

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 2, 2022
or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number: 001-38603

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

Delaware (State or other jurisdiction of incorporation or organization)	03-0479476 (I.R.S. Employer Identification No.)
614 Chapala Street (Address of Principal Executive Offices)	Santa Barbara CA 93101 (Zip Code)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

As of April 30, 2022, the registrant had 127,888,720 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of	
	April 2, 2022	October 2, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 606,744	\$ 640,101
Accounts receivable, net of allowances	111,388	100,779
Inventories	264,405	185,130
Prepays and other current assets	28,175	31,504
Total current assets	1,010,712	957,514
Property and equipment, net	71,973	71,341
Operating lease right-of-use assets	30,660	33,841
Goodwill	37,726	15,545
Intangible assets, net	28,888	24,450
Deferred tax assets	9,871	10,028
Other noncurrent assets	36,401	26,085
Total assets	\$ 1,226,231	\$ 1,138,804
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 271,005	\$ 214,996
Accrued expenses	100,344	108,029
Accrued compensation	32,365	77,695
Deferred revenue, current	18,438	35,866
Other current liabilities	41,584	39,544
Total current liabilities	463,736	476,130
Operating lease liabilities, noncurrent	29,342	33,960
Deferred revenue, noncurrent	58,196	53,632
Deferred tax liabilities	2,394	2,394
Other noncurrent liabilities	879	3,646
Total liabilities	554,547	569,762
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, \$0.001 par value	130	129
Treasury stock	(36,831)	(50,276)
Additional paid-in capital	647,871	690,462
Retained earnings (accumulated deficit)	62,150	(69,897)
Accumulated other comprehensive loss	(1,636)	(1,376)
Total stockholders' equity	671,684	569,042
Total liabilities and stockholders' equity	\$ 1,226,231	\$ 1,138,804

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

SONOS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Revenue	\$ 399,781	\$ 332,949	\$ 1,064,262	\$ 978,532
Cost of revenue	220,747	167,173	567,843	513,331
Gross profit	179,034	165,776	496,419	465,201
Operating expenses				
Research and development	64,947	56,370	126,277	108,717
Sales and marketing	59,955	57,205	143,691	131,658
General and administrative	44,090	39,806	83,816	75,047
Total operating expenses	168,992	153,381	353,784	315,422
Operating income	10,042	12,395	142,635	149,779
Other income (expense), net				
Interest income	123	44	156	80
Interest expense	(90)	(182)	(187)	(448)
Other income (expense), net	(2,281)	(1,578)	(3,683)	2,680
Total other income (expense), net	(2,248)	(1,716)	(3,714)	2,312
Income before provision for (benefit from) income taxes	7,794	10,679	138,921	152,091
Provision for (benefit from) income taxes	(772)	(6,542)	6,874	2,578
Net income	\$ 8,566	\$ 17,221	\$ 132,047	\$ 149,513
Net income attributable to common stockholders:				
Basic and diluted	\$ 8,566	\$ 17,221	\$ 132,047	\$ 149,513
Net income per share attributable to common stockholders:				
Basic	\$ 0.07	\$ 0.14	\$ 1.03	\$ 1.26
Diluted	\$ 0.06	\$ 0.12	\$ 0.94	\$ 1.09
Weighted-average shares used in computing net income per share attributable to common stockholders:				
Basic	128,112,234	121,880,615	127,887,530	118,745,569
Diluted	139,642,570	143,055,546	140,982,509	136,849,846
Total comprehensive income				
Net income	8,566	17,221	132,047	149,513
Change in foreign currency translation adjustment	100	199	(260)	1,046
Comprehensive income	\$ 8,666	\$ 17,420	\$ 131,787	\$ 150,559

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)

	<u>Common Stock</u>			<u>Treasury Stock</u>		<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>	<u>Shares</u>	<u>Amount</u>			
Balance at October 2, 2021	128,857,085	\$ 129	\$ 690,462	(1,871,812)	\$ (50,276)	\$ (69,897)	\$ (1,376)	\$ 569,042
Issuance of common stock pursuant to equity incentive plans	2,030,373	2	13,230	—	—	—	—	13,232
Retirement of treasury stock	(1,010,286)	(1)	(38,647)	1,010,286	38,648	—	—	—
Repurchase of common stock	—	—	—	(1,032,249)	(31,365)	—	—	(31,365)
Repurchase of common stock related to shares withheld for tax in connection with vesting of restricted stock unit awards ("RSUs")	—	—	—	(344,198)	(11,882)	—	—	(11,882)
Stock-based compensation expense	—	—	17,459	—	—	—	—	17,459
Net income	—	—	—	—	—	123,481	—	123,481
Change in foreign currency translation adjustment	—	—	—	—	—	—	(360)	(360)
Balance at January 1, 2022	129,877,172	\$ 130	\$ 682,504	(2,237,973)	\$ (54,875)	\$ 53,584	\$ (1,736)	\$ 679,607
Issuance of common stock pursuant to equity incentive plans	2,500,969	2	16,019	—	—	—	—	16,021
Retirement of treasury stock	(2,418,184)	(2)	(71,877)	2,418,184	71,879	—	—	—
Repurchase of common stock	—	—	—	(1,611,921)	(43,115)	—	—	(43,115)
Repurchase of common stock related to shares withheld for tax in connection with vesting of RSUs	—	—	—	(376,925)	(10,720)	—	—	(10,720)
Stock-based compensation expense	—	—	21,225	—	—	—	—	21,225
Net income	—	—	—	—	—	8,566	—	8,566
Change in foreign currency translation adjustment	—	—	—	—	—	—	100	100
Balance at April 2, 2022	129,959,957	\$ 130	\$ 647,871	(1,808,635)	\$ (36,831)	\$ 62,150	\$ (1,636)	\$ 671,684

	Common Stock			Treasury Stock		Accumulat ed Deficit	Accumulated Other Comprehens ive Loss	Total Stockholde rs' Equity
	Shares	Amount	Additional Paid-In Capital	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 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

