primarily due to foreign currency exchange gains and losses.

Provision for (benefit from) income taxes

Comparison of the three months ended March 30, 2019 and March 31, 2018

	Three Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
Provision for (benefit from) income taxes	\$ (213)	\$ 601	\$ (814)	*

* not meaningful

Provision for (benefit from) income taxes changed from a provision of \$0.6 million for the three months ended March 31, 2018 to a benefit from income taxes of \$ 0.2 million for the three months ended March 30, 2019 .

For the three-months ended March 30, 2019 , we recorded a provision for income taxes of \$0.2 million for certain profitable foreign entities and a benefit of \$0.4 million for U.S. federal and state income tax for a total benefit of \$0.2 million. For the three months ended March 30, 2019 , we calculated our U.S. income tax provision using the discrete method as though the interim year to date period was an annual period. We believe that the application of the estimated annual effective tax rate ("AETR") method generally required by ASC 740 is impractical for the U.S. tax provision given that normal deviations in the projected pre-tax net income (loss) in the U.S. could result in a disproportionate and unreliable effective tax rate under the AETR method. We recorded a provision for income taxes of \$0.6 million for certain profitable foreign entities for the three months ended March 31, 2018 .

Comparison of the six months ended March 30, 2019 and March 31, 2018

	Six Months Ended		Change	
	March 30, 2019	March 31, 2018	\$	%
(dollars in thousands)				
Provision for (benefit from) income taxes	\$ 2,242	\$ 633	\$ 1,609	*

* not meaningful

Provision for income taxes increased from \$0.6 million for the six months ended March 31, 2018 to \$ 2.2 million for the six months ended March 30, 2019 .

For the six -months ended March 30, 2019 , we recorded a provision for income taxes of \$0.6 million for certain profitable foreign entities and a provision of \$1.6 million for U.S. federal and state income tax for a total provision of \$2.2 million. For the six months ended March 30, 2019 , we calculated our U.S. income tax provision using the discrete method as though the interim year to date period was an annual period for the reasons described above. For

the six months ended March 30, 2018 ,we recorded a provision for income taxes of \$0.8 million for certain profitable foreign entities and a benefit of \$0.2 million as a result of U.S. tax reform for a total provision of \$0.6 million.

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, and borrowings under our credit facilities. As of March 30, 2019, our principal sources of liquidity consisted of cash flow from operating activities, cash and cash equivalents of \$295.3 million, including \$ 25.0 million held by our foreign subsidiaries, and borrowing capacity under the 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 March 30, 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 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, our planned 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.

Credit facilities

Our credit facilities are as follows:

	As of			
	March 30, 2019		September 29, 2018	
	Rate	Balance	Rate	Balance
(dollars in thousands)				
Term Loan ⁽¹⁾	5.1%	\$ 40,000	4.8%	\$ 40,000
Unamortized debt issuance costs ⁽²⁾		(199)		(236)
Total indebtedness		\$ 39,801		\$ 39,764
Less short-term portion		(10,000)		(6,667)
Long-term debt		\$ 29,801		\$ 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 recorded as interest expense over the term of the agreement.

The Credit Facility and the Term Loan require us 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 March 30, 2019 and September 29, 2018, we were in compliance with all financial covenants.

Obligations under the Term Loan and the Credit Facility are collateralized by our eligible inventory and accounts receivable as well as our intellectual property including patents and trademarks. As of both March 30, 2019 and September 29, 2018, we did not have any outstanding borrowings and had \$ 4.5 million in undrawn letters of credit that reduce the availability under the Credit Facility. As of both March 30, 2019 and September 29, 2018, we had \$ 39.8 million outstanding on the Term Loan.

Cash flows

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

	Six Months Ended	
	March 30, 2019	March 31, 2018
(In thousands)		
Net cash provided by (used in):		
Operating activities	\$ 65,105	\$ 4,587
Investing activities	(8,087)	(21,870)
Financing activities	17,796	2,276
Effect of exchange rate changes	(475)	2,224
Net change in cash, cash equivalents and restricted cash	\$ 74,339	\$ (12,783)

Cash flows from operating activities

Net cash provided by operating activities of \$65.1 million for the six months ended March 30, 2019 consisted of net income of \$38.8 million, non-cash adjustments of \$43.4 million and a net decrease in cash related to changes in operating assets and liabilities of \$17.2 million. Non-cash adjustments primarily consisted of stock-based compensation expense of \$20.1 million and depreciation of \$19.0 million. The change in operating assets and liabilities was primarily due to a decrease in accounts payable and accrued expenses of \$111.2 million related to the decrease in inventory, a decrease in accrued compensation of \$6.2 million due to the payment of bonuses in the first quarter of fiscal 2019 and an increase in other assets of \$5.4 million. The decrease in net change in operating assets and liabilities was offset by a decrease in inventory of \$86.8 million due to the seasonality of our business, a decrease in accounts receivable of \$7.9 million due to the seasonality of our business, an increase in other liabilities of \$6.4 million and an increase in deferred revenue of \$4.6 million.

Net cash provided by operating activities of \$4.6 million for the six months ended March 31, 2018 was primarily due to net income of \$13.1 million, non-cash adjustments of \$36.2 million and a net decrease in cash related to changes in operating assets and liabilities of \$44.7 million. Non-cash adjustments primarily consisted of stock-based compensation of \$19.1 million and depreciation of \$18.9 million. The net decrease in operating assets and liabilities was primarily due to a \$75.7 million decrease in accounts payable and accrued expenses due to the timing of payments, a \$9.3 million decrease in accrued compensation due to the payment of bonuses in the first quarter of fiscal 2018, partially offset by a \$28.0 million decrease in inventory due to the seasonality of our business, and a decrease in accounts receivable of \$12.1 million due to the collection of holiday sales.

Cash flows from investing activities

Cash used in investing activities for the six months ended March 30, 2019 of \$8.1 million was due to payments for property and equipment, which were primarily comprised of marketing-related product displays and manufacturing-related tooling and test equipment to support the launch of new products.

Cash used in investing activities for the six months ended March 31, 2018 of \$21.9 million was due to payments for property and equipment, which primarily comprised of marketing-related purchases predominantly for product displays and manufacturing-related tooling and test equipment to support the launch of new products.

Cash flows from financing activities

Cash provided by financing activities for the six months ended March 30, 2019 of \$17.8 million primarily consisted of proceeds from exercise of stock options of \$18.9 million, partially offset by final payments of offering costs of \$0.6 million and payments for purchases of treasury stock of \$0.6 million.

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Cash provided by financing activities for the six months ended March 31, 2018 of \$2.3 million primarily consisted of net proceeds of \$30.0 million from revolving credit facilities and proceeds from the exercise of common stock options of \$4.4 million. These increases were offset by a net paydown of our revolving credit facilities of \$30.0 million, payment of offering costs of \$1.3 million, and \$0.8 million for payments for purchase of treasury stock.

Commitments and contingencies

At March 30, 2019 , we had \$45.4 million in non-cancelable purchase commitments for inventory we expect to purchase in the remainder of fiscal 2019 .

Off-balance sheet arrangements

We have not entered into any off-balance sheet arrangements, except as described above, and do not have any holdings in variable interest entities.

Critical accounting policies and estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these unaudited condensed consolidated 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.

Other than items discussed in Note 2 of our condensed consolidated financial statements, there have been no material changes to our critical accounting policies as compared to the critical accounting policies and significant judgments and estimates disclosed in our Annual Report.

Item 3. Quantitative and qualitative disclosures about market risk

We are exposed to financial market risks, including changes in currency exchange rates and interest rates. For quantitative and qualitative disclosures about market risk, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report. Our exposure to market risk has not changed materially, except as follows:

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.

We recognized a loss of \$ 0.7 million and a gain of \$ 2.8 million from foreign currency gains and losses for the three months ended March 30, 2019 and March 31, 2018 , respectively. We recognized a loss of \$ 4.7 million and a gain of \$ 3.4 million from foreign currency gains for the six months ended March 30, 2019 and March 31, 2018 , respectively. Based on transactions denominated in currencies other than respective functional currencies as of March 30, 2019 , a hypothetical adverse change of 10% would have resulted in an adverse impact on income before income taxes of approximately \$ 1.4 million for the three months ended March 30, 2019 and \$ 7.3 million for the six months ended March 30, 2019 .

Item 4. Controls and procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on the evaluation of our disclosure controls and procedures as of March 30, 2019, our Chief Executive Officer and Chief Financial Officer concluded that as a result of the material weaknesses in our internal control over financial reporting that were disclosed in our Annual Report, our disclosure controls and procedures were not effective as of March 30, 2019.

Notwithstanding the material weaknesses, our management has concluded that the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows in conformity with GAAP.

Management's plan to remediate the material weaknesses

As previously described in Part II, Item 9A of our Annual Report, we began implementing a remediation plan to address the material weaknesses mentioned above. The initiatives we are implementing to remediate the material weaknesses are subject to continued management review supported by confirmation and testing, as well as audit committee oversight. We will continue to implement measures to remedy our internal control deficiencies through the end of fiscal 2019, which coincides with the first year in which we will be required to provide the management's report on internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act").

Changes in internal control

Other than the changes intended to remediate the material weaknesses noted above, there were no changes in our internal control over financial reporting during the three months ended March 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. 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. Other than the matters described in Note 7 of the notes to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, 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. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

Item 1A. Risk factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, as well as the other information in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and the related notes, and the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," before making an investment decision. The occurrence of any of the events or developments described below could materially and adversely affect our business, financial condition, results of operations and growth prospects. In such an event, the market price of our common stock could decline, and you may lose all or part of your investment. Additional risks and uncertainties not currently known to us or that we currently believe are not material may also impair our business, financial condition, results of operations and growth prospects.

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.

We have experienced net losses in our recent annual periods. In the fiscal years ended September 29, 2018, September 30, 2017 and October 1, 2016, we had net losses of \$ 15.6 million, \$ 14.2 million and \$ 38.2 million, respectively. We had an accumulated deficit of \$ 164.8 million as of March 30, 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. In addition, we anticipate that new product introductions will adversely impact our gross margin in the near to intermediate term due to the increasing frequency of these product introductions and their anticipated increased share of our overall product volume. In the past, we have taken cost savings initiatives, including our reorganization effort in the third quarter of fiscal 2018. However, our cost savings initiatives do not assure our profitability. Additional reorganizations may be implemented in the future and cost savings may be offset by future hiring or other costs to pursue strategic objectives. Our revenue may decline, or we may incur significant losses for a number of reasons, including the other risks and uncertainties described in these Risk Factors.

The pace of our revenue growth has been volatile, and we cannot assure you that we will continue to achieve consistent revenue growth.

We have experienced volatile revenue growth and demand for our products since launching our first product in 2005. Our revenue grew 14.6 % in fiscal 2018 over fiscal 2017, 10.1 % in fiscal 2017 over fiscal 2016 and 6.8 % in

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fiscal 2016 over fiscal 2015 . Our historical revenue growth rates therefore should not be considered indicative of our future performance. Additionally, because our ability to achieve continued growth will depend on our ability to execute on our product roadmap, we cannot guarantee that our revenue will continue to grow. In order for our revenue growth to continue, and for the volatility of our growth to stabilize, we will need to be successful in determining the market opportunity for new products and developing and delivering products that appeal to consumers and stimulate demand. If we are unable to do so, our revenue may not grow as anticipated or at all, and the trading price of our common stock may decline.

