

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 28, 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)

614 Chapala Street

(Address of Principal Executive Offices)

Santa Barbara

CA

93101

(Zip Code)

03-0479476

(I.R.S. Employer Identification No.)

(805) 965-3001

Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	SONO	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	☐

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

As of January 25, 2020, the registrant had 110,001,870 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	
	December 28, 2019	September 28, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 408,419	\$ 338,641
Restricted cash	183	179
Accounts receivable, net of allowances	135,902	102,743
Inventories	113,117	219,784
Prepays and other current assets	30,986	17,762
Total current assets	<u>688,607</u>	<u>679,109</u>
Property and equipment, net	81,474	78,139
Operating lease right-of-use assets	60,007	—
Intangible assets and goodwill	40,539	1,018
Deferred tax assets	1,133	1,154
Other noncurrent assets	2,169	2,185
Total assets	<u>\$ 873,929</u>	<u>\$ 761,605</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 191,364	\$ 251,941
Accrued expenses	90,822	69,856
Accrued compensation	28,339	41,142
Short-term debt	9,439	8,333
Deferred revenue, current	14,604	13,654
Other current liabilities	40,552	17,548
Total current liabilities	<u>375,120</u>	<u>402,474</u>
Operating lease liabilities, noncurrent	58,589	—
Long-term debt	23,192	24,840
Deferred revenue, noncurrent	47,042	42,795
Other noncurrent liabilities	2,707	10,568
Total liabilities	<u>506,650</u>	<u>480,677</u>
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$0.001 par value	111	110
Treasury stock	(18,576)	(13,498)
Additional paid-in capital	523,929	502,757
Accumulated deficit	(137,602)	(208,377)
Accumulated other comprehensive loss	(583)	(64)
Total stockholders' equity	<u>367,279</u>	<u>280,928</u>
Total liabilities and stockholders' equity	<u>\$ 873,929</u>	<u>\$ 761,605</u>

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

SONOS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(unaudited, in thousands, except share and per share amounts)

	Three Months Ended	
	December 28, 2019	December 29, 2018
Revenue	\$ 562,083	\$ 496,371
Cost of revenue	334,463	301,082
Gross profit	227,620	195,289
Operating expenses		
Research and development	52,526	37,095
Sales and marketing	77,423	65,852
General and administrative	30,209	23,823
Total operating expenses	160,158	126,770
Operating income	67,462	68,519
Other income (expense), net		
Interest income	998	273
Interest expense	(453)	(671)
Other income (expense), net	4,424	(3,999)
Total other income (expense), net	4,969	(4,397)
Income before provision for income taxes	72,431	64,122
Provision for income taxes	1,656	2,455
Net income	\$ 70,775	\$ 61,667
Net income attributable to common stockholders:		
Basic	\$ 70,775	\$ 61,667
Diluted	\$ 70,775	\$ 61,667
Net income per share attributable to common stockholders:		
Basic	\$ 0.65	\$ 0.62
Diluted	\$ 0.60	\$ 0.55
Weighted-average shares used in computing net income per share attributable to common stockholders:		
Basic	108,984,683	100,148,106
Diluted	118,415,968	112,088,672
Total comprehensive income		
Net income	\$ 70,775	\$ 61,667
Change in foreign currency translation adjustment	(519)	509
Comprehensive income	\$ 70,256	\$ 62,176

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

SONOS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited, in thousands, except share amounts)

Three Months Ended December 28, 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 28, 2019	109,623,417	\$ 110	\$ 502,757	(1,020,775)	\$ (13,498)	\$ (208,377)	\$ (64)	\$ 280,928
Issuance of common stock pursuant to equity incentive plans	1,561,696	1	7,968	—	—	—	—	7,969
Purchase of treasury stock	—	—	—	(372,149)	(5,078)	—	—	(5,078)
Stock-based compensation expense	—	—	13,204	—	—	—	—	13,204
Net income	—	—	—	—	—	70,775	—	70,775
Change in foreign currency translation adjustment	—	—	—	—	—	—	(519)	(519)
Balance at December 28, 2019	<u>111,185,113</u>	<u>\$ 111</u>	<u>\$ 523,929</u>	<u>(1,392,924)</u>	<u>\$ (18,576)</u>	<u>\$ (137,602)</u>	<u>\$ (583)</u>	<u>\$ 367,279</u>

Three Months Ended December 29, 2018								
	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	174,453	—	462	—	—	—	—	462
Stock-based compensation expense	—	—	9,032	—	—	—	—	9,032
Net income	—	—	—	—	—	61,667	—	61,667
Change in foreign currency translation adjustment	—	—	—	—	—	—	509	509
Balance at December 29, 2018	<u>101,042,703</u>	<u>\$ 101</u>	<u>\$ 434,111</u>	<u>(807,040)</u>	<u>\$ (11,072)</u>	<u>\$ (141,944)</u>	<u>\$ (1,168)</u>	<u>\$ 280,028</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)

	Three Months Ended	
	December 28, 2019	December 29, 2018
Cash flows from operating activities		
Net income	\$ 70,775	\$ 61,667
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	9,105	9,867
Stock-based compensation expense	13,204	9,032
Other	1,471	475
Deferred income taxes	51	226
Foreign currency transaction (gain) loss	(1,924)	1,318
Changes in operating assets and liabilities:		
Accounts receivable, net	(31,411)	(49,324)
Inventories, net	107,343	81,621
Other assets	(11,853)	(3,092)
Accounts payable and accrued expenses	(39,416)	(21,413)
Accrued compensation	(14,568)	(14,450)
Deferred revenue	4,879	4,598
Other liabilities	11,184	11,525
Net cash provided by operating activities	118,840	92,050
Cash flows from investing activities		
Purchases of property and equipment	(15,914)	(5,372)
Cash paid for acquisition, net of acquired cash	(35,622)	—
Net cash used in investing activities	(51,536)	(5,372)
Cash flows from financing activities		
Repayments of borrowings	(1,667)	—
Payments for purchase of treasury stock	(5,078)	—
Proceeds from exercise of common stock options	7,969	462
Payments of offering costs	—	(567)
Net cash provided by (used in) financing activities	1,224	(105)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1,254	(133)
Net increase in cash, cash equivalents and restricted cash	69,782	86,440
Cash, cash equivalents and restricted cash		
Beginning of period	338,820	221,120
End of period	\$ 408,602	\$ 307,560
Supplemental disclosure		
Cash paid for interest	\$ 472	\$ 658
Cash paid for taxes, net of refunds	\$ 517	\$ 1,312
Cash paid for amounts included in the measurement of lease liabilities	\$ 4,304	\$ —
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment in accounts payable and accrued expenses	\$ 7,908	\$ 2,803
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 74,683	\$ —
Deferred offering costs in accounts payable and accrued expenses	\$ —	\$ 18

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 audio products. The Sonos sound system provides customers with an immersive listening experience created by the design of its speakers and components, a proprietary software platform and the ability to stream content from a variety of sources over the customer’s wireless network or over Bluetooth.

The Company’s products are sold through third-party 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. in the Netherlands, Beijing Sonos Technology Co. Ltd. in China, Sonos Japan GK in Japan and Sonos Australia Pty Ltd. in Australia.

Basis of presentation and preparation

The accompanying condensed consolidated financial statements are unaudited. The condensed consolidated balance sheet as of December 28, 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 its cash flows for the interim periods presented. The results of operations for the three months ended December 28, 2019 are not necessarily indicative of the results to be expected for the full fiscal year or any other period.

On November 14, 2019, the Company completed the acquisition of 100% of the equity interests in Snips SAS (“Snips”), a France-based provider of an artificial intelligence voice technology. The results of Snips operations have been included in the Company’s consolidated results of operations since the date of acquisition.

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 28, 2019 (the “Annual Report”), filed with the Securities and Exchange Commission (“SEC”) on November 25, 2019. Certain prior period amounts have been reclassified to conform to the current period presentation.

The Company operates on a 52- week or 53- week fiscal year ending on the Saturday nearest September 30 each year. The Company’s fiscal year is divided into four quarters of 13 weeks, each beginning on a Sunday and containing two 4-week periods followed by a 5-week period. An additional week is included in the fourth fiscal quarter approximately every five years to realign fiscal quarters with calendar quarters. This last occurred in the fourth quarter of the Company’s fiscal year ended October 3, 2015 and will reoccur this fiscal year ending October 3, 2020. The three months ended December 28, 2019 and December 29, 2018 spanned 13 weeks each. As used in this Quarterly Report on Form 10-Q, “fiscal 2020” refers to the fiscal year ending October 3, 2020 and “fiscal 2019” refers to the fiscal year ended September 28, 2019.

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.

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

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.

Business combinations

The Company uses the acquisition method of accounting for business combinations and recognizes assets acquired and liabilities assumed measured at their fair values on the date acquired. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net acquisition date fair value of the assets acquired and the liabilities assumed. The Company uses best estimates and assumptions, including but not limited to, future expected cash flows, expected asset lives and discount rates, to assign a fair value to the tangible and intangible assets acquired and liabilities assumed in business combinations as of the acquisition date. These estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed may be recorded, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired and liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations and comprehensive income.

Recently adopted accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, and other subsequent amendments to the initial guidance (collectively referred to as "Topic 842"), which modifies lease accounting in order to increase transparency and comparability among entities. Topic 842 requires lessees to recognize operating leases as right-of-use assets and lease liabilities on the balance sheets. The lease liabilities are initially measured at the present value of the lease payments.

The Company adopted Topic 842 as of September 29, 2019, using the modified retrospective method under ASU 2018-11. As such, prior periods were not retrospectively adjusted. There was no cumulative effect to accumulated deficit upon adoption. The Company elected the transition package of three practical expedients permitted within the standard, which eliminates the requirements to reassess prior conclusions about lease identification, lease classification and initial direct costs.

Adoption of the new standard resulted in the recording of right-of-use assets and operating lease liabilities of approximately \$63.7 million and [\\$73.7](#) million, respectively on September 29, 2019, with an increase to total assets and liabilities of approximately [\\$62.5](#) million. The difference between the right-of-use assets and lease liabilities is primarily attributable to deferred rent and rent incentives. There was no impact on the Company's condensed consolidated statement of operations and comprehensive income or condensed consolidated statements of cash flows. See Note 6. *Leases* for further information on leases.