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

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

	Six Months Ended	
	April 2, 2022	April 3, 2021
Cash flows from operating activities		
Net income	\$ 132,047	\$ 149,513
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,792	16,725
Stock-based compensation expense	38,684	31,207
Other	4,357	344
Deferred income taxes	(129)	(146)
Foreign currency transaction (gain) loss	2,267	(1,047)
Changes in operating assets and liabilities:		
Accounts receivable, net	(12,786)	(13,260)
Inventories	(86,153)	39,631
Other assets	(6,082)	(21,982)
Accounts payable and accrued expenses	51,643	(36,485)
Accrued compensation	(45,084)	2,087
Deferred revenue	(11,834)	8,374
Other liabilities	(3,348)	992
Net cash provided by operating activities	82,374	175,953
Cash flows from investing activities		
Purchases of property and equipment, intangible and other assets	(15,665)	(19,927)
Cash paid for acquisitions, net of acquired cash	(27,101)	—
Net cash used in investing activities	(42,766)	(19,927)
Cash flows from financing activities		
Payments for debt issuance costs	(929)	—
Payments of borrowings	—	(25,000)
Payments for repurchase of common stock	(74,482)	(682)
Proceeds from exercise of common stock options	29,254	119,166
Payments for repurchase of common stock related to shares withheld for tax in connection with vesting of RSUs	(22,601)	(18,821)
Net cash provided by (used in) financing activities	(68,758)	74,663
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(4,207)	1,139
Net increase (decrease) in cash, cash equivalents and restricted cash	(33,357)	231,828
Cash, cash equivalents and restricted cash		
Beginning of period	640,101	407,291
End of period	\$ 606,744	\$ 639,119
Supplemental disclosure		
Cash paid for interest	\$ 85	\$ 357
Cash paid for taxes, net of refunds	\$ 8,916	\$ 3,255
Cash paid for amounts included in the measurement of lease liabilities	\$ 7,800	\$ 11,683
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment in accounts payable and accrued expenses	\$ 7,869	\$ 8,910
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 2,245	\$ 1,622

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 2, 2021, 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 2, 2021, (the “Annual Report”), filed with the SEC on November 22, 2021.

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 six months ended April 2, 2022, 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 six months ended April 2, 2022, and April 3, 2021, spanned 26 weeks each. As used in this Quarterly Report on Form 10-Q, “fiscal 2022” refers to the fiscal year ending October 1, 2022, “fiscal 2021” refers to the fiscal year ended 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.

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

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

2. Summary of Significant Accounting Policies

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

Recently adopted accounting pronouncements

In December 2019, the Financial Accounting Standards Board ("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. The Company adopted this standard in the first quarter of fiscal 2022. The adoption did not have a material impact on the Company's condensed consolidated financial statements.

Recent accounting pronouncements pending adoption

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This update requires that an entity recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. This standard is effective for the Company in the first quarter of fiscal 2024, with early adoption permitted. The Company is currently evaluating the pronouncement and does not expect it to have a material impact on the Company's consolidated financial statements or disclosures.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of Effects of Reference Rate Reform on Financial Reporting, and then issued a subsequent amendment to the initial guidance under ASU No. 2021-01 (collectively Topic 848). Topic 848 provides practical expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, derivatives, and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the amendments in this update apply only to contracts, hedging relationships, derivatives, and other transactions that reference the London interbank offered rate ("LIBOR") or another reference rate expected to be discontinued as a result of reference rate reform. Topic 848 is currently effective and upon adoption may be applied prospectively to contract modifications and hedging relationships made on or before December 31, 2022. The Company is currently evaluating the pronouncement to determine the impact it may have on the Company's condensed 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 April 2, 2022, and October 2, 2021:

	April 2, 2022			
	Level 1	Level 2	Level 3	Total
(In thousands)				
Assets:				
Money market funds (cash equivalents)	\$ 411,573	\$ —	\$ —	\$ 411,573

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

	October 2, 2021			
	Level 1	Level 2	Level 3	Total
(In thousands)				
Assets:				
Money market funds (cash equivalents)	\$ 484,482	\$ —	\$ —	\$ 484,482

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, is as follows:

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
(In thousands)				
Americas	\$ 238,193	\$ 193,938	\$ 612,006	\$ 561,177
Europe, Middle East and Africa (“EMEA”)	128,431	114,306	373,912	354,313
Asia Pacific (“APAC”)	33,157	24,705	78,344	63,042
Total revenue	<u>\$ 399,781</u>	<u>\$ 332,949</u>	<u>\$ 1,064,262</u>	<u>\$ 978,532</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		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
(In thousands)				
United States	\$ 219,082	\$ 178,019	\$ 566,729	\$ 508,915
Other countries	180,699	154,930	497,533	469,617
Total revenue	<u>\$ 399,781</u>	<u>\$ 332,949</u>	<u>\$ 1,064,262</u>	<u>\$ 978,532</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		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
(In thousands)				
Sonos speakers	\$ 317,734	\$ 267,534	\$ 819,620	\$ 795,050
Sonos system products	61,220	52,062	195,965	149,820
Partner products and other revenue	20,827	13,353	48,677	33,662
Total revenue	<u>\$ 399,781</u>	<u>\$ 332,949</u>	<u>\$ 1,064,262</u>	<u>\$ 978,532</u>

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

5. Balance Sheet Components

Accounts receivable, net of allowances

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

	<u>April 2, 2022</u>	<u>October 2, 2021</u>
(In thousands)		
Accounts receivable	\$ 128,989	\$ 121,486
Allowance for credit losses	(1,913)	(1,547)
Allowance for sales incentives	(15,688)	(19,160)
Accounts receivable, net of allowances	<u>\$ 111,388</u>	<u>\$ 100,779</u>

Inventories

Inventories, net, consist of the following:

	<u>April 2, 2022</u>	<u>October 2, 2021</u>
(In thousands)		
Finished goods	\$ 208,476	\$ 154,608
Component parts	55,929	30,522
Inventories	<u>\$ 264,405</u>	<u>\$ 185,130</u>

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

Goodwill

The following table presents the changes in carrying amount of goodwill during the six months ended April 2, 2022:

(In thousands)	
Balance as of October 2, 2021	\$ 15,545
Goodwill acquired	22,181
Balance as of April 2, 2022	<u>\$ 37,726</u>

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

Intangible assets

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

		April 2, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Life
(In thousands, except weighted-average remaining life)				
Technology	\$ 13,931	\$ (5,143)	\$ 8,788	2.63
Total finite-lived intangible assets	13,931	(5,143)	8,788	2.63
In-process research and development not subject to amortization	20,100	—	20,100	
Total intangible assets	\$ 34,031	\$ (5,143)	\$ 28,888	

The following table summarizes the estimated future amortization expense of the Company's intangible assets as of April 2, 2022:

Fiscal years ending (In thousands)	Future Amortization Expense
Remainder of fiscal 2022	\$ 1,931
2023	3,237
2024	3,024
2025	423
2026	94
2027 and there after	79
Total future amortization expense	<u>\$ 8,788</u>

Cloud Computing Arrangements

Beginning in fiscal 2020, and continuing through fiscal 2021, the Company began activities to replace its legacy enterprise resource management system in order to accommodate the Company's expanding operations. Capitalized costs were \$22.6 million and \$14.3 million as of April 2, 2022, and October 2, 2021, respectively, and are reported as a component of other assets on the Company's condensed consolidated balance sheets.

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

Accrued expenses

Accrued expenses consisted of the following:

	<u>April 2, 2022</u>	<u>October 2, 2021</u>
(In thousands)		
Accrued advertising and marketing	\$ 13,751	\$ 19,989
Accrued taxes	13,710	16,941
Accrued inventory	25,971	37,117
Accrued manufacturing, logistics and product development	17,647	14,943
Accrued general and administrative expenses	20,010	13,066
Other accrued payables	9,255	5,973
Total accrued expenses	<u>\$ 100,344</u>	<u>\$ 108,029</u>

Deferred revenue

Amounts invoiced in advance of revenue recognition are recorded as deferred revenue on the condensed consolidated balance sheets. Deferred revenue primarily related to revenue allocated to unspecified software upgrades and cloud-based services. Recognition of revenue includes \$18.8 million of deferred revenue from the fourth quarter of fiscal 2021 related to newly launched products sold to resellers not recognized as revenue until the date of general availability was reached, which was in the first quarter of fiscal 2022.

The following table presents the changes in the Company's deferred revenue for the six months ended April 2, 2022, and April 3, 2021:

	<u>April 2, 2022</u>	<u>April 3, 2021</u>
(In thousands)		
Deferred revenue, beginning of period	\$ 89,498	\$ 62,389
Recognition of revenue included in beginning of period deferred revenue	(28,927)	(7,883)
Revenue deferred, net of revenue recognized on contracts in the respective period	16,063	16,383
Deferred revenue, end of period	<u>\$ 76,634</u>	<u>\$ 70,889</u>

The Company expects the following recognition of deferred revenue as of April 2, 2022:

	<u>For the fiscal years ending</u>					
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026 and Beyond</u>	<u>Total</u>
(In thousands)						
Deferred revenue expected to be recognized	\$ 9,750	\$ 16,859	\$ 14,809	\$ 12,498	\$ 22,718	\$ 76,634

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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Other current liabilities

Other current liabilities consist of the following:

	<u>April 2, 2022</u>	<u>October 2, 2021</u>
(In thousands)		
Reserve for returns	\$ 18,839	\$ 19,266
Short-term operating lease liabilities	9,923	10,724
Product warranty liability	8,756	5,604
Other	4,066	3,950
Total other current liabilities	<u>\$ 41,584</u>	<u>\$ 39,544</u>

The following table presents the changes in the Company's warranty liability for the six months ended April 2, 2022, and April 3, 2021:

	<u>April 2, 2022</u>	<u>April 3, 2021</u>
(In thousands)		
Warranty liability, beginning of period	\$ 5,604	\$ 3,628
Provision for warranties issued during the period	7,082	8,844
Settlements of warranty claims during the period	(3,930)	(7,616)
Warranty liability, end of period	<u>\$ 8,756</u>	<u>\$ 4,856</u>

6. Debt

On October 13, 2021, the Company entered into a Revolving Credit Agreement with JPMorgan Chase Bank, N.A., as the administrative agent, and the lenders party thereto (the "Revolving Credit Agreement"). The Revolving Credit Agreement replaced the Company's prior \$80.0 million credit facility with JPMorgan Chase Bank, N.A., which matured in October 2021, in its entirety.

The Revolving Credit Agreement provides for (i) a five-year senior secured revolving credit facility in the amount of up to \$100.0 million and (ii) an uncommitted incremental facility subject to certain conditions. Proceeds are to be used for working capital and general corporate purposes. The facility may be drawn as an Alternative Base Rate Loan (at 1.00% plus an applicable margin) or Eurocurrency Loans (at LIBOR plus an applicable margin). The Company must also pay (i) an unused commitment fee ranging from 0.200% to 0.275% per annum of the average daily unused portion of the aggregate revolving credit commitment under the agreement and (ii) a per annum fee equal to the applicable margin over LIBOR multiplied by the aggregate face amount of outstanding letters of credit. As of April 2, 2022, the Company did not have any outstanding borrowings and had \$2.9 million in undrawn letters of credit that reduce the availability under the Revolving Credit Agreement.