The volatility of our revenue growth could cause our operating expenses to exceed our revenue in some periods. The unpredictable nature of the growth and 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, which makes them difficult to predict and 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. We expect that this trend will continue as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- fluctuations in demand for our products, including seasonal variations;
- the timing and success of new product introductions, which products initially tend to have a lower gross margin;
- the timing and success of new product introductions by our competitors;
- pricing pressure as a result of competition or otherwise;
- shifts in product, geographic or channel mix;
- the imposition of tariffs and other trade barriers, and the effects of retaliatory trade measures;
- delays or disruptions in our supply, manufacturing or distribution chain;
- fluctuations in costs and availability of raw materials and components, and in other manufacturing costs;
- fluctuations in levels of channel inventory;
- amount and timing of sales and marketing and other operating expenses related to maintenance and expansion of our business;
- negative publicity about our products;
- adverse litigation judgments, settlements or other litigation-related costs, especially from litigation involving alleged patent infringement or defense of our patents;
- fluctuations in foreign exchange rates;
- changes in tax rates or adverse changes in tax laws that expose us to additional income tax liabilities;
- natural disasters, geopolitical unrest, war, terrorism and other catastrophes outside of our control; and
- general economic conditions in domestic or international markets.

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 quarterly 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 market 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, and we introduced our first voice-enabled speaker, Sonos One, in October 2017, and our first voice-enabled home theater speaker, Sonos Beam, in July 2018. The voice-enabled speaker market and the voice-enabled smart home systems market are still in the early stages of development. If these 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 expand, 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. We also face intense competition in our markets, and 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 voice-enabled speaker products of their own. For example, Sonos One and Sonos Beam feature voice-control enablement powered by Amazon's Alexa technology while Amazon currently competes by offering speaker products of its own. As we continue to execute on our product roadmap, our success in introducing voice-enabled speakers that utilize third-party technology, especially voice control, will increasingly depend on the willingness of our technology partners, many of which sell or may develop products that compete with ours, to continue to promote and enhance 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. If these partners disable the integration of their technology into our products, demand for our products may decrease and our sales may be harmed. We cannot assure you that the resources we invest in research and development, existing or alternative technology partnerships, marketing and sales will be adequate for us to successfully establish and maintain a large share of the voice-enabled speaker market. If we are not able to capture and sustain market share, our future revenue growth will be negatively impacted.

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. The successful introduction of our new products depends on a number of factors, such as the timely completion of development efforts to correspond with limited windows for market introduction. In recent years, we have experienced delays in bringing new products to market, along with higher-than-expected costs in doing so. We face significant challenges in managing the risks associated with new product introductions and production ramp-up issues, including accurately forecasting initial consumer demand, 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. In addition, from time to time, we enter into strategic alliances or collaborative partnerships with third parties to develop, commercialize and market new products, which may not be successful or result in significant revenues. Accordingly, if we cannot properly manage the introduction of our 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 while we recently began using additional manufacturers, we may be unable to operate our business if our key contract manufacturer is unable to manufacture our products or ends its relationship with us.

We have historically depended on a single manufacturer, Inventec Appliances Corporation ("Inventec"), to manufacture our products. Recently, we began using additional manufacturers to manufacture certain of our products, though 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, whether due to a natural catastrophe,

labor dispute or otherwise, 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. If Inventec were unable to perform its obligations or were to end its relationship with us, 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. Moreover, a violation of labor, environmental, intellectual property or other laws by our manufacturers, or a failure of our manufacturers to follow generally accepted ethical business practices, could create negative publicity, harm our reputation and require us to contract with new manufacturers. Identifying additional manufacturers would require us to evaluate and approve their quality control systems, technical capabilities, responsiveness, service, financial stability, regulatory compliance and labor and other ethical practices. 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.

We depend on a limited number of third-party components suppliers and logistics providers. Our business may be harmed if these parties do not perform their obligations or if they suffer interruptions to their own operations, or if alternative component sources are unavailable or if there is an increase in the costs of these components.

We are dependent on a limited number of suppliers for various key components used in our products, and the cost, quality and availability of these components are essential to the successful production and sale of our products. We have sole-source suppliers, particularly for product-specific mechanical enclosures, and single-source suppliers, particularly for processor components. We are subject to the risk of shortages and long lead times in the supply of these components and other materials, and the risk that our suppliers discontinue or modify, or increase the price of, the components used in our products. 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. Further, if there were a shortage of supply, the cost of these components may increase and harm our ability to sell our products on a cost-effective basis. For example, similar to other companies in the electronics industries, we have from time to time experienced shortages of random-access memory that is integral to manufacturing our products. More recently, the global supply of multilayer ceramic capacitors, which are components used across the consumer electronics industry as well as in all of our products, is experiencing shortages due to an imbalance of global demand and supply capacity, resulting in related price increases that we expect will negatively impact our gross margin through calendar year 2019. In connection with any supply shortages in the future, reliable and cost-effective replacement sources may not be available on short notice or at all, and this may result in decreased sales or force us to increase prices and face a corresponding decrease in demand for our products. 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. This would harm our ability to sell our products in order to meet market demand and could materially and adversely affect our brand, image, business prospects and operating results.

We use a small number of logistics providers for substantially all of 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. Our distribution facilities employ computer-controlled and automated equipment, and thus may be vulnerable to computer viruses or other security risks, as well as to electronic or power interruptions or other system failures. Any disruption to the operations of our distribution 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 these parties on which our business depends. If any of these parties fails to perform its obligations on schedule, or breaches or ends its relationship with us, we may be unable to satisfy demand for our products. Delays, product shortages and other problems could impair our retail distribution and brand image and make it difficult for us to attract new customers. If we experience significantly increased demand, or if we need to replace an existing supplier or logistics provider, we may be unable to supplement or replace such supply or logistics capacity on terms that are acceptable to us, which may undermine our ability 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. Accordingly, a loss or interruption in the service of any key party could adversely impact our revenue, gross margin and operating results.

Our investments in marketing may not yield the results we expect.

We have made significant investments in marketing our products. Such efforts include direct marketing to consumers to promote awareness of our products, and of our brand in general. These efforts may not yield the results we anticipate and may prove more expensive than we currently anticipate, and revenue may not increase sufficiently to offset these higher expenses. Failures in our marketing efforts could adversely impact our business, financial condition and results of operations.

The home audio and consumer electronics industries are highly competitive. Competition presents an ongoing threat to the success of our business.

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. 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 current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties in order to increase the abilities of their products to address the needs of our prospective customers, and other companies may enter our markets by acquiring or entering into strategic relationships with our competitors. To remain competitive, we may also need to increase our selling and marketing expenses. We may not have the financial resources, technical expertise or marketing and sales capabilities to continue to compete successfully. A failure to efficiently 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. Such consolidation 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 content partners were to acquire a home audio hardware company, that partner may decide to disable the streaming functionality of its service with our products. 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 and technology 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, which partners have greater financial resources than we do. Amazon and Apple, for example, already offer products that compete with ours. 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 in order 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.

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 in October 2017

and Sonos Beam in July 2018, which are both voice-enabled speakers that feature voice-control enablement powered by Amazon's Alexa technology. Our current agreement with Amazon allows Amazon to disable the Alexa integration in our Sonos One or Sonos Beam products with limited notice. As such, it is possible that Amazon, which sells products that compete with ours, may on limited notice disable the integration, which would cause our Sonos One or Sonos Beam products to lose their voice-enabled functionality. Amazon could also begin charging us for this integration which would harm our operating results. We are working to establish partnerships with other companies that have developed voice-control enablement technology, but we cannot assure you that we will be successful in doing so. If Amazon does not maintain the Alexa integration, if Amazon seeks to charge us for this integration, if we have not developed alternative partnerships for similar voice-enabled products or if we have not developed such products on our own, our sales may decline, our reputation may be harmed and our business and operating results may suffer.

Competition from our partners who are able to sell speaker products at lower prices could force us to lower our prices, which would harm our operating results.

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 and Sonos Beam. 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. Our business model, by contrast, is dependent on the sale of our speakers. Should we be forced to lower the price of our products in order to compete on a price basis, our operating results could be harmed.

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 of 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 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 manufacturer, and our ability to do so accurately could be affected by many factors, including an increase or decrease in customer demand for our products or those of our competitors, the success of new products in the market, sales promotions by us or our competitors, channel inventory levels and unanticipated shifts in general economic conditions or consumer confidence levels. Such a rapid increase in production could also cause a decline in manufacturing quality and customer satisfaction. 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 could impair the strength of our brand. In addition, if we were to have excess inventory, we may have 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 purchase 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 and suffer higher supply and 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. We cannot assure you that this market will continue to grow. 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. In order to attract and retain customers, these services must continue to attract record labels, artists, other content providers and advertisers and all parties must be able to successfully monetize their streaming-based businesses over the long term. If the development of the streaming music market fails to keep pace with consumer demand expectations, the market for streaming music could decline and our business may be harmed. Additionally, we cannot assure you that the streaming music business model or the streaming music services we partner with will be successful over the long term. If the streaming music market in general declines or if the streaming services 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. We plan to invest in driving sales through this channel. The level of consumer traffic and volume of consumer purchases through our website depends in large part on our ability to provide a user-friendly and visually appealing interface, a seamless consumer experience, sufficient inventory and reliable, timely delivery of our products. Building this channel and improving our website and product delivery services will continue to require 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, including implementing and maintaining appropriate technology and systems, reliance on third-party service providers, data breaches and disruption of internet service. 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 may alienate some of our channel partners and could 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 11% of our revenue in fiscal 2019. We do not enter into long-term volume commitments with our major channel partners. If one or several of our channel partners were to discontinue selling our products, increase their promotion of competing products or choose to promote competing products over ours, the volume of our products sold to customers could decrease, which could in turn harm our

business. In addition, the loss of a key channel partner for distribution would require us to identify and contract with alternative channel partners, or to rely more heavily on direct-to-consumer sales, which we may be unable to do successfully, or which could prove time-consuming and expensive. In addition, revenue from our channel partners 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 as a result of weak economic conditions or otherwise, and were to reduce its inventory of our products or limit or cease operations, our business and results of operations would be significantly harmed. Consolidation of our channel partners in the future or additional concentration of market share among our channel partners may also exacerbate this risk.

Because we compete with many other providers of consumer products for placement and promotion of products in the stores of our channel partners, our success depends on our channel partners and their willingness to promote our products successfully. In general, our contracts with these third parties allow them to exercise significant discretion over the placement and promotion of our products in their stores, and they could give higher priority to other products. Our channel partners may also give their own products or those of our competitors better placement over our products in stores or online. If our channel partners do not effectively market and sell our products, or if they choose to use greater efforts to market and sell their own or our competitors' products, our business, operating results and prospects may be adversely affected.

