

**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 June 27, 2020
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

03-0479476

(State or other jurisdiction
of incorporation or organization)

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

614 Chapala Street

Santa Barbara

CA

93101

(Address of Principal Executive Offices)

(Zip Code)

(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	☐

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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 July 25, 2020, the registrant had 110,620,460 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	
	June 27, 2020	September 28, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 329,122	\$ 338,641
Restricted cash	183	179
Accounts receivable, net of allowances	50,358	102,743
Inventories	88,441	219,784
Prepays and other current assets	18,923	17,762
Total current assets	487,027	679,109
Property and equipment, net	64,840	78,139
Operating lease right-of-use assets	43,325	—
Goodwill	15,545	1,005
Intangible assets, net	26,782	13
Deferred tax assets	1,350	1,154
Other noncurrent assets	5,759	2,185
Total assets	\$ 644,628	\$ 761,605
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 106,519	\$ 251,941
Accrued expenses	47,750	69,856
Accrued compensation	51,010	41,142
Short-term debt	8,333	8,333
Deferred revenue, current	14,731	13,654
Other current liabilities	29,351	17,548
Total current liabilities	257,694	402,474
Operating lease liabilities, noncurrent	53,017	—
Long-term debt	19,897	24,840
Deferred revenue, noncurrent	45,634	42,795
Other noncurrent liabilities	7,187	10,568
Total liabilities	383,429	480,677
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$0.001 par value	115	110
Treasury stock	(53,317)	(13,498)
Additional paid-in capital	562,098	502,757
Accumulated deficit	(246,902)	(208,377)
Accumulated other comprehensive loss	(795)	(64)
Total stockholders' equity	261,199	280,928
Total liabilities and stockholders' equity	\$ 644,628	\$ 761,605

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

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

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Revenue	\$ 249,310	\$ 260,119	\$ 986,491	\$ 966,663
Cost of revenue	139,519	142,749	576,071	563,591
Gross profit	109,791	117,370	410,420	403,072
Operating expenses				
Research and development	57,770	44,355	159,890	121,530
Sales and marketing	77,273	61,482	205,201	176,705
General and administrative	31,662	26,583	87,989	74,308
Total operating expenses	166,705	132,420	453,080	372,543
Operating income (loss)	(56,914)	(15,050)	(42,660)	30,529
Other income (expense), net				
Interest income	81	1,432	1,954	2,933
Interest expense	(360)	(626)	(1,187)	(1,914)
Other income (expense), net	365	1,068	3,366	(3,640)
Total other income (expense), net	86	1,874	4,133	(2,621)
Income (loss) before provision for (benefit from) income taxes	(56,828)	(13,176)	(38,527)	27,908
Provision for (benefit from) income taxes	152	833	(1)	3,074
Net income (loss)	\$ (56,980)	\$ (14,009)	\$ (38,526)	\$ 24,834
Net income (loss) attributable to common stockholders:				
Basic	\$ (56,980)	\$ (14,009)	\$ (38,526)	\$ 24,834
Diluted	\$ (56,980)	\$ (14,009)	\$ (38,526)	\$ 24,834
Net income (loss) per share attributable to common stockholders:				
Basic	\$ (0.52)	\$ (0.13)	\$ (0.35)	\$ 0.24
Diluted	\$ (0.52)	\$ (0.13)	\$ (0.35)	\$ 0.22
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:				
Basic	109,477,622	105,522,313	109,325,785	102,667,316
Diluted	109,477,622	105,522,313	109,325,785	112,542,998
Total comprehensive income (loss)				
Net income (loss)	\$ (56,980)	\$ (14,009)	\$ (38,526)	\$ 24,834
Change in foreign currency translation adjustment	219	(663)	(731)	506
Comprehensive income (loss)	\$ (56,761)	\$ (14,672)	\$ (39,257)	\$ 25,340

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)

	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
Repurchase of common 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	111,185,113	111	523,929	(1,392,924)	(18,576)	(137,602)	(583)	367,279
Issuance of common stock pursuant to equity incentive plans	1,548,614	2	4,614	—	—	—	—	4,616
Repurchase of common stock	—	—	—	(2,491,728)	(32,734)	—	—	(32,734)
Stock-based compensation expense	—	—	13,394	—	—	—	—	13,394
Net loss	—	—	—	—	—	(52,320)	—	(52,320)
Change in foreign currency translation adjustment	—	—	—	—	—	—	(431)	(431)
Balance at March 28, 2020	112,733,727	\$ 113	\$ 541,937	(3,884,652)	\$ (51,310)	\$ (189,922)	\$ (1,014)	\$ 299,804
Issuance of common stock pursuant to equity incentive plans	1,683,163	2	5,120	—	—	—	—	5,122
Repurchase of common stock	—	—	—	(221,104)	(2,007)	—	—	(2,007)
Stock-based compensation expense	—	—	15,041	—	—	—	—	15,041
Net loss	—	—	—	—	—	(56,980)	—	(56,980)
Change in foreign currency translation adjustment	—	—	—	—	—	—	219	219
Balance at June 27, 2020	114,416,890	\$ 115	\$ 562,098	(4,105,756)	\$ (53,317)	\$ (246,902)	\$ (795)	\$ 261,199
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	101,042,703	101	434,111	(807,040)	(11,072)	(141,944)	(1,168)	280,028
Issuance of common stock pursuant to equity incentive plans	4,649,929	5	18,480	—	—	—	—	18,485
Repurchase of common stock	—	—	—	(54,314)	(566)	—	—	(566)
Stock-based compensation expense	—	—	11,086	—	—	—	—	11,086
Net loss	—	—	—	—	—	(22,824)	—	(22,824)
Change in foreign currency translation adjustment	—	—	—	—	—	—	660	660
Balance at March 30, 2019	105,692,632	106	463,677	(861,354)	(11,638)	(164,768)	(508)	286,869

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Issuance of common stock pursuant to equity incentive plans	1,481,047	1	3,085	—	—	—	—	3,086
Repurchase of common stock	—	—	—	(25,565)	(266)	—	—	(266)
Stock-based compensation expense	—	—	13,408	—	—	—	—	13,408
Net loss	—	—	—	—	—	(14,009)	—	(14,009)
Change in foreign currency translation adjustment	—	—	—	—	—	—	(663)	(663)
Balance at June 29, 2019	<u>107,173,679</u>	<u>\$ 107</u>	<u>\$ 480,170</u>	<u>(886,919)</u>	<u>\$ (11,904)</u>	<u>\$ (178,777)</u>	<u>\$ (1,171)</u>	<u>\$ 288,425</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)

	Nine Months Ended	
	June 27, 2020	June 29, 2019
Cash flows from operating activities		
Net income (loss)	\$ (38,526)	\$ 24,834
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	27,692	27,403
Impairment and abandonment charges	14,047	—
Stock-based compensation expense	41,638	33,525
Other	4,371	1,962
Deferred income taxes	(176)	(129)
Foreign currency transaction (gain) loss	(1,491)	1,430
Changes in operating assets and liabilities:		
Accounts receivable, net	53,418	(19,114)
Inventories	129,623	69,683
Other assets	(4,400)	(5,434)
Accounts payable and accrued expenses	(162,137)	(33,680)
Accrued compensation	8,038	1,091
Deferred revenue	3,506	5,279
Other liabilities	7,548	4,086
Net cash provided by operating activities	83,151	110,936
Cash flows from investing activities		
Purchases of property and equipment and intangible assets	(29,905)	(14,092)
Cash paid for acquisition, net of acquired cash	(36,289)	—
Net cash used in investing activities	(66,194)	(14,092)
Cash flows from financing activities		
Repayments of borrowings	(5,000)	—
Payments for repurchase of common stock	(39,819)	(832)
Proceeds from exercise of common stock options	17,708	22,034
Payments of offering costs	—	(585)
Net cash provided by (used in) financing activities	(27,111)	20,617
Effect of exchange rate changes on cash, cash equivalents and restricted cash	639	(103)
Net increase (decrease) in cash, cash equivalents and restricted cash	(9,515)	117,358
Cash, cash equivalents and restricted cash		
Beginning of period	338,820	221,120
End of period	\$ 329,305	\$ 338,478
Supplemental disclosure		
Cash paid for interest	\$ 1,318	\$ 1,334
Cash paid for taxes, net of refunds	\$ 1,153	\$ 2,534
Cash paid for amounts included in the measurement of lease liabilities	\$ 11,689	\$ —
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment in accounts payable and accrued expenses	\$ 3,055	\$ 6,053
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 75,913	\$ —

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 and services. 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, 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 September 28, 2019 has been derived from the audited consolidated 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 nine months ended June 27, 2020 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.

On June 23, 2020, the Company initiated a restructuring plan which impacted the Company’s global workforce, operating expenses and leased facilities (the “2020 restructuring plan”). The impact of the 2020 restructuring plan is included in the Company’s consolidated results of operations in the third quarter of fiscal 2020. Refer to Note 14 for further discussion of restructuring activities.

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 nine months ended June 27, 2020 and June 29, 2019 spanned 39 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
(unaudited)

In March 2020, the outbreak of the novel coronavirus (COVID-19) was declared a pandemic. While the nature of the situation is dynamic, the Company has considered the impact when developing its estimates and assumptions noted above. Actual results and outcomes may differ from management's estimates and assumptions.

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 is measured as of the acquisition date as the excess of consideration transferred over the net acquisition date fair value of the assets acquired and the liabilities assumed. The Company uses its 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 (loss).

Goodwill and indefinite-lived intangible assets shall be tested for impairment on an annual basis or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. In connection with the Company's evaluation of goodwill impairment, the Company performs a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, the Company proceeds to test goodwill for impairment, including comparing the fair value of the reporting unit to its carrying value (including attributable goodwill). The Company determines fair value for its reporting unit using an income or market approach incorporating market participant considerations and management's assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Fair value determinations may include both internal and third-party valuations. The Company performs its annual goodwill impairment assessment during the third quarter of each fiscal year and more frequently if circumstances otherwise dictate. As part of the Company's qualitative and quantitative assessment performed in the third quarter of fiscal 2020, no impairment was identified.

Recently adopted accounting pronouncements

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued *ASU No. 2016-02, Leases*, and it subsequently issued 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 future lease payments.

