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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	
	July 3, 2021	October 3, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 670,905	\$ 407,100
Restricted cash	—	191
Accounts receivable, net of allowances	70,329	54,935
Inventories	146,697	180,830
Prepays and other current assets	23,763	17,321
Total current assets	911,694	660,377
Property and equipment, net	71,732	60,784
Operating lease right-of-use assets	36,595	42,342
Goodwill	15,545	15,545
Intangible assets, net	24,962	26,394
Deferred tax assets	1,747	1,800
Other noncurrent assets	21,823	8,809
Total assets	\$ 1,084,098	\$ 816,051
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 198,495	\$ 250,328
Accrued expenses	77,006	45,049
Accrued compensation	66,041	44,517
Short-term debt	—	6,667
Deferred revenue, current	16,906	15,304
Other current liabilities	42,471	31,150
Total current liabilities	400,919	393,015
Operating lease liabilities, noncurrent	36,501	50,360
Long-term debt	—	18,251
Deferred revenue, noncurrent	53,480	47,085
Deferred tax liabilities	2,394	2,434
Other noncurrent liabilities	3,677	7,067
Total liabilities	496,971	518,212
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, \$0.001 par value	128	114
Treasury stock	(48,740)	(20,886)
Additional paid-in capital	698,520	548,993
Accumulated deficit	(61,153)	(228,492)
Accumulated other comprehensive loss	(1,628)	(1,890)
Total stockholders' equity	587,127	297,839
Total liabilities and stockholders' equity	\$ 1,084,098	\$ 816,051

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	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Revenue	\$ 378,672	\$ 249,310	\$ 1,357,204	\$ 986,491
Cost of revenue	200,811	139,519	714,142	576,071
Gross profit	177,861	109,791	643,062	410,420
Operating expenses				
Research and development	55,578	57,770	164,294	159,890
Sales and marketing	67,231	77,273	198,888	205,201
General and administrative	38,323	31,662	113,372	87,989
Total operating expenses	161,132	166,705	476,554	453,080
Operating income (loss)	16,729	(56,914)	166,508	(42,660)
Other income (expense), net				
Interest income	34	81	114	1,954
Interest expense	(77)	(360)	(525)	(1,187)
Other income, net	1,998	365	4,678	3,366
Total other income, net	1,955	86	4,267	4,133
Income (loss) before provision for (benefit from) income taxes	18,684	(56,828)	170,775	(38,527)
Provision for (benefit from) income taxes	858	152	3,436	(1)
Net income (loss)	\$ 17,826	\$ (56,980)	\$ 167,339	\$ (38,526)
Net income (loss) attributable to common stockholders:				
Basic	\$ 17,826	\$ (56,980)	\$ 167,339	\$ (38,526)
Diluted	\$ 17,826	\$ (56,980)	\$ 167,339	\$ (38,526)
Net income (loss) per share attributable to common stockholders:				
Basic	\$ 0.14	\$ (0.52)	\$ 1.38	\$ (0.35)
Diluted	\$ 0.12	\$ (0.52)	\$ 1.20	\$ (0.35)
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:				
Basic	125,138,279	109,477,622	120,876,472	109,325,785
Diluted	144,181,632	109,477,622	139,293,775	109,325,785
Total comprehensive income (loss)				
Net income (loss)	\$ 17,826	\$ (56,980)	\$ 167,339	\$ (38,526)
Change in foreign currency translation adjustment	(784)	219	262	(731)
Comprehensive income (loss)	\$ 17,042	\$ (56,761)	\$ 167,601	\$ (39,257)

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 October 3, 2020	113,915,233	\$ 114	\$ 548,993	(1,571,138)	\$ (20,886)	\$ (228,492)	\$ (1,890)	\$ 297,839
Issuance of common stock pursuant to equity incentive plans	7,075,338	7	69,498	—	—	—	—	69,505
Repurchase of common stock related to shares withheld for tax in connection with vesting of restricted stock unit awards ("RSUs")	—	—	—	(307,980)	(5,118)	—	—	(5,118)
Stock-based compensation expense	—	—	14,844	—	—	—	—	14,844
Net income	—	—	—	—	—	132,292	—	132,292
Change in foreign currency translation adjustment	—	—	—	—	—	—	847	847
Balance at January 2, 2021	120,990,571	121	633,335	(1,879,118)	(26,004)	(96,200)	(1,043)	510,209
Issuance of common stock pursuant to equity incentive plans	5,743,359	6	49,655	—	—	—	—	49,661
Retirement of treasury stock	(1,017,308)	(1)	(14,365)	1,017,308	14,366	—	—	—
Repurchase of common stock	—	—	—	(19,547)	(682)	—	—	(682)
Repurchase of common stock related to shares withheld for tax in connection with vesting of RSUs	—	—	—	(387,206)	(13,703)	—	—	(13,703)
Stock-based compensation expense	—	—	16,363	—	—	—	—	16,363
Net income	—	—	—	—	—	17,221	—	17,221
Change in foreign currency translation adjustment	—	—	—	—	—	—	199	199
Balance at April 3, 2021	125,716,622	126	684,988	(1,268,563)	(26,023)	(78,979)	(844)	579,268
Issuance of common stock pursuant to equity incentive plans	2,377,982	2	12,369	—	—	—	—	12,371
Retirement of treasury stock	(406,753)	—	(14,384)	406,753	14,384	—	—	—
Repurchase of common stock	—	—	—	(624,020)	(21,047)	—	—	(21,047)
Repurchase of common stock related to shares withheld for tax in connection with vesting of RSUs	—	—	—	(473,887)	(16,054)	—	—	(16,054)
Stock-based compensation expense	—	—	15,547	—	—	—	—	15,547
Net income	—	—	—	—	—	17,826	—	17,826
Change in foreign currency translation adjustment	—	—	—	—	—	—	(784)	(784)
Balance at July 3, 2021	127,687,851	\$ 128	\$ 698,520	(1,959,717)	\$ (48,740)	\$ (61,153)	\$ (1,628)	\$ 587,127
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	—	—	—	(227,241)	(2,926)	—	—	(2,926)
Repurchase of common stock related to shares withheld for tax in connection with vesting of RSUs	—	—	—	(144,908)	(2,152)	—	—	(2,152)
Stock-based compensation expense	—	—	13,204	—	—	—	—	13,204
Net income	—	—	—	—	—	70,775	—	70,775
Change in foreign currency translation adjustment	—	—	—	—	—	—	(519)	(519)

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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	—	—	—	(2,309,604)	(30,290)	—	—	(30,290)
Repurchase of common stock related to shares withheld for tax in connection with vesting of RSUs	—	—	—	(182,124)	(2,444)	—	—	(2,444)
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	—	—	—	—	—	—	—	—
Repurchase of common stock related to shares withheld for tax in connection with vesting of RSUs	—	—	—	(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	<u>114,416,890</u>	<u>\$ 115</u>	<u>\$ 562,098</u>	<u>(4,105,756)</u>	<u>\$ (53,317)</u>	<u>\$ (246,902)</u>	<u>\$ (795)</u>	<u>\$ 261,199</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	
	July 3, 2021	June 27, 2020
Cash flows from operating activities		
Net income (loss)	\$ 167,339	\$ (38,526)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	25,789	27,692
Impairment and abandonment charges	2,789	14,047
Stock-based compensation expense	46,755	41,638
Other	1,253	4,371
Deferred income taxes	95	(176)
Foreign currency transaction gain	(2,226)	(1,491)
Changes in operating assets and liabilities:		
Accounts receivable, net	(13,846)	53,418
Inventories	32,333	129,623
Other assets	(17,730)	(4,400)
Accounts payable and accrued expenses	(27,169)	(162,137)
Accrued compensation	21,501	8,038
Deferred revenue	7,715	3,506
Other liabilities	2,143	7,548
Net cash provided by operating activities	246,741	83,151
Cash flows from investing activities		
Purchases of property and equipment, intangible and other assets	(34,792)	(29,905)
Cash paid for acquisition, net of acquired cash	—	(36,289)
Net cash used in investing activities	(34,792)	(66,194)
Cash flows from financing activities		
Repayments of borrowings	(25,000)	(5,000)
Payments for repurchase of common stock	(21,729)	(33,216)
Proceeds from exercise of common stock options	131,536	17,708
Payments for repurchase of common stock related to shares withheld for tax in connection with vesting of restricted stock units	(34,877)	(6,603)
Net cash provided by (used in) financing activities	49,930	(27,111)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1,735	639
Net increase (decrease) in cash, cash equivalents and restricted cash	263,614	(9,515)
Cash, cash equivalents and restricted cash		
Beginning of period	407,291	338,820
End of period	\$ 670,905	\$ 329,305
Supplemental disclosure		
Cash paid for interest	\$ 434	\$ 1,318
Cash paid for taxes, net of refunds	\$ 3,773	\$ 1,153
Cash paid for amounts included in the measurement of lease liabilities	\$ 15,078	\$ 11,689
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment in accounts payable and accrued expenses	\$ 9,046	\$ 3,055
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 1,622	\$ 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 October 3, 2020 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 the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all the information and footnotes required by U.S. GAAP for annual financial statements. They 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 October 3, 2020 (the “Annual Report”), filed with the SEC on November 23, 2020.

In management’s opinion, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of the Company’s financial position, its results of operations, and its cash flows for the interim periods presented. The results of operations for the three and nine months ended July 3, 2021 are not necessarily indicative of the results to be expected for the full fiscal year or any other period.

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, 2020 and will reoccur in the fiscal year ending October 3, 2026. The nine months ended July 3, 2021 and June 27, 2020 spanned 39 weeks each. As used in this Quarterly Report on Form 10-Q, “fiscal 2021” refers to the fiscal year ending October 2, 2021 and “fiscal 2020” refers to the fiscal year ended October 3, 2020.

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.

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.

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

2. Summary of Significant Accounting Policies

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

Recently adopted accounting pronouncements

In June 2016, the Financial Accounting Standards Board ("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 Company adopted this standard effective October 4, 2020, using a modified retrospective approach. Under the new standard, the allowance for credit losses is based on the Company's assessment of collectability of accounts, including consideration of the age of invoices, each customer's expected ability to pay and collection history, customer-specific information and current economic conditions that may impact a customer's ability to pay. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606. This standard resolves the diversity in practice concerning whether certain transactions between collaborative arrangement participants should be accounted for as revenue under Accounting Standards Codification 606, Revenue from Contracts with Customers ("Topic 606"). This standard specifies when a participant is a customer in a collaboration, adds guidance for unit of account to align with Topic 606 and provides presentation guidance for collaborative arrangements. The Company adopted this standard in the first quarter of fiscal 2021. The adoption did not have a material impact on the Company's consolidated financial statements.