A significant disruption in our websites, servers or information technology systems, or those of our third-party partners, or flaws or other vulnerabilities in our products, 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 and to store intellectual property, forecast our business, maintain financial records, manage operations and inventory and operate other critical functions. Accordingly, we rely heavily on the accuracy, capacity and security of both our information technology systems and those of third parties. 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, disruptions or shutdowns due to power outages, hardware failures, structural or operational failures, computer viruses, hacking attacks, telecommunication failures, user error, malfeasance, system upgrades, integration or migration, and other foreseeable and unforeseeable events. All of our products are connected to the internet and receive periodic software updates from our servers and it is possible that such servers could be compromised, resulting in the delivery of malicious code, severely hampering product functionality. System failures and disruptions could impede the manufacturing and shipping of products, delivery of online services, functionality of our products, transactions processing and financial reporting, and could result in the loss of intellectual property or data, require substantial repair costs and damage our reputation and business relationships. Such failures and disruptions could therefore adversely affect 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. Our brand, reputation and ability to retain and attract new customers depend on the reliable performance of our technology and cloud-based content delivery. 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. If we were to experience an AWS service interruption, or if the security of the AWS infrastructure were compromised or believed to have been compromised, our ability to serve our customers and our reputation with current and potential customers would be negatively impacted.

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 in an effort to monetize access to their networks by content providers. 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.

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. Maintaining, promoting and positioning our brand depends largely on the success of our marketing efforts, the consistency of the quality of our products and our ability to successfully secure, maintain and defend the trademarks that are key to our brand. Each of these objectives requires significant expenditures, and there is no guarantee that we will be able to achieve these objectives successfully. If we fail to successfully maintain, promote and position our brand and protect our reputation, or if we incur significant expenses in this effort, our business, financial condition and operating results may be adversely affected. The value of our brand could also be severely damaged by isolated incidents, particularly if these incidents receive considerable negative publicity or result in litigation, and by events outside of our control. Additionally, 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. The market demand for our products, the value of our brand and our reputation generally could be harmed if any such incidents or other matters erode consumer confidence in us or our products. Any negative effect on our brand, regardless of whether it is within our control, could adversely affect our reputation, business and results of operations.

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 in order 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 have grown to 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 to intermediate 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 customers, and the value proposition of our products with existing and prospective customers may decline. We may lose existing customers if their older products cannot integrate with newer versions of our software, and this may also result in negative publicity that could adversely affect our reputation and brand loyalty and impact our ability to attract new customers or sell new products to existing 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.

We generally provide a one-year warranty on all of our products, except in the European Union (the “EU”) and select other countries where we provide a two-year warranty on all of our products. The occurrence of any material defects in our products could expose us to liability for damages and 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, if any of our product designs are defective or are alleged to be defective, we may be required to participate in a recall campaign. In part due to the terms of our warranty policy, any failure rate of our products that exceeds our expectations may result in unanticipated losses. Any negative publicity related to the perceived quality of our products could affect our brand image and decrease retailer, distributor and consumer confidence and demand, which could adversely affect our operating results and financial condition. Further, accidental damage coverage and extended warranties are regulated in the United States at the state level and are treated differently within each state. Additionally, outside the United States, regulations for extended warranties and accidental damage vary from country to country. Changes in interpretation of the regulations concerning extended warranties and accidental damage coverage on a federal, state, local or international level may cause us to incur costs or have additional regulatory requirements to meet in the future in order to continue to offer our support services. 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.

As we become a more mature company, we may find our recruiting efforts more challenging. In particular, we have experienced difficulties in recruiting qualified software engineers. The equity incentives we currently use to attract, retain and motivate employees may not be as effective as in the past. We rely heavily on equity incentives to attract and retain employees, and if the value of the underlying common stock does not grow commensurate with expectations, we may not be able to effectively recruit new employees and we may risk losing existing employees. 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.

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 on terms that are unfavorable to us. Similarly, if any litigation to which we may be party fails to settle and we go to trial, we may be subject to an unfavorable judgment that may not be reversible upon appeal. The terms of such a settlement or judgment may require us to cease some or all of 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.

With respect to intellectual property rights claims, we may have to negotiate a license in order to continue practices found to be in violation of a third party's rights. Any such license may not be available on reasonable terms and may significantly increase our operating expenses, or may not be available to us at all. As a result, we may also be required to develop alternative, non-infringing technology or practices or to discontinue the practices altogether. The development of alternative non-infringing technology or practices could require significant effort and expense and ultimately may not be successful, and our business and results of operations could be materially and adversely affected.

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, third parties may 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 our intellectual property rights, and we may file additional actions in the future. For example, in December 2017, a jury found that Denon had infringed and was infringing certain of our patents, and in May 2018, we settled the remaining claims in exchange for royalty payments from Denon. 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. Additionally, 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.

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. Although we may expend efforts to pursue counterfeiters, it is not practical to pursue all counterfeiters. 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 could 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.

We collect, store, process and use our customers' personally identifiable information and other data, which subjects us to governmental regulation and other legal obligations related to privacy, information security and data protection. 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. While our privacy policies currently prohibit such activities, our third-party service providers or partners may engage in such activity without our knowledge or consent. 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. Depending on the nature of the information compromised in a data breach, disruption or other unauthorized access to our customers' data, we may also have obligations to notify customers about the incident and we may need to provide some form of remedy for the individuals affected. Such breach notification laws continue to develop and may be inconsistent across jurisdictions. Complying with these obligations could cause us to incur substantial costs and negative publicity. While we maintain insurance coverage that is designed to address certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise in the event we experience a security breach.

Data protection laws may be interpreted and applied inconsistently from country to country, and often impose requirements that are inconsistent with one another. In addition, because various jurisdictions have different laws and regulations concerning the use, storage and transmission of such information, we may face complex and varied compliance requirements in existing markets as well as in new international markets that we seek to enter. Such laws and regulations, and the variation between jurisdictions, could subject us to elevated costs of security measures, liabilities or negative publicity that could adversely affect our business.

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Regulatory scrutiny of privacy, data collection, use of data and data protection is intensifying globally, and the personal information and other data we collect, store, process and use is increasingly subject to legislation and regulations in numerous jurisdictions around the world, especially in Europe. These laws often develop in ways we cannot predict and may materially increase our cost of doing business, particularly as we expand the nature and types of products we offer. For example, the General Data Protection Regulation (the “GDPR”), which came into effect in the EU in May 2018 and superseded prior EU data protection legislation, imposes more stringent data protection requirements and provides for greater penalties for noncompliance. Further, as discussed in more detail below, the United Kingdom has initiated the formal process to leave the EU, creating uncertainty with regard to the regulation of data protection in the United Kingdom. In particular, it is unclear whether the United Kingdom will enact data protection laws or regulations designed to be consistent with the GDPR and how data transfers to and from the United Kingdom will be regulated. Additionally, although we are making use of the EU Standard Contractual Clauses with regard to the transfer of certain personal data to countries outside the European Economic Area (the “EEA”), some regulatory uncertainty remains surrounding the future of data transfers from the EEA to the United States. Although we are closely monitoring regulatory developments in this area, any actual or perceived failure by us to comply with any regulatory requirements or orders or other domestic or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others (e.g., class action litigation), subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and adversely affect our business.

Data protection legislation is also becoming increasingly common in the United States at both the federal and state level. For example, in June 2018, the State of California enacted the California Consumer Privacy Act of 2018 (the “CCPA”), which will come into effect on January 1, 2020. The CCPA requires companies that process information on California residents to make new disclosures to consumers about their data collection, use and sharing practices, allows consumers to opt out of certain data sharing with third parties and provides a new cause of action for data breaches. However, California legislators have stated that they intend to propose amendments to the CCPA, and it remains unclear what, if any, modifications will be made to the CCPA or how it will be interpreted. Additionally, the Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination and security of data. The burdens imposed by the CCPA and other similar laws that may be enacted at the federal and state level may require us to modify our data processing practices and policies and to incur substantial expenditure in order to comply.

Further, we may be or become subject to data localization laws mandating that data collected in a foreign country be processed and stored only within that country. Russia adopted such a law in 2014, and it is expected that China will do so as well. If China or another country in which we have customers were to adopt a data localization law, we could be required to expand our data storage facilities there or build new ones in order to comply. The expenditure this would require, as well as costs of compliance generally, could harm our financial condition.

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, 51% 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;
- political, social and/or economic instability;
- risks related to governmental regulations in foreign jurisdictions and unexpected changes in regulatory requirements and enforcement;
- higher levels of credit risk and payment fraud;
- burdens of complying with a variety of foreign 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;

- reduced protection for intellectual property rights in some countries;
- difficulties in staffing and managing global operations and the increased travel, infrastructure and legal compliance costs associated with having multiple international locations;
- compliance with statutory equity requirements;
- potential negative consequences from changes in or interpretations of U.S. and foreign tax laws;
- protectionist laws and business practices that favor local businesses in some countries;
- imposition of currency exchange controls;
- greater fluctuations in sales to customers in developing countries, including longer payment cycles and greater difficulty collecting accounts receivable; 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. These factors may also harm our results of operations. 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.

In particular, we have significant operations in China, where many of the risks listed above are particularly acute. Our business, financial condition and results of operations may be materially adversely affected by economic, political, legal, regulatory, competitive and other factors in China. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement and control over economic growth. In addition, our operations in China are governed by Chinese laws, rules and regulations, some of which are relatively new. The Chinese legal system continues to rapidly evolve, which may result in uncertainties with respect to the interpretation and enforcement of Chinese laws, rules and regulations that could have a material adverse effect on our business. China also experiences high turnover of direct labor due to the intensely competitive and fluid market for labor, and the retention of adequate labor may be a challenge for our operations in China. 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.

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.

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. Between July and September 2018, the U.S. Trade Representative imposed tariffs of 10% on a variety of goods imported from China, which may increase to 25% in 2019 pending negotiations between the U.S. and China. Some of these tariffs currently affect our accessories products and we may be required to raise our prices on those products due to the tariffs, which may result in a loss of customers and harm our operating performance. If the existing tariffs are expanded or interpreted by a court or governmental agency to apply to any of our other products, we may be required to raise our prices on those products, which may further result in a loss of customers and harm our operating performance. Additionally the Trump Administration continues to signal that it may further alter trade agreements and terms between China and the United States, including limiting trade with China, and may impose additional tariffs on imports from China. It is possible further tariffs will be imposed on imports of our products, or that our business will be impacted by retaliatory trade measures taken by China or other countries in response to existing or future tariffs, causing us 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 are susceptible to fluctuations in foreign currency exchange rates, which could result in declines in our reported revenue and operating results.

Our exposure to the effects of fluctuations in foreign currency exchange rates has grown with the continued expansion of our overseas operations, and primarily relates to non-U.S. dollar denominated sales and operating expenses worldwide. Unfavorable movement in currency exchange rates will adversely affect our results of operations and financial condition. While a significant percentage of our revenue is denominated in foreign currencies, the majority of our costs are denominated in U.S. dollars. This means that a strengthening of the U.S. dollar would adversely impact our reported financial results. The strengthening of foreign currencies may also increase our cost of product components denominated in those currencies, thus adversely affecting gross margin. Fluctuations in currency exchange rates may also make it more difficult to detect underlying trends in our business and results of operations. We may in the future engage in some hedging activities, such as the use of foreign currency forward and option contracts, to limit the risk of fluctuations in currency exchange rates. However, the use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments. In addition, a strengthening of the U.S. dollar may increase the cost of our products to our customers outside of the United States, which may also adversely affect our financial condition and results of operations.

The decision by British voters to exit the European Union may negatively impact our operations.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union (often referred to as Brexit) in a national referendum. As of the date of this Annual Report, the British Parliament has not agreed upon the terms of the withdrawal. On April 10, 2019, the leaders of the other member countries of the European Union agreed to extend the deadline for Brexit until October 31, 2019. The referendum and ongoing negotiations have created significant uncertainty about the future relationship between the United Kingdom and the European Union.