The Company adopted Topic 842 as of September 29, 2019, using the modified retrospective method under *ASU 2018-11, Leases (Topic 842): Targeted Improvements*. As such, prior periods were not retrospectively adjusted. There was no cumulative effect to the 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 ("ROU") assets and operating lease liabilities of approximately \$63.7 million and \$73.7 million, respectively on September 29, 2019, with an increase

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

to total assets and liabilities of approximately \$62.5 million. The difference between the right-of-use assets and lease liabilities was primarily attributable to deferred rent and rent incentives. There was no impact on the Company's consolidated statement of operations and comprehensive income (loss) or consolidated statements of cash flows. See Note 6 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 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 standard has not had a material impact on the Company's consolidated financial statements or disclosures.

Goodwill

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 Company early adopted this standard in the second quarter of fiscal 2020. The adoption of this standard has not had a material impact on the Company's consolidated financial statements or disclosures.

Recent accounting pronouncements pending adoption

In June 2016, the FASB issued *ASU No. 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, and it subsequently issued amendments to the initial guidance (collectively referred to as "Topic 326"), which provide a new impairment model that requires measurement and recognition of expected credit losses for most financial assets and certain other instruments, including accounts receivable. The standard will be effective for the Company in the first quarter of fiscal 2021, with early adoption permitted. The Company intends to adopt this standard in the first quarter of fiscal 2021 and does not expect the adoption to have a material impact on the Company's consolidated financial statements or disclosures.

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 but does not expect the adoption to have a material impact on the Company's consolidated financial statements or disclosures.

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 guidance for unit of account 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 Accounting Standards Codification Topic 740 ("ASC 740") as well as by improving consistent application of the topic by clarifying and amending existing guidance. This standard will be

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

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 June 27, 2020 and September 28, 2019 as the debt carries a variable rate or market rates that approximate those currently available to the Company.

The following table summarizes fair value measurements by level for the assets measured at fair value on a recurring basis as of June 27, 2020 and September 28, 2019:

		June 27, 2020			
(In thousands)		Level 1	Level 2	Level 3	Total
Assets:					
Money market funds (cash equivalents)	\$	161,352	\$ —	\$ —	\$ 161,352

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

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		Nine Months Ended	
(In thousands)		June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Americas	\$	151,167	\$ 145,612	\$ 556,325	\$ 520,684
Europe, Middle East and Africa ("EMEA")		83,818	88,151	353,807	383,537
Asia Pacific ("APAC")		14,325	26,356	76,359	62,442
Total revenue	\$	249,310	\$ 260,119	\$ 986,491	\$ 966,663

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		Nine Months Ended	
(In thousands)		June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
United States	\$	140,012	\$ 134,924	\$ 512,040	\$ 481,888
Germany		17,534	20,636	83,276	96,775
United Kingdom		22,471	19,810	83,705	90,036
Other countries		69,293	84,749	307,470	297,964
Total revenue	\$	249,310	\$ 260,119	\$ 986,491	\$ 966,663

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

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. These categories further align revenue reporting with the evolving nature of the Company's products, customers' engagement across multiple categories, and how the Company evaluates its business. Revenue by product category includes the applicable service revenue attributable to each product category. Revenue by major product category is as follows:

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
(In thousands)				
Sonos speakers	\$ 196,895	\$ 194,285	\$ 779,939	\$ 790,896
Sonos system products	42,164	46,488	150,887	137,486
Partner products and other revenue	10,251	19,346	55,665	38,281
Total revenue	<u>\$ 249,310</u>	<u>\$ 260,119</u>	<u>\$ 986,491</u>	<u>\$ 966,663</u>

5. Balance sheet components

Accounts receivable, net of allowances

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

	June 27, 2020	September 28, 2019
(In thousands)		
Accounts receivable	\$ 65,450	\$ 124,049
Allowance for doubtful accounts	(1,369)	(1,255)
Allowance for sales incentives	(13,723)	(20,051)
Accounts receivable, net of allowances	<u>\$ 50,358</u>	<u>\$ 102,743</u>

Inventories

Inventories consist of the following:

	June 27, 2020	September 28, 2019
(In thousands)		
Finished goods	\$ 78,727	\$ 207,723
Component parts	9,714	12,061
Inventories	<u>\$ 88,441</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 the Company's goodwill for the nine months ended June 27, 2020:

(In thousands)	
Balance as of September 28, 2019	\$ 1,005
Goodwill acquired	14,282
Purchase price adjustment	258
Balance as of June 27, 2020	<u>\$ 15,545</u>

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

Intangible assets

The following table reflects the changes in the net carrying amount of the components of intangible assets associated with the Company's acquisition activity:

	June 27, 2020			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Life
(In thousands, except weighted-average remaining life)				
Technology	\$ 7,583	\$ (929)	\$ 6,654	3.80
Other	39	(11)	28	1.42
Total finite-lived intangible assets	7,622	(940)	6,682	3.79
In-process research and development and other intangible assets not subject to amortization	20,100	—	20,100	
Total intangible assets	<u>\$ 27,722</u>	<u>\$ (940)</u>	<u>\$ 26,782</u>	

The following table summarizes estimated future amortization expense of the Company's intangible assets as of June 27, 2020:

Fiscal years ending	Future Amortization Expense
(In thousands)	
Remainder of fiscal 2020	\$ 475
2021	1,899
2022	1,883
2023	1,235
2024	1,020
2025 and thereafter	170
Total future amortization expense	<u>\$ 6,682</u>

Accrued expenses

Accrued expenses consist of the following:

	June 27, 2020	September 28, 2019
(In thousands)		
Accrued advertising and marketing	\$ 10,180	\$ 25,662
Accrued taxes	9,861	4,388
Accrued inventory	2,844	6,494
Accrued manufacturing, logistics and product development	13,654	14,783
Accrued general and administrative expenses	6,927	12,455
Other accrued payables	4,284	6,074
Total accrued expenses	<u>\$ 47,750</u>	<u>\$ 69,856</u>

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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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 nine months ended June 27, 2020 and June 29, 2019:

	June 27, 2020	June 29, 2019
(In thousands)		
Deferred revenue, beginning of period	\$ 56,449	\$ 50,967
Recognition of revenue included in beginning of period deferred revenue	(10,210)	(8,827)
Revenue deferred, net of revenue recognized on contracts in the respective period	14,126	13,966
Deferred revenue, end of period	<u>\$ 60,365</u>	<u>\$ 56,106</u>

The Company expects the following recognition of deferred revenue as of June 27, 2020:

	For the fiscal years ending					
	2020	2021	2022	2023	2024 and Beyond	Total
(In thousands)						
Deferred revenue expected to be recognized	\$ 3,865	\$ 14,271	\$ 12,425	\$ 10,497	\$ 19,307	\$ 60,365

Other current liabilities

Other current liabilities consist of the following:

	June 27, 2020	September 28, 2019
(In thousands)		
Reserve for returns	\$ 12,284	\$ 12,110
Short-term operating lease liabilities	11,626	—
Product warranty liability	3,206	3,254
Other	2,235	2,184
Total other current liabilities	<u>\$ 29,351</u>	<u>\$ 17,548</u>

The following table presents the changes in the Company's warranty liability for the nine months ended June 27, 2020 and June 29, 2019:

	June 27, 2020	June 29, 2019
(In thousands)		
Warranty liability, beginning of period	\$ 3,254	\$ 2,450
Provision for warranties issued during the period	9,609	9,474
Settlements of warranty claims during the period	(9,657)	(8,828)
Warranty liability, end of period	<u>\$ 3,206</u>	<u>\$ 3,096</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

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

Most of the Company's leases do not contain an implicit interest rate. Therefore, the Company uses judgment to estimate an incremental borrowing rate, which is defined as the rate of interest the Company would have to pay to borrow an amount that is equal to the lease obligations, on a collateralized basis, and over a similar term. The Company takes into consideration the terms of the Company's Credit Facility (as defined in Note 7), lease terms, and current interest rates to determine the incremental borrowing rate at lease commencement date. At June 27, 2020, the Company's weighted-average discount rate was 4.1%, while the weighted-average remaining lease term was 4.9 years. As part of the supplemental cash flow disclosure, the right-of-use assets obtained in exchange for new operating lease liabilities does not reflect the impact of prepaid or deferred rent.

The components of lease expense for the three and nine months ended June 27, 2020 were as follows:

	Three Months Ended	Nine Months Ended
	June 27, 2020	June 27, 2020
(In thousands)		
Operating lease cost	\$ 3,245	\$ 10,427
Short-term lease cost	60	176
Variable lease cost	1,148	4,095
Total lease cost	<u>\$ 4,453</u>	<u>\$ 14,698</u>

For the three and nine months ended June 27, 2020, total rental expense was \$3.3 million and \$10.6 million, respectively, and total common area maintenance expense was \$1.1 million and \$4.1 million, respectively. For the three and nine months ended June 29, 2019, total rental expense was \$3.6 million and \$10.5 million, respectively, and total common area maintenance expense was \$1.3 million and \$3.9 million, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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The following table summarizes the maturity of lease liabilities under operating leases as of June 27, 2020:

Fiscal years ending (In thousands)	Operating leases
Remainder of fiscal 2020	\$ 3,773
2021	15,244
2022	14,479
2023	14,854
2024	13,835
2025	9,172
Thereafter	1,777
Total lease payments	73,134
Less imputed interest	(8,491)
Total lease liabilities ⁽¹⁾	\$ 64,643

(1) Total lease liabilities reflects the lease liabilities associated with the Company's New York retail space and satellite offices that were closed as a part of the 2020 restructuring plan. Refer to Note 14 for discussion of the impact of the associated ROU lease asset.

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)	Operating leases
2020	\$ 15,627
2021	14,759
2022	14,136
2023	14,395
2024	13,615
Thereafter	10,951
Total minimum lease commitments	\$ 83,483

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.

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The Company's short- and long-term debt obligations as of June 27, 2020 and September 28, 2019 were as follows:

(In thousands, except percentages)	June 27, 2020	September 28, 2019
Term loan ⁽¹⁾	2.4 % \$ 28,333	4.6 % \$ 33,333
Unamortized debt issuance costs ⁽²⁾	(103)	(160)
Total indebtedness	28,230	33,173
Less short-term portion	(8,333)	(8,333)
Long-term debt	<u>\$ 19,897</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%, payable quarterly.

(2) 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 June 27, 2020 and September 28, 2019, the Company did not have any outstanding borrowings and had \$0.5 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 June 27, 2020 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.