Recent accounting pronouncements pending adoption

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 is 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 following table summarizes fair value measurements by level for the assets measured at fair value on a recurring basis as of July 3, 2021 and October 3, 2020:

(In thousands)	July 3, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (cash equivalents)	\$ 472,454	\$ —	\$ —	\$ 472,454
(In thousands)	October 3, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (cash equivalents)	\$ 281,380	\$ —	\$ —	\$ 281,380

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

4. Revenue and Geographic Information

Disaggregation of revenue

Revenue by geographical region also includes the applicable service revenue for software upgrades and cloud-based services attributable to each region and is based on ship-to address, as follows:

	Three Months Ended		Nine Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
(In thousands)				
Americas	\$ 223,720	\$ 151,167	\$ 784,898	\$ 556,325
Europe, Middle East and Africa ("EMEA")	126,228	83,818	480,541	353,807
Asia Pacific ("APAC")	28,724	14,325	91,765	76,359
Total revenue	<u>\$ 378,672</u>	<u>\$ 249,310</u>	<u>\$ 1,357,204</u>	<u>\$ 986,491</u>

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

	Three Months Ended		Nine Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
(In thousands)				
United States	\$ 203,387	\$ 140,012	\$ 712,302	\$ 512,040
Other countries	175,285	109,298	644,902	474,451
Total revenue	<u>\$ 378,672</u>	<u>\$ 249,310</u>	<u>\$ 1,357,204</u>	<u>\$ 986,491</u>

Revenue by product category also includes the applicable service revenue for software upgrades and cloud-based services attributable to each product category. Revenue by major product category is as follows:

	Three Months Ended		Nine Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
(In thousands)				
Sonos speakers	\$ 310,233	\$ 196,895	\$ 1,105,283	\$ 779,939
Sonos system products	47,621	42,164	197,442	150,887
Partner products and other revenue	20,818	10,251	54,479	55,665
Total revenue	<u>\$ 378,672</u>	<u>\$ 249,310</u>	<u>\$ 1,357,204</u>	<u>\$ 986,491</u>

5. Balance Sheet Components

Accounts receivable, net of allowances

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

	July 3, 2021	October 3, 2020
(In thousands)		
Accounts receivable	\$ 86,540	\$ 73,757
Allowance for credit losses	(1,477)	(1,307)
Allowance for sales incentives	(14,734)	(17,515)
Accounts receivable, net of allowances	<u>\$ 70,329</u>	<u>\$ 54,935</u>

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

Inventories

Inventories consist of the following:

	July 3, 2021	October 3, 2020
(In thousands)		
Finished goods	\$ 132,784	\$ 172,184
Component parts	13,913	8,646
Inventories	<u>\$ 146,697</u>	<u>\$ 180,830</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.

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:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Life
(In thousands, except weighted-average remaining life)				
Technology	\$ 7,813	\$ (2,960)	\$ 4,853	2.88
Other	39	(30)	9	0.42
Total finite-lived intangible assets	7,852	(2,990)	4,862	2.87
In-process research and development and other intangible assets not subject to amortization	20,100	—	20,100	
Total intangible assets	<u>\$ 27,952</u>	<u>\$ (2,990)</u>	<u>\$ 24,962</u>	

The following table summarizes estimated future amortization expense of the Company's intangible assets as of July 3, 2021:

Fiscal years ending	Future Amortization Expense
(In thousands)	
Remainder of fiscal 2021	\$ 488
2022	1,936
2023	1,248
2024	1,020
2025	170
2026 and thereafter	—
Total future amortization expense	<u>\$ 4,862</u>

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

Accrued expenses

Accrued expenses consist of the following:

	July 3, 2021	October 3, 2020
(In thousands)		
Accrued advertising and marketing	\$ 17,122	\$ 10,609
Accrued taxes	12,023	6,252
Accrued inventory	16,747	2,843
Accrued manufacturing, logistics and product development	13,958	9,753
Accrued general and administrative expenses	11,000	10,068
Other accrued payables	6,156	5,524
Total accrued expenses	<u>\$ 77,006</u>	<u>\$ 45,049</u>

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 cloud-based services.

The following table presents the changes in the Company's deferred revenue for the nine months ended July 3, 2021 and June 27, 2020:

	July 3, 2021	June 27, 2020
(In thousands)		
Deferred revenue, beginning of period	\$ 62,388	\$ 56,449
Recognition of revenue included in beginning of period deferred revenue	(13,381)	(10,210)
Revenue deferred, net of revenue recognized on contracts in the respective period	21,379	14,126
Deferred revenue, end of period	<u>\$ 70,386</u>	<u>\$ 60,365</u>

The Company expects the following recognition of deferred revenue as of July 3, 2021:

	For the fiscal years ending					
	2021	2022	2023	2024	2025 and Beyond	Total
(In thousands)						
Deferred revenue expected to be recognized	\$ 4,624	\$ 16,157	\$ 14,229	\$ 12,178	\$ 23,198	\$ 70,386

Other current liabilities

Other current liabilities consist of the following:

	July 3, 2021	October 3, 2020
(In thousands)		
Reserve for returns	\$ 19,758	\$ 14,195
Short-term operating lease liabilities	10,734	10,910
Product warranty liability	5,233	3,628
Other	6,746	2,417
Total other current liabilities	<u>\$ 42,471</u>	<u>\$ 31,150</u>

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

The following table presents the changes in the Company's warranty liability for the nine months ended July 3, 2021 and June 27, 2020:

	July 3, 2021	June 27, 2020
(In thousands)		
Warranty liability, beginning of period	\$ 3,628	\$ 3,254
Provision for warranties issued during the period	12,218	9,609
Settlements of warranty claims during the period	(10,613)	(9,657)
Warranty liability, end of period	<u>\$ 5,233</u>	<u>\$ 3,206</u>

6. Debt

The Company's debt obligation consists of the Secured Credit Facility with J.P. Morgan Chase Bank, N.A. (the "Credit Facility"). In January 2021, the Company repaid all of its outstanding principal balance of \$24.9 million under the J.P. Morgan Chase Bank, N.A. Secured Term Loan (the "Term Loan") which had an original maturity date of October 2021. As of July 3, 2021, the Company did not have any remaining short- or long-term debt obligations, and as of October 3, 2020, the Company's short- and long-term debt obligations were as follows:

	October 3, 2020	
	Rate	Balance
(In thousands, except percentages)		
Term loan ⁽¹⁾	2.4 %	\$ 25,000
Unamortized debt issuance costs ⁽²⁾		(82)
Total indebtedness		24,918
Less short-term portion		(6,667)
Long-term debt		<u>\$ 18,251</u>

(1) Original maturity date of October 2021 and bore interest at a variable rate equal to an adjusted LIBOR plus 2.25%, payable quarterly.

(2) Debt issuance costs were 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 quarterly 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 July 3, 2021 and October 3, 2020, the Company did not have any outstanding borrowings and had \$3.0 million and \$0.5 million, respectively, in undrawn letters of credit that reduce the availability under the Credit Facility.

Debt obligations under the Credit Facility 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 July 3, 2021 and October 3, 2020, the Company was in compliance with all financial covenants. The Credit Facility is collateralized by eligible inventory and accounts receivable of the Company, as well as the Company's intellectual property including patents and trademarks.

SONOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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7. Commitments and Contingencies

Legal proceedings

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

On 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 went to trial at the end of February 2021, and we expect an initial determination from the administrative law judge in the ITC case on or about August 13, 2021, which date was extended from the original date of May 11, 2021 as a result of COVID-related scheduling issues and workload increases pursuant to an order from the Chief Administrative Law Judge in May 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. On September 28, 2020, Google filed for a declaratory judgement of non-infringement in the U.S. District Court for the Northern District of California related to five different Sonos patents. On September 29, 2020, the Company filed a lawsuit against Google in the U.S. District Court for Western District of Texas, alleging infringement of those five Sonos patents and seeking monetary damages and other non-monetary relief. On December 1, 2020, the Company filed a lawsuit against Google Germany GmbH and Google Ireland Ltd. in the regional court of Hamburg, Germany, alleging infringement of a Sonos patent related to control of playback of media by mobile and playback devices and seeking non-monetary relief. The Hamburg Court issued a judgment on February 25, 2021 declining to issue a preliminary injunction against Google Germany GmbH, although such court did issue a preliminary injunction against Google Ireland Ltd. on April 29, 2021. The issued preliminary injunction prevents Google Ireland Ltd. from making available in Germany its infringing Cast technology, aspects of which are protected by a Sonos patent related to enabling the ability to cast and control media content from a mobile phone or tablet on one or more smart playback devices. On June 17, 2021, the Company filed a penalty request with the Hamburg Court, alleging Google's failure to comply with the issued preliminary injunction, which penalty request Google has appealed both to stay enforcement and on the merits.

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 and seeking monetary damages and other non-monetary relief. On November 2, 2020, the California District Court granted Sonos' motion to dismiss Google's allegation of infringement of one of these five Google patents, specifically a patent generally related to media search, finding that the invention at issue is patent ineligible. On June 4, 2021, the California District Court granted a stipulation to dismiss Google's allegation of infringement of another asserted patent involving noise cancellation. On June 12, 2020, Google filed lawsuits in District Court Munich I against Sonos Europe B.V. and Sonos, Inc., alleging infringement of two Google patents generally related to digital rights management and search notifications, and seeking monetary damages and an injunction preventing sales of any infringing Sonos products. On January 14, 2021, Google amended its infringement complaint related to the search notifications patent to relate to a limited version of the claims, in view of prior art cited by the Company. On March 3, 2021, the District Court Munich stayed a case for infringement of the search notifications patent pending the outcome of a nullity action based on doubt as to the validity of the patent. On June 23, 2021, the Munich court issued a decision dismissing Google's complaint related to the digital rights management patent for lack of infringement of at least two claim features. On August 21, 2020, Google filed a lawsuit against Sonos, Inc. in Canada, alleging infringement of one Google patent generally related to noise cancellation technology. On August 21, 2020, Google filed a lawsuit against

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Sonos Europe B.V. and Sonos, Inc. in France, alleging infringement of two Google patents generally related to digital rights management and search notifications, and seeking monetary damages and an injunction preventing sales of any infringing Sonos products. On February 8, 2021, Google withdrew its infringement allegations regarding the search notifications patent in view of prior art brought to the attention of the court by the Company. In August 2020, Google filed a lawsuit against Sonos Europe B.V. and Sonos, Inc. in the Netherlands alleging infringement of a Google patent related to search notifications, and seeking monetary damages and an injunction preventing sales of any infringing Sonos products. In September 2020, Google filed a lawsuit against Sonos Europe B.V. in the Netherlands, alleging infringement of a Google patent related to digital rights management, and seeking monetary damages and enforcement of an injunction preventing sales of any infringing Sonos products, which was transferred to the Midden-Netherlands court on March 22, 2021 following the grant of the Company's challenge to improper jurisdiction. A range of loss, if any, associated with these matters is not probable or reasonably estimable as of July 3, 2021 and October 3, 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 July 3, 2021 and October 3, 2020.

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.

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. On July 23, 2020, the Company was granted a temporary exclusion from Section 301 tariffs for its core speaker products. These exclusions eliminated the tariffs on the Company's component and core speaker products imported from China until August 31, 2020 and entitled the Company to a refund for the tariffs paid since September 2019, the date the Section 301 tariffs were imposed. On August 28, 2020, the United States Trade Representative granted an extension through December 31, 2020 of the exclusion for the Company's core products, with the Section 301 tariffs for our core products automatically reinstating on January 1, 2021. The exclusion for the Company's component products was not extended past August 31, 2020, with the Section 301 tariffs for our component products automatically reinstating on September 1, 2020. Tariff refund claims are subject to review and approval by U.S. Customs and Border Protection. As of July 3, 2021, the Company recognized \$11.2 million in refunds based upon acceptance of the Company's refund request, recognized as a reduction to cost of revenue, and the outstanding refund receivable was approximately \$1.2 million which is recorded in other current assets on the condensed consolidated balance sheets. As of July 3, 2021, the remaining outstanding tariff refund the Company expects to recover was approximately \$22.5 million. The Company did not record these potential refunds due to uncertainty of the timing of acceptance of approval and will be recognized as a reduction to cost of revenue if and when acceptance occurs.

8. Stockholders' Equity

Share repurchase program

On November 17, 2020, the Board of Directors authorized a common stock repurchase program of up to \$50.0 million. During the nine months ended July 3, 2021, the Company repurchased 643,567 shares for an aggregate purchase price of \$21.7 million at an average price of \$33.74 per share under the repurchase program. The Company had \$28.3 million available for share repurchases under the repurchase program as of July 3, 2021.