Internal-use software

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. In the first quarter of fiscal 2020, the Company prospectively adopted this standard. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Recent accounting pronouncements pending adoption

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and other subsequent amendments including ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses* (collectively referred to as "Topic 326") which provides a new impairment model that requires measurement and recognition of expected credit losses

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

for most financial assets and certain other instruments, including but not limited to accounts receivable and available for sale debt securities. The standard will be effective for the Company in the first quarter of fiscal 2021. The Company is currently evaluating the impact on the Company's consolidated financial statements.

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

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

In 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 standard will be effective for the Company in the first quarter of fiscal 2021, with early adoption permitted. The Company is currently evaluating the timing of adoption and impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This standard simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 as well as by improving consistent application of the topic by clarifying and amending existing guidance. This standard will be effective for the Company in the first quarter of fiscal 2022, 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 December 28, 2019 and September 28, 2019 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 December 28, 2019 and September 28, 2019:

		December 28, 2019			
(In thousands)		Level 1	Level 2	Level 3	Total
Assets:					
Money market funds (cash equivalents)		\$ 240,291	\$ —	\$ —	\$ 240,291

		September 28, 2019			
(In thousands)		Level 1	Level 2	Level 3	Total
Assets:					
Money market funds (cash equivalents)		\$ 267,806	\$ —	\$ —	\$ 267,806

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

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:

	Three Months Ended	
	December 28, 2019	December 29, 2018
(In thousands)		
Americas	\$ 303,194	\$ 258,727
Europe, Middle East and Africa ("EMEA")	212,738	216,080
Asia Pacific ("APAC")	46,151	21,564
Total revenue	<u>\$ 562,083</u>	<u>\$ 496,371</u>

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:

	Three Months Ended	
	December 28, 2019	December 29, 2018
(In thousands)		
United States	\$ 277,273	\$ 237,112
Germany	58,988	56,055
United Kingdom	49,307	54,497
Other countries	176,515	148,707
Total revenue	<u>\$ 562,083</u>	<u>\$ 496,371</u>

In the first quarter of fiscal 2020, the Company began reporting product revenue in the following categories: Sonos speakers, Sonos system products and Partner products and other revenue to further align revenue reporting with the evolving nature of its products, customers' engagement across multiple categories and how the Company evaluates its business. 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	
	December 28, 2019	December 29, 2018
(In thousands)		
Sonos speakers	\$ 466,677	\$ 436,105
Sonos system products	61,521	52,434
Partner products and other revenue	33,885	7,832
Total revenue	<u>\$ 562,083</u>	<u>\$ 496,371</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:

	December 28, 2019	September 28, 2019
(In thousands)		
Accounts receivable	\$ 188,910	\$ 124,049
Allowance for doubtful accounts	(1,372)	(1,255)
Allowance for sales incentives	(51,636)	(20,051)
Accounts receivable, net of allowances	<u>\$ 135,902</u>	<u>\$ 102,743</u>

Inventories

Inventories consist of the following:

	December 28, 2019	September 28, 2019
(In thousands)		
Finished goods	\$ 104,348	\$ 207,723
Component parts	8,769	12,061
Inventories	<u>\$ 113,117</u>	<u>\$ 219,784</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.

Goodwill

The following table presents details of our goodwill during the three months ended December 28, 2019:

(In thousands)	
Balance as of September 28, 2019	\$ 1,005
Goodwill acquired	14,282
Balance as of December 28, 2019	<u>\$ 15,287</u>

Purchased intangible assets

As part of the acquisition of Snips, the Company recognized a \$20.1 million intangible asset related to in-process research and development activity, which is not subject to amortization for the current period. In addition, the Company recognized \$5.1 million in intangible assets subject to amortization, with a weighted-average useful life of approximately 5.0 years.

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

The following table summarizes estimated future amortization expense of our intangible assets as of December 28, 2019:

Fiscal years	(In thousands)
Remaining part of 2020	\$ 910
2021	1,040
2022	1,022
2023	1,020
2024	1,020
2025 and thereafter	128
Total future amortization expense	\$ 5,140

Accrued expenses

Accrued expenses consist of the following:

(In thousands)	December 28, 2019	September 28, 2019
Accrued advertising and marketing	\$ 31,205	\$ 25,662
Accrued taxes	13,041	4,388
Accrued inventory	8,600	6,494
Accrued manufacturing, logistics and product development	21,729	14,783
Accrued general and administrative expenses	8,615	12,455
Other accrued payables	7,632	6,074
Total accrued expenses	\$ 90,822	\$ 69,856

Deferred revenue

Amounts invoiced in advance of revenue recognition are recorded as deferred revenue on the condensed consolidated balance sheets. Deferred revenue primarily relates to revenue allocated to unspecified software upgrades and platform services. The following table presents the changes in the Company's deferred revenue for the three months ended December 28, 2019 and December 29, 2018:

(In thousands)	December 28, 2019	December 29, 2018
Deferred revenue, beginning of period	\$ 56,449	\$ 50,967
Recognition of revenue included in beginning of period deferred revenue	(3,238)	(2,986)
Revenue deferred, net of revenue recognized on contracts in the respective period	8,435	7,472
Deferred revenue, end of period	\$ 61,646	\$ 55,453

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

The Company expects the following recognition of deferred revenue as of December 28, 2019:

	For the fiscal years ending					Total
	2020	2021	2022	2023	2024 and Beyond	
(In thousands)						
Deferred revenue expected to be recognized	\$ 11,085	\$ 13,384	\$ 11,537	\$ 9,609	\$ 16,031	\$ 61,646

Other current liabilities

Other current liabilities consist of the following:

	December 28, 2019	September 28, 2019
(In thousands)		
Reserve for returns	\$ 22,631	\$ 12,110
Short-term operating lease liabilities	10,792	—
Product warranty liability	5,701	3,254
Other	1,428	2,184
Total other current liabilities	<u>\$ 40,552</u>	<u>\$ 17,548</u>

The following table presents the changes in the Company's warranty liability for the three months ended December 28, 2019 and December 29, 2018:

	December 28, 2019	December 29, 2018
(In thousands)		
Warranty liability, beginning of period	\$ 3,254	\$ 2,450
Provision for warranties issued during the period	5,080	5,105
Settlements of warranty claims during the period	(2,633)	(2,581)
Warranty liability, end of period	<u>\$ 5,701</u>	<u>\$ 4,974</u>

6. Leases

The substantial majority of the Company's leases are for its office spaces and facilities, which are accounted for as operating leases. These facilities operate under leases with initial terms from one to ten years and expire at various dates through 2026. The Company determines whether an arrangement is a lease at inception if there is an identified asset and it has the right to control the identified asset for a period of time. Some of the Company's leases include options to extend the leases for up to 5 years, and some include options to terminate the leases within 1 year. The Company's lease terms are only for periods in which it has enforceable rights and are impacted by options to extend or terminate the lease only when it is reasonably certain that the Company will exercise the option.

For leases with terms greater than 12 months, the Company records the related right-of-use asset and lease obligation at the present value of lease payments over the lease terms. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized on a straight-line basis over the lease term. The Company's leases do not include any residual value guarantees, bargain purchase options or asset retirement obligations.

Lease agreements will typically exist with lease and non-lease components, which are accounted for separately. The Company's agreements may contain variable lease payments. The Company includes variable lease payments that depend on an index or a rate and exclude those which depend on facts or circumstances occurring after the commencement date, other than the passage of time.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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Most of the Company's leases do not contain an implicit interest rate; therefore, judgment was required in determining a rate that reflects what would be paid to borrow, on a collateralized basis and over a similar term, for the lease obligations. The Company takes into consideration the terms of the Company's Credit Facility, lease terms, and current interest rates to determine the incremental borrowing rate at lease commencement date. At December 28, 2019, the Company's weighted-average discount rate was 4.11%, while the weighted-average remaining lease term was 5.34 years. As part of the supplemental cash flow disclosure, the right-of-use assets obtained in exchanged for new operating lease liabilities does not reflect the impact of prepaid or deferred rent.

The components of lease expense for the three months ended December 28, 2019 were as follows:

	Three Months Ended
	December 28, 2019
(In thousands)	
Operating lease cost	\$ 3,640
Short-term lease cost	57
Variable lease cost	1,389
Total lease cost	<u>\$ 5,086</u>

For the three months ended December 28, 2019, total rental expense was \$3.6 million and total common area maintenance expense was \$1.4 million. For the three months ended December 29, 2018, total rental expense was \$3.5 million and total common area maintenance expense was \$1.3 million.

The following table summarizes the maturity of lease liabilities under operating leases as of December 28, 2019:

Fiscal years ending	Operating leases
(in thousands)	
Remainder of fiscal 2020	\$ 10,489
2021	14,970
2022	14,261
2023	14,638
2024	13,606
2025	8,349
Thereafter	1,587
Total lease payments	<u>77,900</u>
Less imputed interest	(8,518)
Total lease liabilities	<u>\$ 69,382</u>

SONOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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Under Topic 840, the following table represents the gross minimum rental commitments under noncancelable leases as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2019:

Fiscal years ending		
(in thousands)		
2020	\$	15,627
2021		14,759
2022		14,136
2023		14,395
2024		13,615
Thereafter		10,951
Total minimum lease commitments	\$	<u>83,483</u>

7. Debt

The Company's debt obligations consist of the Secured Credit Facility with J.P. Morgan Chase Bank, N.A. (the "Credit Facility"), the J.P. Morgan Chase Bank, N.A. Secured Term Loan (the "Term Loan") as well as debt acquired in the acquisition of Snips. The Company's short- and long-term debt obligations as of December 28, 2019 and September 28, 2019 was as follows:

	December 28, 2019		September 28, 2019	
	Rate	Balance	Rate	Balance
(dollars in thousands)				
Term loan ⁽¹⁾	4.2%	\$ 31,666	4.6%	\$ 33,333
Other debt ⁽²⁾		1,106		—
Unamortized debt issuance costs ⁽³⁾		(141)		(160)
Total indebtedness		<u>32,631</u>		<u>33,173</u>
Less short-term portion		(9,439)		(8,333)
Long-term debt		<u>\$ 23,192</u>		<u>\$ 24,840</u>

(1) Due in October 2021 and bears interest at a variable rate equal to an adjusted LIBOR plus 2.25% and is payable quarterly.

(2) Other debt consists of debt acquired through recent acquisition activity and was settled subsequent to the period of this report in January 2020.