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 January 7, 2020, the Company filed a complaint with the U.S. International Trade Commission ("ITC") against Alphabet Inc. ("Alphabet") and Google LLC ("Google") and a lawsuit in the U.S. District Court for the Central District of California against Google. The complaint and lawsuit each allege infringement of certain Sonos patents related to its smart speakers and related technology. On February 6, 2020, the ITC initiated a formal investigation into the Company's claims. Google and Alphabet filed an initial answer in the ITC action on February 27, 2020 and an amended answer on April 3, 2020, denying infringement and alleging that the asserted patents are invalid. The ITC case is set for trial towards the end of February 2021. On March 4, 2020, the California District Court stayed the district court proceeding pending resolution of the ITC investigation. On March 11, 2020, Google filed an answer in the California District Court, denying infringement and alleging that the asserted patents are invalid.

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On June 11, 2020, Google filed a lawsuit in the U.S. District Court for the Northern District of California against the Company, alleging infringement of five Google patents generally related to noise cancellation, digital rights management, media search and wireless relays. A range of loss, if any, associated with this matter is not probable or reasonably estimable as of June 27, 2020.

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 June 27, 2020 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 nine months ended June 27, 2020, the Company repurchased 2,536,845 shares for an aggregate purchase price of \$33.2 million at an average price of \$13.07 per share under the repurchase program. The Company did not repurchase any shares of its common stock during the third quarter of fiscal 2020 under the repurchase program. The Company had \$16.8 million available for share repurchases under the repurchase program as of June 27, 2020. Additionally, treasury stock during the nine months ended June 27, 2020 included shares withheld to satisfy employees' tax withholding requirements in connection with vesting of restricted stock unit awards ("RSUs").

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 Company's initial public offering ("IPO"). 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 and directors. 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 option holder 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.

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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 29, 2019	37,155,568	\$ 11.39	6.3	\$ 94,288
Granted	—	—		
Exercised	(3,262,189)	5.43		
Forfeited	(2,088,232)	14.00		
Outstanding at June 27, 2020	<u>31,805,147</u>	<u>\$ 11.82</u>	5.8	\$ 102,403
At June 27, 2020				
Options exercisable	25,966,388	\$ 11.24	5.3	\$ 98,198
Options vested and expected to vest	31,071,037	\$ 11.76	5.7	\$ 101,890

As of June 27, 2020 and September 28, 2019, the Company had \$23.5 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 1.6 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 29, 2019	6,716,786	\$ 11.40	\$ 90,744
Granted	8,863,308		
Vested	(1,531,284)		
Forfeited	(640,783)		
Unvested at June 27, 2020	<u>13,408,027</u>	<u>\$ 10.45</u>	<u>\$ 201,120</u>
At June 27, 2020			
Units expected to vest	10,772,089	\$ 10.48	\$ 161,581

As of June 27, 2020 and September 28, 2019, the Company had \$106.2 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.

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Stock-based compensation

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

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
(In thousands)				
Cost of revenue	\$ 306	\$ 298	\$ 866	\$ 701
Research and development	6,154	4,904	16,697	12,792
Sales and marketing	3,710	3,608	10,658	9,416
General and administrative	4,871	4,598	13,417	10,616
Total stock-based compensation expense	<u>\$ 15,041</u>	<u>\$ 13,408</u>	<u>\$ 41,638</u>	<u>\$ 33,525</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 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 recorded a provision for incomes taxes of \$0.2 million and \$0.8 million for the three months ended June 27, 2020 and June 29, 2019, respectively, related to foreign and U.S. federal and state income taxes. The Company recorded a benefit from income taxes of less than \$0.1 million and a provision for income tax expense of \$3.1 million for the nine months ended June 27, 2020 and June 29, 2019, respectively, related to foreign and U.S. federal and state income taxes. For the nine months ended June 27, 2020, the Company's tax provision 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 and nine months ended June 27, 2020, the Company excluded the U.S. and certain foreign jurisdictions from the calculation of the estimated annual effective tax rate ("AETR") as the Company anticipates an ordinary loss in these jurisdictions for which no tax benefit can be recognized. For the three and nine months ended June 29, 2019, the Company calculated its U.S. income tax provision using the discrete method as though the interim year to date period was an annual period. The application of the AETR method generally required by ASC 740 was impractical for the U.S. interim tax provision in fiscal 2019 given that normal deviations in the projected pre-tax net income (loss) in the U.S. could have resulted in a disproportionate and unreliable effective tax rate under the AETR method.

For the nine months ended June 27, 2020, the Company 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 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 the Company's net earnings. The exact timing and amount of the valuation allowance release are subject to change based on the level of profitability achieved.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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12. Net income (loss) per share attributable to common stockholders

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

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

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
(In thousands, except share and per share data)				
Numerator:				
Net income (loss) attributable to common stockholders - basic and diluted	\$ (56,980)	\$ (14,009)	\$ (38,526)	\$ 24,834
Denominator:				
Weighted-average shares of common stock—basic	109,477,622	105,522,313	109,325,785	102,667,316
Effect of potentially dilutive stock options	—	—	—	9,115,070
Effect of RSUs	—	—	—	760,612
Weighted-average shares of common stock—diluted	109,477,622	105,522,313	109,325,785	112,542,998
Net income (loss) per share attributable to common stockholders:				
Basic	\$ (0.52)	\$ (0.13)	\$ (0.35)	\$ 0.24
Diluted	\$ (0.52)	\$ (0.13)	\$ (0.35)	\$ 0.22

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

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Stock options to purchase common stock	32,940,890	40,916,245	34,720,498	34,408,923
Restricted stock units	10,076,832	6,394,726	8,038,804	2,532,886
Total	43,017,722	47,310,971	42,759,302	36,941,809

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 in the second quarter of fiscal 2020.

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 on the date of acquisition. Subsequent to the acquisition date, an immaterial purchase price adjustment was recorded resulting in an immaterial increase to goodwill. The goodwill recognized was primarily attributable to the assembled workforce and expected post-

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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 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.

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.

14. Restructuring plan

On June 23, 2020, the Company initiated a restructuring plan as part of its efforts to reduce operating expenses and preserve liquidity due to the uncertainty and challenges stemming from the COVID-19 pandemic. As part of the 2020 restructuring plan, the Company eliminated approximately 12% of its global headcount and closed its New York retail store and six satellite offices. The Company believes these initiatives will better align resources to provide further operating flexibility and more efficiently position the business for its long-term strategy. The Company expects activities under the 2020 restructuring plan to be substantially complete in the first quarter of fiscal 2021.

Total pre-tax restructuring and related costs under the 2020 restructuring plan were \$26.4 million, which included \$26.2 million incurred in the three months ended June 27, 2020 as presented in the table below. The remaining restructuring and related costs are nominal and are expected to be incurred through the completion of the 2020 restructuring plan in the first quarter of fiscal 2021. For the assets deemed to be impaired, the Company estimated fair value using an income-approach based on management's forecast of future cash flows expected to be derived from the property.

	Costs incurred in the three months ended June 27, 2020
(In thousands)	
Employee related costs	\$ 8,985
ROU asset impairment and abandonment charges	8,139
Property and equipment abandonment charges	5,699
Other restructuring costs	3,337
Total	<u>\$ 26,160</u>

The following table represents the restructuring and related costs recorded in the Company's condensed consolidated statements of operations and comprehensive income (loss):

	Three Months Ended June 27, 2020
(In thousands)	
Research and development	\$ 4,949
Sales and marketing	19,788
General and administrative	1,423
Total	<u>\$ 26,160</u>

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The following table summarizes the Company's restructuring activities recorded in accrued expenses and accrued compensation within the condensed consolidated balance sheets:

(In thousands)	Employee related costs	Other restructuring costs	Total
Balance at September 28, 2019	\$ —	\$ —	\$ —
Restructuring charges	8,955	3,207	12,162
Cash paid	—	—	—
Balance at June 27, 2020	<u>\$ 8,955</u>	<u>\$ 3,207</u>	<u>\$ 12,162</u>

These costs require the Company to make certain judgments and estimates regarding the amount and timing of the 2020 restructuring plan and related impairment charges or recoveries. The estimated liability could change subsequent to its recognition, requiring adjustments to the expense and liability recorded. On a quarterly basis, the Company conducts an evaluation of the related liabilities and expenses and revises its assumptions and estimates as appropriate as new or updated information becomes available.

15. Subsequent event

On May 13, 2020, the Company was granted a temporary exclusion from the August 2019 Section 301 Tariff Action (List 4A) ("Section 301 tariffs") for its component products. Subsequent to the end of the third quarter of fiscal 2020, on July 23, 2020, the Company was granted a temporary exclusion from Section 301 tariffs for its core speaker products. These exclusions eliminate the tariffs on the Company's component and core speaker products imported from China until August 31, 2020, and entitle the Company to receive an estimated refund of approximately \$30.0 million for the tariffs paid since September 2019, the date the Section 301 tariffs were imposed. The Company will need to seek an extension of these exemption requests to extend such exemptions past August 31, 2020, and in the event that the Company is unsuccessful, the Section 301 tariffs on its products will automatically reinstate. The timing of receipt of this refund is not reasonably determinable as of the date of this report and no amounts have been recorded in the consolidated financial statements as of and for the nine months ended June 27, 2020.

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, 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. Except as required by law, we do not undertake any obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise.

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 from our first product launch through the end of our last completed fiscal year. 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.

COVID-19 impacts

In December 2019, the novel coronavirus (COVID-19) was reported in China and subsequently was declared a global pandemic in March 2020 by the World Health Organization. The impact of the pandemic has led to significant challenges to our global economy. Starting in March 2020, we implemented global travel restrictions and work-from-home policies for employees who have the ability to work remotely. As of the date of this report, these policies have not materially adversely affected our operations, financial reporting or internal controls.

Customer demand. In our second quarter of fiscal 2020, we saw weakening retail demand and closures of physical retail stores in the majority of our end markets. Our retail partners made significant modifications to the retail experience, such as store closures, placing limits on the number of customers permitted in stores, and shifting from in-store shopping to curbside pickup. Our retail partners reduced orders to adjust inventory levels in response to lower consumer sales resulting from decreased store traffic. During the third quarter of fiscal 2020, most retail stores began reopening, subject to capacity and other restrictions, but we continued to see the ongoing impact on revenue of physical store closures and constrained product availability as demand exceeded our expectations. This impact was offset by strong performance in our direct-to-consumer sales channel, primarily through our website. Revenue from our direct-to-consumer channel increased 299.0% for the three months ended June 27, 2020 compared to the three months ended June 29, 2019.