Treasury stock during the nine months ended July 3, 2021 included shares withheld to satisfy employees' tax withholding requirements in connection with vesting of RSUs. Additionally, during the nine months ended July 3, 2021 the Company retired 1,424,061 shares of treasury stock. The Company accounts for the retirement of treasury stock by deducting its par value from common stock and reflecting any excess of cost over par value as a deduction from additional paid-in-capital on the condensed consolidated balance sheets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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9. Stock-based Compensation

2018 Equity Incentive Plan

In July 2018, the Board adopted the 2018 Equity Incentive Plan (the "2018 Plan"). The 2018 Plan became effective in connection with the Company's initial public offering ("IPO"). The number of shares reserved for issuance under the 2018 Plan increase automatically on January 1 of each year beginning in 2019 and continuing through 2028 by a number of shares of common stock equal to the lesser of (x) 5% of the total outstanding shares of the Company's common stock and common stock equivalents as of the immediately preceding December 31 (rounded to the nearest whole share) and (y) a number of shares determined by the Company's board of directors (the "Board").

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, on a monthly or quarterly basis, with certain options subject to an initial annual cliff vest, and are exercisable for a period not to exceed ten years from the date of grant.

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

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at October 3, 2020	28,422,940	\$ 12.03	5.6	\$ 99,053
Granted	—	—		
Exercised	(11,992,137)	10.97		
Forfeited	(441,379)	14.37		
Outstanding at July 3, 2021	<u>15,989,424</u>	\$ 12.76	5.3	\$ 370,365
At July 3, 2021				
Options exercisable	13,737,886	\$ 12.46	5.0	\$ 322,318
Options vested and expected to vest	15,777,683	\$ 12.74	5.3	\$ 365,799

As of July 3, 2021 and October 3, 2020, the Company had \$8.3 million and \$16.9 million, respectively, of unrecognized stock-based compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 1.1 and 1.5 years, respectively.

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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 RSU activity is as follows:

	Number of Units	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (In thousands)
Outstanding at October 3, 2020	11,647,951	\$ 10.50	\$ 180,543
Granted	2,742,382		
Released	(3,204,542)		
Forfeited	(892,050)		
Outstanding at July 3, 2021	<u>10,293,741</u>	\$ 12.26	\$ 369,751

As of July 3, 2021 and October 3, 2020, the Company had \$97.2 million and \$92.4 million of unrecognized stock-based compensation expense related to RSUs, which is expected to be recognized over a weighted-average period of 2.7 and 3.0 years, respectively.

Performance stock units ("PSU")

Pursuant to the 2018 Plan, the Company has issued and may issue certain PSUs that vest on the satisfaction of service and performance conditions. The Company estimates the fair value of PSUs on the grant date and recognizes compensation expense in the period it becomes probable that performance conditions will be achieved. On a quarterly basis, the Company re-evaluates the assumption of the probability that performance conditions will be satisfied and revises its estimates as appropriate as new or updated information becomes available. The summary of the Company's PSU activity is as follows:

	Number of Units	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (In thousands)
Outstanding at October 3, 2020	—	\$ —	\$ —
Granted	158,521		
Vested	—		
Forfeited	—		
Outstanding at July 3, 2021	<u>158,521</u>	\$ 22.81	\$ 5,694

As of July 3, 2021, the Company had \$4.3 million of unrecognized stock-based compensation expense related to PSUs, which is expected to be recognized over a weighted-average period of 1.4 years.

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Stock-based compensation

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

	Three Months Ended		Nine Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
(In thousands)				
Cost of revenue	\$ 248	\$ 306	\$ 723	\$ 866
Research and development	6,125	6,154	19,067	16,697
Sales and marketing	3,277	3,710	10,317	10,658
General and administrative	5,897	4,871	16,648	13,417
Total stock-based compensation expense	<u>\$ 15,547</u>	<u>\$ 15,041</u>	<u>\$ 46,755</u>	<u>\$ 41,638</u>

10. 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 ("AETR"), 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 AETR, and if the estimated AETR changes, a cumulative adjustment is made in that quarter. For the three and nine months ended June 27, 2020, the Company excluded certain jurisdictions from the calculation of the estimated AETR as the Company anticipated an ordinary loss in these jurisdictions for which no tax benefit could be recognized.

The Company recorded a provision for income taxes of \$0.9 million and \$0.2 million for the three months ended July 3, 2021 and June 27, 2020, respectively, related to U.S. and non-U.S. income taxes. The Company recorded a provision for income taxes of \$3.4 million and benefit from income taxes of less than \$0.1 million for the nine months ended July 3, 2021 and June 27, 2020, respectively. For the three and nine months ended July 3, 2021 the Company's tax provision includes a discrete benefit for U.S. share-based compensation. For the nine months ended June 27, 2020, the Company's tax provision includes a discrete income tax benefit resulting from 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 nine months ended July 3, 2021, the Company maintained a full valuation allowance on its deferred tax assets in the U.S. and certain other non-US entities due to a history of operating losses. It is possible that within the next 12 months there may be sufficient positive evidence to release a portion or all of the valuation allowance. Release of the valuation allowance in the U.S. and certain other non-US entities would result in a benefit to income tax expense for the period the release is recorded, which could have a material impact on net earnings. The timing and amount of the potential valuation allowance release are subject to significant management judgment, as well as prospective earnings in the U.S. and certain other non-US entities.

11. 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 awards, using the treasury stock method.

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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	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
(In thousands, except share and per share data)				
Numerator:				
Net income (loss) attributable to common stockholders - basic and diluted	\$ 17,826	\$ (56,980)	\$ 167,339	\$ (38,526)
Denominator:				
Weighted-average shares of common stock—basic	125,138,279	109,477,622	120,876,472	109,325,785
Effect of potentially dilutive stock options	10,702,443	—	10,282,836	—
Effect of RSUs	8,276,118	—	8,103,126	—
Effect of PSUs	64,792	—	31,341	—
Weighted-average shares of common stock—diluted	144,181,632	109,477,622	139,293,775	109,325,785
Net income (loss) per share attributable to common stockholders:				
Basic	\$ 0.14	\$ (0.52)	\$ 1.38	\$ (0.35)
Diluted	\$ 0.12	\$ (0.52)	\$ 1.20	\$ (0.35)

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	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Stock options to purchase common stock	5,887,084	32,940,890	10,161,710	34,720,498
Restricted stock units	2,709,489	10,076,832	3,806,326	8,038,804
Performance stock units	56,742	—	33,653	—
Total	8,653,315	43,017,722	14,001,689	42,759,302

12. 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 (the "2020 restructuring plan"). 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 in order to better align resources to provide further operating flexibility and more efficiently position the business for its long-term strategy. Activities under the 2020 restructuring plan were substantially completed in the first quarter of fiscal 2021.

Total pre-tax restructuring and related costs under the 2020 restructuring plan were \$26.4 million, which was incurred in fiscal 2020. For the assets deemed to be impaired as part of the 2020 restructuring, 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. In the first quarter of fiscal 2021, the Company negotiated the early termination of a facility lease that was part of the 2020 restructuring and recorded a gain of \$2.8 million, representing the difference between the related operating lease liability and previously accrued restructuring expenses versus the early termination payment. The gain was recognized as a credit in sales and marketing expenses on the condensed consolidated statements of operations and comprehensive income. The cash paid related to the settlement of the lease liability as part of the early termination is included within "Cash paid for amounts included in the measurement of lease liabilities" within the supplemental disclosure on the condensed consolidated statements of cash flows.

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The remaining balance in accrued expenses and accrued compensation associated with restructuring activities is nominal as of the third quarter of fiscal 2021. These costs required 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 as part of the 2020 restructuring plan, 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.

13. Retirement Plans

The Company has a defined contribution 401(k) plan (the "401(k) Plan") for the Company's U.S.-based employees, as well as various defined contribution plans for its international employees. Eligible U.S. employees may make tax-deferred contributions under the 401(k) plan, but are limited to the maximum annual dollar amount allowable under the Internal Revenue Code of 1986, as amended (the "Code"). The Company matches contributions towards the 401(k) Plan and international defined contribution plans. The Company's matching contributions totaled \$1.8 million and \$1.4 million for the three months ended July 3, 2021 and June 27, 2020, respectively. The Company's matching contributions totaled \$5.3 million and \$4.5 million for the nine months ended July 3, 2021 and June 27, 2020, respectively.

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 15 consecutive years of sustained revenue growth since our first product launch. We generate revenue from the sale of our Sonos speaker products, including wireless speakers and home theater speakers, from our Sonos system products, which largely comprise of our component products, and from partner products and other revenue, including partnerships with IKEA and Sonance, Sonos and third-party accessories, licensing, advertising, and subscription revenue.

COVID-19 Update

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 and continue to operate with these

policies through the third quarter of fiscal 2021. As of the date of this report, these policies have not materially adversely affected our operations, financial reporting or internal controls.

Beginning in fiscal 2020 and continuing into the first half of fiscal 2021, COVID-19 fueled strong performance in our direct-to-consumer sales channel, primarily by driving increased orders through our website. For much of the pandemic, we experienced weakened retail demand due to store closures, modifications of the retail experience, and inventory re-balancing by retail partners. More recently, as retail stores have re-opened and restrictions have eased in more end-markets, we have seen a corresponding return of retail demand. COVID-19 has also affected our supply chain consistent with its effect across many industries, including creating shipping and logistics challenges, and placing significant limits on component supplies. Especially when combined with the increased demand for our products, these supply chain impacts have resulted in delayed product availability. The pandemic has also delayed our efforts to fully diversify our supply chain into Malaysia until fiscal 2022. We expect these impacts, including potential delayed product availability, to continue for as long as the global supply chain is experiencing these challenges. We continue to invest in supply chain initiatives to meet increasing customer demand to address industry-wide capacity challenges. We continue to maintain our liquidity and 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.

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 July 3, 2021 and June 27, 2020, we had net income of \$17.8 million and net loss of \$57.0 million, respectively. In the nine months ended July 3, 2021 and June 27, 2020, we had net income of \$167.3 million and net loss of \$38.5 million, respectively.

	Three Months Ended		Nine Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
(In thousands, except percentages)				
Total revenue	\$ 378,672	\$ 249,310	\$ 1,357,204	\$ 986,491
Products sold	1,491	923	5,179	4,544
Adjusted EBITDA ⁽¹⁾	\$ 46,692	\$ (2,720)	\$ 261,471	\$ 62,115
Adjusted EBITDA margin ⁽¹⁾	12.3 %	(1.1)%	19.3 %	6.3 %

⁽¹⁾ For additional information regarding adjusted EBITDA and adjusted EBITDA margin (which are non-GAAP financial measures), including reconciliations of net income, 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, 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. 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	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
(In thousands, except percentages)				
Net income (loss)	\$ 17,826	\$ (56,980)	\$ 167,339	\$ (38,526)
Add (deduct):				
Depreciation and amortization	9,065	8,861	25,789	27,692
Stock-based compensation expense	15,547	15,041	46,755	41,638
Interest income	(34)	(81)	(114)	(1,954)
Interest expense	77	360	525	1,187
Other income, net	(1,998)	(365)	(4,678)	(3,366)
Provision for (benefit from) income taxes	858	152	3,436	(1)
Restructuring and related expenses (Note 12)	—	26,160	(2,611)	26,160
Legal and transaction related costs ⁽¹⁾	5,351	4,132	25,030	9,285
Adjusted EBITDA	\$ 46,692	\$ (2,720)	\$ 261,471	\$ 62,115
Revenue	\$ 378,672	\$ 249,310	\$ 1,357,204	\$ 986,491
Adjusted EBITDA margin	12.3 %	(1.1)%	19.3 %	6.3 %

⁽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, which we consider non-recurring expenses and 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. Sales through our direct-to-consumer channel, primarily through sonos.com, increased in the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020. We believe the growth of our own e-commerce channel will continue to be important to supporting our overall growth and profitability as consumers continue the shift from physical to online sales channels. Our physical retail distribution relies on third-party retailers. While we seek to increase sales through our direct-to-consumer sales channel, we expect that our third-party retailers will continue to be an important part of our ecosystem. 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

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, revenue related sales fees from our direct-to-consumer business, 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 other non-US net deferred tax assets due to a history of losses and 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 portion or all of the valuation allowance. Release of the valuation allowance in the U.S. and certain other non-US entities would result in a benefit to income tax expense for the period the release is recorded, which could have a material impact on net earnings. The timing and amount of the potential valuation allowance release are subject to significant management judgment, as well as prospective earnings in the U.S. and certain other non-US entities.