If the United Kingdom leaves the European Union with no agreement, it will likely have an adverse impact on labor and trade in addition to creating further short-term uncertainty and currency volatility. In the absence of a future trade deal, the United Kingdom's trade with the European Union and the rest of the world would be subject to tariffs and duties set by the World Trade Organization. Any adjustments we make to our business and operations as of Brexit could result in significant time and expense to complete.

Any impact from Brexit on our business and operations over the long term will depend, in part, on the outcome of tariff, tax treaties, trade, regulatory, and other negotiations the United Kingdom conducts.

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 or 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 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, 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. If there is a new regulation, or change to an existing regulation, that significantly increases our costs of manufacturing or causes us to significantly alter the way that we manufacture our products, this would have a material adverse effect on our business, financial condition and results of operations. Additionally, while we have implemented policies and procedures designed to ensure compliance with applicable laws and regulations, there can be no assurance that our employees, contractors and agents will not violate such laws and regulations or our policies and procedures.

We are subject to the Foreign Corrupt Practices Act (the “FCPA”), and our failure to comply with the laws and regulations thereunder could result in penalties which could harm our reputation, business and financial condition.

Due to our international operations, we are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. The FCPA also requires companies to maintain adequate recordkeeping and internal accounting practices to accurately reflect transactions. Under the FCPA, U.S. companies may be held liable for actions taken by their strategic or local partners or representatives. The FCPA and similar laws in other countries can impose civil and criminal penalties for violations. If we do not properly implement practices and controls with respect to compliance with the FCPA and similar laws, or if we fail to enforce those practices and controls properly, we may be subject to regulatory sanctions, including administrative costs related to governmental and internal investigations, civil and criminal penalties, injunctions and restrictions on our business activities, all of which could harm our reputation, business and financial condition.

Our corporate tax rate may increase, we may incur additional income tax liabilities and 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.

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. While we believe we are in compliance with local laws, 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 29, 2018, we had gross U.S. federal net operating loss carryforwards of \$ 74.7 million, which expire beginning in 2033, and gross state net operating loss carryforwards of \$ 45.9 million, which expire beginning in 2020, as well as \$ 21.1 million in foreign net operating loss carryforwards, of which \$ 2.1 million have an indefinite life. Also as of September 29, 2018, we had U.S. federal and state research and development tax credit carryforwards.

of \$ 25.4 million and \$ 19.1 million, respectively. The federal research credits will begin to expire in the year 2025 , and the state research credits will begin to expire in 2024 .

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. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Code”), if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset its post-change income may be limited. In general, an “ownership change” will occur if there is a cumulative change in ownership by “5-percent shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. As a result, our net operating losses generated through July 18, 2012 may be subject to limitation under Section 382 of the Code. The amount of pre-change loss carryforward which may be subject to this limitation is \$46.8 million. Our ability to use net operating loss carryforwards and other tax attributes to reduce future taxable income and liabilities may be subject to limitations based on the ownership change of 2012. We have completed an updated Section 382 study through March 30, 2019, and the results of this study show no ownership change within the meaning of Section 382 of the Code had occurred from the previously identified ownership change on July 18, 2012 through March 30, 2019. We will continue to monitor prospective ownership changes within the meaning of Section 382.

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 credit facilities 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. We have not made any material acquisitions to date and, as a result, our ability as an organization to successfully acquire and integrate other companies, products, services or technologies is unproven. We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by customers or investors. In addition, if we fail to integrate successfully such acquisitions, or the technologies associated with such acquisitions, into our company, the revenue and operating results of the combined company could be adversely affected. Any integration process will require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, any of which could affect our financial condition or the value of our capital stock. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations. Additionally, we may receive indications of interest from other parties interested in acquiring some or all of our business. The time required to evaluate such indications of interest could require significant attention from management, disrupt the ordinary functioning of our business and adversely affect our operating results.

We will need to improve our financial and operational systems in order 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, improve the coordination between our various corporate functions and expand, train and manage our workforce adequately. Our efforts to manage the expansion of our operations may place a significant strain on our management personnel, systems and resources, particularly given the limited amount of financial resources and skilled employees that may be available at the time. When implementing new or changing existing processes, we may encounter transitional

issues and incur substantial additional expenses. 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, 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. We may not be able to manage our growth effectively, and as a result may not be able to take advantage of market opportunities, execute on expansion strategies or meet the demands of our customers. 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. Such transitions can prove difficult and time consuming and could adversely impact our business and ability to timely prepare our external financial reports.

We have identified material weaknesses in our internal control over financial reporting and, if our remediation of these material weaknesses is not effective, or if we fail to maintain an effective system of internal control over financial reporting in the future, we may not be able to accurately or timely report our financial condition or results of operations, which may adversely affect investor confidence and the price of our common stock.

As a public company, we will be required to maintain internal control over financial reporting and to evaluate and determine the effectiveness of our internal control over financial reporting. Beginning with our second annual report on Form 10-K following our IPO, we will be required to provide a management report on internal control over financial reporting, as well as an attestation on our internal control over financial reporting from our independent registered public accounting firm.

During 2017, we identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. We identified a material weakness related to an insufficient complement of experienced personnel with the requisite technical knowledge of financial statement disclosures and accounting for non-routine, unusual or complex events and transactions. This material weakness in our control environment contributed to an additional material weakness in that we did not maintain effective internal controls to address the accounting of non-routine, unusual or complex events and transactions and the related financial statement presentation of such transactions.

We are taking steps to address these control issues, including the following:

- hiring of experienced additional accounting and financial reporting personnel; and
- creation of additional controls including those designed to strengthen our review processes around financial statement disclosures and accounting for non-routine, unusual or complex transactions.

While we believe that these efforts will improve our internal control over financial reporting, the implementation of these measures is ongoing and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles.

We cannot assure you that the measures we have taken to date, and that we are continuing to implement, will be sufficient to remediate the material weaknesses we have identified or avoid the identification of additional material weaknesses in the future. If the steps we take do not remediate the material weaknesses in a timely manner, there could continue to be a reasonable possibility that these control deficiencies or others could result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected on a timely basis.

The process of designing and implementing internal control over financial reporting required to comply with the disclosure and attestation requirements of Section 404 of the Sarbanes-Oxley Act ("Section 404") will be time consuming and costly. If during the evaluation and testing process, we identify additional material weaknesses in our internal control over financial reporting or determine that existing material weaknesses have not been remediated, our management will be unable to assert that our internal control over financial reporting is effective. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that there are material weaknesses with respect to our internal control over financial reporting. If we are unable to assert that our internal control over financial reporting is effective, or when required

in the future, if our independent registered public accounting firm is unable to express an unqualified opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, the market price of our common stock could be adversely affected and we could become subject to litigation or investigations by The Nasdaq Stock Market, the SEC or other regulatory authorities, which could require additional financial and management resources.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

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 market 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 May 6, 2019 . The market 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 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; and
- sales of shares of our common stock by us or our stockholders.

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 market prices of 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.

Our business and financial performance may differ from any projections that we disclose or any information that may be attributed to us by third parties.

From time to time, we may provide guidance via public disclosures regarding our projected business or financial performance. However, any such projections involve risks, assumptions and uncertainties and our actual results could

differ materially from such projections. Factors that could cause or contribute to such differences include, but are not limited to, those identified in these Risk Factors, some or all of which are not predictable or within our control. Other unknown or unpredictable factors also could adversely impact our performance, and we undertake no obligation to update or revise any projections, whether as a result of new information, future events or otherwise. In addition, various news sources, bloggers and other publishers often make statements regarding our historical or projected business or financial performance, and you should not rely on any such information even if it is attributed directly or indirectly to us.

Our stock price and trading volume could decline if securities or industry analysts do not publish about our business, or if they publish unfavorable research.

Equity research analysts do not currently provide coverage of our common stock, and we cannot assure that any equity research analysts will adequately provide research coverage of our common stock. A lack of adequate research coverage may harm the liquidity and market price of our common stock. To the extent equity research analysts do provide research coverage of our common stock, we will not have any control over the content and opinions included in their reports. The price of our common stock could decline if one or more equity research analysts downgrade our stock or publish other unfavorable commentary or research. Moreover, if one or more equity research analysts cease coverage of our company, or fail to regularly publish reports on us, the demand for our common stock could decrease, which in turn could cause our stock price or trading volume to decline.

Sales of a substantial amount of our common stock in the public market, particularly sales by our directors, executive officers and significant stockholders, or the perception that these sales could occur, could cause the market price of our common stock to decline.

Sales of a substantial number of shares of our common stock in the public market, particularly sales by our directors, executive officers and principal stockholders, or the perception that these sales might occur, could cause the market price of our common stock to decline. All of the outstanding shares of our common stock are freely tradable in the public market without restrictions or further registration, except for any shares held by our affiliates, as defined in Rule 144 under the Securities Act of 1933, as amended (the “Securities Act”). Shares held by directors, executive officers, and other affiliates are also subject to volume limitations under Rule 144 under the Securities Act and various vesting agreements, as well as our insider trading policy.

In addition, we have filed a registration statement to register shares reserved for future issuance under our equity compensation plans. Subject to the satisfaction of applicable vesting requirements, the shares issued upon exercise of outstanding stock options will be available for immediate resale in the United States in the open market.

Moreover, certain holders of our common stock have rights, subject to some conditions, to require us to file registration statements for the public resale of such shares or to include such shares in registration statements that we may file for us or other stockholders.

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 of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of 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.

Additional stock issuances could result in significant dilution to our stockholders.

We may also issue our shares of common stock or securities convertible into shares of our common stock from time to time in connection with a financing, acquisition, investments or otherwise. Additional issuances of our capital stock will result in dilution to our existing stockholders. We also grant equity awards to employees, directors and consultants under our 2018 Equity Incentive Plan and rights to purchase our common stock under our 2018 Employee Stock Purchase Plan, the latter of which will become effective at a future date upon determination by the compensation committee of the Board. Also, to the extent outstanding options and rights to purchase our capital stock are exercised and restricted stocks units vest and are settled, there will be further dilution. The amount of dilution could be substantial

depending upon the size of the issuance or exercise, which may cause the market price of our common stock to decline.

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, and the market price of our common stock may be lower as a result.

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 to fill any vacancies and newly created directorships;
- a requirement that our directors may only be removed for cause;
- 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. 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, the Board intends to amend our restated certificate of incorporation to remove the Federal Forum Provision.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the DGCL, which prohibit a person who owns 15% or more of our outstanding voting stock from merging or combining with us for a three-year period beginning on the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. Any provision in our restated certificate of incorporation, our restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Item 2. Unregistered sales of equity 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.

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Item 6. Exhibit index

Exhibit number	Exhibit title	Incorporated by reference				Filed or furnished herewith
		Form	File no.	Exhibit	Filing date	
10.1	Offer letter between Brittany Bagley and the Registrant, dated March 29, 2019					X
10.2	Form of Restricted Stock Unit Award Agreement for Section 16 Officers					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

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

SIGNATURES

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

Sonos, Inc.

Date: May 10, 2019

By: /s/ Patrick Spence
Patrick Spence
Chief Executive Officer and Director
(Principal Executive Officer)

Date: May 10, 2019

By: /s/ Brittany Bagley
Brittany Bagley
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

SONOS

March 12, 2019

Dear Brittany:

We're thrilled to offer you a position with Sonos!

In the exempt position of Chief Financial Officer you'll be based in our Santa Barbara office reporting to Patrick Spence.