The Company's obligations under the Revolving Credit Agreement are secured by substantially all of the Company's assets. The Revolving Credit Agreement contains customary representations and warranties, customary affirmative and negative covenants, a financial covenant that is tested quarterly and requires the Company to

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maintain a certain consolidated leverage ratio, and customary events of default. As of April 2, 2022, the Company was in compliance with all financial covenants under the Revolving Credit Agreement.

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 by Alphabet and Google 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. On August 13, 2021, an administrative law judge at the ITC issued an initial determination finding all five of Sonos' asserted patents to be valid and infringed by Google. The judge also ruled that certain proposed redesigns of Google products, one specific redesign per patent, would qualify as non-infringing alternatives to Google's current product designs. On January 6, 2022, the ITC ratified the conclusions of the administrative law judge and issued a limited exclusion order and a cease and desist order with respect to a wide range of accused Google products, including Google media players and computer devices configured to control these media players, such as Pixel phones and tablets. On March 4, 2020, the California District Court stayed the district court proceeding pending resolution of the ITC investigation and corresponding appeals. 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. This dispute over venue has now been resolved, with the case proceeding in the Northern District of California, where the judge has bifurcated the case, scheduling early disposition of two representative claims in mid-2022 and trial on all other claims in May 2023. On January 21, 2022, the judge permitted Google to amend its declaratory judgement claim to include claims for breach of contract and conversion against the Company in connection with one of the asserted patents regarding Google and the Company's collaboration in 2013. The Company disputes the claims and intends to defend these claims during the case.

On December 1, 2020, the Company filed a lawsuit against two Google foreign subsidiaries 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. Sonos has chosen to withdraw these preliminary injunction actions after having received some preliminary relief.

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, modifying favorite items 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

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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. In May 2021, the Company filed petitions for review at the United States Patent and Trademark Office ("USPTO") of two Google patents asserted against the Company in this matter, specifically the patents related to modifying favorite items and wireless relays. In October and November 2021, the USPTO instituted review of these patents, with a final decision expected in late 2022. In January 2022, the California District Court judge stayed the litigation against the Company with respect to all common issues.

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 30, 2021, Google appealed the Munich court's ruling, which appeal is still pending.

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 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. On March 8, 2022, the French trial court ruled for Sonos on Google's digital rights management infringement claim. Google has appealed the French trial court's ruling, which appeal is pending. 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. On February 9, 2022, the Midden-Netherlands court rejected Google's claims related to the digital rights management patent. On March 22, 2022, Google appealed the Midden-Netherlands' court decision, which is still pending. A range of loss, if any, associated with these matters is not probable or reasonably estimable as of April 2, 2022.

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 April 2, 2022.

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 speaker products, with the Section 301 tariffs for our core speaker products

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automatically reinstated 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 reinstated on September 1, 2020. Tariff refund claims are subject to review and approval by U.S. Customs and Border Protection. For the three and six months ended April 2, 2022, the Company recognized \$2.9 million and \$4.7 million, respectively, in refunds based upon acceptance of the Company's refund request, recognized as a reduction to cost of revenue. The remaining outstanding tariff refund the Company expects to recover is approximately \$9.5 million. The Company did not record these potential refunds due to uncertainty of the timing of acceptance of approval, but such refunds will be recognized as a reduction to cost of revenue if and when acceptance occurs.

In March 2022, the Company was granted an exclusion extension from the Section 301 tariffs for its core speaker products, including certain new product introductions. This exclusion extension eliminates the tariffs on the Company's core speaker products imported from China from April 13, 2022 to December 31, 2022, and entitles the Company to an estimated refund of \$10.0 million for the tariffs paid from October 12, 2021 to April 12, 2022. The Company did not record these potential refunds due to uncertainty of the timing of acceptance of approval, but such refunds will be recognized as a reduction to cost of revenue if and when acceptance occurs.

8. Stockholders' Equity

On November 17, 2021, the Board of Directors (the "Board") authorized a common stock repurchase program of up to \$150.0 million. During the six months ended April 2, 2022, the Company repurchased 2,644,170 shares for an aggregate purchase price of \$74.5 million at an average price of \$28.15 per share under the repurchase program. The Company had \$75.5 million available for share repurchases under the repurchase program as of April 2, 2022.

Treasury stock during the six months ended April 2, 2022, included shares withheld to satisfy employees' tax withholding requirements in connection with vesting of RSUs. Additionally, during the six months ended April 2, 2022, the Company retired 3,428,470 shares of treasury stock.

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 increases 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 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.

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

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at October 2, 2021	14,545,239	\$ 12.86	5.1	\$ 282,141
Granted	—	—		
Exercised	(2,526,447)	11.59		
Expired	(340)	2.50		
Forfeited	(18,072)	15.05		
Outstanding at April 2, 2022	12,000,380	\$ 13.13	4.9	\$ 174,640
At April 2, 2022				
Options exercisable	11,234,842	\$ 13.06	4.7	\$ 164,249
Options vested and expected to vest	11,940,890	\$ 13.12	4.9	\$ 173,829

As of April 2, 2022, and October 2, 2021, the Company had \$2.5 million and \$6.2 million, respectively, of unrecognized stock-based compensation expense related to stock options, which are expected to be recognized over weighted-average periods of 0.7 and 0.9 years, respectively.

Restricted stock units

Pursuant to the 2018 Plan, the Company issues RSUs to employees and directors. The fair value of RSUs is based on the Company's closing stock price on the trading day immediately preceding the date of grant. RSUs vest quarterly over the service period, which is generally four years, with certain awards subject to an initial annual cliff vest. 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 2, 2021	9,283,525	\$ 12.64	\$ 299,487
Granted	2,958,133	32.04	
Released	(2,004,895)	13.47	
Forfeited	(512,347)	17.55	
Outstanding at April 2, 2022	9,724,416	\$ 18.11	\$ 269,172
At April 2, 2022			
Units expected to vest	8,328,841	\$ 17.73	\$ 230,542

As of April 2, 2022, and October 2, 2021, the Company had \$134.5 million and \$90.0 million of unrecognized stock-based compensation expense related to RSUs, which are expected to be recognized over weighted-average periods of 2.7 and 2.5 years, respectively.