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

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

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

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8. 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 December 28, 2019 and September 28, 2019.

The Company is involved in certain other litigation matters not listed above but does not consider these 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.

9. Stockholders' equity

Share repurchase program

In September 2019, the Board of Directors authorized a common stock repurchase program of up to \$50.0 million. During the three months ended December 28, 2019, the Company repurchased 227,241 shares for an aggregate purchase price of \$2.9 million at an average price of \$12.85 per share under the repurchase program. The Company had \$47.1 million available for share repurchases under the repurchase program as of December 28, 2019. Additionally, treasury stock purchased during the three months ended December 28, 2019, included shares withheld to satisfy employees' tax withholding requirements in connection with vesting of restricted stock unit awards.

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

SONOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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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 28, 2019	37,155,568	\$ 11.39	6.3	\$ 94,288
Granted	—			
Exercised	(1,136,193)			
Forfeited	(414,872)			
Outstanding at December 28, 2019	<u>35,604,503</u>	\$ 11.49	6.1	\$ 126,622
At December 28, 2019				
Options exercisable	26,445,850	\$ 10.53	5.4	\$ 118,859
Options vested and expected to vest	34,363,895	\$ 11.39	6.0	\$ 125,725

As of December 28, 2019 and September 28, 2019, the Company had \$37.3 million and \$43.9 million, respectively, of unrecognized stock-based compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 1.8 and 2.0 years, respectively.

Restricted stock units

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

	Number of Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Unvested at September 28, 2019	6,716,786	\$ 11.40	\$ 90,744
Granted	1,012,300		
Vested	(425,503)		
Forfeited	(70,471)		
Unvested at December 28, 2019	<u>7,233,112</u>	\$ 11.84	\$ 108,569
At December 28, 2019			
Units expected to vest	5,726,008	\$ 11.85	\$ 85,947

As of December 28, 2019 and September 28, 2019, the Company had \$63.2 million and \$55.6 million of unrecognized stock-based compensation expense related to RSUs, which is expected to be recognized over a weighted-average period of 3.3 and 3.4 years, respectively.

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

Stock-based compensation

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

	Three Months Ended	
	December 28, 2019	December 29, 2018
(In thousands)		
Cost of revenue	\$ 282	\$ 184
Research and development	5,116	3,604
Sales and marketing	3,541	2,681
General and administrative	4,265	2,563
Total stock-based compensation expense	<u>\$ 13,204</u>	<u>\$ 9,032</u>

11. 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 expense of \$1.7 million and \$2.5 million for the three months ended December 28, 2019 and December 29, 2018, respectively. For the three months ended December 28, 2019 our tax expense includes a discrete income tax benefit of approximately \$0.6 million as a result of a favorable release of uncertain tax positions in the U.S. coinciding with the issuance of the Base Erosion and Anti-Abuse Tax ("BEAT") Regulations. For the three months ended December 28, 2019 and December 29, 2018, 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 December 28, 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.

12. Net income per share attributable to common stockholders

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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The following table sets forth the computation of the Company's basic and diluted net income per share attributable to common stockholders:

	Three Months Ended	
	December 28, 2019	December 29, 2018
(In thousands, except share and per share data)		
Numerator:		
Net income attributable to common stockholders - basic and diluted	\$ 70,775	\$ 61,667
Denominator:		
Weighted-average shares of common stock—basic	108,984,683	100,148,106
Effect of potentially dilutive stock options	6,751,412	11,918,193
Effect of RSUs	2,679,873	22,373
Weighted-average shares of common stock—diluted	118,415,968	112,088,672
Net income per share attributable to common stockholders:		
Net income per share attributable to common stockholders - basic	\$ 0.65	\$ 0.62
Net income per share attributable to common stockholders - diluted	\$ 0.60	\$ 0.55

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

	Three Months Ended	
	December 28, 2019	December 29, 2018
Stock options to purchase common stock	29,628,623	36,135,411
Restricted stock units	4,278,556	247,744
Total	33,907,179	36,383,155

13. Business combination

On November 14, 2019, the Company completed the acquisition of 100% of the equity interests of Snips, a France-based provider of an artificial intelligence voice platform for connected devices that provides private-by-design, voice technology. The acquisition brought a talented group of employees and strategic IP to enhance the voice experience on Sonos products. The total purchase price consideration of the acquisition of Snips was \$36.3 million, of which \$35.6 million was paid in cash at closing and \$0.7 million was recorded as a contingent consideration liability. The terms of the contingent consideration were met and the contingent consideration was paid in cash subsequent to the period of this report.

The Company accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed, with \$25.2 million in intangible assets, \$3.2 million in net liabilities assumed, and \$14.3 million in estimated goodwill. The goodwill recognized was primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating Snips' technology into the Company's products. The goodwill is not deductible for income tax purposes.

The results of Snips' operations have been included in, but are not material to the Company's consolidated results of operations since the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to the Company's condensed consolidated statement of operations and comprehensive income.

One-time acquisition-related costs of \$1.4 million were expensed as general and administrative expenses as incurred.

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Additional information, such as that related to income tax and other contingencies, existing as of the acquisition date but unknown to us may become known during the remainder of the measurement period, not to exceed 12 months from the acquisition date, which may result in changes to the amounts and allocations recorded.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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14. Subsequent event

On January 7, 2020, the Company filed a complaint with the U.S. International Trade Commission against Alphabet Inc. and Google LLC and a lawsuit in the U.S. District Court for the Central District of California against Google LLC. The complaint and lawsuit each allege patent infringement of certain Sonos patents related to its smart speakers and related technology.

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 operate on a 52- week or 53- week 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 periods followed by a 5-week period. An additional week is included in the fourth fiscal quarter approximately every five years to realign fiscal quarters with calendar quarters.

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

Our innovative products, seamless customer experience and expanding global footprint have driven 14 consecutive years of sustained revenue growth since our first product launch. We sell our products primarily through over 10,000 third-party physical retail stores, 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.

Beginning in the first quarter of fiscal 2020, we began reporting our product revenue under the following new categories: Sonos speakers; Sonos system products; and Partner products and other revenue to further align revenue reporting with the evolving nature of our products, customers' engagement across multiple categories and how we evaluate our business. Sonos speakers currently include Play:1, Play:5, Sonos One SL, Playbar, Playbase, Sub and our voice-enabled Sonos One, Sonos Move and Sonos Beam. Sonos system products currently include Sonos Port, Sonos Amp and Sonos Boost. Partner products and other revenue currently include module units sold through our IKEA partnership, architectural speakers sold through our Sonance partnership, accessories and other revenue associated with other software, services or licensing revenue.

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

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assist us in making strategic decisions. Our key metrics are total revenue, products sold, adjusted EBITDA and adjusted EBITDA margin. The most directly comparable financial measure calculated under U.S. GAAP for adjusted EBITDA is net income (loss). In the three months ended December 28, 2019 and December 29, 2018, we had net income of \$70.8 million and \$61.7 million, respectively.

	Three Months Ended	
	December 28, 2019	December 29, 2018
(in thousands, except percentages)		
Total revenue	562,083	496,371
Products sold	2,940	2,408
Adjusted EBITDA	\$ 93,219	\$ 87,418
Adjusted EBITDA margin	16.6%	17.6%

Products sold

Products sold represents the number of products that are sold during a period, net of returns. Products sold has been redefined to align with our new product revenue categories and includes the sale of products in the Sonos speakers and Sonos system products categories as well as units sold through our partnerships with IKEA and Sonance from our Partner products and other revenue category. Our historical products sold metric has been recast to reflect the change in product revenue categorization and now includes Sonos Boost and module units. Products sold excludes accessories, which have not materially contributed to our revenue historically. 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, other income (expense), taxes and other items that we do not consider representative of our underlying operating performance.

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.

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 income, primarily resulting from interest income earned on our cash and cash equivalent balances;
- these non-GAAP financial measures do not reflect interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us;
- these non-GAAP financial measures do not reflect the effect of foreign currency exchange gains or losses, which is included in other income (expense), net;
- these non-GAAP financial measures do not reflect the provision for or benefit from income tax that may result in payments that reduce cash available to us;
- these non-GAAP financial measures do not reflect non-recurring expenses and other items that are not considered representative of our underlying operating performance which 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.

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

	Three Months Ended	
	December 28, 2019	December 29, 2018
(in thousands, except percentages)		
Net income	\$ 70,775	\$ 61,667
Add (deduct):		
Depreciation	9,105	9,867
Stock-based compensation expense	13,204	9,032
Interest income	(998)	(273)
Interest expense	453	671
Other (income) expense, net	(4,424)	3,999
Provision for income taxes	1,656	2,455
Legal and transaction related costs ⁽¹⁾	3,448	—
Adjusted EBITDA	<u>\$ 93,219</u>	<u>\$ 87,418</u>
Revenue	\$ 562,083	\$ 496,371
Adjusted EBITDA margin	16.6%	17.6%

⁽¹⁾ Legal and transaction related costs consist of expenses related to our IP litigation against Alphabet Inc. and Google LLC as well as legal and transaction costs associated with our recent acquisition activity which we do not consider representative of our underlying operating performance.

Factors affecting performance

New product introductions. Since 2005, we have released a number of products in multiple audio categories. We intend to introduce new products that appeal to a broad set of consumers, as well as bring our differentiated listening platform and experience to all the places and spaces where our customers listen to the breadth of audio content available, including outside of the home.

Seasonality. Historically, we have experienced the highest levels of revenue in the first fiscal quarter of the year coinciding with the holiday shopping season and our promotional activities.

Components of results of operations

Revenue

Beginning in the first quarter of fiscal 2020, we began reporting our product revenue under the following new categories: Sonos speakers, Sonos system products and Partner products and other revenue to further align revenue reporting with the evolving nature of our products, how customers purchase across multiple categories and how we evaluate our business. We generate substantially all of our revenue from the sale of Sonos speakers and Sonos system products. We also generate a portion of revenue from Partner products and other revenue sources, such as module revenue from our IKEA partnership, architectural speakers from our Sonance partnership and accessories such as speaker stands and wall mounts, as well as professional services and licensing revenue. We attribute revenue from our IKEA partnership to our APAC region, as our regional revenue is defined by the shipment location of the module units. 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. The introduction of new products may result in an increase in revenue but may also impact revenue generated from existing products as consumers shift purchases to new products.