This letter outlines information related to your compensation and benefits. Attached to this letter is an Addendum A which contains the "**Employee Agreement**". The Employee Agreement describes additional material terms and conditions of your employment. You should read this offer letter and the attached Employee Agreement carefully.

Base Salary

If you decide to join Sonos, you will be paid an initial annual salary of \$475,000 (your "**Base Salary**"), which will be paid semi-monthly in accordance with Sonos' normal payroll practices as established or modified from time to time. Your Base Salary shall be subject to all of the required and elected deductions, taxes and withholdings.

Bonus Eligibility

For FY19, you will receive a guaranteed bonus of \$50,000, payable in November 2019, subject to you being employed through the payment date. Such bonus shall be subject to all of the required and elected deductions, taxes and withholdings.

For FY20, you will be eligible for a discretionary target bonus of 25% of your annual base salary, which will be earned based solely on the company's performance against its annual target for revenue growth and operating profit. You must remain employed by Sonos through the actual payment date to be eligible to receive any bonus payment. Sonos reserves the right to change its discretionary bonus criteria from time to time in Sonos's sole discretion. Such bonus shall be subject to all of the required and elected deductions, taxes and withholdings.

Equity Award

If you decide to join Sonos, at the first meeting of the Compensation Committee (the "**Committee**") of Sonos' Board of Directors following your start date ("**Committee Meeting**") it will be recommended that Sonos grant you an option to purchase shares of Sonos' Common Stock and grant you restricted stock units ("**RSUs**") settleable in shares of Sonos' Common Stock. Subject to approval by the Committee, the option grant will give you the right to purchase up to 500,000 shares of Common Stock at a price per share equal to the fair market value of Sonos' Common Stock on the date of grant, as determined by the Committee at the Committee Meeting. Subject to approval by the Committee, the grant of RSUs will give you the right to receive shares of Common Stock in an aggregate value of up to \$6,000,000 as determined by the Committee on the date of grant.

The Company currently intends, that the number of RSUs will be determined by dividing \$6,000,000 by the average closing price of Sonos' Common Stock over all trading days over the 30 calendar days immediately preceding the grant date.

The option shares and the RSUs will vest as follows: 25% of the RSUs will vest 12 months after your grant date, subject to your continuing employment with Sonos on such vesting date. The remaining RSUs will vest quarterly over the next three years in equal quarterly installments, in each case, however, subject to your continuing employment with Sonos on each such vesting date.

The option and RSU grants will be subject to the terms and conditions of Sonos' 2018 Equity Incentive Plan and Sonos' standard forms of award agreements thereunder.

Transportation Benefit

Until permanent relocation to Santa Barbara, during your employment with Sonos, Sonos will provide air travel from/to San Francisco.

Relocation

Plus Relocation, our relocation vendor, will provide reimbursement and assistance with costs related to relocation such as movers, temporary housing, etc., up to a total maximum of \$30,000, subject to your execution of the Relocation Agreement, the terms and conditions outlined therein, the Company's Relocation Policy, and applicable IRS rules, all as in effect from time to time.

Benefits

Regular full-time employees working 30 or more hours per week will be eligible to receive benefits that are provided to U.S. employees. These presently include benefits such as life and health (medical, dental & vision) insurance, paid time off, and a 401(k) plan. For a more detailed understanding of the benefits and the eligibility requirements, please consult the summary plan descriptions for the programs and Sonos' Employee Handbook, which will be made available to you during your new hire orientation. Sonos reserves the right to discontinue, suspend, or to modify such plans, programs and practices at any time in Sonos' sole discretion.

Important Terms and Conditions of Employment

There are several important terms and conditions of employment at Sonos of which you should be aware. These terms, which are explained in the attached Employee Agreement, generally apply to all U.S. employees of Sonos in the same manner as they will apply to you. This offer of at-will employment is expressly conditioned upon a satisfactory background check, and your acceptance and execution of both the Employee Agreement and Arbitration Agreement (respectively attached as Addendum A and B).

Please accept this offer by signing and dating below no later than March 29, 2019. If you accept our offer, we anticipate that your first day of employment would be April 22, 2019. In accepting this offer of employment, you represent and warrant that you are not relying upon any representation or statement except those terms set forth in this letter. You acknowledge that this letter supersedes all prior representations regarding the terms and condition of your employment.

We look forward to having you join us as we lead the music-listening revolution.

ACCEPTED AND AGREED:

Brittany Bagley

EMPLOYEE SIGNATURE

Brittany Bagley

SIGNATURE DATE

March 29, 2019 | 10:04 AM PDT

Sonos, Inc.



Patrick Spence
Chief Executive Officer

Addendum A

Employee Agreement

(At Will Employment, Confidential Information, and Invention Assignment Agreement)

As a condition of your employment with Sonos, Inc., its subsidiaries, affiliates, successors or assigns (collectively, "**Sonos**"), and in consideration of your employment with Sonos and your receipt of the compensation now and hereafter paid to you by Sonos, you agree to the following terms and conditions outlined in this At Will Employment, Confidential Information, and Invention Assignment Agreement ("**Employee Agreement**"). This Employee Agreement shall be effective as of the date you sign below. Terms not defined herein shall have the meaning set forth in the accompanying offer letter.

1. Specifics of Employment.

A. *At Will Employment.* Your employment shall be on an at-will basis. As an at-will employee, either you or Sonos can terminate your employment at any time and for any reason or no reason, with or without prior notice. As a result, nothing in the offer letter (including the Addendum(s)) is a promise or guarantee of employment for any specific period of time or continued employment. Any contrary representations, which may have been made to you, are superseded by this Employee Agreement. Sonos also retains the right to make all other decisions concerning your employment (e.g., changes to your position, title, level, responsibilities, compensation, job duties, reporting structure, work location, work schedule, goals or any other managerial decisions) at any time, with or without cause or advance notice, as it deems appropriate in its sole discretion. Although your job duties, title, compensation and benefits, as well as Sonos' personnel policies and procedures, may change from time to time, the "at will" nature of your employment may only be changed in an express written agreement signed by you and a duly authorized officer of Sonos.

By signing this employment agreement, you understand and acknowledge that your employment with Sonos is for an unspecified duration and constitutes "at-will" employment. You also understand that any representation to the contrary is unauthorized and not valid unless obtained in writing and signed by the chief executive officer of Sonos. You acknowledge that this employment relationship may be terminated at any time, with or without good cause or for any or no cause, at the option either of Sonos or yourself, with or without notice.

B. *Compliance with Sonos Standards; Cooperation.* As a Sonos employee, you will be expected to abide by Sonos' policies, rules and standards of conduct outlined in the Employee Handbook, as well as this Employee Agreement. To this end, Sonos expects you to comply at all times with Sonos' policies, including without limitation standards of professionalism, respect for others, data security policy, facilities and IT systems policies, and Sonos Purchasing Policy. All relevant policies shall be provided to you following your start date. You may be required to acknowledge receipt of and intended compliance with any such policy statements provided to you.

You additionally represent and warrant that you shall observe and comply with all applicable laws, ordinances, codes and regulations of governmental agencies, including federal, provincial, state, municipal and local governing bodies, in performing your employment duties hereunder. You also agree that, during the term of your employment with Sonos and at all times thereafter, upon reasonable request, you will fully cooperate with Sonos and/or its representatives, without additional compensation, concerning any business matters or disputes of any kind about which you have, or may have, any relevant information.

C. *Background Check.* Sonos reserves the right to conduct background investigations and/or reference checks on all of its potential employees prior to hire and during employment. The offer of employment may be rescinded at any time in the event of unsatisfactory background investigation and/or reference check results. If required by law, you will receive a disclosure regarding the nature and scope of the background check Sonos plans to conduct on you and a consent form to authorize Sonos to conduct such background check under separate cover.

2. Confidential Information.

A. *Sonos Confidential Information.* You agree at all times during your employment and thereafter, to hold in strictest confidence, and not to use (except for the benefit of Sonos), and not to disclose to any person, firm or corporation without written authorization of the Board of Directors of Sonos, any Confidential Information of Sonos, except under a non-disclosure agreement with a third party duly authorized and executed by Sonos. you understand that "**Confidential Information**" shall mean any and all confidential and/or proprietary knowledge, data or information of Sonos, its affiliates, parents and subsidiaries, whether having existed, now existing, or to be developed during your employment. By way of illustration but not limitation, "Confidential Information" includes: (a) trade secrets, inventions, mask works, ideas, processes, formulas, source and object codes, data, programs, other works of authorship, know-how, improvements, discoveries, developments, designs and techniques and any other proprietary technology and all patents, copyrights and/or other proprietary rights therein; (b) information regarding research, development, new products, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, margins, discounts, credit terms, pricing and billing policies, quoting procedures, methods of obtaining business, forecasts, future plans and potential strategies, financial projections and business strategies, operational plans, financing and capital-raising plans, activities and agreements, internal services and operational manuals, methods of conducting Sonos business, suppliers and supplier information, and purchasing; (c) information regarding customers and potential customers of Sonos, including customer lists, names, representatives, their needs or desires with respect to the types of products or services offered by Sonos, proposals, bids, contracts and their contents and parties, the type and quantity of products and services provided or sought to be provided to customers and potential customers of Sonos and other non-public information relating to customers and potential customers; (d) information regarding any of Sonos' business partners and their services, including names; representatives, proposals, bids, contracts and their contents and parties, the type and quantity of products and services received by Sonos, and other non-public information relating to business partners; (e) information regarding personnel, contractors, employee lists, compensation, and employee and contractor skills; and (f) any other non-public information which a competitor of Sonos could use to the competitive disadvantage of Sonos. "Confidential Information" shall not include information that: (1) is or becomes a matter of public knowledge through no fault of yours or without violation of any duty of confidentiality by you; or (2) is rightfully received by you from a third party without a duty of confidentiality. Further, nothing in this Employee Agreement shall prohibit you from discussing the terms and conditions of my employment with others to the extent expressly permitted by Section 7 of the National Labor Relations Act.

B. *Former Employer Information.* You agree that you will not, during your employment with Sonos, improperly use or disclose any proprietary information or trade secrets of any former employer or other person or entity and that you will not bring onto the premises of Sonos any unpublished document or proprietary information belonging to any such employer, person or entity unless consented to in writing by such employer, person or entity.

C. *Third Party Information.* You recognize that Sonos has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on Sonos' part to maintain the confidentiality of such information and to use it only for certain

limited purposes. You agree to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out your work for Sonos consistent with Sonos' agreement with such third party.

3. Inventions.

A. *Inventions Retained and Licensed.* Upon signing the Employee Agreement, you will be prompted to review a separate attachment titled "List of Prior Inventions" where you will list all inventions, original works of authorship, developments, improvements, and trade secrets which were made by you prior to your employment with Sonos, which belong to (or are otherwise controlled by) you (collectively referred to as "**Prior Inventions**"), and which you do not wish to be assigned to Sonos hereunder; or, if no such list is outlined, you represent that there are no such Prior Inventions. Upon signing the Employee Agreement, the List of Prior Inventions will be provided electronically as a separate attachment. If, during your employment with Sonos, you incorporate into a Sonos product, process or service a Prior Invention, you hereby grant to Sonos a nonexclusive, royalty-free, fully paid-up, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or service, and to practice any method related thereto.