Performance stock units ("PSU")

Pursuant to the 2018 Plan, the Company issues 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

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as appropriate as new or updated information becomes available. The summary of the Company's PSU activity is as follows:

	<u>Number of Units</u>	<u>Weighted-Average Grant Date Fair Value</u>	<u>Aggregate Intrinsic Value</u> (In thousands)
Outstanding at October 2, 2021	158,521	\$ 22.81	\$ 5,114
Granted	252,296	29.71	
Vested	—	—	
Forfeited	—	—	
Outstanding at April 2, 2022	<u>410,817</u>	<u>\$ 27.05</u>	<u>\$ 11,371</u>

As of April 2, 2022, and October 2, 2021, the Company had \$6.8 million and \$3.6 million of unrecognized stock-based compensation expense related to PSUs, which are expected to be recognized over weighted-average periods of 1.1 and 1.2 years, respectively.

Stock-based compensation

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>April 2, 2022</u>	<u>April 3, 2021</u>	<u>April 2, 2022</u>	<u>April 3, 2021</u>
(In thousands)				
Cost of revenue	\$ 377	\$ 261	\$ 705	\$ 474
Research and development	8,091	6,683	14,829	12,942
Sales and marketing	4,177	3,632	7,824	7,040
General and administrative	8,580	5,787	15,326	10,751
Total stock-based compensation expense	<u>\$ 21,225</u>	<u>\$ 16,363</u>	<u>\$ 38,684</u>	<u>\$ 31,207</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.

The Company recorded a benefit from income taxes of \$0.8 million and \$6.5 million for the three months ended April 2, 2022, and April 3, 2021, respectively, related to U.S. and non-U.S. income taxes. The Company recorded a provision for income taxes of \$6.9 million and \$2.6 million for the six months ended April 2, 2022 and April 3, 2021, respectively. For the three months ended April 2, 2022, and April 3, 2021, the Company's tax provision includes a discrete income tax benefit for U.S. share-based compensation. For the six months ended April 2, 2022, the Company's tax provision includes a discrete income tax benefit for the release of a portion of our U.S. valuation allowance as a result of an acquisition in the first quarter and U.S. share-based compensation. For the six months ended April 3, 2021, the Company's tax provision includes a discrete income tax benefit for U.S. share-based compensation.

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For the three and six months ended April 2, 2022, 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 Per Share Attributable to Common Stockholders

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

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
(In thousands, except share and per share data)				
Numerator:				
Net income attributable to common stockholders - basic and diluted	\$ 8,566	\$ 17,221	\$ 132,047	\$ 149,513
Denominator:				
Weighted-average shares of common stock—basic	128,112,234	121,880,615	127,887,530	118,745,569
Effect of potentially dilutive stock options	6,367,917	12,040,149	7,265,077	10,073,032
Effect of RSUs	4,976,580	9,105,551	5,641,563	8,016,629
Effect of PSUs	185,839	29,231	188,339	14,616
Weighted-average shares of common stock—diluted	139,642,570	143,055,546	140,982,509	136,849,846
Net income per share attributable to common stockholders:				
Basic	\$ 0.07	\$ 0.14	\$ 1.03	\$ 1.26
Diluted	\$ 0.06	\$ 0.12	\$ 0.94	\$ 1.09

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Stock options to purchase common stock	6,360,832	7,523,579	6,099,887	12,299,023
Restricted stock units	5,024,253	3,219,598	4,277,081	4,354,744
Performance stock units	115,668	44,217	113,169	22,109
Total	11,500,753	10,787,394	10,490,137	16,675,876

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12. 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 \$2.1 million and \$1.8 million for the three months ended April 2, 2022, and April 3, 2021, respectively. The Company's matching contributions totaled \$4.0 million and \$3.5 million for the six months ended April 2, 2022, and April 3, 2021, respectively.

13. Business Combinations

During the first quarter of fiscal 2022, the Company completed two acquisitions for a combined aggregate cash consideration of approximately \$27.1 million. The acquisitions brought talented employees and strategic intellectual property ("IP") to enhance the experience of Sonos products. The Company accounted for these transactions as business combinations and allocated the purchase consideration to assets acquired and liabilities assumed. In aggregate, \$0.2 million was attributed to net assets acquired, \$6.2 million to intangible assets, \$1.5 million in deferred tax liabilities, and \$22.2 million to goodwill. The goodwill recognized was primarily attributable to the assembled workforce and expected post-acquisition synergies from these acquisitions. Goodwill is not deductible for tax purposes. The transaction costs associated with the acquisitions were not material and were expensed as incurred, as general and administrative expenses in the condensed consolidated statements of operations and comprehensive income. Pro forma results of operations for these acquisitions have not been presented because they are not material to the Company's condensed consolidated financial statements, either individually or in the aggregate.

14. Subsequent Event

On April 8, 2022, the Company completed the acquisition of Mayht Holding BV ("Mayht"), a Netherlands-based company that has invented a new approach to audio transducers. The acquisition will be accounted for as a business combination, and the Company will begin consolidating Mayht's financial results in its condensed consolidated financial statements in the third quarter of fiscal 2022. The Company acquired 100% of the equity interests of Mayht for approximately \$100.0 million in cash. Given the recent date of the acquisition, the Company has not finalized its determination of the fair value of the assets acquired and liabilities assumed.

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, multi-room capabilities, 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 16 consecutive years of sustained revenue growth since our first product launch. 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, accessories such as speaker stands and wall mounts, professional services, licensing, advertising, and subscription revenue.