Cost of revenue

Cost of revenue consists of product costs, including costs of our contract manufacturers for production, component product costs, shipping and handling costs, tariffs, duty costs, warranty replacement costs, packaging, fulfillment costs, manufacturing and tooling equipment depreciation, warehousing costs, hosting costs and excess and obsolete inventory write-downs. In addition, we allocate certain costs related to management and facilities, personnel-related expenses and other expenses associated with supply chain logistics. Personnel-related expenses 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, the foreign currency in which our products are sold and tariffs and duty costs implemented by governmental authorities.

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.

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

General and administrative. General and administrative expenses consist of personnel-related expenses for our finance, legal, human resources and administrative personnel, as well as the costs of professional services, information technology, litigation expenses, patent costs, related overhead and other administrative expenses.

Other income (expense), net

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

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

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 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

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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 U.S. valuation allowance. Release of the U.S. valuation allowance would result in the establishment of certain deferred tax assets and a benefit to income tax expense for the period the release is recorded which could have a material impact on net earnings. The exact timing and amount of the valuation allowance release are subject to change based on the level of profitability achieved.

Results of operations

The following table sets forth our 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.

(Dollars in thousands)	Three Months Ended			
	December 28, 2019		December 29, 2018	
	\$	%	\$	%
Revenue	\$ 562,083	100.0 %	\$ 496,371	100.0 %
Cost of revenue ⁽¹⁾	334,463	59.5	301,082	60.7
Gross profit	227,620	40.5	195,289	39.3
Operating expenses				
Research and development ⁽¹⁾	52,526	9.3	37,095	7.5
Sales and marketing ⁽¹⁾	77,423	13.8	65,852	13.3
General and administrative ⁽¹⁾	30,209	5.4	23,823	4.8
Total operating expenses	160,158	28.5	126,770	25.5
Operating income	67,462	12.0	68,519	13.8
Other income (expense), net				
Interest income	998	0.2	273	0.1
Interest expense	(453)	(0.1)	(671)	(0.1)
Other income (expense), net	4,424	0.8	(3,999)	(0.8)
Total other income (expense), net	4,969	0.9	(4,397)	(0.9)
Income before provision for income taxes	72,431	12.9	64,122	12.9
Provision for income taxes	1,656	0.3	2,455	0.5
Net income	\$ 70,775	12.6 %	\$ 61,667	12.4 %
Adjusted EBITDA ⁽²⁾	\$ 93,219	16.6 %	\$ 87,418	17.6 %

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

	Three Months Ended			
	December 28, 2019		December 29, 2018	
	\$	%	\$	%
Cost of revenue	\$ 282	0.1%	\$ 184	—%
Research and development	5,116	0.9	3,604	0.7
Sales and marketing	3,541	0.6	2,681	0.5
General and administrative	4,265	0.8	2,563	0.5
Total stock-based compensation expense	\$ 13,204	2.3%	\$ 9,032	1.8%

(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 three months ended December 28, 2019 and December 29, 2018
Revenue

Comparison of the three months ended December 28, 2019 and December 29, 2018

	Three Months Ended		Change	
	December 28, 2019	December 29, 2018	\$	%
(dollars in thousands)				
Sonos speakers	\$ 466,677	\$ 436,105	\$ 30,572	7.0%
Sonos system products	61,521	52,434	9,087	17.3%
Partner products and other revenue	33,885	7,832	26,053	332.6%
Total revenue	<u>\$ 562,083</u>	<u>\$ 496,371</u>	<u>\$ 65,712</u>	<u>13.2%</u>

Total revenue grew for the three months ended December 28, 2019 compared to the three months ended December 29, 2018 due to growth in all product categories with the largest contribution coming from our Sonos speakers and Partner products and other revenue categories.

Sonos speakers revenue growth was driven by the introduction of Sonos One SL and Sonos Move in September 2019. Sonos system product revenue growth was driven by the success of Sonos AMP and the launch of Sonos Port in September 2019. Partner products and other revenue growth was driven by the continued success of the IKEA relationship, which launched in the second quarter of fiscal 2019.

Revenue for the three months ended December 28, 2019 compared to the three months ended December 29, 2018 increased 17.2 % in Americas and decreased 1.5% in EMEA. The increase in APAC by 114.0% was primarily due to the recognition of IKEA related revenue in that region as our regional revenue is defined by the shipment location of the module units.

In constant currency U.S. dollars, total revenue increased by 14.5% for the three months ended December 28, 2019 compared to the three months ended December 29, 2018. 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.

	Three Months Ended		Change	
	December 28, 2019	December 29, 2018	\$	%
(products sold units in thousands)				
Total products sold	2,940	2,408	532	22.1%

Volume growth of products sold for the three months ended December 28, 2019 compared to the three months ended December 29, 2018 was driven by growth in all product categories. The volume growth was driven by module units sold as a part of the launch of our IKEA partnership in the second quarter of fiscal 2019 and the launches of several new products including Sonos One SL, Sonos Move and Sonos AMP.

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Cost of revenue and gross profit

Comparison of the three months ended December 28, 2019 and December 29, 2018

	Three Months Ended		Change	
	December 28, 2019	December 29, 2018	\$	%
(dollars in thousands)				
Cost of revenue	\$ 334,463	\$ 301,082	\$ 33,381	11.1%
Gross profit	\$ 227,620	\$ 195,289	\$ 32,331	16.6%
Gross margin	40.5%	39.3%		

The increase in cost of revenue for the three months ended December 28, 2019 compared to the three months ended December 29, 2018 was driven by the increase in products sold and approximately \$19.6 million of tariffs on products imported to the U.S. from China. This increase was partially offset by product and material cost reductions and mix shifts.

Gross margin increased 120 basis points for the three months ended December 28, 2019 compared to the three months ended December 29, 2018. The increase was driven by volume and mix shifts into higher margin products as well as product and material cost reductions. Excluding the effects of tariffs, gross margin would have been 44.0% for the three months ended December 28, 2019. We calculate gross margin excluding the effects of tariffs by removing the impact of tariffs imposed on goods imported to the U.S. from China from gross profit divided by total revenue.

Research and development

Comparison of the three months ended December 28, 2019 and December 29, 2018

	Three Months Ended		Change	
	December 28, 2019	December 29, 2018	\$	%
(dollars in thousands)				
Research and development	\$ 52,526	\$ 37,095	\$ 15,431	41.6%
Percentage of revenue	9.3%	7.5%		

The increase in research and development expenses for the three months ended December 28, 2019 compared to the three months ended December 29, 2018 was primarily due to higher personnel-related expenses of \$10.3 million as we increased our headcount and added the Snips SAS team and an increase in product development costs, professional fees and other costs of \$5.1 million as we continue to invest in new products and features.

Sales and marketing

Comparison of the three months ended December 28, 2019 and December 29, 2018

	Three Months Ended		Change	
	December 28, 2019	December 29, 2018	\$	%
(dollars in thousands)				
Sales and marketing	\$ 77,423	\$ 65,852	\$ 11,571	17.6%
Percentage of revenue	13.8%	13.3%		

The increase in sales and marketing expenses for the three months ended December 28, 2019 compared to the three months ended December 29, 2018 was due to an increase of \$5.8 million in personnel-related costs, driven by

higher wages and incentive compensation as well as customer care support and an increase in marketing and advertising and other costs of \$5.7 million.

General and administrative

Comparison of the three months ended December 28, 2019 and December 29, 2018

	Three Months Ended		Change	
	December 28, 2019	December 29, 2018	\$	%
(dollars in thousands)				
General and administrative	\$ 30,209	\$ 23,823	\$ 6,386	26.8%
Percentage of revenue	5.4%	4.8%		

The increase in general and administrative expenses for the three months ended December 28, 2019 compared to the three months ended December 29, 2018 was primarily due to an increase in personnel-related costs of \$3.6 million, driven by higher wages and incentive compensation, and an increase of \$3.4 million in legal fees paid in connection with our IP litigation and our acquisition of Snips SAS, partially offset by a decrease in other expenses.

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

Comparison of the three months ended December 28, 2019 and December 29, 2018

	Three Months Ended		Change	
	December 28, 2019	December 29, 2018	\$	%
(dollars in thousands)				
Interest income	\$ 998	\$ 273	\$ 725	*
Interest expense	\$ (453)	\$ (671)	\$ 218	(32.5)%
Other income (expense), net	\$ 4,424	\$ (3,999)	\$ 8,423	*
* not meaningful				

The increase in interest income for the three months ended December 28, 2019 compared to the three months ended December 29, 2018 was primarily due to higher balances and yields in our cash and cash equivalents. The decrease in interest expense for the three months ended December 28, 2019 compared to the three months ended December 29, 2018 was primarily driven by a lower principal balance. The increase in other income (expense), net for the three months ended December 28, 2019 compared to the three months ended December 29, 2018 was due to foreign currency exchange gains.

Provision for income taxes

Comparison of the three months ended December 28, 2019 and December 29, 2018

	Three Months Ended		Change	
	December 28, 2019	December 29, 2018	\$	%
(dollars in thousands)				
Provision for income taxes	\$ 1,656	\$ 2,455	\$ (799)	(32.5)%

Provision for income taxes decreased from \$2.5 million for the three months ended December 29, 2018 to \$1.7 million for the three months ended December 28, 2019. For the three-months ended December 28, 2019, we recorded a provision for income taxes of \$0.5 million for certain profitable foreign entities and \$1.8 million for U.S. state income tax for a total provision of \$2.3 million before discrete items. We recorded a discrete income tax benefit of approximately \$0.6 million as a result of a favorable release of uncertain tax positions in the U.S. coinciding with

the issuance of the Base Erosion and Anti-Abuse Tax (“BEAT”) Regulations. For the three months ended December 28, 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 \$0.4 million for certain profitable foreign entities and a provision of \$2.1 million for U.S. federal and state income tax for a total provision of \$2.5 million for the three months ended December 29, 2018.

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 Term Loan and Credit Facility. As of December 28, 2019, our principal sources of liquidity consisted of cash flow from operating activities, cash and cash equivalents of \$408.4 million, including \$108.4 million held by our foreign subsidiaries, proceeds from exercise of stock options 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 December 28, 2019, as they are required to fund needs outside the United States. In the event funds from foreign operations are needed to fund operations in the United States and if U.S. tax has not already been previously provided, we may be required to accrue and pay additional U.S. taxes 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 additional debt financing would result in increased debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations.