B. *Assignment of Inventions.* You agree that you will promptly make full written disclosure to Sonos, and will hold in trust for the sole right and benefit of Sonos, or its designee, all my right, title, and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements, designs, discoveries, ideas, algorithms, databases, computer programs, formulae, techniques, graphics or images, audio or visual works, trademarks or trade secrets, in each case whether or not patentable or registrable under copyright or similar laws, which you may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of time you are in the employ of Sonos (collectively referred to as "**Inventions**"), except as provided in **Section 3.E** below. You further acknowledge that all Inventions which are made by you (solely or jointly with others) within the scope of and during the period of your employment with Sonos and which are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act and other intellectual property laws, and you hereby do assign and transfer and, to the extent any such assignment cannot be made at present, will assign and transfer, to Sonos and its successors and assigns, without further compensation, all of your right, title and interest in all such Inventions, and all related patents, patent applications, trademarks and trademark applications, copyrights and copyright applications, and other intellectual property rights in all countries and territories worldwide and under any international conventions (collectively, "**Intellectual Property Rights**"). You understand and agree that the decision whether or not to commercialize or market any invention developed by you solely or jointly with others is within Sonos' sole discretion and for Sonos' sole benefit and that no royalty will be due to you as a result of Sonos' efforts to commercialize or market any such Invention. Further, you hereby waive all claims to any moral rights or other special rights which you may have or accrue in any Inventions or Intellectual Property Rights.

C. *Maintenance of Records.* You agree to keep and maintain adequate and current written records of and documentation underlying all Inventions made by you (solely or jointly with others) during the term of your employment with Sonos. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by Sonos. The records will be available to and remain the sole property of Sonos at all times.

D. *Patent and Copyright Registrations.* You agree to assist Sonos, or its designee, at Sonos' expense, in every proper way to secure Sonos' rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including the disclosure to Sonos of all pertinent information and data with

respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which Sonos shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to Sonos, its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions or Intellectual Property Rights relating thereto. You further agree that your obligation to execute or cause to be executed, when it is in your power to do so, any such instrument or papers shall continue after the termination of this Employee Agreement and/or your employment with Sonos. If Sonos is unable because of your mental or physical incapacity or for any other reason to secure your signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Inventions assigned to Sonos as above, then you hereby irrevocably designate and appoint Sonos and its duly authorized officers and agents as your agent and attorney in fact, to act for and in your behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by you.

E. *Exception to Assignments.* You understand that the provisions of this Employee Agreement requiring assignment of Inventions to Sonos do not apply to any invention that you developed entirely on my own time without using Sonos' equipment, supplies, facilities, or trade secrets, except for those inventions that either (i) relate to Sonos actual or anticipated business, research or development, or (ii) result from or are connected with work performed by you for Sonos. Specifically, you understand that my agreement to assign Inventions does not apply to any invention which qualifies fully for protection from assignment to Sonos under the provisions of California Labor Code Section 2870 or Washington state law as set forth in the Revised Code of Washington 49.44.140 (the text of which are attached hereto as Exhibit A) or any other similar applicable federal or state law related to the assignment of employee inventions (collectively, the **"Excluded Inventions Laws"**). You will advise Sonos promptly in writing of any inventions that You believe are excluded from assignment by virtue of meeting the criteria in California Labor Code Section 2870, the Revised Code of Washington 49.44.140 or any other applicable Excluded Inventions Law and are not otherwise disclosed on the List of Inventions.

F. *Obligation to Keep Sonos Informed About Post-Employment Inventions/Intellectual Property Rights.* For the six-month period following the termination of my employment from Sonos, you agree that you will promptly disclose to Sonos fully and in writing all inventions, original works of authorship, developments, concepts, improvements, designs, discoveries, ideas, algorithms, databases, computer programs, formulae, techniques, graphics or images, audio or visual works, inventions authored, conceived or reduced to practice by me, either alone or jointly with others (the **"Post-Employment Inventions"**) and/or all United States or foreign patent, copyright or other intellectual property right(s) filed by you (solely or with others) and/or on my behalf (the **"Post-Employment Intellectual Property Rights"**) if such intellectual property or Intellectual Property Rights related to products or projects on which you worked or to which you had access during your Sonos employment. You agree that Sonos will have the right to request information from you related to the Post-Employment Inventions or Post-Employment Intellectual Property Rights (including, information related to the date of conception and/or implementation) for purposes of determining whether the Post-Employment Invention at issue uses, is derived from, and/or otherwise misappropriates Sonos' trade secrets and/or Confidential Information and/or was developed during your Sonos employment and/or using Sonos' property. Nothing herein limits Sonos' right to pursue all remedies to protect its intellectual property. Sonos will keep in confidence and will not use for any purpose or disclose to third parties without your consent any confidential information disclosed in writing to Sonos pursuant to this subparagraph.

G. *Use of Image of Likeness.* You authorize Sonos to use your name, picture, signature, voice, image and/or likeness during your employment by Sonos and at any time

thereafter. Further, you waive all claims you may now have or may ever have against Sonos and its officers, directors, employees and agents arising out of Sonos' use, adaptation, reproduction, modification, distribution, exhibition or other commercial exploitation of your name, picture, signature, voice, image and/or likeness, including, but not limited to right of privacy, right of publicity and celebrity, use of voice, name or likeness and copyright infringement.

4. Conflicts.

A. *Conflicting Employment.* You agree that, during the term of your employment with Sonos, you will not engage in any other employment, occupation or consulting directly related to the business in which Sonos is now involved or becomes involved during the term of your employment, nor will you engage in any other activities that conflict with your obligations to Sonos.

B. *Conflicting Obligations.* By accepting your offer of employment, you represent and warrant that your employment with Sonos and the performance by you of your duties as a Sonos employee do not and will not breach or contravene: (i) any agreement or contract (including, without limitation, any employment or consulting agreement, any agreement not to compete, or any confidentiality or nondisclosure agreement) to which you are a party; or (ii) any obligation you may otherwise have under applicable law to any former employer or to any person to whom you have provided consulting services. You further represent and warrant that you have disclosed to Sonos the details of all agreements, contracts and/or obligations relevant to clauses (i) and (ii) above.

5. Returning Company Documents. You agree that, at the time of leaving the employ of Sonos (or earlier, if requested), You will deliver to Sonos (and will not keep in my possession, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, emails, specifications, drawings blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items (including electronic copies) developed by you pursuant to you employment with Sonos or otherwise belonging to Sonos, its successors or assigns, including, without limitation, those records maintained pursuant to **paragraph 3.C.**

6. Notification of New Employer. If you leave the employ of Sonos, you hereby grant consent to notification by Sonos to your new employer about your obligations under this Employee Agreement. If you were offered employment or the opportunity to enter into any business venture as owner, partner, consultant or other capacity, you agree to inform your potential employer, partner, co-owner and/or others involved managing the business with which you have an opportunity to be associated of your obligations under this Employee Agreement and also agree to provide such person or persons with a copy of this Employee Agreement (if so requested).

7. No Expectation of Privacy. You acknowledge and agree that you do not have any privacy interest in any items or material stored on Sonos' premises or property, including without limitation any files or data stored on Sonos' computers, network and/or phones (including cell phones), such as email, pictures or documents, whether in an active state, or obtained from restored backups, and regardless of whether such files or data had previously been deleted by me. Without limiting the foregoing, you further acknowledge that the full contents of you email and stored data may be made known to or disclosed to other Sonos employees as required in the normal course of Sonos' operations, both during and after your employment with Sonos. You authorize Sonos to monitor communications made by you using Sonos' property, facilities and resources, and the right to search and enter all areas of Sonos' premises, including any locked desks or drawers. You also authorize Sonos to search any of your personal computers, personal cell phones or other electronic or storage devices to the extent such devices are used by you: (i) to store or transmit Confidential Information; or (ii) to discharge your duties or conduct business on behalf of Sonos.

8. Remedies.

A. *Equitable Relief.* You understand that if You violate the terms of this Employee Agreement while You are employed by Sonos, you will be subject to disciplinary action up to and including discharge from your employment. You further agree and acknowledge that the non-disclosure and assignment of Invention covenants and undertakings in Sections 2 and 3 of this Employee Agreement relate to matters that are of a special, unique and extraordinary character and that a violation or breach of any of the restrictive covenants or assignment clauses in this Employee Agreement will cause irreparable harm to Sonos, the full amount of which will be impossible to estimate or determine and which cannot be adequately compensated. For that reason, you agree that if you breach any of your confidentiality or assignment obligations under this Employee Agreement, monetary compensation shall be inadequate to compensate Sonos for such breach. You therefore agree that, in the event of a breach or threatened breach of the confidentiality and/or assignment of Invention obligations by you, Sonos is entitled, in addition to any of the other rights, remedies or damages available to Sonos, to a temporary restraining order, a preliminary injunction and a permanent injunction in order to prevent or to restrain any breach or threatened breach by you or any of your partners, co-venturers, employers, employees, agents, representatives or any other persons directly or indirectly acting for you. Sonos may apply for such injunctive relief in any court of competent jurisdiction without the necessity of posting any bond or other security.

B. *Reimbursement.* You agree to reimburse Sonos for any costs resulting from or related to any claims, liabilities and damages arising from any claim brought against Sonos by a former employer(s) alleging that you are in breach of any legal obligations that you owe to any former employer(s). If such a claim is started against Sonos then Sonos shall have the option, exercisable in its sole discretion, to terminate your employment immediately, consistent with the at-will nature of our relationship.

C. *Attorneys' Fees.* If you breach this Employee Agreement, you agree that Sonos, if the prevailing party, shall be entitled to recover its reasonable attorneys' fees and costs, to the extent such recovery is not prohibited by law. This remedy shall be in addition to, and not as an alternative to, any other remedies at law or in equity available to Sonos.

9. General Provisions.

A. *Governing Law.* This Employee Agreement shall be governed by and construed and interpreted in accordance with the laws of the state in which you are employed by Sonos, without regard to its conflict of laws.

B. *Arbitration Agreement/Venue/Jury Waiver.* You acknowledge that you have executed an Arbitration Agreement contemporaneously with this Employee Agreement and agree that the Arbitration Agreement shall govern whether a particular dispute must be submitted to arbitration or may proceed in the courts. As set forth in the Arbitration Agreement and as reaffirmed herein, Sonos and you agree that any claims for equitable relief or declaratory judgment by either Sonos or you arising out of the non-disclosure or assignment of Inventions provisions set forth in Sections 2 and 3 of this Employee Agreement are expressly excluded from the agreement to arbitrate certain claims as provided in the Arbitration Agreement. Sonos and you further agree that any such causes of action shall be commenced and maintained in any state or federal court located within the state in which you are employed by Sonos and you hereby submit to the personal jurisdiction of such court. Each party hereto hereby irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this employee agreement or the transactions contemplated hereby.

C. *Entire Agreement.* This Employee Agreement sets forth the entire agreement and understanding between Sonos and you relating to the subject matter herein and supersedes all prior discussions or representations between us including, but not limited to, any representations made during your interview(s) or offer negotiations, whether written or oral, except for the Arbitration Agreement. No modification of or amendment to this Employee Agreement, nor any waiver of any rights under this Employee Agreement, will be effective unless in writing signed by an authorized representative of Sonos and you.