Recent Developments

The COVID-19 pandemic has persisted, and developments continue to occur rapidly, particularly relating to the emergence of new variants of the virus, as well as new outbreaks and resulting lockdowns globally. COVID-19 has led to significant challenges in our supply chain, consistent with its effect across many industries, including shipping and logistics challenges, significant limits on component supplies, and inflationary pressures. Especially when combined with the strong demand for our products, these supply chain constraints have resulted in delayed product availability for many of our products. During our first half of fiscal 2022, as a result of these broader

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industry-wide supply chain challenges, we continued to experience increased component costs, increased shipping and logistics costs, as well as longer lead times due to new lockdowns in China. We expect these impacts, including potential delayed product availability, to continue for as long as the global supply chain is experiencing these challenges. The pandemic has also delayed our efforts to fully diversify our supply chain into Malaysia. We continue to invest in supply chain initiatives to meet increasing customer demand and address industry-wide capacity challenges.

Additionally, the conflict between Russia and Ukraine has caused further disruptions and uncertainty in the global economy, including increased inflationary pressures, foreign exchange rate fluctuations, and potential cybersecurity risks, and exacerbated supply chain challenges. However, this conflict did not have a material impact on our supply chain or our results of operations for the quarter ended April 2, 2022. The extent to which our business, or the business of our suppliers or manufacturers, will be impacted in the future is unknown. We will continue to monitor the effects of this conflict on our business and our results of operations.

While these events are unprecedented and dynamic, we have considered their impacts based on information currently available 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 and economic and political uncertainty, 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. In the three months ended April 2, 2022, and April 3, 2021, we had net income of \$8.6 million and \$17.2 million, respectively. In the six months ended April 2, 2022, and April 3, 2021, we had net income of \$132.0 million and \$149.5 million, respectively.

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
(In thousands, except percentages)				
Total revenue	\$ 399,781	\$ 332,949	\$ 1,064,262	\$ 978,532
Products sold	1,401	1,039	3,799	3,688
Adjusted EBITDA(1)	\$ 46,854	\$ 48,513	\$ 209,996	\$ 214,779
Adjusted EBITDA margin(1)	11.7 %	14.6 %	19.7 %	21.9 %

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

Products Sold

Products sold represents the number of products that are sold during a period, net of returns 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. 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, the introduction of new products that may have higher or lower than average selling prices, as well as the impact of recognition of previously deferred revenue.

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 and amortization, interest, other income (expense), taxes, and other items that we do not consider representative of our underlying operating performance.

We define adjusted EBITDA margin as adjusted EBITDA divided by revenue. See "Non-GAAP Financial Measures" below for information regarding our use of adjusted EBITDA and adjusted EBITDA margin, and a reconciliation of net income to adjusted EBITDA.

Non-GAAP Financial Measures

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

We define adjusted EBITDA as net income (loss) adjusted to exclude the impact of depreciation and amortization, stock-based compensation expense, interest income, interest expense, other income (expense), income taxes, and other items that we do not consider representative of underlying operating performance. We define adjusted EBITDA margin as adjusted EBITDA divided by revenue.

We use these non-GAAP financial measures to evaluate our operating performance and trends and make planning decisions. We believe that these non-GAAP financial measures help identify underlying trends in our business that could otherwise be masked by the effect of the expenses and other items that we exclude from 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, enhancing the overall understanding of our past performance and future prospects, and allowing for greater transparency with respect to a key financial metric used by our management in its financial and operational decision-making.

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

- 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.

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
(In thousands, except percentages)				
Net income	\$ 8,566	\$ 17,221	\$ 132,047	\$ 149,513
Add (deduct):				
Depreciation and amortization	9,575	8,742	18,792	16,725
Stock-based compensation expense	21,225	16,363	38,684	31,207
Interest income	(123)	(44)	(156)	(80)
Interest expense	90	182	187	448
Other income (expense), net	2,281	1,578	3,683	(2,680)
Provision for (benefit from) income taxes	(772)	(6,542)	6,874	2,578
Restructuring and related expenses	—	—	—	(2,611)
Legal and transaction related costs (1)	6,012	11,013	9,885	19,679
Adjusted EBITDA	\$ 46,854	\$ 48,513	\$ 209,996	\$ 214,779
Revenue	\$ 399,781	\$ 332,949	\$ 1,064,262	\$ 978,532
Adjusted EBITDA margin	11.7%	14.6%	19.7%	21.9%

- (1) Legal and transaction-related costs consist of expenses related to our 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 typically experienced the highest levels of revenue in the first fiscal quarter of the year coinciding with the holiday shopping season and our promotional activities. Given supply constraints, our promotional activity was moderated in the first quarter of fiscal 2022. Our promotional discounting activity is typically higher in the first fiscal quarter, which negatively impacts gross margin during this period. However, our higher sales volume in the holiday shopping season has historically resulted in a higher operating margin in the first fiscal quarter due to positive operating leverage.

Channel strategy. We are focused on reaching and converting prospective customers through third-party retail stores, e-commerce retailers, custom installers of home audio systems, and our website sonos.com. We are investing in our e-commerce capabilities and in-app experience to drive direct sales. We believe the growth of our own e-commerce channel will 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 and our ability to maintain and implement our diversified manufacturing footprint and base of component suppliers. While we seek to increase sales through our direct-to-consumer sales channel, we expect that our partnerships with third-party retailers and custom installers 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. Additionally, we intend to expand and strengthen our partnerships with custom installers who are valuable to our customer base and contribute to our new household growth.

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, licensing, advertising, and subscription revenue. We attribute revenue from our IKEA partnership to our Asia Pacific ("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, as well as for newly launched products sold to resellers not recognized until the date of general availability is reached. 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 jurisdictional mix of earnings, and changes in tax laws. In addition, certain U.S. tax regulations subject the earnings of our non-U.S. subsidiaries to current taxation in the United States. Our effective tax rate will be impacted by our ability to claim deductions and foreign tax credits to offset the taxation of foreign earnings in the United States.