Supply chain. As of the date of this report, there has been no disruption to our existing supply chain and we continue to have the ability to meet our customer demand. Due to government mandated shutdowns resulting from COVID-19, our efforts to diversify our supply chain into Malaysia have been delayed likely until the middle of 2021. For additional information regarding our plans to diversify our supply chain into Malaysia, refer to Part II, Item 1A. Risk factors.

Liquidity and capital resources. In response to the uncertainty and challenges stemming from COVID-19, in the second quarter of fiscal 2020 we implemented a number of initiatives to maintain our liquidity and rationalize our operating expenses, including reducing the pace of investment in inventory, suspending travel, and suspending most new hiring, employee promotions and merit-based payroll increases. In the third quarter of fiscal 2020, we retained these operating reduction initiatives, except for reinvesting in inventory to meet demand, and initiated the 2020 restructuring plan.

We believe our existing cash and cash equivalent balances, cash flow from operations, and committed credit lines are sufficient to meet our long-term working capital and capital expenditure needs. As of June 27, 2020, we had cash and cash equivalents of \$329.1 million, long-term debt of \$19.9 million, and an undrawn revolving credit facility of \$80.0 million.

Restructuring plan. On June 23, 2020, we initiated the 2020 restructuring plan in connection with our efforts to reduce operating expenses and preserve liquidity in the face of the COVID-19 pandemic and to more efficiently position our business for our long-term strategy. As a result of these efforts we eliminated approximately 12% of our global headcount and closed our New York retail store and six satellite offices. Our restructuring efforts are expected to result in savings of approximately \$7.5 million in the fourth quarter positioning us more efficiently to continue delivering sustainable, profitable growth over the long-term. To the extent that disruption to the business continues, we will evaluate additional cost management initiatives, which will be dependent on the severity and duration of the COVID-19 pandemic.

While the situation caused by COVID-19 is unprecedented and dynamic, we have considered its impact when developing our estimates and assumptions. Actual results and outcomes may differ from our estimates and assumptions. For additional information of risks related to COVID-19, refer to Part II, Item 1A. Risk factors.

Key metrics

In addition to the measures presented in our condensed consolidated financial statements, we use the following key metrics to evaluate our business, measure our performance, identify trends affecting our business and assist us in making strategic decisions. Our key metrics are 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 June 27, 2020 and June 29, 2019, we had net losses of \$57.0 million and \$14.0 million, respectively. In the nine months ended June 27, 2020 and June 29, 2019, we had net loss of \$38.5 million and net income of \$24.8 million, respectively.

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
(In thousands, except percentages)				
Total revenue	\$ 249,310	\$ 260,119	\$ 986,491	\$ 966,663
Products sold	923	1,345	4,544	4,640
Adjusted EBITDA ⁽¹⁾	\$ (2,720)	\$ 6,797	\$ 62,115	\$ 91,457
Adjusted EBITDA margin ⁽¹⁾	(1.1)%	2.6 %	6.3 %	9.5 %

⁽¹⁾ For additional information regarding adjusted EBITDA and adjusted EBITDA margin (which are non-GAAP financial measures), including reconciliations of net income (loss), to adjusted EBITDA, see the sections titled “Adjusted EBITDA and adjusted EBITDA margin” and “Non-GAAP financial measures” below.

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 module 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 (loss) 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 alternatives 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. These non-GAAP financial measures have certain limitations which:

- exclude depreciation and amortization, and although these are non-cash expenses, the assets being depreciated may be replaced in the future;
- 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;
- do not reflect interest income, primarily resulting from interest income earned on our cash and cash equivalent balances;
- 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;
- do not reflect the effect of foreign currency exchange gains or losses, which is included in other income (expense), net;
- do not reflect the provision for or benefit from income tax that may result in payments that reduce cash available to us;
- 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
- may not be comparable to similar non-GAAP financial measures used by other companies, because the expenses and other items that we exclude in our calculation of these non-GAAP financial measures may differ from the expenses and other items, if any, that other companies may exclude from these non-GAAP financial measures when they report their operating results.

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

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

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
(In thousands, except percentages)				
Net income (loss)	\$ (56,980)	\$ (14,009)	\$ (38,526)	\$ 24,834
Add (deduct):				
Depreciation and amortization	8,861	8,439	27,692	27,403
Stock-based compensation expense	15,041	13,408	41,638	33,525
Interest income	(81)	(1,432)	(1,954)	(2,933)
Interest expense	360	626	1,187	1,914
Other (income) expense, net	(365)	(1,068)	(3,366)	3,640
Provision for (benefit from) income taxes	152	833	(1)	3,074
Restructuring and related expenses (Note 14)	26,160	—	26,160	—
Legal and transaction related costs ⁽¹⁾	4,132	—	9,285	—
Adjusted EBITDA	\$ (2,720)	\$ 6,797	\$ 62,115	\$ 91,457
Revenue	\$ 249,310	\$ 260,119	\$ 986,491	\$ 966,663
Adjusted EBITDA margin	(1.1)%	2.6 %	6.3 %	9.5 %

⁽¹⁾ Legal and transaction-related costs consist of expenses related to our intellectual property ("IP") litigation against Alphabet and Google as well as legal and transaction costs associated with our acquisition activity in the first quarter of fiscal 2020, 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 inside and outside their homes.

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.

Channel strategy. We are focused on reaching and converting prospective customers through third-party retail stores, e-commerce retailers, custom installers of home audio systems, and our website sonos.com. We are investing in our e-commerce capabilities and in-app experience to drive direct sales. We believe the growth of our own e-commerce channel will be important to supporting our overall growth and profitability as consumers continue the shift from physical to online sales channels. Our physical retail distribution primarily relies on third-party retailers. While we seek to increase sales through our direct-to-consumer sales channel, we expect that our future sales will continue to be substantially dependent on our third-party retailers. We will continue to seek retail partners that can deliver differentiated in-store experiences to support customer demand for product demonstrations.

For additional information regarding factors affecting performance, refer to Risk factors in Part II, Item 1A. of this Quarterly Report on Form 10-Q, the Risk factors in Part I, Item 1A. of our Annual Report, and to Part II, Item 7. "Management's discussion and analysis of financial condition and results of operations - Factors affecting our performance" in our Annual Report.

Components of results of operations

Revenue

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. This change was 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. 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 has fluctuated and 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, fluctuations of

the impacts of our product and material cost saving initiatives, 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 activity for our products and personnel-related expenses, as well as trade show and event costs, sponsorship costs, consulting and contractor expenses, travel costs, product display expenses and related depreciation, customer experience and technology support tool expenses, 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, patents, 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 (benefit from) income taxes

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

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided when it is more likely than not that the deferred tax assets will not be realized. We have established a full valuation allowance to offset our U.S. and certain foreign net deferred tax assets due to the uncertainty of realizing future tax benefits from our net operating loss carryforwards and other deferred tax assets. It is possible that within the next 12 months there may be sufficient positive 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 our 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				Nine Months Ended			
	June 27, 2020		June 29, 2019		June 27, 2020		June 29, 2019	
	\$	%	\$	%	\$	%	\$	%
Revenue	\$ 249,310	100.0 %	\$ 260,119	100.0 %	\$ 986,491	100.0 %	\$ 966,663	100.0 %
Cost of revenue ⁽¹⁾	139,519	56.0	142,749	54.9	576,071	58.4	563,591	58.3
Gross profit	109,791	44.0	117,370	45.1	410,420	41.6	403,072	41.7
Operating expenses								
Research and development ⁽¹⁾	57,770	23.2	44,355	17.1	159,890	16.2	121,530	12.6
Sales and marketing ⁽¹⁾	77,273	31.0	61,482	23.6	205,201	20.8	176,705	18.3
General and administrative ⁽¹⁾	31,662	12.7	26,583	10.2	87,989	8.9	74,308	7.7
Total operating expenses	166,705	66.9	132,420	50.9	453,080	45.9	372,543	38.5
Operating income (loss)	(56,914)	(22.8)	(15,050)	(5.8)	(42,660)	(4.3)	30,529	3.2
Other income (expense), net								
Interest income	81	—	1,432	0.6	1,954	0.2	2,933	0.3
Interest expense	(360)	(0.1)	(626)	(0.2)	(1,187)	(0.1)	(1,914)	(0.2)
Other income (expense), net	365	0.1	1,068	0.4	3,366	0.3	(3,640)	(0.4)
Total other income (expense), net	86	—	1,874	0.7	4,133	0.4	(2,621)	(0.3)
Income (loss) before provision for (benefit from) income taxes	(56,828)	(22.8)	(13,176)	(5.1)	(38,527)	(3.9)	27,908	2.9
Provision for (benefit from) income taxes	152	0.1	833	0.3	(1)	—	3,074	0.3
Net income (loss)	\$ (56,980)	(22.9)%	\$ (14,009)	(5.4)%	\$ (38,526)	(3.9)%	\$ 24,834	2.6 %
Adjusted EBITDA ⁽²⁾	\$ (2,720)	(1.1)%	\$ 6,797	2.6 %	\$ 62,115	6.3 %	\$ 91,457	9.5 %

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

In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	June 27, 2020		June 29, 2019		June 27, 2020		June 29, 2019	
	\$	%	\$	%	\$	%	\$	%
Cost of revenue	\$ 306	0.1 %	\$ 298	0.1 %	\$ 866	0.1 %	\$ 701	0.1 %
Research and development	6,154	2.5	4,904	1.9	16,697	1.7	12,792	1.3
Sales and marketing	3,710	1.5	3,608	1.4	10,658	1.1	9,416	1.0
General and administrative	4,871	2.0	4,598	1.8	13,417	1.4	10,616	1.1
Total stock-based compensation expense	\$ 15,041	6.0 %	\$ 13,408	5.2 %	\$ 41,638	4.2 %	\$ 33,525	3.5 %

⁽²⁾ Adjusted EBITDA is a financial measure that is not calculated in accordance with U.S. GAAP. See the sections titled “Adjusted EBITDA and adjusted EBITDA margin” and “Non-GAAP financial measures” above.

Comparison of the three and nine months ended June 27, 2020 and June 29, 2019
Revenue
Comparison of the three months ended June 27, 2020 and June 29, 2019

	Three Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Sonos speakers	\$ 196,895	\$ 194,285	\$ 2,610	1.3 %
Sonos system products	42,164	46,488	(4,324)	(9.3)%
Partner products and other revenue	10,251	19,346	(9,095)	(47.0)%
Total revenue	<u>\$ 249,310</u>	<u>\$ 260,119</u>	<u>\$ (10,809)</u>	<u>(4.2)%</u>

Total revenue decreased 4.2% for the three months ended June 27, 2020 compared to the three months ended June 29, 2019. During the three months ended June 27, 2020, our revenue was negatively impacted as a result of the ongoing effects of physical retail store closures stemming from COVID-19 and constrained product availability as demand exceeded our expectations. This impact was offset by our strong performance across a number of our new products and growth in revenue from our direct-to-consumer sales channel which increased 299.0% for the three months ended June 27, 2020 compared to the three months ended June 29, 2019.