D. *Severability/Modification.* If any of the provisions of this Employee Agreement shall be invalid or unenforceable, such invalidity or unenforceability shall not invalidate or render unenforceable the remainder of this Employee Agreement, but rather the remainder of this Employee Agreement shall be construed as if not containing the particular invalid or unenforceable provision or provisions, and the rights and obligations of the parties shall be enforced accordingly. Moreover, if one or more of the provisions contained in this Employee Agreement shall for any reason be held to be excessively broad as to scope, activity, subject or otherwise so as to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body or arbitrator by limiting, revising or reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear. The parties hereby agree that the language of all parts of this Employee Agreement shall in all cases be construed as a whole according to its fair meaning and not strictly for or against any of the parties.

E. *Successors and Assigns.* This Employee Agreement will be binding upon your heirs, executors, administrators and other legal representatives. Sonos shall have the right to assign this Employee Agreement to its successors and assigns without consent by you, and all covenants and agreements hereunder shall ensure to the benefit of and are enforceable by said successors and assigns. You do not have the right to assign this Agreement.

F. *No Abandonment Regardless of Material Change.* You agree that Sonos may modify or change your position, duties, compensation, benefits, responsibilities, and/or any other terms and conditions of employment as it deems appropriate in its sole discretion. Any such changes to the terms and conditions of my employment (whether material or immaterial) shall not alter or modify your obligations as set forth herein and shall not be construed as an intent or agreement to abandon this agreement, to create a new employment relationship, and/or to relieve you of your obligations hereunder (unless such agreement or intent is expressly and specifically set forth in writing by Sonos). You acknowledge and agree that this Employment Agreement shall remain in full force and effect regardless of any change in the terms and conditions of my employment (whether material or immaterial).

G. *Waiver.* Sonos may waive any breach by you of any provision of this Employment Agreement expressly in writing in its sole discretion. Any waiver by Sonos of a breach of any provision of this Employment Agreement shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof.

H. *Survival.* You understand and agree that your obligations under this Employment Agreement shall survive the termination of this Employment Agreement and/or your employment regardless of the manner of such termination and shall be binding upon your heirs, executors, administrators and legal representatives.

10. Acknowledgment/Independent Legal Advice. You acknowledge that you have carefully read and considered the provisions of this Employment Agreement. You further acknowledge that you have had the opportunity to seek legal advice, and have either obtained such advice with regard to this Employee Agreement or have chosen not to do so. You agree that the restrictions and covenants set forth in this Employee Agreement are fair and reasonable

and are necessary for the protection of the interests of Sonos and its business, officers, directors and employees.

Accepted and agreed:

Brittany Bagley

EMPLOYEE SIGNATURE

Brittany Bagley

SIGNATURE DATE 10:04 AM PDT

Sonos, Inc.



Patrick Spence
Chief Executive Officer

Addendum B

Arbitration Agreement

This Arbitration Agreement ("**Arbitration Agreement**") is entered into by and between Sonos, Inc. and its affiliates and successors (referred to herein as the "**Sonos**") and Brittany Bagley (referred to herein as "**You**").

1. Agreement to Arbitrate.

a. Mutual Agreement to Arbitrate Certain Claims/Issues. In consideration of Sonos' offer of employment and/or continued employment to You and your acceptance of the same, You and Sonos agree that any and all existing or future disputes or claims related to your employment with Sonos (including, but not limited to, the termination of your employment with Sonos), except those claims and disputes identified below in subparagraph (b) of this Section, will be resolved by final and binding arbitration and that no other forum for dispute resolution will be available to either party. Except as set forth in Section 1(b) or otherwise prohibited by applicable law, claims subject to arbitration include, but are not limited to:

(i) Claims related to your employment, change in employment status, and/or termination of employment with Sonos;

(ii) Claims under any California, Massachusetts, New York, Washington, or any other state, federal and/or municipal statute, regulation, ordinance, law and/or executive order (as amended) relating to employment, discrimination (including discrimination on the basis of race, color, religion, creed, sex, sex harassment, sexual orientation, age, gender identity, marital status, familial status, pregnancy, national origin, ancestry, alienage, handicap, disability, present or past history of mental disorders or physical disability, veteran's status, candidacy for or activity in a general assembly or other public office, or constitutionally protected acts of speech), fair employment practices, or other terms and conditions of employment, including, but not limited to, the Age Discrimination in Employment Act and Older Workers Benefit Protection Act (29 U.S.C. § 621 *et seq.*), the Civil Rights Acts of 1866 and 1871, Title VII of the Civil Rights Act of 1964 and the Civil Rights Act of 1991 (42 U.S.C. § 2000e *et seq.*), the Equal Pay Act (29 U.S.C. § 201 *et seq.*), the Americans With Disabilities Act (42 U.S.C. § 12101 *et seq.*), the Immigration Reform and Control Act (8 U.S.C. § 1101 *et seq.*), the Uniformed Services Employment and Reemployment Rights Act ("USERRA"); the California Fair Employment and Housing Act, the Massachusetts Fair Employment Practices Statute (M.G.L. c. 151B § 1 *et seq.*), the Massachusetts Equal Rights Act (M.G.L. c. 93 § 102), the Massachusetts Civil Rights Act (M.G.L. c. 12 §§ 11H & 11I), the Massachusetts Privacy Statute (M.G.L. c. 214 § 1B), the Massachusetts Sexual Harassment Statute (M.G.L. c. 214 § 1C), the Massachusetts law against retaliation (M.G.L. c. 19C, § 11), the New York State Human Rights Law (N.Y. Exec. Law § 290 *et seq.*); the New York City Human Rights Law (N.Y.C. Admin. Code § 8-101 *et seq.*); the New York Equal Rights Law (N.Y. Civ. Rights Law §§ 40 to 45); the Washington Law Against Discrimination (RCW Chapter 49.60); and the Seattle Fair Employment Practices Ordinance (Seattle Municipal Code 14.04);

(iii) Claims under any California, Massachusetts, New York, Washington, or any other state, federal and/or municipal statute, regulation, ordinance, law and/or executive order (as amended) relating to leaves of absence, layoffs or reductions-in-force, wages, hours, or other terms and conditions of employment, including, but not limited to, the National Labor Relations Act (29 U.S.C. § 151 *et seq.*), the Family and Medical Leave Act (29 U.S.C. § 2601 *et seq.*), the

Employee Retirement Income Security Act of 1974 (29 U.S.C. § 1000 *et seq.*), COBRA (29 U.S.C. § 1161 *et seq.*), the Fair Labor Standards Act (29 U.S.C. § 201 *et seq.*), the Occupational Safety and Health Act (29 U.S.C. § 651 *et seq.*), the Worker Adjustment and Retraining Notification Act (29 U.S.C. § 2101 *et seq.*), the California Family Rights Act (Cal. Gov. Code §§ 12945.1- 12945.2), the California Pregnancy Disability Leave Act (Cal. Gov. Code § 12945), the California School Activities Act (Cal. Labor Code § 230.8), the California Healthy Workplace Health Family Act (Cal. Labor Code §§ 245-249), the Cal-WARN Act (Cal. Labor Code §§ 1400-1408), the California wage payment laws (Cal. Labor Code §§ 200 through 244); the California Overtime Law (Cal. Labor Code §§ 500-552), the California Minimum Wage Law (Cal. Labor Code § 1182.12), the Massachusetts Small Necessities Leave Act (M.G.L. c. 149, §52D), the Massachusetts Parental Leave Law (M.G.L. c. 149, §105D), the Massachusetts Wage Act (M.G.L. c. 149 § 148 *et seq.*), the Massachusetts Minimum Fair Wages Act (M.G.L. c. 151 § 1 *et seq.*), the Massachusetts Equal Pay Act (M.G.L. c. 149 § 105A), the Massachusetts Paid Sick Leave law (M.G.L. c. 149, §§ 148C; 148D); Article 6 of the New York Labor Law (N.Y. Lab. Law §§ 190-199-A), including the New York Wage Payment Act (N.Y. Lab. Law § 190, *et seq.*); the New York State Minimum Wage Law; all New York Labor Standards; all New York Wage and Hour Laws; the Washington Payment of Wages Law (RCW 49.48.010 and 49.52.050); the Washington Overtime Law (RCW 49.46.130); the Seattle Minimum Wage Ordinance; the Washington State Family Care Act (RCW 49.12.265 *et seq.*); and the Washington Family Leave Act (RCW 49.78);

(iv) Claims under any California, Massachusetts, New York, Washington, or any other state, federal and/or any other common law theory, including, without limitation, wrongful discharge, breach of express or implied contract, promissory estoppel, unjust enrichment, breach of a covenant of good faith and fair dealing, violation of public policy, defamation, interference with contractual relations, intentional or negligent infliction of emotional distress, invasion of privacy, misrepresentation, deceit, fraud, negligence, or any claim to attorneys' fees under any applicable statute or common law theory of recovery;

(v) Claims under any California, Massachusetts, New York, Washington, or any other state, federal and/or municipal statute, regulation, ordinance, law or executive order (as amended) relating to whistleblower protections, violation of public policy, or any other form of retaliation or wrongful termination, including but not limited to the Sarbanes-Oxley Act of 2002; the New York Whistleblower & Retaliation Laws (N.Y. Lab. Law §§ 740, 741, and 215); the New York Nondiscrimination for Legal Actions Laws;

(vi) Claims under any Sonos' compensation, benefit, stock option, incentive compensation, bonus, restricted stock, and/or equity plan, program, policy, practice or agreement, or any other type of employment-related agreement, contract or policy; and/or

(vii) Any other claim arising under other state, federal, municipal or other local law not specifically itemized herein.

The parties also agree that the arbitrator shall have the power and authority to interpret this Agreement and to decide whether a certain dispute or claim is subject to arbitration under this Agreement. This power and authority to determine arbitrability is hereby expressly delegated to the appointed arbitrator and not to any judge or court. The parties agree that this agreement to arbitrate also covers claims brought by You against Sonos' agents, officers or other employees for actions they may have taken in connection with your employment.

b. Claims Excluded from Agreement to Arbitrate/Choice of Venue for Such

Claims: The agreement to arbitrate in Section 1(a) does not apply to claims for benefits under state unemployment insurance or workers compensation programs. In addition, this Agreement does not prohibit You from filing a claim or participating in an investigation, hearing or proceeding

with a local, state or federal administrative agency, including the EEOC, the Department of Labor, the National Labor Relations Board, the Massachusetts Commission Against Discrimination, the California Department of Fair Employment and Housing, the New York City Commission on Human Rights, the New York State Division of Human Rights, the Washington State Human Rights Commission and/or any other federal or state administrative agency. (However, this Agreement does preclude You from pursuing any such claim in court).

In addition, this agreement to arbitrate expressly excludes and does not apply to claims for equitable relief or declaratory judgment by either You or Sonos arising out of: (i) the non-disclosure or assignment of inventions provisions set forth in Sections 2 and 3 of the At Will Employment, Confidential Information, and Invention Assignment Agreement (the "**Employee Agreement**"); (ii) state or federal trade secret laws; and/or (iii) state or federal intellectual property laws. You understand and agree that violations of the non-disclosure or assignment of inventions provisions of the Employee Agreement, state or federal trade secret laws and/or state or federal intellectual property laws could cause irreparable and unique injury and that money damages would not provide an adequate remedy for such injury. Accordingly, You and Sonos agree that the parties could not effectively pursue all available rights and remedies (including equitable relief) for such claims in an arbitration proceeding and that such claims must therefore be excluded from the agreement to arbitrate. All claims excluded from arbitration under this Section shall be commenced and maintained in any state or federal court located within the state in which You are employed by Sonos.