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 to reduce our deferred tax assets to amounts that are more-likely-than-not to be realized. We have assessed, on a jurisdictional basis, the available means of recovering deferred tax assets, including the ability to carry back net operating losses, the existence of taxable temporary differences, the availability of tax planning strategies and available sources of future taxable income. We have concluded that a valuation allowance on deferred tax assets in the U.S. and certain foreign jurisdictions continues to be appropriate considering cumulative pre-tax losses in recent years and uncertainty with respect to future taxable income.

It is possible that within the next 12 months there may be sufficient positive evidence to release a portion or all of the remaining valuation allowance. Release of the remaining valuation allowance 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 United States and certain other foreign entities and jurisdictions.

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				Six Months Ended			
	April 2, 2022		April 3, 2021		April 2, 2022		April 3, 2021	
	\$	%	\$	%	\$	%	\$	%
Revenue	\$ 399,781	100.0 %	\$ 332,949	100.0 %	\$ 1,064,262	100.0 %	\$ 978,532	100.0 %
Cost of revenue ⁽¹⁾	220,747	55.2	167,173	50.2	567,843	53.4	513,331	52.5
Gross profit	179,034	44.8	165,776	49.8	496,419	46.6	465,201	47.5
Operating expenses								
Research and development ⁽¹⁾	64,947	16.2	56,370	16.9	126,277	11.9	108,717	11.1
Sales and marketing ⁽¹⁾	59,955	15.0	57,205	17.2	143,691	13.5	131,658	13.5
General and administrative ⁽¹⁾	44,090	11.0	39,806	12.0	83,816	7.9	75,047	7.7
Total operating expenses	168,992	42.3	153,381	46.1	353,784	33.2	315,422	32.2
Operating income	10,042	2.5	12,395	3.7	142,635	13.4	149,779	15.3
Other income (expense), net								
Interest income	123	—	44	—	156	—	80	—
Interest expense	(90)	—	(182)	(0.1)	(187)	—	(448)	—
Other income (expense), net	(2,281)	(0.6)	(1,578)	(0.5)	(3,683)	(0.3)	2,680	0.3
Total other income (expense), net	(2,248)	(0.6)	(1,716)	(0.5)	(3,714)	(0.3)	2,312	0.2
Income before provision for (benefit from) income taxes	7,794	1.9	10,679	3.2	138,921	13.1	152,091	15.5
Provision for (benefit from) income taxes	(772)	(0.2)	(6,542)	(2.0)	6,874	0.6	2,578	0.3
Net income	\$ 8,566	2.1 %	\$ 17,221	5.2 %	\$ 132,047	12.4 %	\$ 149,513	15.3 %
Adjusted EBITDA ⁽²⁾	\$ 46,854	11.7 %	\$ 48,513	14.6 %	\$ 209,996	19.7 %	\$ 214,779	21.9 %

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

(In thousands, except percentages)	Three Months Ended				Six Months Ended			
	April 2, 2022		April 3, 2021		April 2, 2022		April 3, 2021	
	\$	%	\$	%	\$	%	\$	%
Cost of revenue	\$ 377	0.1 %	\$ 261	0.1 %	\$ 705	0.1 %	\$ 474	0.0 %
Research and development	8,091	2.0	6,683	2.0	14,829	1.4	12,942	1.3
Sales and marketing	4,177	1.0	3,632	1.1	7,824	0.7	7,040	0.7
General and administrative	8,580	2.1	5,787	1.7	15,326	1.4	10,751	1.1
Total stock-based compensation expense	\$ 21,225	5.3 %	\$ 16,363	4.9 %	\$ 38,684	3.6 %	\$ 31,207	3.2 %

⁽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 months ended April 2, 2022, and April 3, 2021

Revenue

Comparison of the three months ended April 2, 2022, and April 3, 2021

(In thousands, except percentages)	Three Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
Sonos speakers	\$ 317,734	\$ 267,534	\$ 50,200	18.8 %
Sonos system products	61,220	52,062	9,158	17.6
Partner products and other revenue	20,827	13,353	7,474	56.0
Total revenue	\$ 399,781	\$ 332,949	\$ 66,832	20.1 %

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Total revenue increased 20.1% for the three months ended April 2, 2022, compared to the three months ended April 3, 2021. The growth was driven by continued strong demand for our products and the availability of supply during the second quarter of fiscal 2022. Despite the improvement of supply, we still exited the second quarter of fiscal 2022 with a backlog due to the continuing impact of constrained product availability due to industry-wide supply chain challenges.

Sonos speakers revenue represented 79.5% of total revenue for the three months ended April 2, 2022. The category increased 18.8% compared to the three months ended April 3, 2021, driven by the introduction of Roam in April 2021, as well as the continued success of One and Arc, and the availability of supply during the second quarter of fiscal 2022. Sonos system products represented 15.3% of total revenue for the three months ended April 2, 2022, and increased 17.6% compared to the three months ended April 3, 2021, supported by strong demand and the availability of supply during the second quarter of fiscal 2022. Partner products and other revenue represented 5.2% of total revenue for the three months ended April 2, 2022, and increased 56.0% compared to the three months ended April 3, 2021. The increase was primarily driven by our partnerships with IKEA and Sonance.

Revenue for the three months ended April 2, 2022, compared to the three months ended April 3, 2021, increased 22.8% in the Americas, increased 12.4% in EMEA, and increased 34.2% in APAC.

In constant currency U.S. dollars, total revenue increased 22.8% for the three months ended April 2, 2022, compared to the three months ended April 3, 2021. 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	
	April 2, 2022	April 3, 2021		
(Units in thousands)				
Total products sold	1,401	1,039	362	34.8%

The volume of products sold increased for the three months ended April 2, 2022, compared to the three months ended April 3, 2021, driven by an increase across all our product categories. The rate of increase of volume of products sold and revenue differed for the three months ended April 2, 2022, compared to the three months ended April 3, 2021, primarily due to product mix.