Sonos speakers revenue represented 79.0% of total revenue for the three months ended June 27, 2020, and increased 1.3% compared to the three months ended June 29, 2019, driven by the success of the At Home with Sonos promotion and the launch of new products in the category including Arc, Sonos Five, and Sub G3 which launched in the third quarter of fiscal 2020, and Move and One SL which launched in the fourth quarter of fiscal 2019. Sonos system products represented 16.9% of total revenue in the three months ended June 27, 2020 and decreased 9.3% compared to the three months ended June 29, 2019. In both categories, as demand outpaced expectations, we saw some inventory shortages across a range of products. Partner products and other revenue represented 4.1% of total revenue in the three months ended June 27, 2020, and decreased by 47.0% compared to the three months ended June 29, 2019, driven by lower IKEA orders as the retailer paused ordering modules due to their store closures as a result of COVID-19 and their smaller online presence, as well as annualizing the launch of our partnership.

Revenue for the three months ended June 27, 2020 compared to the three months ended June 29, 2019 increased 3.8% in Americas, decreased 4.9% in EMEA, and decreased 45.6% in APAC. The decrease in APAC was primarily due to lower IKEA orders caused by their store closures as a result of COVID-19.

In constant currency U.S. dollars, total revenue decreased by 3.1% for the three months ended June 27, 2020 compared to the three months ended June 29, 2019. 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	
	June 27, 2020	June 29, 2019		
(products sold units in thousands)				
Total products sold	923	1,345	\$ (422)	(31.4)%

Volume of products sold decreased for the three months ended June 27, 2020 compared to the three months ended June 29, 2019 driven by unit decreases across all categories. The rate of decrease between products sold and revenue differed for the three months ended June 27, 2020 compared to the three months ended June 29, 2019, primarily due to product mix on revenue as there was a shift to higher-priced products.

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Comparison of the nine months ended June 27, 2020 and June 29, 2019

	Nine Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Sonos speakers	\$ 779,939	\$ 790,896	\$ (10,957)	(1.4)%
Sonos system products	150,887	137,486	13,401	9.7 %
Partner products and other revenue	55,665	38,281	17,384	45.4 %
Total revenue	\$ 986,491	\$ 966,663	\$ 19,828	2.1 %

Total revenue increased for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019 due to the success of several new product launches and partnerships, which was partially offset by the ongoing effects of COVID-19 on the retail landscape including temporary closures of physical retail stores.

Sonos speakers represented 79.1% of total revenue in the nine months ended June 27, 2020 and decreased 1.4% compared to the nine months ended June 29, 2019 as this category was more significantly impacted by reduced orders from our retail partners affected by COVID-19. Sonos system products represented 15.3% of total revenue in the nine months ended June 27, 2020 and increased 9.7%, driven by the continued success of Sonos Amp and the launch of Sonos Port in late fiscal 2019. Partner products and other revenue represented 5.6% of total revenue and increased by 45.4%, driven by our IKEA and Sonance partnerships launched in the second quarter of fiscal 2019.

Revenue for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019 increased 6.8% in Americas, decreased 7.8% in EMEA, and increased 22.3% in APAC. The increase in APAC was primarily due to the recognition of IKEA related revenue in that region.

In constant currency U.S. dollars, total revenue increased by 3.1% for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019. 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.

	Nine Months Ended		Change	
	June 27, 2020	June 29, 2019		
(products sold units in thousands)				
Total products sold	4,544	4,640	(96)	(2.1)%

Volume of products sold decreased for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019 driven by a decrease in Sonos speakers products. Volume of products sold decreased while revenue increased primarily due to the effect of product mix on revenue for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019.

Cost of revenue and gross profit

Comparison of the three months ended June 27, 2020 and June 29, 2019

	Three Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Cost of revenue	\$ 139,519	\$ 142,749	\$ (3,230)	(2.3)%
Gross profit	\$ 109,791	\$ 117,370	\$ (7,579)	(6.5)%
Gross margin	44.0 %	45.1 %		

The decrease in cost of revenue for the three months ended June 27, 2020 compared to the three months ended June 29, 2019 was consistent with the decrease in revenue, offset by approximately \$4.0 million of tariffs on products imported from China to the U.S.

Gross margin decreased 110 basis points for the three months ended June 27, 2020 compared to the three months ended June 29, 2019. The decrease was driven by the introduction of tariffs in September 2019. This decrease was partially offset by volume and mix shifts into higher margin products and channels, as well as product and material cost reductions associated with the consolidation of our supplier base and successful cost negotiations. This revenue was offset by expedited freight and other expenses to increase inventory levels and fill backorders to meet the higher than expected demand. Excluding the effects of tariffs, gross margin would have been 45.7%, an increase of 60 basis points, for the three months ended June 27, 2020 compared to the three months ended June 29, 2019. We calculate gross margin excluding the effects of tariffs by removing the impact of tariffs imposed on goods imported from China to the U.S. from gross profit divided by total revenue.

Comparison of the nine months ended June 27, 2020 and June 29, 2019

	Nine Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Cost of revenue	\$ 576,071	\$ 563,591	\$ 12,480	2.2 %
Gross profit	\$ 410,420	\$ 403,072	\$ 7,348	1.8 %
Gross margin	41.6 %	41.7 %		

The increase in cost of revenue for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019 was driven by the increase in revenue and approximately \$29.9 million for tariffs on products imported from China to the U.S.

Gross margin decreased 10 basis points for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019. The decrease was driven by the introduction of tariffs in September 2019. This decrease was partially offset by volume and mix shifts into higher margin products and channels, as well as product and material cost reductions associated with the consolidation of our supplier base. Excluding the effects of tariffs, gross margin would have been 44.6%, an increase of 290 basis points, for the nine months ended June 27, 2020 compared to the nine months ended June 29, 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 June 27, 2020 and June 29, 2019

	Three Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Research and development	\$ 52,821	\$ 44,355	\$ 8,466	19.1 %
Restructuring and related expenses	4,949	—	4,949	*
Total research and development	\$ 57,770	\$ 44,355	\$ 13,415	30.2 %
Percentage of revenue	23.2 %	17.1 %		
* not meaningful				

Research and development expenses increased \$13.4 million, or 30.2%, for the three months ended June 27, 2020 compared to the three months ended June 29, 2019. Excluding the impact of \$4.9 million of restructuring and related expenses for employee severance and benefit costs, site closures, and other costs related to the 2020 restructuring plan, research and development expenses for the three months ended June 27, 2020 compared to the three months ended June 29, 2019 increased by 19.1%. This increase was due to an increase of \$9.4 million in personnel-related expenses primarily due to increased headcount, as well as higher stock-based compensation, offset by approximately \$1.0 million of other research and development costs.

Comparison of the nine months ended June 27, 2020 and June 29, 2019

	Nine Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Research and development	\$ 154,941	\$ 121,530	\$ 33,411	27.5 %
Restructuring and related expenses	4,949	—	4,949	*
Total research and development	\$ 159,890	\$ 121,530	\$ 38,360	31.6 %
Percentage of revenue	16.2 %	12.6 %		
* not meaningful				

Research and development expenses increased \$38.4 million, or 31.6%, for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019. Excluding the impact of \$4.9 million of restructuring and related expenses for employee severance and benefit costs, site closures, and other costs related to the 2020 restructuring plan, research and development expenses for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019 increased 27.5%. This increase was due to an increase of \$25.3 million in personnel-related expenses primarily due to increased headcount, as well as higher stock-based compensation, and an increase of \$8.7 million in product development costs related to our continued investment in new products and features, slightly offset by a decrease in other research and development costs.

Sales and marketing

Comparison of the three months ended June 27, 2020 and June 29, 2019

	Three Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Sales and marketing	\$ 57,485	\$ 61,482	\$ (3,997)	(6.5)%
Restructuring and related expenses	19,788	—	19,788	*
Total sales and marketing	\$ 77,273	\$ 61,482	\$ 15,791	25.7 %
Percentage of revenue	31.0 %	23.6 %		
* not meaningful				

Sales and marketing expenses increased \$15.8 million, or 25.7%, for the three months ended June 27, 2020 compared to the three months ended June 29, 2019. Excluding the impact of \$19.8 million restructuring and related expenses for employee severance and benefit costs, site closures, and other costs related to the 2020 restructuring plan, sales and marketing expenses for the three months ended June 27, 2020 compared to June 29, 2019 decreased 6.5%. This decrease was related to \$5.1 million in lower marketing and advertising expenses, offset by an increase of \$1.3 million in revenue-related sales fees resulting from higher sales in our direct-to-consumer business.

Comparison of the nine months ended June 27, 2020 and June 29, 2019

	Nine Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Sales and marketing	\$ 185,413	\$ 176,705	\$ 8,708	4.9 %
Restructuring and related expenses	19,788	—	19,788	*
Total sales and marketing	\$ 205,201	\$ 176,705	\$ 28,496	16.1 %
Percentage of revenue	20.8 %	18.3 %		
* not meaningful				

Sales and marketing expenses increased \$28.5 million, or 16.1% for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019. Excluding the impact of \$19.8 million in restructuring and related expenses for employee severance and benefit costs, site closures, and other costs related to the 2020 restructuring plan, sales and marketing expenses for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019 increased 4.9%. This increase was due to an increase of \$5.3 million in marketing and advertising expenses, \$3.1 million in personnel-related expenses due to increased headcount and increased stock-based compensation expenses, and an increase in of \$2.3 million primarily from revenue-related sales fees resulting from higher sales in our direct-to-consumer business, offset by a decrease of \$2.0 million in overhead costs.

General and administrative

Comparison of the three months ended June 27, 2020 and June 29, 2019

	Three Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
General and administrative	\$ 30,239	\$ 26,583	\$ 3,656	13.8 %
Restructuring and related expenses	1,423	—	1,423	*
Total general and administrative	\$ 31,662	\$ 26,583	\$ 5,079	19.1 %
Percentage of revenue	12.7 %	10.2 %		
* not meaningful				

General and administrative expenses increased \$5.1 million, or 19.1%, for the three months ended June 27, 2020 compared to the three months ended June 29, 2019. Excluding the impact of \$1.4 million of restructuring and related expenses for employee severance and benefit costs, site closures, and other costs related to the 2020 restructuring plan, general and administrative expenses for the three months ended June 27, 2020 compared to the three months ended June 29, 2019 increased 13.8%. This increase was primarily due to \$4.1 million in legal fees paid in connection with our IP litigation, offset by decreases in other costs resulting from our initiatives to reduce our operating expenses.