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			
	July 03, 2021		June 27, 2020		July 3, 2021		June 27, 2020	
	\$	%	\$	%	\$	%	\$	%
Revenue	\$ 378,672	100.0 %	\$ 249,310	100.0 %	\$ 1,357,204	100.0 %	\$ 986,491	100.0 %
Cost of revenue ⁽¹⁾	200,811	53.0	139,519	56.0	714,142	52.6	576,071	58.4
Gross profit	177,861	47.0	109,791	44.0	643,062	47.4	410,420	41.6
Operating expenses								
Research and development ⁽¹⁾	55,578	14.7	57,770	23.2	164,294	12.1	159,890	16.2
Sales and marketing ⁽¹⁾	67,231	17.8	77,273	31.0	198,888	14.7	205,201	20.8
General and administrative ⁽¹⁾	38,323	10.1	31,662	12.7	113,372	8.4	87,989	8.9
Total operating expenses	161,132	42.6	166,705	66.9	476,554	35.1	453,080	45.9
Operating income (loss)	16,729	4.4	(56,914)	(22.8)	166,508	12.3	(42,660)	(4.3)
Other income (expense), net								
Interest income	34	—	81	—	114	—	1,954	0.2
Interest expense	(77)	—	(360)	(0.1)	(525)	—	(1,187)	(0.1)
Other income, net	1,998	0.5	365	0.1	4,678	0.3	3,366	0.3
Total other income, net	1,955	0.5	86	—	4,267	0.3	4,133	0.4
Income (loss) before provision for (benefit from) income taxes	18,684	4.9	(56,828)	(22.8)	170,775	12.6	(38,527)	(3.9)
Provision for (benefit from) income taxes	858	0.2	152	0.1	3,436	0.3	(1)	—
Net income (loss)	\$ 17,826	4.7 %	\$ (56,980)	(22.9)%	\$ 167,339	12.3 %	\$ (38,526)	(3.9)%
Adjusted EBITDA ⁽²⁾	\$ 46,692	12.3 %	\$ (2,720)	(1.1)%	\$ 261,471	19.3 %	\$ 62,115	6.3 %

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

(In thousands, except percentages)	Three Months Ended				Nine Months Ended			
	July 03, 2021		June 27, 2020		July 03, 2021		June 27, 2020	
	\$	%	\$	%	\$	%	\$	%
Cost of revenue	\$ 248	0.1 %	\$ 306	0.1 %	\$ 723	0.1 %	\$ 866	0.1 %
Research and development	6,125	1.6	6,154	2.5	19,067	1.4	16,697	1.7
Sales and marketing	3,277	0.9	3,710	1.5	10,317	0.8	10,658	1.1
General and administrative	5,897	1.6	4,871	2.0	16,648	1.2	13,417	1.4
Total stock-based compensation expense	\$ 15,547	4.1 %	\$ 15,041	6.0 %	\$ 46,755	3.4 %	\$ 41,638	4.2 %

⁽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 July 3, 2021 and June 27, 2020

Revenue

Comparison of the three months ended July 3, 2021 and June 27, 2020

	Three Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Sonos speakers	\$ 310,233	\$ 196,895	\$ 113,338	57.6 %
Sonos system products	47,621	42,164	5,457	12.9 %
Partner products and other revenue	20,818	10,251	10,567	103.1 %
Total revenue	<u>\$ 378,672</u>	<u>\$ 249,310</u>	<u>\$ 129,362</u>	51.9 %

Total revenue increased 51.9% for the three months ended July 3, 2021 compared to the three months ended June 27, 2020. The growth during the quarter was driven by strong overall demand across all our product categories. Additionally, in the prior year quarter we had lower revenue resulting from the ongoing effects of physical retail store closures stemming from COVID-19 and constrained product availability as demand exceeded our expectations in the prior year quarter. This growth was partially offset by the impact of continued constrained product availability due to industry-wide supply chain challenges, primarily related to limitations on component supplies due to the global shortage of semiconductors.

Sonos speakers revenue represented 81.9% of total revenue for the three months ended July 3, 2021. The category increased 57.6% compared to the three months ended June 27, 2020 led by the introduction of Roam, and the continued success of Arc and Sub. Sonos system products represented 12.6% of total revenue for the three months ended July 3, 2021 and increased 12.9% compared to the three months ended June 27, 2020. Partner products and other revenue represented 5.5% of total revenue for the three months ended July 3, 2021 and increased by 103.1% compared to the three months ended June 27, 2020. The increase was driven by sales of accessories and revenue from our partnership with IKEA driven by a new product introduction.

Revenue for the three months ended July 3, 2021 compared to the three months ended June 27, 2020 increased 48.0% in the Americas, increased 50.6% in EMEA, and increased 100.5% in APAC due to strong regional growth within the quarter and the recognition of IKEA-related revenue in that region.

In constant currency U.S. dollars, total revenue increased by 45.1% for the three months ended July 3, 2021 compared to the three months ended June 27, 2020. 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	
	July 3, 2021	June 27, 2020		
(Units in thousands)				
Total products sold	1,491	923	568	61.5 %

The volume of products sold increased 61.5% for the three months ended July 3, 2021 compared to the three months ended June 27, 2020 driven by strong overall demand across all our product categories. The rate of increase of volume of products sold and revenue differed for the three months ended July 3, 2021 compared to the three months ended June 27, 2020 primarily due to product mix.

Comparison of the nine months ended July 3, 2021 and June 27, 2020

	Nine Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Sonos speakers	\$ 1,105,283	\$ 779,939	325,344	41.7 %
Sonos system products	197,442	150,887	46,555	30.9 %
Partner products and other revenue	54,479	55,665	(1,186)	(2.1)%
Total revenue	\$ 1,357,204	\$ 986,491	\$ 370,713	37.6 %

Total revenue increased 37.6% for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020. The growth was primarily driven by strong overall demand for our products. Additionally, in the prior year we had lower revenue in the second and third quarters which were the result of certain retail partners rebalancing inventory and the negative effect of the COVID-19 pandemic on replenishment orders in the majority of our end-markets. The growth in the current year was partially offset by the impact of constrained product availability and continued industry-wide supply chain challenges, primarily related to limitations on component supplies due to the global shortage of semiconductors.

Sonos speakers revenue represented 81.4% of total revenue for the nine months ended July 3, 2021. The category increased 41.7% compared to the nine months ended June 27, 2020 led by Arc, Roam and Sub. Sonos system products represented 14.5% of total revenue for the nine months ended July 3, 2021 and increased 30.9% compared to the nine months ended June 27, 2020. Partner products and other revenue represented 4.0% of total revenue for the nine months ended July 3, 2021 and decreased by 2.1% compared to the nine months ended June 27, 2020. This decline was driven by IKEA as the retailer slowed ordering modules given lighter foot traffic in stores and modified retail experience due to COVID-19 and as a result of cyclical product launches in this business model.

Revenue for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020 increased 41.1% in the Americas, increased 35.8% in EMEA, and increased 20.2% in APAC.

In constant currency U.S. dollars, total revenue increased by 32.9% for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020. 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	
	July 3, 2021	June 27, 2020		
(Units in thousands)				
Total products sold	5,179	4,544	635	14.0 %

Volume growth of products sold for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020 was driven by growth in Sonos speakers and Sonos system products categories. The rate of increase of volume of products sold and revenue differed for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020 primarily due to product and channel mix on revenue. This volume growth was partially offset by a volume decline in partner products and other revenue due to IKEA-related products as the retailer slowed ordering modules given lighter foot traffic in stores and modified retail experience due to COVID-19 and as a result of the cyclical launch of products in this business model.

Cost of Revenue and Gross Profit

Comparison of the three months ended July 3, 2021 and June 27, 2020

	Three Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Cost of revenue	\$ 200,811	\$ 139,519	\$ 61,292	43.9 %
Gross profit	\$ 177,861	\$ 109,791	\$ 68,070	62.0 %
Gross margin	47.0 %	44.0 %		

The increase in cost of revenue for the three months ended July 3, 2021 compared to the three months ended June 27, 2020 is driven by the increase in products sold, as well as an overall increase in component costs and shipping and logistics costs incurred related to industry-wide supply chain dynamics. These increases were partially offset by the recognition of \$5.0 million in refunds from tariffs paid in prior periods, a mix shift into lower cost products and fixed cost leverage on higher sales volume.

Gross margin increased 300 basis points for the three months ended July 3, 2021 compared to the three months ended June 27, 2020. The increase was primarily due to lower promotional discounts in the current year compared with the discounts offered in the prior year, which included the "At Home With Sonos" campaign. We also recognized \$5.0 million in refunds from tariffs paid in prior periods. Additional favorability was driven by fixed cost leverage on higher sales volume. The increase in gross margin was partially offset by a shift in channel mix as retail partners rebounded from the COVID-19 impacts that had affected the prior year quarter, as well as by increased component costs, and shipping and logistics costs related to broader industry-wide supply chain challenges. Excluding the net effects of tariffs in both periods, gross margin would have been 46.8%, an increase of 110 basis points, for the three months ended July 3, 2021 compared to the three months ended June 27, 2020. We calculate gross margin excluding the effects of tariffs by removing the net 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 July 3, 2021 and June 27, 2020

	Nine Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Cost of revenue	\$ 714,142	\$ 576,071	\$ 138,071	24.0 %
Gross profit	\$ 643,062	\$ 410,420	\$ 232,642	56.7 %
Gross margin	47.4 %	41.6 %		

The increase in cost of revenue for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020 is driven by the increase in products sold, as well as expedited air freight shipping, product mix and an overall increase in shipping costs incurred related to industry-wide supply chain challenges. This increase was partially offset by a reduction in tariff expenses during the first three quarters, recognition of \$11.2 million in refunds from tariffs paid in prior periods, product and material cost savings realized in the first quarter of fiscal year 2021 and fixed cost leverage on higher sales volume in the second and third quarters of fiscal year 2021.

Gross margin increased 580 basis points for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020. The improvement was mainly driven by the reduction in tariff costs as we continue to diversify into Malaysia and experienced a reduction in tariff rate in the first half of the year compared to the prior year. We also recognized \$11.2 million in refunds from tariffs paid in prior periods. Additional favorability was driven by a shift into higher margin products, product and material cost savings realized in the first quarter and fixed cost leverage on higher sales volume. The increase was partially offset by increased shipping costs incurred, and increased component costs related to broader industry-wide supply chain challenges. Excluding the net effects of tariffs in both periods, gross margin would have been 47.2%, an increase of 260 basis points, for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020. We calculate gross margin excluding the effects of tariffs by removing the net impact of tariffs imposed on goods imported from China to the U.S. from gross profit divided by total revenue.

Research and Development

Comparison of the three months ended July 3, 2021 and June 27, 2020

	Three Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Research and development	\$ 55,578	\$ 52,821	\$ 2,757	5.2 %
Restructuring and related expenses	\$ —	\$ 4,949	\$ (4,949)	(100.0)%
Total research and development	\$ 55,578	\$ 57,770	\$ (2,192)	(3.8)%
Percentage of revenue	14.7 %	23.2 %		

Research and development expenses decreased \$2.2 million, or 3.8%, for the three months ended July 3, 2021 compared to the three months ended June 27, 2020. 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 July 3, 2021 compared to the three months ended June 27, 2020 increased by 5.2%. This increase was related to higher personnel-related expenses and other research and development costs.