Debt obligations

Our debt obligations consist of the Credit Facility, the Term Loan and debt acquired in our acquisition of Snips SAS. Our short- and long-term debt obligations as of December 28, 2019 and September 28, 2019 was as follows:

	As of			
	December 28, 2019		September 28, 2019	
	Rate	Balance	Rate	Balance
(dollars in thousands)				
Term Loan ⁽¹⁾	4.2%	\$ 31,666	4.6%	\$ 33,333
Other debt ⁽²⁾		1,106		—
Unamortized debt issuance costs ⁽³⁾		(141)		(160)
Total indebtedness		32,631		33,173
Less short-term portion		(9,439)		(8,333)
Long-term debt		\$ 23,192		\$ 24,840

(1) Due in October 2021, bears interest at a variable rate equal to an adjusted LIBOR plus 2.25% and is payable quarterly.

(2) Other debt consists of debt acquired through recent acquisition activity and was settled subsequent to the period of this report in January 2020.

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

The Credit Facility allows us to borrow up to \$80.0 million restricted to the value of the borrowing base which is based on the value of our inventory and accounts receivable and is subject to monthly redetermination. The Credit Facility matures in October 2021 and may be drawn as Commercial Bank Floating Rate Loans (at the higher of prime rate or adjusted LIBOR plus 2.50%) or Eurocurrency Loans (at LIBOR plus an applicable margin). As of both December 28, 2019 and September 28, 2019, 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.

Debt obligations under the Credit Facility and the Term Loan require that we maintain a consolidated fixed charge ratio of at least 1.0, restrict distribution of dividends unless certain conditions are met, such as having a fixed

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charge ratio of at least 1.15, and require financial statement reporting and delivery of borrowing base certificates. As of December 28, 2019 and September 28, 2019, we were in compliance with all financial covenants. The Credit Facility and the Term Loan are collateralized by eligible inventory and accounts receivable, as well as our intellectual property including patents and trademarks.

Cash flows

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

	Three Months Ended	
	December 28, 2019	December 29, 2018
(In thousands)		
Net cash provided by (used in):		
Operating activities	\$ 118,840	\$ 92,050
Investing activities	(51,536)	(5,372)
Financing activities	1,224	(105)
Effect of exchange rate changes	1,254	(133)
Net change in cash, cash equivalents and restricted cash	\$ 69,782	\$ 86,440

Cash flows from operating activities

Net cash provided by operating activities of \$118.8 million for the three months ended December 28, 2019 consisted of net income of \$70.8 million, non-cash adjustments of \$21.9 million and a net increase in cash related to changes in operating assets and liabilities of \$26.2 million. Non-cash adjustments primarily consisted of stock-based compensation expense of \$13.2 million and depreciation of \$9.1 million. The change in operating assets and liabilities was primarily due to a decrease in inventory of \$107.3 million due to the seasonality of our business, an increase in other liabilities of \$11.2 million and an increase in deferred revenue of \$4.9 million. The increase in net change in operating assets and liabilities was offset by a decrease in accounts payable and accrued expenses of \$39.4 million related to the decrease in inventory, an increase in accounts receivable of \$31.4 million due to the seasonality of our business, a decrease in accrued compensation of \$14.6 million and an increase in other assets of \$11.9 million.

Cash flows from investing activities

Cash used in investing activities for the three months ended December 28, 2019 of \$51.5 million was primarily due to net cash paid for acquisition activity of \$35.6 million as well as payments for property and equipment, which were primarily comprised of manufacturing-related tooling and test equipment to support the launch of new products, leasehold improvements and marketing-related product displays.

Cash flows from financing activities

Cash provided by financing activities for the three months ended December 28, 2019 of \$1.2 million primarily consisted of proceeds from exercise of stock options of \$8.0 million, partially offset by payments for purchases of treasury stock of \$5.1 million and repayments of borrowings of \$1.7 million.

Commitments and contingencies

At December 28, 2019, we had \$34.8 million in non-cancelable purchase commitments for inventory we expect to purchase in the remainder of fiscal 2020.

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. In certain countries where we may invoice customers in the local currency our revenues benefit from a weaker dollar and are adversely affected by a stronger dollar. The opposite impact occurs in countries where we record expenses in local currencies. In those cases, our costs and expenses benefit from a stronger dollar and are adversely affected by a weaker dollar.

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

We recognized a gain of \$4.4 million and a loss of \$4.0 million from foreign currency gains and losses for the three months ended December 28, 2019 and December 29, 2018, respectively. Based on transactions denominated in currencies other than respective functional currencies as of December 28, 2019, a hypothetical adverse change of 10% would have resulted in an adverse impact on income before provision for income taxes of approximately \$6.4 million for the three months ended December 28, 2019.

Item 4. Controls and procedures

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required under Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (“Exchange Act”) as of December 28, 2019. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in internal control

There were no changes in our internal control over financial reporting in management's evaluation pursuant to Rule 13a-15(f) during the quarter ended December 28, 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 8 of the notes to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, we were not 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 or consistent revenue growth.

We have experienced net losses in our recent annual periods. In the fiscal years ended September 28, 2019, September 29, 2018 and September 30, 2017, we had net losses of \$4.8 million, \$15.6 million and \$14.2 million, respectively. We had an accumulated deficit of \$137.6 million as of December 28, 2019. We expect our operating expenses to increase in the future as we expand our operations and execute on our product roadmap. We plan to make significant future expenditures related to the expansion of our business and our product offerings, including investments in:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The home audio and consumer electronics industries are highly competitive.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As a consumer electronics company, our website and mobile app are important presentations of our business, identity and brand and an important means of interacting with, and providing information to, consumers of our products. We depend on our servers and centralized information technology systems, and those of third parties, for product functionality, to manage operations and to store critical information and intellectual property. Accordingly, we allocate significant resources to

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maintaining our information technology systems and deploying network security, data encryption, training and other measures to protect against unauthorized access or misuse. Nevertheless, our website and information technology systems, and those of the third parties we rely on, are susceptible to damage, viruses, disruptions or shutdowns due to foreseeable and unforeseeable events. System failures and disruptions could impede the manufacturing and shipping of products, functionality of our products, transactions processing and financial reporting, and result in the loss of intellectual property or data, require substantial repair costs and damage our reputation, competitive position, financial condition and results of operations.

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

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

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

We rely upon the ability of consumers to access our service through the internet. If network operators block, restrict or otherwise impair access to our service over their networks, our service and business could be negatively affected. To the extent that network operators implement usage-based pricing, including meaningful bandwidth caps, or otherwise try to monetize access to their networks by data providers, we could incur greater operating expenses. Furthermore, to the extent network operators create tiers of internet access service and either charge us for or prohibit us from being available through these tiers, our business could be negatively impacted.

Further, in the past, internet service providers (“ISPs”) have attempted to implement usage-based pricing, bandwidth caps and traffic shaping or throttling. To the extent network operators create tiers of internet access service and charge our customers in direct relation to their consumption of audio content, our ability to attract and retain customers could be impaired, which would harm our business. Net neutrality rules, which were designed to ensure that all online content is treated the same by ISPs and other companies that provide broadband services, were repealed by the Federal Communications Commission (“FCC”) effective June 2018. Although the FCC has preempted state jurisdiction on net neutrality, some states have taken executive action directed at reinstating aspects of the FCC’s 2015 order. Further, while many countries, including across the European Union, have implemented net neutrality rules, in others, the laws may be nascent or non-existent. The absence or 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. In addition, given uncertainty around these rules, including changing interpretations, amendments or repeal, coupled with potentially significant political and economic power of local network operators, we could experience discriminatory or anti-competitive practices that could impede our growth, cause us to incur additional expense or otherwise negatively affect our business.

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

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

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

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

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

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

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

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

We have historically maintained, and we believe our customers may expect, extensive backward compatibility for our older products and the software that supports them, allowing older products to continue to benefit from new software updates. We expect that in the near term, this backward compatibility will no longer be practical or cost-effective, and we may decrease or discontinue service for our older products. We recently announced that certain legacy products will continue to work but will no longer receive software updates (other than bug fixes and patches) beginning in May 2020. To the extent we no longer provide extensive backward capability for our products, we may damage our relationship with our existing customers, as well as our reputation, brand loyalty and ability to attract new customers.

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

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

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

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

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

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

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

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

We rely and expect to continue to rely on a combination of confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships, as well as patent, trademark, copyright and trade secret protection laws, to protect our proprietary rights. In the United States and certain other countries, we have filed various applications for certain aspects of our intellectual property, most notably patents. However, third parties may knowingly or unknowingly infringe our proprietary rights or challenge our proprietary rights, pending and future patent and trademark applications may not be approved, and we may not be able to prevent infringement without incurring substantial expense. Such infringement could have a material adverse effect on our brand, business, financial condition and results of operations. We have initiated legal proceedings to protect our intellectual property rights, and we may file additional actions in the future. For example, on January 7, 2020, we filed a complaint with the U.S. International Trade Commission against Alphabet Inc. and Google LLC and a lawsuit in the U.S. District Court for the Central District of California against Google LLC, alleging patent infringement of certain Sonos patents related to our smart speakers and related technology. The cost of defending our intellectual property has been and may in the future be substantial, and there is no assurance we will be successful. Our business could be adversely affected as a result of any such actions, or a finding that any patents-in-suit are invalid or

unenforceable. These actions have led and may in the future lead to additional counterclaims against us, which are expensive to defend against and for which there can be no assurance of a favorable outcome. Further, parties we bring legal action against could retaliate through non-litigious means, which could harm our ability to compete against such parties or to enter new markets.

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

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

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

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

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

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

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

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

We have operations outside the United States, and we expect to continue to expand our international presence, especially in Asia. In fiscal 2019, 50.0% of our revenue was generated outside the United States. This subjects us to a variety of risks inherent in doing business internationally, including:

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

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

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

We have significant operations in China, where many of the risks listed above are particularly acute. China experiences high turnover of direct labor due to the intensely competitive and fluid market for labor, and if our labor turnover rates are higher than we expect, or we otherwise fail to adequately manage our labor needs, then our business and results of operations could be adversely affected. In addition, if significant tariffs or other restrictions are placed on Chinese imports or any related counter-measures are taken by China, our revenue and results of operations may be materially harmed. For example, the U.S. government has imposed significant new tariffs on China related to the importation of certain product categories, which currently affect our products. In May 2019, tariffs on accessories were increased to 25% and tariffs on other imports were imposed at 15% effective September 2019, which will be reduced to 7.5% effective February 2020 as part of a “Phase One” agreement between the U.S. and China on trade matters. In the event that future tariffs are imposed on imports of our products, the amounts of existing tariffs are increased, or China or other countries take retaliatory trade measures in response to existing or future tariffs, our business may be impacted and we may be required to raise prices or make changes to our operations, any of which could materially harm our revenue or operating results. In response to future tariffs, we may further shift production outside of China, resulting in significant costs and disruption to our operations as we would need to pursue the time-consuming processes of recreating a new supply chain, identifying substitute components and establishing new manufacturing locations.