2. No Class Actions or Arbitrations. You and Sonos agree that the arbitrator may only hear the parties' individual claims and will not have the authority: (i) to consolidate the claims of other employees; (ii) to fashion a proceeding as a class or collective action; and/or (iii) to award relief to a group or class of employees in one arbitration proceeding. **In other words, You must pursue all claims subject to arbitration as an individual and may not pursue such claims as part of a class.** You represent, agree, and acknowledge that You will be able to effectively pursue your rights and any and all claims against Sonos in an individual arbitration according to the terms of this Arbitration Agreement.

3. Procedure, Deadline for Filing Of Claims Subject to Agreement to Arbitrate, Rules of Arbitration, Confidentiality. You and Sonos agree that arbitration proceedings shall be conducted by the American Arbitration Association ("**AAA**") pursuant to the Federal Arbitration Act, and in accordance with the Employment Arbitration Rules and Mediation Procedures, (available on-line at www.adr.org), which are incorporated herein by reference.

The parties agree that any and all claims subject to arbitration under this Agreement must be initiated with the AAA within the statute of limitations period prescribed for such claims under applicable law. As set forth in Rule 4 of the Employment Arbitration Rules and Mediation Procedures, a party may initiate arbitration by filing a Demand for Arbitration in writing with the AAA. If You file such a Demand, please also send a copy of to Sonos' Legal Department, Attention: General Counsel. Alternatively, the parties may submit a joint request for arbitration in writing. No demand for arbitration may be made after the date when the institution of legal or equitable proceedings based on such claim or dispute would be barred by the applicable statute of limitation.

The parties agree that a neutral arbitrator will be selected in accordance with the Employment Arbitration Rules and Mediation Procedures and further agree that the arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment or motions to dismiss prior to any arbitration hearing. The parties also agree that the arbitrator shall have the power to award any remedies, including attorney's fees and costs, available under applicable law. The parties agree that any decision of the arbitrator must be in

writing. The arbitrator's decision shall be final and binding on both You and Sonos and shall be enforceable by any court having proper jurisdiction. The arbitrator shall maintain the confidentiality of the arbitration and shall have the authority to make appropriate rulings to safeguard that confidentiality unless the parties agree otherwise or the law provides to the contrary.

4. **Governing Law/Location of Arbitration.** This Agreement shall be governed by and construed and interpreted in accordance with the Federal Arbitration Act, 9 U.S.C. §§ 1-16. You and Sonos agree that any and all arbitrations between the parties compelled and contemplated by this Agreement shall be held within the state in which You are employed by Sonos.

5. **Cost of Arbitration.** The parties agree that Sonos shall pay for any administrative or hearing fees and/or costs charged by the arbitrator or the AAA.

6. **Attorney's Fees.** You and Sonos each shall bear your own attorneys' fees incurred in connection with the arbitration, and the arbitrator will not have the authority to order attorneys' fees unless an agreement between You and Sonos or a statute or law at issue in the dispute authorizes the award of attorneys' fees to the prevailing party, in which case the arbitrator shall have the authority to make an award of attorneys' fees as permitted under the applicable law or agreement.

7. **Jury Waiver.** YOU AND SONOS HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING IN ANY WAY TO YOUR EMPLOYMENT.

8. **Consideration to Support Agreement.** You and Sonos agree that there is sufficient and adequate consideration to support your mutual obligations under this Agreement. Specifically, You acknowledge that You are offered employment or continued employment in consideration of your promise to arbitrate certain claims related to your employment as set forth in this Agreement. In addition, the mutual promises of Sonos and You to resolve certain claims by arbitration in accordance with the provisions of this Arbitration Agreement, rather than through the courts, provide consideration for this Agreement.

9. **Acknowledgment of Waiver of Rights.** You understand and acknowledge that by signing this agreement, you are waiving the following rights: (i) your right to pursue class or collective action against Sonos in any forum, whether through the courts or through arbitration; (ii) your right to a trial or hearing before a court of any and all present or future claims against Sonos subject to arbitration under this arbitration agreement; and (iii) any right to trial by jury for any and all present or future claims related to your employment.

10. **Voluntary Agreement.** You represent that You have read the terms of the foregoing agreement, that You fully understand its terms, and are voluntarily executing the same. You acknowledge that You have been advised to consult with an attorney before signing this agreement and that You have had a sufficient opportunity to do so.

11. **Complete Agreement.** This Arbitration Agreement contains the complete agreement between Sonos and You regarding the subject of arbitration and dispute resolution and supersedes any and all prior written, oral or other types of representations and agreements between Sonos and You, if any, related to the subject of dispute resolution of any kind, except for the Employee Agreement.

12. **Severability.** If any provision of this Agreement, or part thereof, is held invalid, void or voidable as against public policy or otherwise, the invalidity shall not affect other provisions, or parts thereof, which may be given effect without the invalid provision or part. To this extent, the

provisions, and parts thereof, of this Arbitration Agreement are declared to be severable. Moreover, if one or more of the provisions contained in this Arbitration Agreement shall for any reason be held to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body by limiting, revising or reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear. The parties hereby agree that the language of all parts of this Arbitration Agreement shall in all cases be construed as a whole according to its fair meaning and not strictly for or against any of the parties.

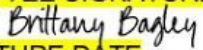
13. Modification. This Arbitration Agreement may be modified only in a writing, which expressly refers to this Agreement and You by full name and which is signed by You and an authorized representative of Sonos.

14. Successors and Assigns. This Arbitration Agreement will be binding upon Your heirs, executors, administrators and other legal representatives. Sonos shall have the right to assign this Arbitration Agreement to its successors and assigns without consent by You, and all covenants and agreements hereunder shall ensure to the benefit of and are enforceable by said successors and assigns. You do not have the right to assign this Arbitration Agreement.

You represent that you have read the foregoing Arbitration Agreement, fully understand its terms and conditions, and are voluntarily executing the same. In entering into this Arbitration Agreement, you did not rely on any representation, promise or inducement made by Sonos with the exception of the terms and conditions set forth in this document.

Accepted and agreed:

Brittany Bagley

EMPLOYEE SIGNATURE

SIGNATURE DATE
March 25, 2019 10:04 AM PDT

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Sonos, Inc.



**Patrick Spence
Chief Executive Officer**

**LIST OF PRIOR INVENTIONS
AND ORIGINAL WORKS OF AUTHORSHIP**

Title	Identifying Number or Brief Description	Date

ACCEPTED AND AGREED:

Brittany Bagley

EMPLOYEE SIGNATURE

Brittany Bagley

SIGNATURE DATE

March 29, 2019 | 10:04 AM PDT

Sonos, Inc.

Patrick A. Spence

**Patrick Spence
Chief Executive Officer**

Exhibit A

**CALIFORNIA LABOR CODE SECTION 2870
INVENTION ON OWN TIME-EXEMPTION FROM AGREEMENT**

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

Relocation Agreement

This Relocation Agreement (the "Agreement") is entered into on March 12, 2019 by and between Brittany Bagley and Sonos, Inc. (the "Company").

WHEREAS, Employee has been offered employment by the Company in its Santa Barbara office (the "Designated Office");

WHEREAS, the Company has agreed to provide financial assistance to Employee with respect to certain relocation expenses, subject to the terms of this Agreement and as set forth in the attached Relocation Policy (the "Relocation Policy");

WHEREAS, Employee acknowledges and agrees that he/she will repay the Company for the relocation expenses paid by the Company if he/she terminates his/her employment with the Company for any reason on or before the one-year anniversary of the date on which Employee commences his/her employment with Sonos.

NOW THEREFORE, for good and valuable consideration, Employee and the Company agree as follows:

2. Relocation Expenses. Subject to the terms and conditions set forth herein and provided Employee executes and returns this Agreement to the People Department on or before the start date of employment, the Company agrees to pay for certain fees, expenses, and costs which are incurred by Employee in connection with his/her relocation up to, but not to exceed the gross sum of the amount set forth in the offer letter presented to the Employee, in accordance with the attached Relocation Policy (the "Relocation Expenses").

3. Repayment Obligation Upon Resignation of Employment by Employee. Employee acknowledges and agrees that, if Employee resigns his/her employment for any reason at any time on or prior to the one year anniversary of the date Employee commences his/her employment at the Designated Office, he/she will repay the Relocation Expenses paid by the Company within 30 days of the resignation notice. Employee agrees that he/she shall pay all of the payments owed under this Section in cash or by certified check on or before the date of termination from employment.

4. Termination By The Company. If the Company terminates Employee's at-will employment for any reason, at any time on or prior to the one-year anniversary of the date Employee commences his/her employment, the Employee will not be obligated to repay the Relocation Expenses.

5. Authorization To Deduct From Wages. Employee further agrees that, if Employee fails to pay the Company the full amount of the Relocation Expenses on or before his/her termination date in accordance with his/her obligations hereunder, the Company is hereby authorized, to the extent permitted by local law, to deduct all amounts owed to the Company under this Agreement from any and all payments due to him/her by the Company at the time of termination, including without limitation, any unreimbursed business expenses, accrued but unused vacation pay, his/her final wages, earned commissions, and bonus payments. To this end, Employee agrees to execute a form, to be prepared by the Company, authorizing the Company to withhold the specific amount that is due.

6. Complete Agreement; Miscellaneous. This Agreement and the attached Relocation Policy, which is incorporated herein by reference, set forth the complete agreement between Employee and the Company with respect to the payment of any Relocation Expenses. Employee agrees that each provision and the subparts of each provision in this Agreement shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses of this Agreement. In the event of any dispute, this Agreement will be construed as a whole, will be interpreted in accordance with its fair meaning, and will not be construed strictly for or against either Employee or the Company. This Agreement may not be changed, amended, modified, altered or rescinded except upon the express written consent of both Employee and an authorized Company officer. Any waiver of any provision of this agreement by the Company shall not constitute a waiver of any other provision of this Agreement unless the Company expressly so indicates otherwise.

7. No Modification of At-Will Relationship. Employee and the Company agree that this Agreement does not in any way modify or limit the at-will nature of his/her employment by the Company. Nothing in this Agreement should be taken as a guarantee of continued employment, a specific term of employment and/or a contract of employment and at all times Employee will be expected to meet the Company's performance standards. Nothing in this Agreement should be construed to be a guarantee of continued employment for one year.

8. Legal Fees. Should the Company prevail in any action against Employee to enforce the terms of this Agreement, Employee acknowledges and agrees that he/she shall be responsible for the payment of the Company's legal fees and costs, including reasonable attorney's fees.

9. Consent. Employee represents that he/she has read the foregoing Agreement, that he/she fully understands the terms and conditions of the Agreement and is voluntarily executing the same.

IN WITNESS WHEREOF, the undersigned has executed this Agreement as a sealed instrument as of the date written below

ACCEPTED AND AGREED:

Brittany Bagley

EMPLOYEE SIGNATURE

Brittany Bagley

SIGNATURE DATE

March 29, 2019 | 10:04 AM PDT

Sonos, Inc.



Patrick Spence
Chief Executive Officer

**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.

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 Quarterly Report on Form 10-Q 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)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; 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.

Date: May 10, 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 Quarterly Report on Form 10-Q 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)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; 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.

Date: May 10, 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 Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 30, 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 Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 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 Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 30, 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 Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2019

By:

/s/ Brittany Bagley

Brittany Bagley

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