Comparison of the nine months ended July 3, 2021 and June 27, 2020

	Nine Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Research and development	\$ 164,269	\$ 154,941	\$ 9,328	6.0 %
Restructuring and related expenses	25	4,949	(4,924)	(99.5)%
Total research and development	164,294	159,890	4,404	2.8 %
Percentage of revenue	12.1 %	16.2 %		

Research and development expenses increased \$4.4 million, or 2.8%, for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020. Excluding the year-over-year 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 July 3, 2021 compared to the nine months ended June 27, 2020 increased by 6.0%. This increase was primarily due to higher personnel-related expenses of \$13.8 million due to higher bonus, stock-based compensation and related payroll taxes, as well as increases in other research and development costs. This increase was partially offset by \$6.0 million in product development costs and professional fees related to the costs of diversifying our manufacturing into Malaysia in the prior year, ongoing cost savings associated with the 2020 restructuring plan, as well as a reduction of costs related to global travel restrictions and work-from-home policies due to COVID-19.

Sales and Marketing

Comparison of the three months ended July 3, 2021 and June 27, 2020

	Three Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Sales and marketing	\$ 67,231	\$ 57,485	\$ 9,746	17.0 %
Restructuring and related expenses	\$ —	\$ 19,788	\$ (19,788)	(100.0)%
Total sales and marketing	\$ 67,231	\$ 77,273	\$ (10,042)	(13.0)%
Percentage of revenue	17.8 %	31.0 %		

Sales and marketing expenses decreased \$10.0 million, or 13.0%, for the three months ended July 3, 2021 compared to the three months ended June 27, 2020. Excluding the impact of \$19.8 million of 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 July 3, 2021 compared to the three months ended June 27, 2020 increased by 17.0%. This increase was primarily driven by \$10.4 million in higher marketing expenses, as well as a slight increase in revenue-related sales fees. These increases were partially offset by cost savings associated with the 2020 restructuring plan and a reduction of costs related to global travel restrictions and work-from-home policies due to COVID-19.

Comparison of the nine months ended July 3, 2021 and June 27, 2020

	Nine Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Sales and marketing	\$ 201,524	\$ 185,413	\$ 16,111	8.7 %
Restructuring and related expenses	\$ (2,636)	\$ 19,788	\$ (22,424)	(113.3)%
Total sales and marketing	\$ 198,888	\$ 205,201	\$ (6,313)	(3.1)%
Percentage of revenue	14.7 %	20.8 %		

Sales and marketing expenses decreased \$6.3 million, or 3.1%, for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020. Excluding the year-over-year impact of \$22.4 million of 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 July 3, 2021 compared to the nine months ended June 27, 2020 increased by 8.7%. The increase was primarily due to higher marketing expenses of \$18.5 million, higher revenue-related sales fees resulting from higher sales in our direct-to-consumer business of \$6.0 million, and higher personnel-related expenses of \$1.8 million due to higher bonus, stock-based compensation and related payroll taxes. This increase was partially offset by cost savings associated with the 2020 restructuring plan of \$7.0 million, and a reduction of costs related to global travel restrictions and work-from-home policies due to COVID-19.

General and Administrative

Comparison of the three months ended July 3, 2021 and June 27, 2020

	Three Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
General and administrative	\$ 38,323	\$ 30,239	\$ 8,084	26.7 %
Restructuring and related expenses	\$ —	\$ 1,423	\$ (1,423)	(100.0)%
Total general and administrative	\$ 38,323	\$ 31,662	\$ 6,661	21.0 %
Percentage of revenue	10.1 %	12.7 %		

General and administrative expenses increased \$6.7 million, or 21.0%, for the three months ended July 3, 2021 compared to the three months ended June 27, 2020. 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 July 3, 2021 compared to the three months ended June 27, 2020 increased by 26.7%. The increase was primarily due to an increase of \$4.2 million professional fees related to our investments in information technology and other activities, \$1.2 million incremental legal fees paid in connection with our IP litigation, and higher personnel-related expenses due to higher bonus and stock-based compensation of \$3.8 million. The increase was partially offset by savings associated with the prior year 2020 restructuring plan and a reduction of costs related to global travel restrictions and work-from-home policies due to COVID-19.

Comparison of the nine months ended July 3, 2021 and June 27, 2020

	Nine Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
General and administrative	\$ 113,372	\$ 86,566	\$ 26,806	31.0 %
Restructuring and related expenses	\$ —	\$ 1,423	\$ (1,423)	(100.0)%
Total general and administrative	\$ 113,372	\$ 87,989	\$ 25,383	28.8 %
Percentage of revenue	8.4 %	8.9 %		

General and administrative expenses increased \$25.4 million, or 28.8%, for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020. 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 July 3, 2021 compared to the nine months ended June 27, 2020 increased by 31.0%. This increase was primarily due to \$17.2 million incremental legal fees paid in connection with our IP litigation, higher personnel-related expenses of \$8.6 million due to higher bonus, stock-based compensation and related payroll tax expenses, as well as \$4.3 million professional fees related to our investments in information technology and other activities. These increases were partially offset by cost savings associated with the 2020 restructuring plan and a reduction of costs related to global travel restrictions and work-from-home policies due to COVID-19.

Interest Income, Interest Expense and Other Income (Expense), Net

Comparison of the three months ended July 3, 2021 and June 27, 2020

	Three Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Other income (expense), net				
Interest income	\$ 34	\$ 81	\$ (47)	(58.0)%
Interest expense	\$ (77)	\$ (360)	\$ 283	(78.6)%
Other income, net	\$ 1,998	\$ 365	\$ 1,633	*
Total other income, net	\$ 1,955	\$ 86	\$ 1,869	*

*not meaningful

Interest income for the three months ended July 3, 2021 compared to the three months ended June 27, 2020 decreased due to lower yields on our cash and cash equivalents. Interest expense for the three months ended July 3, 2021 compared to the three months ended June 27, 2020 decreased primarily due to a lower principal balance. The increase in other income, net for the three months ended July 3, 2021 compared to the three months ended June 27, 2020 was due to foreign currency exchange gains.

Comparison of the nine months ended July 3, 2021 and June 27, 2020

	Nine Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Other income (expense), net				
Interest income	\$ 114	\$ 1,954	\$ (1,840)	(94.2)%
Interest expense	\$ (525)	\$ (1,187)	\$ 662	(55.8)%
Other income, net	\$ 4,678	\$ 3,366	\$ 1,312	39.0 %
Total other income, net	\$ 4,267	\$ 4,133	\$ 134	3.2 %

Interest income for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020 decreased due to lower yields on our cash and cash equivalents. Interest expense for the nine months ended July 3,

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2021 compared to the nine months ended June 27, 2020 decreased primarily due to a lower principal balance. The increase in other income, net for the nine months ended July 3, 2021 compared to the nine months ended June 27, 2020 was due to foreign currency exchange gains.

Provision for (Benefit from) Income Taxes

Comparison of the three months ended July 3, 2021 and June 27, 2020

	Three Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Provision for income taxes	\$ 858	\$ 152	\$ 706	*
*not meaningful				

The provision for income taxes increased from \$0.2 million for the three months ended June 27, 2020 to \$0.9 million for the three months ended July 3, 2021.

For the three-months ended July 3, 2021, we recorded a provision for income taxes by applying an estimated AETR to year-to-date earnings in accordance with ASC 740 offset by a discrete income tax benefit for U.S. share-based compensation resulting in an overall provision for income taxes of \$0.9 million.

Comparison of the nine months ended July 3, 2021 and June 27, 2020

	Nine Months Ended		Change	
	July 3, 2021	June 27, 2020	\$	%
(In thousands, except percentages)				
Provision for (benefit from) income taxes	\$ 3,436	\$ (1)	\$ 3,437	*
*not meaningful				

The provision for (benefit from) income taxes changed from a benefit of less than \$0.1 million for the nine months ended June 27, 2020 to a provision of \$3.4 million for the nine months ended July 3, 2021.

For the nine months ended July 3, 2021, we recorded a provision for income taxes by applying an estimated AETR to year-to-date earnings in accordance with ASC 740 offset by a discrete income tax benefit for U.S. share-based compensation resulting in an overall income tax provision of \$3.4 million. 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 an income tax benefit of \$0.5 million for U.S. federal and state income taxes which includes a favorable release of an uncertain tax position in the U.S. coinciding with the issuance of the BEAT Regulations.

Liquidity and Capital Resources

Our operations are financed primarily through cash flows from operating activities and net proceeds from the sale of our equity securities. As of July 3, 2021, our principal sources of liquidity consisted of cash flows from operating activities, cash and cash equivalents of \$670.9 million, including \$111.4 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 July 3, 2021, 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, we implemented a number of initiatives to maintain our liquidity and rationalize our operating expenses and initiated the 2020 restructuring plan during the third quarter of fiscal 2020. 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, our potential merger and acquisition activity, 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. If we were to incur additional debt financing it 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 obligation consists of the Credit Facility. In January 2021, we repaid all of our outstanding principal balance of \$24.9 million under the Term Loan which had an original maturity date of October 2021. As of July 3, 2021, we did not have any remaining short- or long-term debt obligations, and as of October 3, 2020, our short- and long-term debt obligations were as follows:

	As of	
	October 3, 2020	
(In thousands, except percentages)		
Term Loan ⁽¹⁾	2.4 %	\$ 25,000
Unamortized debt issuance costs ⁽²⁾		(82)
Total indebtedness		24,918
Less short-term portion		(6,667)
Long-term debt		\$ 18,251

(1) Original maturity date of October 2021 bore 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 quarterly 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 July 3, 2021 and October 3, 2020, we did not have any outstanding borrowings and had \$3.0 million and \$0.5 million, respectively, in undrawn letters of credit that reduce the availability under the Credit Facility.

Debt obligations under the Credit Facility 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 July 3, 2021 and October 3, 2020, we were in compliance with all financial covenants. The Credit Facility is 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	
	July 3, 2021	June 27, 2020
(In thousands)		
Net cash provided by (used in):		
Operating activities	\$ 246,741	\$ 83,151
Investing activities	(34,792)	(66,194)
Financing activities	49,930	(27,111)
Effect of exchange rate changes	1,735	639
Net increase in cash, cash equivalents and restricted cash	\$ 263,614	\$ (9,515)

Cash flows from operating activities

Net cash provided by operating activities of \$246.7 million for the nine months ended July 3, 2021 consisted of net income of \$167.3 million, non-cash adjustments of \$74.5 million and a net increase in cash related to changes in operating assets and liabilities of \$4.9 million. Non-cash adjustments primarily consisted of stock-based compensation expense of \$46.8 million, depreciation and amortization of \$25.8 million, and other non-cash adjustments, partially offset by foreign currency transaction gain. The net increase in cash related to operating assets and liabilities was primarily due to a decrease in inventory of \$32.3 million due to the continuing impact of constrained product availability resulting from industry-wide supply chain challenges; an increase in accrued compensation of \$21.5 million; an increase in deferred revenue of \$7.7 million and an increase in other liabilities of \$2.1 million. This increase in operating assets and liabilities was partially offset by a decrease in accounts payable and accrued expenses of \$27.2 million driven by an increase in accrued marketing expenses; an increase in other assets of \$17.7 million; and an increase in accounts receivable of \$13.8 million due to revenue growth driven by strong overall demand.

Cash flows from investing activities

Cash used in investing activities for the nine months ended July 3, 2021 of \$34.8 million was due to payments for property, equipment, and other assets. These payments were primarily comprised of manufacturing-related tooling and test equipment to support the launch of new products as well as other assets.

Cash flows from financing activities

Cash provided by financing activities for the nine months ended July 3, 2021 of \$49.9 million was due to proceeds from the exercise of stock options of \$131.5 million, offset by payments for repurchases of common stock related to shares withheld for taxes associated with vesting of RSUs of \$34.9 million, and payments for repurchases of common stock repayments of borrowings of \$25.0 million related to our early repayment of all of our outstanding principal balance under the Term Loan.

Commitments and Contingencies

At July 3, 2021, we had \$72.5 million in non-cancelable purchase commitments for inventory that we expect to purchase in the remainder of fiscal 2021.