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

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

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

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

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

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

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

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

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

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

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

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

To manage our growth and our increasingly complex business operations, especially as we move into new markets internationally, we will need to upgrade our operational and financial systems and procedures, which requires management time and may result in significant additional expense. In particular, we anticipate that our legacy enterprise resource management system will need to be replaced in the near to intermediate term in order to accommodate our expanding operations. We cannot be certain that we will institute, in a timely manner or at all, the improvements to our managerial,

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operational and financial systems and procedures necessary to support our anticipated increased levels of operations. Delays or problems associated with any improvement or expansion of our operational and financial systems could adversely affect our relationships with our suppliers, manufacturers, resellers and customers, inhibit our ability to expand or take advantage of market opportunities, cause harm to our reputation and result in errors in our financial and other reporting, any of which could harm our business and operating results.

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

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to document and test our internal control procedures and to provide a report by management on internal control over financial reporting, including management's assessment of the effectiveness of such control. We previously reported and remediated material weaknesses in internal control over financial reporting. Completion of remediation does not provide assurance that our remediation or other controls will continue to operate properly. If we are unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately, and to prepare consolidated financial statements within required time periods could be adversely affected, which could subject us to litigation or investigations requiring management resources and payment of legal and other expenses, negatively affect investor confidence in our consolidated financial statements and adversely impact our stock price.

Risks related to ownership of our common stock

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

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

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

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

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

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

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

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

- a classified Board so that not all members of the Board are elected at one time;
- the ability of the Board to determine the number of directors and fill any vacancies and newly created directorships;
- a requirement that our directors may only be removed for cause;
- a prohibition on cumulative voting for directors;
- the requirement of a super-majority to amend some provisions in our restated certificate of incorporation and restated bylaws;
- authorization of the issuance of “blank check” preferred stock that the Board could use to implement a stockholder rights plan;
- an inability of our stockholders to call special meetings of stockholders; and
- a prohibition on stockholder actions by written consent, thereby requiring that all stockholder actions be taken at a meeting of our stockholders.

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

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

Item 2. Unregistered sales of equity securities and use of proceeds

Recent sales of unregistered securities

None.

Issuer purchases of equity securities

The following table presents information with respect to our repurchase of common stock during the quarter ended December 28, 2019.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Sept 29 - Oct 26	107,602	\$ 12.89	107,602	\$ 48,611
Oct 27 - Nov 23	115,339	\$ 12.81	115,339	\$ 47,131
Nov 24 - Dec 28	4,300	\$ 12.98	4,300	\$ 47,075
Total	227,241		227,241	

(1) In September 2019, the Board of Directors authorized a common stock repurchase program of up to \$50.0 million. See Note 9. *Stockholders' Equity* for further information. The Company withholds shares of common stock from certain employees in connection with the vesting of restricted stock unit awards issued to such employees to satisfy applicable tax withholding requirements. Although these withheld shares are not issued or considered common stock repurchases under our stock repurchase program and therefore are not included in the preceding table, they are treated as common stock repurchases in our financial statements as they reduce the number of shares that would have been issued upon vesting.

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 Edward Lazarus and the Registrant, dated December 5, 2018					X
10.2	2018 Equity Incentive Plan and forms of agreement thereunder					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	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended December 28, 2019, formatted in Inline XBRL: (i) Condensed consolidated balance sheets, (ii) Condensed consolidated statements of operations and comprehensive income, (iv) Condensed consolidated statements of stockholders' equity, (v) Condensed consolidated statements of cash flows and (vi) Notes to condensed consolidated financial statements, tagged as blocks of text and including detailed tags					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					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: February 5, 2020

By: /s/ Patrick Spence

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

Date: February 5, 2020

By: /s/ Brittany Bagley

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

SONOS

December 5, 2018

Dear Eddie:

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

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

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 **\$350,000** (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 taxes and withholdings.

Sign-On Bonus

After you commence employment with Sonos, you will receive a sign-on bonus in the gross amount of \$21,000.00. The sign-on bonus will be paid to you on the first payroll period following your start date as detailed below.

Bonus Eligibility

You will also be eligible for a discretionary target 25% bonus of your annual base salary, which is based solely on the company's performance against its annual target for revenue growth and operating profit. In addition, you must commence employment prior to August 31 to be eligible to receive a pro-rated discretionary bonus for the current fiscal year which runs October to September. Sonos reserves the right to change its discretionary bonus criteria from time to time based on company performance.

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, once the shares of Sonos' Common Stock are publicly traded, 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 **200,000** 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, and the grant of RSUs will give you the right to receive shares of Common Stock in an aggregate value of up to **\$800,000**, as determined by the

Committee on the date of grant.

The option shares and the RSUs will vest as follows: 25% of the shares subject to the option grant, and 25% of the RSUs, will vest 12 months after your start date, subject to your continuing employment with Sonos on such date. The remaining option shares and 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.

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.

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, a 401(k) plan, and tuition reimbursement. 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.

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 December 7, 2018. If you accept our offer, we anticipate that your first day of employment would be Wednesday January 2, 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.

Sincerely,

Edward Peter Lazarus

DocuSigned by:

Employee SIGNATURE

2018-12-07

SIGNATURE DATE

Sonos, Inc.



Anna Fraser
Chief People 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.

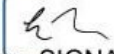
H. *Survival.* You understand and agree that your obligations under this Employment Agreement shall survive the termination of this Employment Agreement and/or your employment regardless of the manner of such termination and shall be binding upon your heirs, executors, administrators and legal representatives.

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:

Edward Peter Lazarus

DocuSigned by:



Employee SIGNATURE

2018-12-07

SIGNATURE DATE

Sonos, Inc.



Anna Fraser
Chief People 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 Edward Peter Lazarus (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:

Edward Peter Lazarus

DocuSigned by:

Employee SIGNATURE

2018-12-07

SIGNATURE DATE

Sonos, Inc.



Anna Fraser
Chief People Officer

Relocation Agreement

This Relocation Agreement (the "Agreement") is entered into on June 15, 2018 by and between Edward Peter Lazarus 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:

1. 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").
2. 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.
3. 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.
4. 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.
5. 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.

6. 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.

7. 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.

8. 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:

Edward Peter Lazarus

Employee SIGNATURE

SIGNATURE DATE

Sonos, Inc.



Anna Fraser
Chief People Officer

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

Title	Date	Identifying Number or Brief Description
_____	_____	_____

ACCEPTED AND AGREED:

Edward Peter Lazarus

Employee SIGNATURE

SIGNATURE DATE

Sonos, Inc.



Anna Fraser
Chief People 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.

SONOS, INC.

2018 EQUITY INCENTIVE PLAN

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

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

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

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

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

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

1.6. "Cause" means Participant's (a) willful failure substantially to perform his or her duties and responsibilities to the Company or deliberate violation of a Company policy; (b) commission of any act of fraud, embezzlement, dishonesty or any other willful misconduct that has caused or is reasonably expected to result in material injury to the Company; (c) unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom the Participant owes an obligation of nondisclosure as a result of his or her relationship with the Company; (d) misappropriation of a business opportunity of the Company; (e) provision of material aid to a competitor of the Company; or (f) willful breach of any of his or her obligations under any written agreement or covenant with the Company. The determination as to whether a Participant's Service is being terminated for Cause shall be made in good faith by the Company and shall be final and binding on the Participant. The foregoing definition does not in any way limit the Company's ability to terminate a Participant's employment or consulting relationship at any time as provided in Section 20, and the term "Company" will be interpreted to include any Subsidiary or Parent, as appropriate. Notwithstanding the foregoing, the definition of "Cause" may, in part or in whole, be modified or replaced in each individual employment agreement or Award Agreement with any Participant, *provided* that such document supersedes the definition provided in this Section 1.6.

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

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

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

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

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

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

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

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

(c) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being

converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.28. “**Parent**” means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if each of such corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

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

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

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

(a) Profit Before Tax;

(b) Sales;

(c) Expenses;

(d) Billings;

(e) Revenue;

(f) Net revenue;

(g) Earnings (which may include earnings before interest and taxes, earnings before taxes, net earnings, stock-based compensation expenses, depreciation and amortization);

(h) Operating income;

(i) Operating margin;

(j) Operating profit;

(k) Controllable operating profit, or net operating profit;

(l) Net Profit;

(m) Gross margin;

(n) Operating expenses or operating expenses as a percentage of revenue;

(o) Net income;

(p) Earnings per share;

(q) Total stockholder return;

(r) Market share;

(s) Return on assets or net assets;

(t) The Company’s stock price;

(u) Growth in stockholder value relative to a pre-determined index;

(v) Return on equity;

(w) Return on invested capital;

- (x) Cash Flow (including free cash flow or operating cash flows) ;
- (y) Balance of cash, cash equivalents and marketable securities;
- (z) Cash conversion cycle;
- (aa) Economic value added;
- (bb) Individual confidential business objectives;
- (cc) Contract awards or backlog;
- (dd) Overhead or other expense reduction;
- (ee) Credit rating;
- (ff) Completion of an identified special project;
- (gg) Completion of a joint venture or other corporate transaction;
- (hh) Strategic plan development and implementation;
- (ii) Succession plan development and implementation;
- (jj) Improvement in workforce diversity;
- (kk) Employee satisfaction;
- (ll) Employee retention;
- (mm) Customer indicators and/or satisfaction;
- (nn) New product invention or innovation;
- (oo) Research and development expenses;
- (pp) Attainment of research and development milestones;
- (qq) Improvements in productivity;
- (rr) Bookings;
- (ss) Working-capital targets and changes in working capital;
- (tt) Attainment of objective operating goals and employee metrics; and
- (uu) Any other metric that is capable of measurement as determined by the Committee in its sole discretion.