Comparison of the nine months ended June 27, 2020 and June 29, 2019

	Nine Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
General and administrative	\$ 86,566	\$ 74,308	\$ 12,258	16.5 %
Restructuring and related expenses	1,423	—	1,423	*
Total general and administrative	\$ 87,989	\$ 74,308	\$ 13,681	18.4 %
Percentage of revenue	8.9 %	7.7 %		
* not meaningful				

General and administrative expenses increased \$13.7 million, or 18.4%, for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019. Excluding the impact of \$1.4 million of restructuring and related expenses for employee severance and benefit costs, site closures, and other costs related to the 2020 restructuring plan, general and administrative expenses for the nine months ended June 27, 2020 compared to June 29, 2019 increased 16.5%. This increase was due to \$7.9 million in legal fees paid in connection with IP litigation and \$3.7 million in personnel-related costs due to increased headcount, as well as increased stock-based compensation expenses.

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

Comparison of the three months ended June 27, 2020 and June 29, 2019

	Three Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Interest income	\$ 81	\$ 1,432	\$ (1,351)	(94.3)%
Interest expense	\$ 360	\$ 626	\$ (266)	(42.5)%
Other income (expense), net	\$ 365	\$ 1,068	\$ (703)	(65.8)%

Interest income for the three months ended June 27, 2020 compared to the three months ended June 29, 2019 decreased due to lower balances and yields in our cash and cash equivalents. Interest expense for the three months ended June 27, 2020 compared to the three months ended June 29, 2019 decreased primarily due to lower

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principal balance. The decrease in other income (expense), net for the three months ended June 27, 2020 compared to the three months ended June 29, 2019 was due to foreign currency exchange losses.

Comparison of the nine months ended June 27, 2020 and June 29, 2019

	Nine Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Interest income	\$ 1,954	\$ 2,933	\$ (979)	(33.4)%
Interest expense	\$ 1,187	\$ 1,914	\$ (727)	(38.0)%
Other income (expense), net	\$ 3,366	\$ (3,640)	\$ 7,006	*

* not meaningful

Interest income for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019 decreased due to lower balances and yields in our cash and cash equivalents. The decrease in interest expense for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019 was primarily driven by a lower principal balance. The increase in other income (expense), net for the nine months ended June 27, 2020 compared to the nine months ended June 29, 2019 was due to foreign currency exchange gains.

Provision for (benefit from) income taxes

Comparison of the three months ended June 27, 2020 and June 29, 2019

	Three Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Provision for income taxes	\$ 152	\$ 833	\$ (681)	(81.8)%

The provision for income taxes decreased from \$0.8 million for the three months ended June 29, 2019 to \$0.2 million for the three months ended June 27, 2020.

For the three months ended June 27, 2020, we recorded a provision for incomes taxes of \$0.1 million for certain profitable foreign entities and less than \$0.1 million for U.S. federal and state income for a total provision of \$0.2 million. For the three months ended June 29, 2019, we recorded a provision for income taxes of \$0.6 million for certain profitable foreign entities and a provision for income taxes of \$0.2 million for U.S. federal and state income taxes for a total provision of \$0.8 million.

Comparison of the nine months ended June 27, 2020 and June 29, 2019

	Nine Months Ended		Change	
	June 27, 2020	June 29, 2019	\$	%
(In thousands, except percentages)				
Provision for (benefit from) income taxes	\$ (1)	\$ 3,074	\$ (3,075)	(100.0)%

Provision for (benefit from) income taxes changed from a provision of \$3.1 million for the nine months ended June 29, 2019 to a benefit from income taxes of less than \$0.1 million for the nine months ended June 27, 2020.

For the nine months ended June 27, 2020, we recorded a provision for income taxes of \$0.5 million for certain profitable foreign entities and a benefit from income taxes of \$0.5 million for U.S. federal and state incomes taxes which includes a favorable release of uncertain tax positions in the U.S. coinciding with the issuance of the BEAT Regulations. For the nine months ended June 29, 2019, we recorded a provision for income taxes of \$1.2 million for certain profitable foreign entities and a provision of \$1.9 million for U.S. federal and state income taxes for a total provision of \$3.1 million.

Liquidity and capital resources

Our operations are financed primarily through cash flows from operating activities, net proceeds from the sale of our equity securities and borrowings under our Term Loan and Credit Facility. As of June 27, 2020, our principal sources of liquidity consisted of cash flows from operating activities, cash and cash equivalents of \$329.1 million, including \$64.9 million held by our foreign subsidiaries, proceeds from the 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 June 27, 2020, as they are required to fund needs outside of 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.

In response to the impacts of COVID-19, in March 2020 we implemented a number of initiatives to maintain our liquidity and rationalize our operating expenses, including reducing the pace of investment in inventory, as well as suspending travel, new hiring, employee promotions and merit-based payroll increases. In the third quarter of fiscal 2020, we sustained these operating reduction initiatives and initiated the 2020 restructuring plan. We experienced shortages across a range of products because demand outpaced our expectations, which resulted in backorders for many of our products.

In connection with our efforts to reduce operating expenses and preserve liquidity, on June 23, 2020 we initiated the 2020 restructuring plan in connection with our efforts to reduce operating expenses and preserve liquidity in the face of the COVID-19 pandemic, and to more efficiently position our business for our long-term strategy. As a result of these efforts we eliminated approximately 12% of our global headcount and closed our New York retail store and six satellite offices. Our restructuring efforts are expected to result in savings of approximately \$7.5 million in the fourth quarter, positioning us more efficiently to continue delivering sustainable, profitable growth over the long-term.

We believe our existing cash and cash equivalent balances, cash flows from operations and committed credit lines will be sufficient to meet our long-term working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of spending on research and development efforts and other business initiatives, 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 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 increased 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. Our short- and long-term debt obligations as of June 27, 2020 and September 28, 2019 were as follows:

	As of	
	June 27, 2020	September 28, 2019
(In thousands, except percentages)		
Term Loan ⁽¹⁾	2.4 % \$ 28,333	4.6 % \$ 33,333
Unamortized debt issuance costs ⁽²⁾	(103)	(160)
Total indebtedness	28,230	33,173
Less short-term portion	(8,333)	(8,333)
Long-term debt	\$ 19,897	\$ 24,840

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- (1) Due in October 2021, bears interest at a variable rate equal to an adjusted LIBOR plus 2.25%, payable quarterly.
- (2) 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 June 27, 2020 and September 28, 2019, we did not have any outstanding borrowings and had \$0.5 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 charge ratio of at least 1.15, and require financial statement reporting and delivery of borrowing base certificates. As of June 27, 2020 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:

	Nine Months Ended	
	June 27, 2020	June 29, 2019
(In thousands)		
Net cash provided by (used in):		
Operating activities	\$ 83,151	\$ 110,936
Investing activities	(66,194)	(14,092)
Financing activities	(27,111)	20,617
Effect of exchange rate changes	639	(103)
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ (9,515)</u>	<u>\$ 117,358</u>

Cash flows from operating activities

Net cash provided by operating activities of \$83.2 million for the nine months ended June 27, 2020 consisted of net loss of \$38.5 million, non-cash adjustments of \$86.1 million and a net increase in cash related to changes in operating assets and liabilities of \$35.6 million. Non-cash adjustments primarily consisted of stock-based compensation expense of \$41.6 million, depreciation and amortization of \$27.7 million, and \$14.0 million primarily for impairment and abandonment charges related to our 2020 restructuring plan. The increase in operating assets and liabilities was primarily due to a decrease in inventory of \$129.6 million due to seasonality and tighter inventory management, a decrease in accounts receivable of \$53.4 million due to the shift in our channel mix to higher direct-to-consumer sales, as well as seasonality, an increase in accrued compensation of \$8.0 million primarily due to restructuring expenses for employee severance and benefit costs, an increase in other liabilities of \$7.5 million, and an increase in deferred revenue of \$3.5 million. The increase in operating assets and liabilities was partially offset by a decrease in accounts payable and accrued expenses of \$162.1 million primarily due to the decrease in inventory, as well as an increase in other assets of \$4.4 million.

Cash flows from investing activities

Cash used in investing activities for the nine months ended June 27, 2020 of \$66.2 million was primarily due to net cash paid for acquisition activity of \$36.3 million, as well as payments for property, equipment and intangible assets of \$29.9 million. Payments for property, equipment, and intangible assets were primarily

comprised of manufacturing-related tooling and test equipment to support the launch of new products, leasehold improvements, marketing-related product displays, and acquired intellectual property.

Cash flows from financing activities

Cash used in financing activities for the nine months ended June 27, 2020 of \$27.1 million was primarily for \$39.8 million for payments for repurchases of common stock, as well as for shares withheld for taxes associated with vesting of RSUs, as well as repayments for borrowings of \$5.0 million, partially offset by proceeds from the exercise of stock options of \$17.7 million.

Commitments and contingencies

At June 27, 2020, we had \$46.7 million in non-cancelable purchase commitments for inventory that 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.

For the three months ended June 27, 2020 and June 29, 2019, we recognized a gain from foreign currency of \$0.4 million and \$1.1 million, respectively. For the nine months ended June 27, 2020 and June 29, 2019, we

recognized a gain from foreign currency of \$3.3 million and a loss from foreign currency of \$3.6 million, respectively. Based on transactions denominated in currencies other than respective functional currencies as of June 27, 2020, a hypothetical adverse change of 10% would have resulted in an adverse impact on income (loss) before provision for (benefit from) income taxes of approximately \$1.3 million for the three months ended June 27, 2020 and \$7.8 million for the nine months ended June 27, 2020.

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 June 27, 2020. 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 June 27, 2020 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

Our business has been and is expected to continue to be materially and adversely affected by the ongoing COVID-19 pandemic.