For more additional information, see Note 7 - Commitments and Contingencies in the above notes to condensed consolidated financial statements and Part II, Item 1, "Legal proceedings" of this Form 10-Q.

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 July 3, 2021 and June 27, 2020, we recognized a gain from foreign currency of \$2.0 million and a gain from foreign currency of \$0.4 million, respectively. For the nine months ended July 3, 2021 and June 27, 2020, we recognized a gain from foreign currency of \$4.6 million and a gain from foreign currency of \$3.3 million, respectively. Based on transactions denominated in currencies other than respective functional currencies as of July 3, 2021, 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 \$4.7 million for the three months ended and \$18.9 million for the nine months ended July 3, 2021.

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 July 3, 2021. 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 July 3, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. Other than the matters described in Note 7 of the notes to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, we 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.

Economic, Industry and Strategic Risk

Our business has been, and could in the future be, adversely affected by the ongoing COVID-19 pandemic.

In December 2019, COVID-19 was reported in China and subsequently was declared a global pandemic in March 2020 by the World Health Organization. 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. Our business and operating results have been affected by the COVID-19 pandemic as a result of, among other things, challenges we and our retail partners face in anticipating the global demand for our products given uncertainties caused by the pandemic, as well as the temporary closure of some of the retail stores in our end-markets. Although retail stores have re-opened and restrictions eased in more end-markets recently, and we have seen a corresponding return of retail demand, in the event of a COVID-19 resurgence, retail stores in an affected end-market may reinstitute operational restrictions or temporary closures, which may impact consumer retail purchasing behavior in that end-market.

The COVID-19 pandemic has also adversely affected our supply chain, consistent with its effect across many industries, including creating shipping and logistics challenges and placing significant limits on component supplies. These effects on our supply chain have resulted in delayed product availability, especially when combined with the increased demand for our products, and have adversely impacted, and may continue to adversely impact, our ability to meet our product demand, result in additional costs, result in customer dissatisfaction in the event of continued inventory shortages, or may otherwise adversely impact our business and results of operations. See *"We depend on a limited number of third-party components suppliers and logistics providers"* in this Item 1A. Risk Factors, for more information. The pandemic has also delayed our efforts to fully diversify our supply chain into Malaysia until fiscal 2022. We expect these impacts, including delayed product availability, to continue for as long as the global supply chain is experiencing these challenges.

COVID-19 has negatively impacted the global economy to date and may 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 administration of vaccines. 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.

The extent of the impact of the COVID-19 pandemic on our business and operating results is uncertain and difficult to predict. While vaccines are being administered in certain of our end-markets, and the impact of COVID-19 may eventually be contained or mitigated, we cannot predict the timing or effectiveness of the vaccine roll-out globally, the timing of easing of preventative or mitigation measures or mandates, the impact of any variants that emerge, or any impact of a global vaccine roll-out on the global economy, our business or our suppliers. Moreover, we have experienced increased demand for our products during the COVID-19 pandemic, particularly in our direct-to-consumer channel, and we cannot predict how or whether the easing of COVID-19 preventative or mitigation measures or mandates will impact demand for our products or shift consumer spending habits in general.

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, Sonos Arc 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.

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 June 2020, we introduced Arc, our premium smart soundbar, Five and the next generation of our Sub and, in April 2021, we introduced Roam, our portable smart speaker. 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 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 October 3, 2020, September 28, 2019 and September 29, 2018, we had net losses of \$20.1 million, \$4.8 million and \$15.6 million, respectively. We had an accumulated deficit of \$228.5 million as of October 3, 2020. 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 increase 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 had certain adverse impacts on our revenue in fiscal 2020. Our ability to achieve revenue growth will depend in part on our ability to execute on our product roadmap and our 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 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 successful in continuing to expand 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 have invested significant resources in our direct-to-consumer sales channel, primarily through our website, and our future growth relies, in part, on our continued ability to attract consumers to this channel, which has and will require significant expenditures in marketing, software development and infrastructure. If we are unable to continue to drive traffic to, and increase sales through, our website, our business and results of operations could be harmed, particularly during the COVID-19 pandemic during which physical retail stores may be closed or significantly modify their retail experience. The continued 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.

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 parts of fiscal 2020 and fiscal 2021, and we do not have sufficient inventory to meet this demand, we may experience decreased revenue or customer dissatisfaction as a result of any continued inventory shortages or 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. Any of these scenarios could adversely impact our operating results and financial condition.

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 may 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, services 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 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.

The success of our business depends in part 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, our first Bluetooth-enabled portable speaker with voice control, Sonos Move, in September 2019 and our portable smart speaker, Roam, in April 2021. In June 2020, we introduced Arc, our voice-enabled premium home theater speaker. 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.

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 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. In addition, on September 29, 2020, we filed a lawsuit against Google in the U.S. District Court for Western District of Texas, alleging infringement of five Sonos wireless audio patents. 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.

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, or may have to 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 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.

Conflicts with our channel and 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 market and promote their own products over ours or could end our partnerships and cease selling or promoting our products entirely. 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 or the inability to find alternative distribution channels, our business would be harmed.

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. 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.

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 One, Beam, Move, Arc, and Roam, 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.

Operational Risks

We are dependent on a limited number of contract manufacturers to manufacture our products and our efforts to diversify manufacturers may not be successful.

We depend on a limited number of contract manufacturers to manufacture our products, with our key manufacturer, Inventec Appliances Corporation (“Inventec”), manufacturing a majority of our products. 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. Our reliance on a limited number of contract manufacturers increases the risk that, in the event that any or all of such manufacturers experience an interruption in their operations, fail to perform their obligation in a timely manner or terminate agreements with us, we would not be able to maintain our production capacity without incurring material additional costs and substantial delays or we may be fully prevented from selling our products. 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. Identifying and onboarding a new manufacturer takes a significant amount of time and resources. 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. 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 has delayed and may further delay our efforts to diversify our supply chain or may cause supply chain disruptions notwithstanding any supply chain diversification efforts.

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 by the impact 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 and into 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, including COVID-19 shutdowns. 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.

During the fourth quarter of fiscal 2020 and through fiscal 2021, the pandemic affected our supply chain consistent with its effect across many industries, and we saw certain constraints on the ability of our component suppliers and logistics providers to timely meet commitments, including significant limits on component supplies, primarily semiconductors, and port congestion, which has, and may continue to, adversely impact our ability to meet our product demand, result in additional costs, or may otherwise adversely impact our business and results of operations. These challenges have also delayed our efforts to fully diversify our supply chain into Malaysia until fiscal 2022. We expect these impacts to continue for as long as the global supply chain continues to experience these challenges.

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.

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. Best Buy, one of our key channel partners, accounted for 12% of our revenue in fiscal 2020. 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 or reduced operations in their retail stores during fiscal 2020 and through fiscal 2021 and may continue to do so in the future, 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 may 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 reliance on our direct-to-consumer channel, which may be time-consuming and expensive or we may be unsuccessful in our efforts to do so.

We have and may in the future 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 as we continue to improve and enhance our software platform, 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 European Union ("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.

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 2020, 47.4% 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";
- tariffs, trade barriers and duties;
- protectionist laws and business practices that favor local businesses in some countries;
- 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;

- 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.

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, beginning in fiscal 2020 and through fiscal 2021, we are undergoing activities to replace our legacy enterprise resource management system 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.

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.

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.

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 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 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.

Legal and Regulatory Risks

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 eliminated the Section 301 tariffs on our core speaker and component products until August 31, 2020 and entitled us to an estimated refund of approximately \$30 million in Section 301 tariffs we have paid since September 2019. On August 28, 2020, the U.S. Trade Representative granted an extension through December 31, 2020 of the exclusion for our core products. The exclusion for our component products was not extended past August 31, 2020, with the Section 301 tariffs for our component products automatically reinstating on September 1, 2020. The exclusion for our core products was not extended past December 31, 2020, with the Section 301 tariffs for our core products automatically reinstating on January 1, 2021.

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 any future exemption extension requests, the amounts of existing tariffs are increased, we experience prolonged COVID-19 shutdowns in Malaysia, our supply chain diversification efforts are further delayed 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 October 3, 2020, we had gross U.S. federal net operating loss carryforwards of \$30.8 million, which expire beginning in 2035, and gross state net operating loss carryforwards of \$26.9 million, which expire beginning in 2027, as well as \$52.2 million in foreign net operating loss carryforwards, of which \$37.6 million have an indefinite life and \$14.6 million will expire in 2027. As of October 3, 2020, we also had U.S. federal research and development tax credit carryforwards of \$41.8 million, and state research and development tax credit carryforwards of \$31.8 million, which will expire beginning in 2025 and 2024, respectively. Because of the change of ownership provisions of Sections 382 and 383 of the Code, use of a portion of the Company's domestic net operating losses and tax credit carryforwards may be limited in future periods depending upon future changes in ownership. Further, a portion of the carryforwards may expire before being applied to reduce future income tax liabilities if sufficient taxable income is not generated in future periods.

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 \$43.89 through July 3, 2021. 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 DGCL 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.

General Risk Factors

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 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 J.P. Morgan Chase Bank, N.A. Secured Term Loan (the "Term Loan"), which was repaid in the second quarter of fiscal 2021, and the Secured Credit Facility with J.P. Morgan Chase Bank, N.A. (the "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.

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.

Item 2. Unregistered Sales of Equity Securities and Use of proceeds

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

The following table presents information with respect to our repurchase of common stock during the quarter ended July 3, 2021.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate 1 Value of Shares that M: Be Purchased Under the or Programs
Apr 4 - May 1	—	\$ —	—	\$
May 2 - May 29	477,470	\$ 33.59	477,470	\$
May 30 - Jul 3	146,550	\$ 34.09	146,550	\$
Total	624,020		624,020	

- (1) In November 2020, the Board of Directors authorized a common stock repurchase program of up to \$50.0 million. See Note 9. *Stockholders' Equity* for further information. The Company withholds shares of common stock from certain employees in connection with the vesting of restricted stock unit awards issued to such employees to satisfy applicable tax withholding requirements. Although these withheld shares are not issued or considered common stock repurchases under our stock repurchase program and therefore are not included in the preceding table, they are treated as common stock repurchases in our financial statements as they reduce the number of shares that would have been issued upon vesting.

Item 6. Exhibit Index

Exhibit number	Exhibit title	Incorporated by reference				Filed or furnished herewith
		Form	File no.	Exhibit	Filing date	
10.1	2018 Equity Incentive Plan and forms of agreement thereunder					X
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and Rule 15d-14(a) of the Exchange Act					X
32.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 2021, 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 11, 2021

By: /s/ Patrick Spence

Patrick Spence

Chief Executive Officer and Director

(Principal Executive Officer)

Date: August 11, 2021

By: /s/ Brittany Bagley

Brittany Bagley

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Exhibit 10.1

SONOS, INC.

2018 EQUITY INCENTIVE PLAN

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. SHARES SUBJECT TO THE PLAN.

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

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

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

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

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

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

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

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

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

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

4. ADMINISTRATION.

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

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

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

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

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

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

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

(h) grant waivers of Plan or Award conditions;

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

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

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

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

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

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

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

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

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

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

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

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

4.4. Foreign Award Recipients. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws and practices in other countries in which the Company and its Subsidiaries and Affiliates operate or have employees or other individuals eligible for Awards, the Committee, in its sole discretion, shall have the power and authority to:

(a) determine which Subsidiaries and Affiliates shall be covered by the Plan; (b) determine which individuals outside the United States are eligible to participate in the Plan, which may include individuals who provide services to the Company, Subsidiary or Affiliate under an agreement with a foreign nation or agency; (c) modify the terms and conditions of any Award granted to individuals outside the United States or foreign nationals to comply with applicable foreign laws, policies, customs and practices; (d) establish subplans and modify exercise procedures and other terms and procedures, to the extent the Committee determines such actions to be necessary or advisable (and such subplans and/or modifications shall be attached to this Plan as appendices); *provided, however*, that no such subplans and/or modifications shall increase the share limitations contained in Section 2.1 hereof; and (e) take any action, before or after an Award is made, that the Committee determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals.