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

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

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

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

1.35. “Permitted Transferee” means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew,

mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law (including adoptive relationships) of the Employee, any person sharing the Employee's household (other than a tenant or employee), a trust in which these persons (or the Employee) have more than 50% of the beneficial interest, a foundation in which these persons (or the Employee) control the management of assets, and any other entity in which these persons (or the Employee) own more than 50% of the voting interests.

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

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

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

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

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

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

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

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

1.44. "**Subsidiary**" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

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

2. SHARES SUBJECT TO THE PLAN.

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

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

2.3. Minimum Share Reserve. At all times the Company shall reserve and keep available a sufficient number of Shares as shall be required to satisfy the

requirements of all outstanding Awards granted under this Plan.

2.4. Automatic Share Reserve Increase. The number of Shares available for grant and issuance under the Plan shall be increased on January 1, of each of 2019 through 2028, by the lesser of (a) five percent (5%) of the number of Shares and common stock equivalents (including options, RSUs, warrants and preferred stock on an as-converted basis) issued and outstanding on each December 31 immediately prior to the date of increase and (b) such number of Shares determined by the Board.

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

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

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

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

4. ADMINISTRATION.

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

- (a) construe and interpret this Plan, any Award Agreement and any other agreement or document executed pursuant to this Plan;
- (b) prescribe, amend and rescind rules and regulations relating to this Plan or any Award;
- (c) select persons to receive Awards;
- (d) determine the form and terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may vest and be exercised (which may be based on performance criteria) or settled, any vesting acceleration or waiver of forfeiture restrictions, the method to satisfy tax withholding obligations or any other tax liability legally due and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Committee will determine;
- (e) determine the number of Shares or other consideration subject to Awards;
- (f) determine the FMV in good faith and interpret the applicable provisions of this Plan and the definition of FMV in connection with circumstances that impact the FMV, if necessary;
- (g) determine whether Awards will be granted singly, in combination with, in tandem with, in replacement of, or as alternatives to, other Awards under this Plan or any other incentive or compensation plan of the Company or any Parent, Subsidiary or Affiliate;
- (h) grant waivers of Plan or Award conditions;
- (i) determine the vesting, exercisability and payment of Awards;
- (j) correct any defect, supply any omission or reconcile any inconsistency in this Plan, any Award or any Award Agreement;
- (k) determine whether an Award has been earned or has vested;
- (l) determine the terms and conditions of any, and to institute any Exchange Program;
- (m) reduce or waive any criteria with respect to Performance Factors;
- (n) adjust Performance Factors to take into account changes in law and accounting or tax rules as the Committee deems necessary or appropriate to reflect the impact of extraordinary or unusual items, events or circumstances to avoid windfalls or hardships;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.7. Limitations on ISOs. With respect to Awards granted as ISOs, to the extent that the aggregate FMV of the Shares with respect to which such ISOs are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars (\$100,000), such Options will be treated as NSOs. For purposes of this Section 5.7, ISOs will be taken into account in the order in which they were granted. The FMV of the Shares will be determined as of the time the Option with respect to such Shares is granted. In the event that the Code or the regulations promulgated thereunder are amended after the Effective Date to provide for a different limit on the FMV of Shares permitted to be subject to ISOs, such different limit will be automatically incorporated herein and will apply to any Options granted after the effective date of such amendment.

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

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

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

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

6.2. Form and Timing of Settlement. Payment of earned RSUs shall be made as soon as practicable after the date(s) determined by the Committee and set forth in the Award Agreement. The Committee, in its sole discretion, may settle earned RSUs in cash, Shares, or a combination of both. The Committee may also permit a Participant to defer payment under a RSU to a date or dates after the RSU is earned provided that the terms of the RSU and any deferral satisfy the requirements of Section 409A of the Code.

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

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

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

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

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

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

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

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

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

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

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

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

9. STOCK APPRECIATION RIGHTS. A stock appreciation right (“**SAR**”) is an award to an eligible Employee, Consultant, or Director that may be settled in cash, or Shares (which may consist of Restricted Stock), having a value equal to (a) the difference between the FMV on the date of exercise over the Exercise Price multiplied by (b) the number of Shares with respect to which the SAR is being settled (subject to any maximum number of Shares that may be issuable as specified in an Award Agreement). All SARs shall be made pursuant to an Award Agreement.

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

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

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

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

10. PERFORMANCE AWARDS. A Performance Award is an award to an eligible Employee, Consultant, or Director that is based upon the attainment of performance goals, as established by the Committee, and other terms and conditions specified by the Committee, and may be settled in cash, Shares (which may consist of, without limitation, Restricted Stock), other property, or any combination thereof. Grants of Performance Awards shall be made pursuant to an Award Agreement that cites Section 10 of the Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. TRANSFERABILITY.

14.1. Transfer Generally. Unless determined otherwise by the Committee or pursuant to Section 14.2, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution. If the Committee makes an Award transferable,

including, without limitation, by instrument to an inter vivos or testamentary trust in which the Awards are to be passed to beneficiaries upon the death of the trustor (settlor) or by gift or by domestic relations order to a Permitted Transferee, such Award will contain such additional terms and conditions as the Committee deems appropriate. All Awards shall be exercisable: (a) during the Participant's lifetime only by (i) the Participant, or (ii) the Participant's guardian or legal representative; (b) after the Participant's death, by the legal representative of the Participant's heirs or legatees; and (c) in the case of all awards except ISOs, by a Permitted Transferee.

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

15. PRIVILEGES OF STOCK OWNERSHIP; RESTRICTIONS ON SHARES.

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

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

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

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

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

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

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

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

21. CORPORATE TRANSACTIONS.

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

(a) The continuation of an outstanding Award by the Company (if the Company is the successor entity).

(b) The assumption of an outstanding Award by the successor or acquiring entity (if any) of such Corporate Transaction (or by its parents, if any), which assumption, will be binding on all selected Participants; *provided* that the exercise price and the number and nature of shares issuable upon exercise of any such option or stock appreciation right, or any award that is subject to Section 409A of the Code, will be adjusted appropriately pursuant to Section 424(a) of the Code and/or Section 409A of the Code, as applicable.

(c) The substitution by the successor or acquiring entity in such Corporate Transaction (or by its parents, if any) of equivalent awards with substantially the same terms for such outstanding Awards (except that the exercise price and the number and nature of shares issuable upon exercise of any such option or stock appreciation right, or any award that is subject to Section 409A of the Code, will be adjusted appropriately pursuant to Section 424(a) of the Code and/or Section 409A of the Code, as applicable).

(d) The full or partial acceleration of exercisability or vesting and accelerated expiration of an outstanding Award and lapse of the Company's right to repurchase or re-acquire shares acquired under an Award or lapse of forfeiture rights with respect to shares acquired under an Award.

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

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

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

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

21.3. Non-Employee Directors' Awards. Notwithstanding any provision to the contrary herein, in the event of a Corporate Transaction, the vesting of all Awards granted to Non-Employee Directors shall accelerate and such Awards shall become exercisable (as applicable) in full prior to the consummation of such event at such times and on such conditions as the Committee determines.

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

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

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

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

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

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

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

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

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

Name: _____

Address: _____

Number of Shares: _____

Exercise Price Per Share: _____

Date of Grant: _____

Vesting Commencement Date: _____

Type of Option: _____

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

Vesting Schedule:

Vesting Acceleration:

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

STOCK OPTION AGREEMENT SONOS, INC. 2018 EQUITY INCENTIVE PLAN

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

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

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

2. Termination.

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

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

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

(c) **Termination Date.** For purposes of this Option, your Service will be considered terminated as of the date you are no longer actively providing services to the Company or a Parent, Subsidiary or Affiliate (regardless of the reason for such termination and whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or consulting agreement, if any), and your period of Service will not include any contractual notice period or any period of "garden leave" or similar period mandated under labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or consulting agreement, if any. The Committee shall have the exclusive discretion to determine when you are no longer actively providing services for purposes of this Option (including whether you may still be considered to be providing services while on a leave of absence).

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

3. Exercise of Option.

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

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

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

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

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

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

(d) other method authorized by the Company.

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

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

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

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

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

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

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

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

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

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

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, as determined in the sole discretion of the Company or the Employer. In any case, you will not receive a refund from the Company of any over-withheld amount in cash and will have no entitlement to the Shares equivalent. If the

obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Shares, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items. You acknowledge that the Company has no obligation to deliver Shares to you until you have satisfied the obligations in connection with the Tax-Related Items as described in this Section.

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

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
- (b) the grant of this Option is voluntary and occasional and does not create any contractual or other right to receive future grants of stock options, or benefits in lieu of stock options, even if stock options have been granted in the past;
- (c) all decisions with respect to future stock options or other grants, if any, will be at the sole discretion of the Company;
- (d) you are voluntarily participating in the Plan;
- (e) this Option and any Shares acquired under the Plan, and the income and value of same, are not intended to replace any pension rights or compensation;
- (f) this Option and any Shares acquired under the Plan, and the income and value of same, are not part of normal or expected compensation for purpose of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or payments or welfare benefits or similar payments;
- (g) unless otherwise agreed with the Company, this Option and any Shares acquired under the Plan, and the income and value of same, are not granted as consideration for, or in connection with, any Service you may provide as a director of any Parent, Subsidiary or Affiliate;
- (h) the future value of the Shares underlying this Option is unknown, indeterminable, and cannot be predicted with certainty;
- (i) if the underlying Shares do not increase in value, this Option will have no value;
- (j) if you exercise this Option and acquire Shares, the value of such Shares may increase or decrease in value, even below the Exercise Price;
- (k) no claim or entitlement to compensation or damages shall arise from forfeiture of this Option resulting from the termination of your Service (for any reason whatsoever, whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or service agreement, if any), and in consideration of the grant of this Option to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, the Employer or any Parent, Subsidiary or Affiliate, waive your ability, if any, to bring any such claim, and release the Company, the Employer or any Parent, Subsidiary or Affiliate from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claim; and
- (l) if you are providing Service outside the United States, neither the Employer, the Company nor any Parent, Subsidiary or Affiliate shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of this Option or of any amounts due to you pursuant to the exercise of this Option or the subsequent sale of any Shares acquired upon exercise.