To date, COVID-19 and related preventative and mitigation measures have negatively impacted the global economy, disrupted consumer spending and global supply chains, and created significant volatility and disruption of financial markets. As of the date of this report, our fiscal 2020 business and operating results have been affected as a result of, among other things, challenges we and our retail partners faced and continue to face in anticipating the global demand market for our products given uncertainties caused by the COVID-19 pandemic, as well as the temporary closure of some of the retail stores in our end-markets. Although retail stores began to reopen in the third quarter in some of our end-markets, many are subject to operational restrictions which may impact customer purchasing behavior and, in the event of a COVID-19 resurgence in such end-markets, such stores may close again. COVID-19 has also impacted our efforts to diversify our supply chain into Malaysia by the end of fiscal 2020 as a result of government-mandated shutdowns in response to COVID-19.

COVID-19 has negatively impacted the global economy to date and is likely to cause further global economic disruption. While the duration and severity of the economic impacts of COVID-19 are unknown, it is possible that such economic impacts may be prolonged and continue beyond the development of any vaccines or therapeutics. In particular, any recession, depression or other sustained adverse market event resulting from COVID-19 may result in high levels of unemployment and associated loss of personal income, decreased consumer confidence, and lower discretionary spending, which could materially and adversely affect our business, results of operations, financial position and cash flows.

Further, if preventative and mitigation measures associated with COVID-19 continue, our business and operations may be impacted by possible additional factors such as logistics provider disruptions, supply chain disruptions or delays including temporary closures or reduced hours at our manufacturing facilities in China and Malaysia, disruptions to our installer channel, labor shortages, increased components costs, shipment delays and/or inventory management or demand forecasting issues, associated customer dissatisfaction, increased operational costs, and currency volatility related to significant changes in economic or political conditions in the markets in which we operate.

The extent of the impact of the COVID-19 pandemic on our business and operating results is uncertain and difficult to predict, as information is rapidly evolving with respect to the duration and severity of the pandemic and the response to contain it.

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

We have experienced net losses in our recent annual periods. In the fiscal years ended September 28, 2019, September 29, 2018 and September 30, 2017, we had net losses of \$4.8 million, \$15.6 million and \$14.2 million, respectively. We had an accumulated deficit of \$208.4 million as of September 28, 2019. We expect our operating expenses to increase in the future as we expand our operations and execute on our product roadmap and strategy. 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 and we cannot assure you that we will be able to achieve such increase to our revenue, particularly in a global recession or depression. For example, the COVID-19 pandemic and related disruptions and uncertainties in the global economy and in consumer spending have adversely affected our revenue in the second and third quarters of fiscal 2020. Our ability to achieve revenue growth will depend in part on our ability to execute on our product roadmap and strategy 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 the event that we are unable to grow our revenue, or in the event that revenue grows more slowly than we expect, our operating results could be adversely affected 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 Item 1A, many of which are outside of our control and may be difficult to predict, including:

- the impact of COVID-19, its duration and responses to it;
- 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 quickly evolving and highly 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 May 2020, we introduced Arc, our premium smart soundbar, Sonos Five and the next generation of our Sub. The successful introduction of these products and any 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 or may not achieve the market acceptance necessary to generate sufficient revenue. 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 in early fiscal 2020 began 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. In addition, any partial or full government-mandated shutdown resulting from COVID-19 may delay our efforts to diversify our supply chain or cause supply chain disruptions notwithstanding any supply chain diversification efforts. In particular, our efforts to diversify our supply chain into Malaysia have been delayed as a result of a government-mandated shutdown resulting from COVID-19.

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, which risk may be increased as a result of COVID-19. 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, or be subject to closures or other disruptions as a result of COVID-19, 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 distribution facilities could delay product delivery, harm our reputation among our customers and adversely affect our operating results and financial condition.

We have limited control over 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 as a result of our offering competing services, to promote other partnerships or their products over our products, or to 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, uncertainty related to the duration and impact of COVID-19, 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, as it did in the third quarter of fiscal year 2020, and we do not have sufficient inventory to meet this demand, we may 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, or we may experience customer dissatisfaction or decreased revenue as a result of any continued inventory shortages. 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. 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. As a result of the COVID-19 pandemic, many of our key channel partners have temporarily closed their retail stores, which has had, and may continue to have, a material effect on our business and results of operations.

Revenue from our channel partners also depends on a number of factors outside our control and may vary from period to period. One or more of our channel partners may experience serious financial difficulty, particularly in light of store closures due to the COVID-19 pandemic, may consolidate with other channel partners or have limited or ceased operations. Our business and results of operations have been, and may continue to be, significantly harmed by retail store closures by many of our key channel partners. Loss of a key channel partner would require us to identify alternative channel partners or increase our direct-to-consumer sales efforts, which may be time-consuming and expensive or we may be unsuccessful in our efforts to do so.

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

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

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

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

Changes in how network operators manage data that travels 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 (the "EU"), 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 previously 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 EU and select other countries where we provide a two-year warranty on all our products. The occurrence of any material defects in our products could expose us to liability for warranty claims in excess of our current reserves, and we could incur significant costs to correct any defects, warranty claims or other problems. In addition, our failure to comply with past, present and future laws regulating extended warranties and accidental damage coverage could result in reduced sales of our products, reputational damage, penalties and other sanctions, which could harm our business and financial condition.

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

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

Natural disasters, geopolitical unrest, war, terrorism, pandemics, 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, including COVID-19, 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 currently are, and may continue to 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, and as we introduce more products and services, including through acquisitions and through partners, the possibility of intellectual property rights claims against us grows. 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 litigation 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. In the event that these practices relate to an acquisition or a partner, we may not be successful in exercising any indemnification rights available to us under our agreements or in recovering damages in the event that we are successful. 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 and Google and a lawsuit in the U.S. District Court for the Central District of California against Google, 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 or actions 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 may 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, including related to the ongoing COVID-19 pandemic and the United Kingdom's withdrawal from the EU, commonly known as "Brexit";
- 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.

Changes in international trade policies, including the imposition of tariffs, have had, and may continue to have, an adverse effect on our business, financial condition and results of operations.

The U.S. government has imposed significant new tariffs on China related to the importation of certain product categories, including under the August 2019 Section 301 Tariff Action (List 4A) ("Section 301 tariffs"), which Section 301 tariffs have increased our cost of revenue and adversely impacted our results of operations. The Section 301 tariffs were imposed on our products effective September 2019 and were imposed at a rate of 15% which was reduced to a rate of 7.5% effective February 2020 as part of a "Phase One" agreement between the U.S. and China on trade matters. On May 13, 2020, we were granted a temporary exclusion from the Section 301 tariffs for our components products and, on July 23, 2020, we were granted a temporary exclusion from the Section 301 tariffs for our core speaker products. These exclusions eliminate the Section 301 tariffs on our core speaker and component products until August 31, 2020 and entitle us to a refund of approximately \$30 million in Section 301 tariffs we have paid since September 2019. We will need to seek extensions of these exemption requests to extend such exemptions past August 31, 2020 and, in the event that we are unsuccessful, the Section 301 tariffs on our products will automatically re-instate.

In the event that future tariffs are imposed on imports of our products, we do not successfully obtain the refund to which we are currently entitled, we are not successful in our exemption extension requests, 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 the Section 301 tariffs (among other factors), in early fiscal 2020 we began to diversify our supply chain through the addition of contract manufacturing in Malaysia. In response to future new 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 new supply chains, 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 Internal Revenue Service ("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 have and may in the future 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 or efficient manner or at all, the improvements to our managerial, operational and financial systems and procedures necessary to support our anticipated increased levels of operations. Delays or problems associated with any improvement or expansion of our operational and financial systems could adversely affect our relationships with our suppliers, manufacturers, resellers and customers, inhibit our ability to expand or take advantage of market opportunities, cause harm to our

reputation and result in errors in our financial and other reporting, any of which could harm our business and operating results.

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

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to document and test our internal control procedures and to provide a report by management on internal control over financial reporting, including management's assessment of the effectiveness of such control. We previously reported 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 \$6.97 to \$21.69 through June 27, 2020. 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 of 1933, as amended.

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

In September 2019, the Board of Directors authorized a common stock repurchase program of up to \$50.0 million. The Company did not repurchase any shares of its common stock under such common stock repurchase program during the third quarter of 2020. The Company had \$16.8 million available for share repurchases under the repurchase program as of June 27, 2020. See Note 9. Stockholders' Equity for further information.

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 our IPO. 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	Performance Share Award Agreement dated May 28, 2020 for Patrick Spence					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 June 27, 2020, 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: August 5, 2020

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

Date: August 5, 2020

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

NOTICE OF Performance Share AWARD

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 Performance Share Award (the “**Notice**”) and the attached Performance Share Award Agreement, including the International Supplement attached thereto (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 “**Performance Share Agreement**”). You (“**you**”) have been granted an award of Performance Shares (“**Performance Shares**”) under the Plan subject to the terms and conditions of the Plan, this Notice and the Performance Share Agreement. Each Performance Share represents the conditional right to receive, without payment but subject to the terms, conditions and limitations set forth in this Notice, the Performance Share Agreement and in the Plan, one Share, subject to adjustment pursuant to Section 2.6 of the Plan in respect of transactions or events occurring after the Date of Grant.

Name: Patrick Spence

Address: _____

Target Number of

Performance Shares: 263,158

Date of Grant: May 15, 2020

Performance Period: The period beginning October 4, 2020, and ending October 1, 2022.

Vesting of Earned

Performance Shares: The Performance Shares shall be eligible to become earned and shall vest, following the end of the Performance Period, in accordance with the terms set forth on Exhibit A hereto.

Vesting Acceleration: Notwithstanding the foregoing and anything contrary in the Performance Share 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 (2) months prior to a Corporate Transaction and ending twelve (12) months following a Corporate Transaction, to the extent that the Performance Shares are then outstanding, you shall fully vest in the Earned Performance Shares (as determined in accordance with Exhibit A) upon such Involuntary

Termination (or, in the case of an Involuntary Termination occurring within the two-(2) month period prior to a Corporate Transaction, upon such Corporate Transaction), in all cases, as determined as set forth in Exhibit A.

Notwithstanding anything contrary in the Performance Share Agreement or the Plan, if you are subject to an Involuntary Termination prior to a Corporate Transaction, your then-unvested Performance Shares shall remain outstanding for two (2) months, but shall not continue to vest following such Involuntary Termination other than pursuant to the vesting acceleration described immediately above.

“Involuntary Termination” means, without your express written consent, any of the following: (i) your resignation following (A) a significant reduction of your duties, position or responsibilities relative to your duties, position or responsibilities in effect immediately prior to such reduction; (B) a material reduction by the Company of your base salary, as in effect immediately prior to such reduction; and/or (C) your relocation by the Company to a facility or a location more than fifty (50) miles from your current location; or (ii) 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.