Notwithstanding the foregoing, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. TRANSFERABILITY.

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

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

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

15. PRIVILEGES OF STOCK OWNERSHIP; RESTRICTIONS ON SHARES.

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

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

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

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

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

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

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

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

21. CORPORATE TRANSACTIONS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTICE OF STOCK OPTION GRANT

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

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

Name: _____

Address: _____

Number of Shares: _____

Exercise Price Per Share: _____

Date of Grant: _____

Vesting Commencement Date: _____

Type of Option: _____

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

Vesting Schedule:

Vesting Acceleration:

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

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

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

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

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

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

2. Termination.

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

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

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

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

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

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

3. Exercise of Option.

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

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

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

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

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

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

(d) other method authorized by the Company.

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

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

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

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

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

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

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

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

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

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

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

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

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
- (b) the grant of this Option is voluntary and occasional and does not create any contractual or other right to receive future grants of stock options, or benefits in lieu of stock options, even if stock options have been granted in the past;
- (c) all decisions with respect to future stock options or other grants, if any, will be at the sole discretion of the Company;
- (d) you are voluntarily participating in the Plan;
- (e) this Option and any Shares acquired under the Plan, and the income and value of same, are not intended to replace any pension rights or compensation;
- (f) this Option and any Shares acquired under the Plan, and the income and value of same, are not part of normal or expected compensation for purpose of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or payments or welfare benefits or similar payments;
- (g) unless otherwise agreed with the Company, this Option and any Shares acquired under the Plan, and the income and value of same, are not granted as consideration for, or in connection with, any Service you may provide as a director of any Parent, Subsidiary or Affiliate;
- (h) the future value of the Shares underlying this Option is unknown, indeterminable, and cannot be predicted with certainty;
- (i) if the underlying Shares do not increase in value, this Option will have no value;

(j) if you exercise this Option and acquire Shares, the value of such Shares may increase or decrease in value, even below the Exercise Price;

(k) no claim or entitlement to compensation or damages shall arise from forfeiture of this Option resulting from the termination of your Service (for any reason whatsoever, whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or service agreement, if any), and in consideration of the grant of this Option to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, the Employer or any Parent, Subsidiary or Affiliate, waive your ability, if any, to bring any such claim, and release the Company, the Employer or any Parent, Subsidiary or Affiliate from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claim; and

(l) if you are providing Service outside the United States, neither the Employer, the Company nor any Parent, Subsidiary or Affiliate shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of this Option or of any amounts due to you pursuant to the exercise of this Option or the subsequent sale of any Shares acquired upon exercise.

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

11. Consent to Electronic Delivery and Acceptance of All Plan Documents and Disclosures. By your acceptance of this Option, you consent to the electronic delivery of the Notice of Grant, this Agreement, account statements, Plan prospectuses required by the SEC, U.S. financial reports of the Company, and all other documents that the Company is required to deliver to its stockholders (including, without limitation, annual reports and proxy statements) or other communications or information related to this Option. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other delivery determined at the Company's discretion. You acknowledge that you may receive from the Company a paper copy of any documents delivered electronically at no cost if you contact the Company by telephone, through a postal service or electronic mail at sonos-stockadmin@sonos.com. You further acknowledge that you will be provided with a paper copy of any documents delivered electronically if electronic delivery fails; similarly, you understand that you must provide on request to the Company or any designated third party a paper copy of any documents delivered electronically if electronic delivery fails. You agree to participate in the Plan through an on-line or electronic system established and maintained by the

Company or a third party designated by the Company. Also, you understand that your consent may be revoked or changed, including any change in the electronic mail address to which documents are delivered (if you have provided an electronic mail address), at any time by notifying the Company of such revised or revoked consent by telephone, postal service or electronic mail at sonos-stockadmin@sonos.com. Finally, you understand that you are not required to consent to electronic delivery.

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

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

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

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

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

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

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

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

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

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

You acknowledge that it is your responsibility to comply with any applicable restrictions, and you are advised to speak to your personal advisor on this matter.

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

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

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

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

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

NOTICE OF RESTRICTED STOCK UNIT AWARD

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 (as amended from time to time, the “**Plan**”) shall have the same meanings in this Notice of Restricted Stock Unit Award (the “**Notice**”) and the attached Award Agreement, including the International Supplement attached 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 “**RSU Agreement**”). You (“**you**”) have been granted an award of Restricted Stock Units (“**RSUs**”) under the Plan subject to the terms and conditions of the Plan, this Notice and the attached RSU Agreement. Each RSU represents the conditional right to receive, without payment but subject to the terms, conditions and limitations set forth in this Notice, the RSU 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: _____

Address: _____

Number of RSUs: _____

Date of Grant: _____

Vesting Commencement Date: _____

Vesting Dates: _____

Vesting Schedule: _____

Vesting Acceleration: [Notwithstanding the foregoing and anything contrary in the RSU Agreement or the Plan, if your Service is terminated by the Company or a successor corporation as a result of an Involuntary Termination (as defined below) within the period of time commencing two (2) months prior to a Corporate Transaction and ending twelve (12) months following a Corporate Transaction, to the extent that the RSUs are then outstanding, you shall also fully vest in the Accelerated RSUs (as defined below).

Notwithstanding anything contrary in the RSU Agreement or the Plan, if you are subject to an Involuntary Termination prior to a Corporate Transaction, your then-unvested RSUs

shall remain outstanding for two (2) months, but shall not continue to vest following such Involuntary Termination, other than pursuant to the vesting acceleration described immediately above upon a Corporate Transaction that occurs within such period.

“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, to the extent required by Section 409A, provided that such resignation or termination constitutes a “separation from service” within the meaning of Section 409A.

“Cause” means any of the following: (i) any act of personal dishonesty, taken by you in connection with your responsibilities as a service provider of the Company, which is intended to result in your personal enrichment, (ii) your conviction of, or plea of nolo contendere to, a felony, (iii) any act by you that constitutes material misconduct and is injurious to the Company, or (iv) continued violations by you of your obligations to the Company.

“Accelerated RSUs” means 100% of the then-unvested RSUs.]

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

RESTRICTED STOCK UNIT AWARD AGREEMENT

SONOS, INC. 2018 EQUITY INCENTIVE PLAN

You have been granted Restricted Stock Units (“*RSUs*”) by Sonos, Inc. (the “*Company*”), subject to the terms, restrictions and conditions of the Sonos, Inc. 2018 Equity Incentive Plan (the “*Plan*”), the attached Notice of Restricted Stock Unit Award (the “*Notice*”) and this Restricted Stock Unit 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, this “*RSU Agreement*”).

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

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

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

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

(d) you are voluntarily participating in the Plan;

(e) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not intended to replace any pension rights or compensation;

(f) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(g) unless otherwise agreed with the Company, the RSUs and any Shares acquired under the Plan, and the income and value of same, are not granted as consideration for, or in connection with, any service you may provide as a director of the Company or of a Parent or Subsidiary of the Company;

(h) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(i) no claim or entitlement to compensation or damages shall arise from forfeiture of the RSUs resulting from the termination of your Service (for any reason whatsoever whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are providing Service or the terms of your employment or service agreement, if any), and in consideration of the

grant of the RSUs to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, the Employer (as defined below), or any other Parent or Subsidiary of the Company, waive your ability, if any, to bring any such claim, and release the Company, the Employer and its Parent or Subsidiaries from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claim; and

(j) the following provisions apply only if you are providing Service outside the United States:

(i) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not part of normal or expected compensation or salary for any purpose; and

(ii) neither the Company, the Employer nor any Parent or Subsidiary of the Company shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of the RSUs or the subsequent sale of any Shares acquired upon settlement.

2. **Settlement.** Settlement of RSUs shall be made, in any case, on or before March 15 of the calendar year following the calendar year of the applicable date of vesting under the vesting schedule set forth in the Notice. Settlement of RSUs shall be in Shares. Settlement means the delivery to you of the Shares vested under the RSUs. Fractional Shares will not be issued.

3. **No Stockholder Rights.** Unless and until such time as Shares are issued in settlement of vested RSUs, you shall have no ownership of the Shares allocated to the RSUs and shall have no right to dividends or to vote such Shares.

4. **Dividend Equivalents.** Dividend equivalents, if any, shall not be credited to you, except as otherwise permitted by the Committee.

5. **No Transfer.** RSUs may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of in any manner, other than by will or by the laws of descent or distribution, by court order, or as otherwise permitted by the Committee on a case-by-case basis.

6. **Termination.** Except as otherwise expressly provided in the Notice, if your Service terminates for any reason, all unvested RSUs shall be forfeited to the Company forthwith, and all rights you have to such RSUs shall immediately terminate, without payment of any consideration to you. For purposes of this award of RSUs, your Service will be considered terminated as of the date you are no longer providing Service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or the terms of your employment or service agreement, if any) and will not be extended by any notice period mandated under local employment laws (e.g., Service would not include a period of "garden leave" or similar period). In case of any dispute as to whether your termination of Service has occurred, the Committee shall have sole discretion to determine whether such termination has occurred (including whether you may still be considered to be providing Services while on a leave of absence) and the effective date of such termination.

7. **Tax Consequences.** You acknowledge that there will be certain consequences with regard to income tax, national or social insurance contributions, payroll tax, fringe benefits tax, payment on account or other tax-related items (“***Tax-Related Items***”) upon vesting and/or settlement of the RSUs 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 RSUs, 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 RSUs to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. You acknowledge that if you are subject to Tax-Related Items in more than one jurisdiction, the Company and/or the Employer may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

You acknowledge that the Company’s obligation to issue or deliver Shares shall be subject to your satisfaction of all Company and/or Employer withholding obligations for Tax-Related Items that arise as a result of this Award and the vesting and/or settlement of the RSUs that are subject to this Award. In this regard, you authorize the Company and/or the Employer, and their respective agents, to withhold Shares that otherwise would be issued to you upon settlement of the RSUs to satisfy the Company and/or the Employer’s tax withholding obligations. You acknowledge that you will not receive a refund in cash or Shares from the Company and/or the Employer with respect to any withheld Shares, 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 RSUs, notwithstanding that a number of the Shares are 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 RSUs are granted under and governed by the Notice, this RSU Agreement and the provisions of the Plan. You: (i) acknowledge receipt of a copy of the Plan and the Plan’s prospectus; (ii) represent that you have carefully read and are familiar with the provisions in the grant documents; and (iii) hereby accept the RSUs subject to all of the terms and conditions set forth in the Plan, the Notice and this RSU 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 RSU Agreement.

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

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

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

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

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

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

16. Consent to Electronic Delivery and Acceptance of All Plan Documents and Disclosures. By your acceptance of this award of RSUs, you consent to the electronic delivery of the Notice, this RSU Agreement, the Plan, account statements, Plan prospectuses required by the 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 RSUs. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via 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 RSU Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

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

20. Imposition of Other Requirements. The Company reserves the right to impose other requirements on your participation in the Plan, on the RSUs and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative

reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

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

22. Code Section 409A. For purposes of this RSU Agreement, a termination of employment will be determined consistent with the rules relating to a “separation from service” as defined in Section 409A of the Code and the regulations thereunder (“**Section 409A**”). Notwithstanding anything else provided herein, to the extent any payments provided under this RSU Agreement in connection with your termination of employment constitute deferred compensation subject to Section 409A, and you are deemed at the time of such termination of employment to be a “specified employee” under Section 409A, then such payment shall not be made or commence until the earlier of (i) the expiration of the six- (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 RSU Agreement may be classified as a “short-term deferral” within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this Section 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 RSUs shall be subject to clawback or recoupment pursuant to any clawback or recoupment policy adopted by the Board or required by law during the term of your employment or other Service that is applicable to you. In addition to any other remedies available under such policy, applicable law may require the cancellation of the RSUs (whether vested or unvested) and the recoupment of any gains realized with respect to the RSUs.