10. Acknowledgement The Company and you agree that this Option is granted under and governed by the Notice of Grant, this Agreement and the provisions of the Plan (incorporated herein by reference). You: (i) acknowledge receipt of a copy of the Plan prospectus, (ii) represent that you have carefully read and are familiar with the provisions in the grant documents, and (iii) hereby accept this Option subject to all of the terms and conditions set forth in this Agreement and those set forth in the Plan and the Notice of Grant. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions relating to the Plan, the Notice of Grant and this Agreement.

11. Consent to Electronic Delivery and Acceptance of All Plan Documents and Disclosures By your acceptance of this Option, you consent to the electronic delivery of the Notice of Grant, this Agreement, account statements, Plan prospectuses required by the SEC, U.S. financial reports of the Company, and all other documents that the Company is required to deliver to its stockholders (including, without limitation, annual reports and proxy statements) or other communications or information related to this Option. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other delivery determined at the Company's discretion. You acknowledge that you may receive from the Company a paper copy of any documents delivered electronically at no cost if you contact the Company by telephone, through a postal service or electronic mail at sonos-stockadmin@sonos.com. You further acknowledge that you will be provided with a paper copy of any documents delivered electronically if electronic delivery fails; similarly, you understand that you must provide on request to the Company or any designated third party a paper copy of any documents delivered electronically if electronic delivery fails. You agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company. Also, you understand that your consent may be revoked or changed, including any change in the electronic mail address to which documents are delivered (if you have provided an electronic mail address), at any time by notifying the Company of such revised or revoked consent by telephone, postal service or electronic mail at sonos-stockadmin@sonos.com. Finally, you understand that you are not required to consent to electronic delivery.

12. Compliance with Laws and Regulations The exercise of this Option will be subject to and conditioned upon compliance by the Company and you with all applicable state, federal and foreign laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer, which compliance the Company shall, in its absolute discretion, deem necessary or advisable. You understand that the Company is under no obligation to register or qualify the Common Stock with any state, federal or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. Further, you agree that the Company shall have unilateral authority to amend the Plan and this Agreement without your consent to the extent necessary to comply with securities or other laws applicable to issuance of Shares. Finally, the Shares issued pursuant to this Agreement shall be endorsed with appropriate legends, if any, determined by the Company.

13. No Advice Regarding Grant The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the underlying Shares. You are hereby advised to consult with your own personal tax, legal

and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

14. Governing Law; Venue. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law. For purposes of litigating any dispute that may arise directly or indirectly from the Plan, the Notice of Grant and this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California in Santa Barbara County, California, or the federal courts of the United States for the Southern District of California and no other courts.

15. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of this Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this Agreement shall be enforceable in accordance with its terms.

16. No Rights as Employee, Director or Consultant. Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or a Parent, Subsidiary or Affiliate of the Company, to terminate your Service, for any reason, with or without Cause.

17. Adjustment. In the event of a stock split, a stock dividend or a similar change in Company stock, the number of Shares covered by this Option and the Exercise Price per Share may be adjusted pursuant to the Plan.

18. Lock-Up Agreement. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, you hereby agree not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company however and whenever acquired (other than those included in the registration), except pursuant to a transfer for no consideration in accordance with Section 5 above, without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred eighty (180) days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the public offering; provided however that, if during the last seventeen (17) days of the restricted period the Company issues an earnings release or material news or a material event relating to the Company occurs, or prior to the expiration of the restricted period the Company announces that it will release earnings results during the sixteen (16)-day period beginning on the last day of the restricted period, then, upon the request of the managing underwriter, to the extent required by any FINRA rules, the restrictions imposed by this Section shall continue to apply until the end of the third trading day following the expiration of the fifteen (15)-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. In no event will the restricted period extend beyond two hundred sixteen (216) days after the effective date of the registration statement.

19. Award Subject to Company Clawback or Recoupment. To the extent permitted by applicable law, the Option shall be subject to clawback or recoupment pursuant to any clawback or recoupment policy adopted by the Board or required by law during the term of your employment or other Service that is applicable to you. In addition to any other remedies available under such policy, applicable law may require the cancellation of your Option (whether vested or unvested) and the recoupment of any gains realized with respect to your Option.

20. Entire Agreement; Enforcement of Rights. This Agreement, the Plan and the Notice of Grant constitute the entire agreement and understanding of the parties relating to the subject matter herein and supersede all prior discussions between them. Any prior agreements, commitments or negotiations concerning this Option are superseded. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing and signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

21. Insider Trading Restrictions/Market Abuse Laws. You acknowledge that you may be subject to insider trading restrictions and/or market abuse laws, which may affect your ability to acquire or sell the Shares or rights to Shares under the Plan during such times as you are considered to have "inside information" regarding the Company (as defined by the laws in your country). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. You acknowledge that it is your responsibility to comply with any applicable restrictions, and you are advised to speak to your personal advisor on this matter.

22. Language. If you have received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

23. International Supplement. Notwithstanding any provisions in this Agreement, this Option shall be subject to the Supplement if you live or work outside the United States, including any special terms and conditions set forth therein for your country. Moreover, if you relocate to a country other than the United States, then the Supplement, including the special terms and conditions for such country, will apply to you to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Supplement constitutes part of this Agreement.

24. Imposition of Other Requirements. The Company reserves the right to impose other requirements on your participation in the Plan, on this Option and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

25. Waiver. You acknowledge that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other Participant.

BY ACCEPTING THIS OPTION, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

**NOTICE OF RESTRICTED STOCK UNIT AWARD
(GLOBAL)**

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

Unless otherwise defined herein, the terms defined in the Sonos, Inc. (the “**Company**”), 2018 Equity Incentive Plan (the “**Plan**”) shall have the same meanings in this Notice of 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.

Sonos, Inc.
Election to Defer Delivery of Shares –
Initial Restricted Stock Unit (RSU) Award

Under the Sonos, Inc. 2018 Equity Incentive Plan (“Plan”) and as permitted by the Compensation Committee, I hereby elect to defer the delivery of % of the shares underlying my initial RSU Award to the following Elected Delivery Date (**check one**)²:

☐ Separation from Service³

☐ On / / (**must be after the one-year anniversary of the date of grant**⁴)

In witness whereof, I have executed this *Election to Defer Delivery of Shares*.⁵

Date	Director’s Signature	Director’s Printed Name

/1/ The number of shares is not determined until the date of grant; accordingly, please indicate a percentage of total shares rather than a number of shares. For reference, under Sonos’ Director Compensation Policy, new non-employee directors who are appointed or elected on [a date other than] the annual meeting of stockholders will receive an initial grant with a fair market value on the date of grant equal to \$ _____. The date of grant for your initial RSU Award is expected to be the date you are appointed to serve on Sonos’ Board of Directors.

/2/ Note that if you die before your Elected Delivery Date, your delivery date will instead be your date of death. In addition, in the event of a change in the ownership or effective control of Sonos, or in the event of a change in the ownership of a substantial portion of the assets of Sonos, each as determined in accordance with Section 409A of the Internal Revenue Code of 1986, as amended (“Section 409A”) (a “Section 409A Change of Control”), your delivery date will instead be the date of closing of the Section 409A Change of Control.

/3/ In the event of a Separation of Service, to the extent necessary to comply with Section 409A, your delivery date will be the date that is six (6) months and one (1) day following the date of such separation (or, if earlier, upon your death following such separation).

/4/ Your initial RSU Award is expected to vest _____.

/5/ An election to defer delivery of shares with respect to your initial RSU Award must be made prior to your grant date. Therefore, this *Election to Defer Delivery of Shares* must be made by and become irrevocable as of _____, except that you may change your Elected Delivery Date with respect to the shares deferred under this election by filing a new *Election to Defer Delivery of Shares* form at least 12 months before, and only to defer to a date that is at least five years after, the original distribution date, as determined in compliance with Section 409A. All terms of the Award Agreement other than the terms regarding settlement, including the terms regarding the accrual of dividend equivalents, shall apply during the period of deferral. Capitalized terms not otherwise defined herein shall have the meaning given them in the Plan.

This signed Election to Defer Delivery of Shares form must be received on or before 12:00 p.m. EST on _____ via email at _____.

Sonos, Inc.
Election to Defer Delivery of Shares –
_____ Restricted Stock Unit (RSU) Award

Under the Sonos, Inc. 2018 Equity Incentive Plan (“Plan”) and as permitted by the Compensation Committee, I hereby elect to defer the delivery of % of the shares underlying my _____ RSU Award to the following Elected Delivery Date (**check one**)²:

☐ Separation from Service³

On (must be after the one-year anniversary of the date of grant⁴)

In witness whereof, I have executed this *Election to Defer Delivery of Shares*.⁵

Director's Signature Director's Printed Name
Date

/1/ The number of shares is not determined until the date of grant; accordingly, please indicate a percentage of total shares rather than a number of shares. For reference, under Sonos' Director Compensation Policy, non-employee directors receive an annual grant with a fair market value on the date of grant equal to \$. The date of grant for the RSU Award is expected to be the date of the annual meeting of Sonos.

/2/ Note that if you die before your Elected Delivery Date, your delivery date will instead be your date of death. In addition, in the event of a change in the ownership or effective control of Sonos, or in the event of a change in the ownership of a substantial portion of the assets of Sonos, each as determined in accordance with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") (a "Section 409A Change of Control"), your delivery date will instead be the date of closing of the Section 409A Change of Control.

/3/ In the event of a Separation of Service, to the extent necessary to comply with Section 409A, your delivery date will be the date that is six (6) months and one (1) day following the date of such separation (or, if earlier, upon your death following such separation).

/4/ Your RSU Award is expected to vest.

/5/ An election to defer delivery of shares must be made before the calendar year of an RSU Award date of grant. Therefore, this *Election to Defer Delivery of Shares* must be made by and become irrevocable as of December 31, , except that you may change your Elected Delivery Date with respect to the shares deferred under this election by filing a new *Election to Defer Delivery of Shares* form at least 12 months before, and only to defer to a date that is at least five years after, the original distribution date, as determined in compliance with Section 409A. All terms of the Award Agreement other than the terms regarding settlement, including the terms regarding the accrual of dividend equivalents, shall apply during the period of deferral. Capitalized terms not otherwise defined herein shall have the meaning given them in the Plan.

This signed Election to Defer Delivery of Shares form must be received on or before 12:00 p.m. EST on December 31, via email at.

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

Date: February 5, 2020

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

Date: February 5, 2020

/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 December 28, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 5, 2020

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 December 28, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 5, 2020

By:

/s/ Brittany Bagley

Brittany Bagley

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