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 Performance Shares pursuant to this Notice is earned by continuing Service (in addition to the satisfaction of performance conditions as described in the Performance Share Agreement), 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 Performance Share 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 Performance Share Agreement. By accepting this award, you consent to the electronic delivery and acceptance as further set forth in the Performance Share Agreement.

* * * *

Exhibit A

Vesting of Earned PERFORMANCE SHARES

1. **Annual Performance Periods.** Except as otherwise provided in the Notice, the Performance Shares will become earned (if at all) on the basis of the Company's performance with respect to two (2) separate fiscal years of the Company during the Performance Period (each, an "***Annual Performance Period***"). The first Annual Performance Period will comprise the fiscal year of the Company beginning on October 4, 2020, and ending on October 2, 2021, and the second Annual Performance Period will comprise the fiscal year of the Company beginning on October 3, 2021, and ending on October 1, 2022.

2. **Performance Criteria.** Within ninety (90) days following the commencement of each Annual Performance Period, the Committee shall determine the performance criteria and goals applicable thereto, which may consist of financial, operational or other metrics as determined in the Committee's sole discretion (the "***Performance Criteria***"), as well as the applicable threshold ("***Threshold***"), target ("***Target***") and maximum ("***Maximum***") achievement levels. In addition, prior to the first Annual Performance Period, the Committee shall establish whether the level of achievement of the Performance Criteria for each Annual Performance Period shall be determined on an Annual Performance Period by Annual Performance Period basis or averaged over the two (2) Annual Performance Periods.

3. **Determination of Performance.** Within ninety (90) days following the end of each Annual Performance Period, the Committee shall determine the extent (if any) to which the Performance Criteria have been achieved with respect to such Annual Performance Period, assigning an earning percentage ("***Annual Earning Percentage***") as follows (except as otherwise determined by the Committee at the time the Performance Criteria for the applicable Annual Performance Period are established):

Performance Achievement Level	Annual Earning Percentage
Less than Threshold	0%
Threshold	50%
Target	100%
Maximum	200%

Unless otherwise determined by the Committee at the time the Performance Criteria for the applicable Annual Performance Period are established, the Annual Earning Percentage will be interpolated on a straight-line basis for achievement between each performance level. Following the end of the Performance Period, a percentage of the target number of Performance Shares (as set forth in the Notice), if any, shall become earned based on the Annual Earning Percentage with respect to the relevant Annual Performance Period (or an average of the two, as the case may be), on a basis to be determined by the Committee at the time the Performance Criteria for such year are established (any such Performance Shares that become earned hereunder, the "***Earned Performance Shares***").

4. Corporate Transactions

(a) If, prior to the end of the Performance Period, a Corporate Transaction occurs, to the extent the Performance Shares are outstanding immediately prior to such Corporate Transaction, a number of Performance Shares shall be deemed Earned Performance Shares as of immediately prior to such Corporate Transaction, determined in accordance with the principles set forth in this Exhibit A, based on the Annual Earning Percentage with respect to each Annual Performance Period as follows: (i) the Annual Earning Percentage with respect to an Annual Performance Period that has not commenced or that has not been completed as of the date such Corporate Transaction is consummated shall be deemed to be 100%; and (ii) the Annual Earning Percentage with respect to an Annual Performance Period that has been completed as of the date such Corporate Transaction is consummated shall be the percentage as previously determined by the Committee with respect to such Annual Performance Period. The Earned Performance Shares shall continue to vest based solely on continued Service and shall vest on October 1, 2022, subject to your remaining in continuous Service through such date, except as otherwise provided in the Notice with respect to an Involuntary Termination that occurs within twelve (12) months following such Corporate Transaction.

(b) If, in connection with a Corporate Transaction described in subsection (a) above, the Earned Performance Shares are not assumed or continued, or a new award is not substituted for the Earned Performance Shares, by the successor or acquiring entity in such Corporate Transaction (or by its parents, if any), as contemplated by Section 21.1 of the Plan, the Earned Performance Shares will automatically vest immediately prior to, but subject to the consummation of, such Corporate Transaction and the Company shall deliver to you any shares in respect of Earned Performance Shares in a manner that will allow you to participate in the Corporation Transaction on the same basis as other stockholders.

(c) In the event a Corporate Transaction occurs within two (2) months following a termination of your employment due to an Involuntary Termination as provided for in the Notice, (i) the Performance Shares shall become Earned Performance Shares as provided for in Section 4(a) above; (ii) the Earned Performance Shares will automatically vest in full immediately prior to, but subject to the consummation of, the occurrence of such Corporate Transaction; and (iii) the Company shall deliver to you any shares in respect of Earned Performance Shares in a manner that will allow you to participate in the Corporate Transaction on the same basis as other stockholders.

5. Vesting and Settlement. Except as otherwise provided in the Notice, Earned Performance Shares shall vest on the date the Committee determines performance achievement with respect to the Second Annual Performance Period, which date shall not be later than the date set forth above, subject to your continued Service through such date. Any Earned Performance Shares shall be settled no later than thirty (30) days after the date they becomes vested as provided for in this Exhibit A (or such earlier time as provided for in Section 4 of this Exhibit A).

* * * *

Performance Share Award AGREEMENT

SONOS, INC.

2018 EQUITY INCENTIVE PLAN

You have been granted Performance Shares (“*Performance Shares*”) by Sonos, Inc. (the “*Company*”), subject to the terms, restrictions and conditions of the Sonos, Inc. 2018 Equity Incentive Plan (the “*Plan*”), the attached Notice of Performance Share Award (the “*Notice*”) and this Performance Share 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 “*Performance Share Agreement*”).

1. **Nature of Grant**. In accepting this award of Performance Shares, you acknowledge, understand and agree that:

i. 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;

ii. the grant of the Performance Shares is voluntary and occasional and does not create any contractual or other right to receive future awards of Performance Shares, or benefits in lieu of Performance Shares, even if Performance Shares have been granted in the past;

iii. all decisions with respect to future Performance Shares or other grants, if any, will be at the sole discretion of the Company;

iv. you are voluntarily participating in the Plan;

v. the Performance Shares and the Shares subject to the Performance Shares, and the income and value of same, are not intended to replace any pension rights or compensation;

vi. the Performance Shares and the Shares subject to the Performance Shares, 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;

vii. unless otherwise agreed with the Company, the Performance Shares 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 of a Parent or Subsidiary of the Company;

viii. the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

ix. no claim or entitlement to compensation or damages shall arise from forfeiture of the Performance Shares 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 Performance Shares 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

x. the following provisions apply only if you are providing Service outside the United States:

a. the Performance Shares and the Shares subject to the Performance Shares, and the income and value of same, are not part of normal or expected compensation or salary for any purpose; and

b. 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 Performance Shares or the subsequent sale of any Shares acquired upon settlement.

2. **[Reserved]**.

3. **No Stockholder Rights**. Unless and until such time as Shares are issued in settlement of the Earned Performance Shares, you shall have no ownership of the Shares allocated to the Performance Shares 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**. Performance Shares 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, by court order, or as otherwise permitted by the Committee on a case-by-case basis.

6. **Termination**. Except as otherwise provided in the Notice, if your Service terminates for any reason, all unvested Performance Shares shall be forfeited to the Company forthwith, and all rights you have to such Performance Shares shall immediately terminate, without payment of any consideration to you. For purposes of this award of Performance Shares, 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 vesting and/or settlement of the Performance Shares or disposition of the Shares, if any, received in connection therewith, and you should consult a tax adviser regarding such tax obligations 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 (i) 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 Performance Shares, the subsequent sale of Shares acquired pursuant to such settlement, and the receipt of any dividends; and (ii) do not commit to structure the terms of the award or any aspect of the Performance Shares 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 Performance Shares 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 Performance Shares 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 the value of which 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 will be deemed to have been issued the full number of Shares subject to the vested Performance Shares, notwithstanding any number of the Shares held back 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 Performance Shares are granted under and governed by the Notice, this Performance Share Agreement and the provisions of the Plan. You: (i) acknowledge receipt of a copy of the Plan; (ii) represent that you have carefully read and are familiar with the provisions in the grant documents; and (iii) hereby accept the Performance Shares subject to all of the terms and conditions set forth in the Plan, the Notice and this Performance Share Agreement. 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 Performance Shares Agreement.

10. Entire Agreement; Enforcement of Rights. This Performance Share 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 Performance Share Agreement, nor any waiver of any rights under this Performance Share Agreement, shall be effective unless in writing and signed by the parties to this Performance Share Agreement. The failure by either party to enforce any rights under this Performance Share 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 Performance Share 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 Performance Share 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 Performance Share Agreement, the Notice and all acts and transactions pursuant hereto and thereto 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 Performance Share 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 Performance Share 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 Performance Share Agreement; (ii) the balance of this Performance Share Agreement shall be interpreted as if such provision were so excluded; and (iii) the balance of this Performance Share Agreement shall be enforceable in accordance with its terms.

15. No Rights as Employee, Director or Consultant. Nothing in this Performance Share 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 Performance Shares, you consent to the electronic delivery of the Notice, this Performance Share Agreement, the Plan, account statements, Plan prospectuses required by the United States Securities and Exchange Commission, United States 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 Performance Shares. 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 email 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 email 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 online 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 email address to which documents are delivered (if you have provided an email address), at any time by notifying the Company of such revised or revoked consent by telephone, postal service or email 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 Performance Share 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 Performance Share Agreement, this award of Performance Shares 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 Performance Share Agreement.

20. Imposition of Other Requirements. The Company reserves the right to impose other requirements on your participation in the Plan, on the Performance Share 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 Performance Share Agreement shall not operate or be construed as a waiver of any other provision of this Performance Share Agreement, or of any subsequent breach by you or any other Participant.

22. Code Section 409A. For purposes of this Performance Share 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 Performance Share 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- (6) month period measured from your separation from service from the Company and (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 Performance Share 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 22 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 Performance Shares 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 the Performance Shares (whether vested or unvested) and the recoupment of any gains realized with respect to the Performance Shares.

* * * *

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

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

SONOS, INC.

By: /s/ Eddie Lazarus
Name: Eddie Lazarus
Title: Chief Legal Officer

Accepted and agreed:

/s/ Patrick Spence
Patrick Spence

[Signature Page to Performance Share Award Agreement]

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.
 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: August 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.
 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: August 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 June 27, 2020 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: August 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 June 27, 2020 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: August 5, 2020

By:

/s/ Brittany Bagley

Brittany Bagley

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