* * * *

BY ACCEPTING THIS RESTRICTED STOCK UNIT 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: _____

Name: [●]

Title: [●]

Accepted and agreed:

[NAME]

INTERNATIONAL SUPPLEMENT

**SONOS, INC.
2018 EQUITY INCENTIVE PLAN**

(attached)

**NOTICE OF RESTRICTED STOCK UNIT AWARD
(NON-EMPLOYEE DIRECTOR)**

**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 (as amended from time to time, the “*Plan*”) shall have the same meanings in this Notice of Restricted Stock Unit Award (the “*Notice*”) and the attached Award Agreement, including the International Supplement attached 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 “*RSU Agreement*”). You (“*you*”) have been granted an award of Restricted Stock Units (“*RSUs*”) under the Plan subject to the terms and conditions of the Plan, this Notice and the attached RSU Agreement. Each RSU represents the conditional right to receive, without payment but subject to the terms, conditions and limitations set forth in this Notice, the RSU 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: _____

Address: _____

Number of RSUs: _____

Date of Grant: _____

Vesting Commencement Date: _____

Vesting Schedule: The earlier of (i) the one- (1) year anniversary of the Date of Grant and (ii) the next annual meeting of the Company’s stockholders following the Date of Grant (i.e., the [] annual meeting), in each case, subject to your continued service as a director as described herein (such earlier date, the “*Vesting Date*”).

Vesting Acceleration: Notwithstanding the foregoing and anything contrary in the RSU Agreement or the Plan, if a Corporate Transaction occurs prior to the Vesting Date, your RSUs will vest in full upon such Corporate Transaction.

In addition, if you cease to provide service as a director prior to the Vesting Date for any reason other than Cause (as defined in the Plan), your RSUs will vest upon such cessation of service on a pro-rata basis determined by multiplying the total number of shares covered by the RSUs

by a fraction, the numerator of which is the number of whole months that you provided service as a director since the Date of Grant, and the denominator of which is twelve (12).

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

RESTRICTED STOCK UNIT AWARD AGREEMENT

SONOS, INC. 2018 EQUITY INCENTIVE PLAN

You have been granted Restricted Stock Units (“*RSUs*”) by Sonos, Inc. (the “*Company*”), subject to the terms, restrictions and conditions of the Sonos, Inc. 2018 Equity Incentive Plan (the “*Plan*”), the attached Notice of Restricted Stock Unit Award (the “*Notice*”) and this Restricted Stock Unit 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, this “*RSU Agreement*”).

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

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

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

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

(d) you are voluntarily participating in the Plan;

(e) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not intended to replace any pension rights or compensation;

(f) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(g) unless otherwise agreed with the Company, the RSUs and any Shares acquired under the Plan, and the income and value of same, are not granted as consideration for, or in connection with, any service you may provide as a director of the Company or of a Parent or Subsidiary of the Company;

(h) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(i) no claim or entitlement to compensation or damages shall arise from forfeiture of the RSUs resulting from the termination of your Service (for any reason whatsoever whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are providing Service or the terms of your employment or service agreement, if any), and in consideration of the

grant of the RSUs to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, the Employer (as defined below), or any other Parent or Subsidiary of the Company, waive your ability, if any, to bring any such claim, and release the Company, the Employer and its Parent or Subsidiaries from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claim; and

(j) the following provisions apply only if you are providing Service outside the United States:

(i) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not part of normal or expected compensation or salary for any purpose; and

(ii) neither the Company, the Employer nor any Parent or Subsidiary of the Company shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of the RSUs or the subsequent sale of any Shares acquired upon settlement.

2. Settlement. Settlement of RSUs shall be made, in any case, within thirty (30) days following the date the RSUs vest as provided for in the Notice; provided, however, that settlement of the RSUs will be governed by the terms of the applicable deferral election if you have elected to defer settlement in accordance with the policies of the Company in effect from time to time (it being understood that, in the case of any portion of the RSUs the settlement of which is deferred, the proviso set forth in Section 6.1 of the Plan shall not apply). Settlement of RSUs shall be in Shares. Settlement means the delivery to you of the Shares vested under the RSUs. Fractional Shares will not be issued.

3. No Stockholder Rights. Unless and until such time as Shares are issued in settlement of vested RSUs, you shall have no ownership of the Shares allocated to the RSUs and shall have no right to dividends or to vote such Shares.

4. Dividend Equivalents. Dividend equivalents, if any, shall not be credited to you, except as otherwise permitted by the Committee.

5. No Transfer. RSUs may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of in any manner, other than by will or by the laws of descent or distribution, by court order, or as otherwise permitted by the Committee on a case-by-case basis.

6. Termination. Except as otherwise expressly provided in the Notice, if your Service terminates for any reason, all unvested RSUs shall be forfeited to the Company forthwith, and all rights you have to such RSUs shall immediately terminate, without payment of any consideration to you. For purposes of this award of RSUs, your Service will be considered terminated as of the date you are no longer providing Service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or the terms of your employment or service agreement, if any) and will not be extended by any notice period mandated under local employment laws (e.g., Service would not include a period of “garden leave” or similar period). In case of any dispute as to whether your termination of Service

has occurred, the Committee shall have sole discretion to determine whether such termination has occurred (including whether you may still be considered to be providing Services while on a leave of absence) and the effective date of such termination.

7. **Tax Consequences.** You acknowledge that there will be certain consequences with regard to income tax, national or social insurance contributions, payroll tax, fringe benefits tax, payment on account or other tax-related items ("***Tax-Related Items***") upon vesting and/or settlement of the RSUs 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.** You acknowledge that you are responsible for satisfying and paying all Tax-Related Items arising from or due in connection with the vesting and/or settlement of the RSUs or disposition of the Shares, if any, received in connection therewith. The Company will have no liability or obligation related to the foregoing.

9. **Acknowledgement.** The Company and you agree that the RSUs are granted under and governed by the Notice, this RSU Agreement and the provisions of the Plan. You: (i) acknowledge receipt of a copy of the Plan and the Plan's prospectus; (ii) represent that you have carefully read and are familiar with the provisions in the grant documents; and (iii) hereby accept the RSUs subject to all of the terms and conditions set forth in the Plan, the Notice and this RSU 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 RSU Agreement.

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

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

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

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

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

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

16. Consent to Electronic Delivery and Acceptance of All Plan Documents and Disclosures. By your acceptance of this award of RSUs, you consent to the electronic delivery of the Notice, this RSU Agreement, the Plan, account statements, Plan prospectuses required by the 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 RSUs. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via 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.

stockadmin@sonos.com. Finally, you understand that you are not required to consent to electronic delivery.

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

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

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

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

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

22. Code Section 409A. For purposes of this RSU Agreement, a termination of employment will be determined consistent with the rules relating to a “separation from service” as defined in Section 409A of the Code and the regulations thereunder (“**Section 409A**”). Notwithstanding anything else provided herein, to the extent any payments provided under this RSU Agreement in connection with your termination of employment constitute deferred compensation subject to Section 409A, and you are deemed at the time of such termination of employment to be a “specified employee” under Section 409A, then such payment shall not be made or commence until the earlier of (i) the expiration of the six- (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 RSU Agreement may be classified as a “short-term deferral” within the

meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this Section 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 RSUs shall be subject to clawback or recoupment pursuant to any clawback or recoupment policy adopted by the Board or required by law during the term of your employment or other Service that is applicable to you. In addition to any other remedies available under such policy, applicable law may require the cancellation of the RSUs (whether vested or unvested) and the recoupment of any gains realized with respect to the RSUs.

* * * *

BY ACCEPTING THIS RESTRICTED STOCK UNIT 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: _____

Name: [●]

Title: [●]

Accepted and agreed:

[NAME]

INTERNATIONAL SUPPLEMENT

**SONOS, INC.
2018 EQUITY INCENTIVE PLAN**

(attached)

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

Under the Sonos, Inc. 2018 Equity Incentive Plan ("Plan") and as permitted by the Compensation, People and Diversity & Inclusion Committee, I hereby elect to defer the delivery of ____%¹ of the shares underlying my initial RSU award to the following Elected Delivery Date (**check one**)²:

____ Separation from Service³
____ On ____ / ____ / ____ (**must be after the one-year anniversary of the date of grant**)⁴

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

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

/2/ If you make an Elected Delivery Date election, the delivery date will be within thirty (30) days following such Elected Delivery Date, or, if earlier, within thirty (30) days following the date of your death occurring prior to such Elected Delivery Date. In addition, in the event of a change in the ownership or effective control of Sonos, or in the event of a change in the ownership of a substantial portion of the assets of Sonos, each as determined in accordance with Section 409A (a "Section 409A Change of Control"), your delivery date for purposes of this election will instead be the date of closing of the Section 409A Change of Control.

/3/ If you make a "Separation from Service" election the delivery date will be within thirty (30) days following the date that you terminate service on the Board, regardless of the reason for such termination. To receive payment upon such termination of Service, it must constitute a "separation from service" within the meaning of Section 409A. In the event of a termination of Service on the Board that meets the requirements set forth herein, to the extent necessary to comply with Section 409A, your delivery date will be the date that is six (6) months and one (1) day following the date of such separation (or, if earlier, upon your death following such separation). In addition, in the event of a Section 409A Change of Control, your delivery date for purposes of this election will instead be the date of closing of the Section 409A Change of Control.

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

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

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

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

Under the Sonos, Inc. 2018 Equity Incentive Plan ("Plan") and as permitted by the Compensation, People and Diversity & Inclusion Committee, I hereby elect to defer the delivery of ____%¹ of the shares underlying my ____ RSU award to the following Elected Delivery Date (**check one**)²:

____ Separation from Service³
____ On ____ / ____ / ____ (**must be after the one-year anniversary of the date of grant**)⁴

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

_____ Date	_____ Director's Signature	_____ Director's Printed Name
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/1/ The number of shares is not determined until the date of grant; accordingly, please indicate a percentage of total shares rather than a number of shares. For reference, under Sonos' Director Compensation Policy, non-employee directors currently receive an annual grant of RSUs with a fair market value on the date of grant equal to \$_____. The date of grant for the ____ RSU award is expected to be the date of the ____ annual meeting of Sonos, which is expected to occur in the first quarter of ____.

/2/ If you make an Elected Delivery Date election the delivery date will be within thirty (30) days following such Elected Delivery Date, or, if earlier, within thirty (30) days following the date of your death occurring prior to such Elected Delivery Date. In addition, in the event of a change in the ownership or effective control of Sonos, or in the event of a change in the ownership of a substantial portion of the assets of Sonos, each as determined in accordance with Section 409A (a "Section 409A Change of Control"), your delivery date for purposes of this election will instead be the date of closing of the Section 409A Change of Control.

/3/ If you make a "Separation from Service" election the delivery date will be within thirty (30) days following the date that you terminate service on the Board, regardless of the reason for such termination. To receive payment upon such termination of Service, it must constitute a "separation from service" within the meaning of Section 409A. In the event of a termination of Service on the Board that meets the requirements set forth herein, to the extent necessary to comply with Section 409A, your delivery date will be the date that is six (6) months and one (1) day following the date of such separation (or, if earlier, upon your death following such separation). In addition, in the event of a Section 409A Change of Control, your delivery date for purposes of this election will instead be the date of closing of the Section 409A Change of Control.

/4/ Your ____ RSU award is expected to vest in full on the earlier of (i) the next annual meeting of shareholders following the ____ annual meeting of shareholders or (ii) _____.

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

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick Spence, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonos, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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 11, 2021

/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 11, 2021

/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 July 3, 2021 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 11, 2021

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 July 3, 2021 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 11, 2021

By:

/s/ Brittany Bagley

Brittany Bagley

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