Comparison of six months ended April 2, 2022, and April 3, 2021

	Six Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Sonos speakers	\$ 819,620	\$ 795,050	\$ 24,570	3.1%
Sonos system products	195,965	149,820	46,145	30.8
Partner products and other revenue	48,677	33,662	15,015	44.6
Total revenue	<u>\$ 1,064,262</u>	<u>\$ 978,532</u>	<u>\$ 85,730</u>	8.8%

Total revenue increased 8.8% for the six months ended April 2, 2022, compared to the six months ended April 3, 2021. The growth was driven by continued strong demand for our products despite lower promotional activity, somewhat offset by the continuing impact of constrained product availability.

Sonos speakers revenue represented 77.0% of total revenue for the six months ended April 2, 2022. The category increased 3.1% compared to the six months ended April 3, 2021, led by the introduction of Roam in April 2021. Sonos system products represented 18.4% of total revenue for the six months ended April 2, 2022, and increased 30.8% compared to the six months ended April 3, 2021, supported by strong demand and availability of supply. Partner products and other revenue represented 4.6% of total revenue for the six months ended April 2, 2022, and increased 44.6% compared to the six months ended April 3, 2021. The increase was primarily driven by our partnerships with IKEA and Sonance.

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Revenue for the six months ended April 2, 2022, compared to the six months ended April 3, 2021, increased 9.1% in the Americas, increased 5.5% in EMEA, and increased 24.3% in APAC.

In constant currency U.S. dollars, total revenue increased 10.0% for the six months ended April 2, 2022, compared to the six months ended April 3, 2021. 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.

	Six Months Ended		Change	
	April 2, 2022	April 3, 2021		
(Units in thousands)				
Total products sold	3,799	3,688	111	3.0 %

The volume of products sold increased for the six months ended April 2, 2022, compared to the six months ended April 3, 2021, primarily driven by Sonos system products, supported by strong demand and availability of supply. The rate of increase of volume of products sold and revenue differed for the six months ended April 2, 2022, compared to the six months ended April 3, 2021, primarily due to product mix.

Cost of Revenue and Gross Profit

Comparison of the three months ended April 2, 2022, and April 3, 2021

	Three Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Cost of revenue	\$ 220,747	\$ 167,173	\$ 53,574	32.0 %
Gross profit	\$ 179,034	\$ 165,776	\$ 13,258	8.0 %
Gross margin	44.8 %	49.8 %		

The increase in cost of revenue for the three months ended April 2, 2022, compared to the three months ended April 3, 2021, is primarily 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.

Gross margin decreased 500 basis points for the three months ended April 2, 2022, compared to the three months ended April 3, 2021. The decrease was primarily due to increased component costs and shipping and logistics costs incurred both of which related to broader industry-wide supply chain dynamics. The overall decrease was partially offset by higher selling prices.

Comparison of the six months ended April 2, 2022, and April 3, 2021

	Six Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Cost of revenue	\$ 567,843	\$ 513,331	\$ 54,512	10.6 %
Gross profit	\$ 496,419	\$ 465,201	\$ 31,218	6.7 %
Gross margin	46.6 %	47.5 %		

The increase in cost of revenue for the six months ended April 2, 2022, compared to the six months ended April 3, 2021, is primarily driven by the increase in products sold, as well as higher air freight shipping in the first quarter of fiscal 2022, higher component costs, and an overall increase in shipping and logistics costs incurred related to industry-wide supply chain dynamics.

Gross margin decreased 90 basis points for the six months ended April 2, 2022 compared to the six months ended April 3, 2021. The decrease was primarily due to increased shipping and logistics costs as well as increased

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component costs both of which related to broader industry-wide supply chain dynamics. The decrease in gross margin was also related to increased tariff expenses of \$7.7 million, net of refunds recognized, compared to the six months ended April 3, 2021, due to recognizing fewer refunds. Furthermore, during the first half of fiscal 2021, we had an exemption from tariffs on core speaker products, which we did not have in the first half of fiscal 2022, resulting in higher tariff expenses in the six months ended April 2, 2022. The overall decrease was partially offset by the impact of reduced promotional activity, higher selling prices, and product mix.

Research and Development

Comparison of the three months ended April 2, 2022, and April 3, 2021

	Three Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Research and development	\$ 64,947	\$ 56,370	\$ 8,577	15.2 %
Percentage of revenue	16.2 %	16.9 %		

Research and development expenses increased \$8.6 million, or 15.2%, for the three months ended April 2, 2022, compared to the three months ended April 3, 2021. This increase was primarily driven by higher personnel related expenses of \$4.0 million due to increased headcount and stock-based compensation, an increase of \$3.3 million in product development costs and professional fees, and an increase of \$0.7 million in other expenses.

Comparison of the six months ended April 2, 2022, and April 3, 2021

	Six Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Research and development	\$ 126,277	\$ 108,717	\$ 17,560	16.2 %
Percentage of revenue	11.9 %	11.1 %		

Research and development expenses increased \$17.6 million, or 16.2%, for the six months ended April 2, 2022, compared to the six months ended April 3, 2021. The increase was primarily driven by personnel-related expenses of \$8.8 million due to increased headcount and stock-based compensation, an increase of \$5.6 million in product development costs and professional fees, and an increase of \$1.8 million in other expenses.

Sales and Marketing

Comparison of the three months ended April 2, 2022, and April 3, 2021

	Three Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Sales and marketing	\$ 59,955	\$ 57,205	\$ 2,750	4.8 %
Percentage of revenue	15.0 %	17.2 %		

Sales and Marketing expenses increased \$2.8 million, or 4.8%, for the three months ended April 2, 2022, compared to the three months ended April 3, 2021. This increase was primarily driven by \$1.8 million in additional professional fees and \$1.7 million in additional brand and marketing expenses.

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Comparison of the six months ended April 2, 2022, and April 3, 2021

	Six Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Sales and marketing	\$ 143,691	\$ 131,658	\$ 12,033	9.1 %
Percentage of revenue	13.5 %	13.5 %		

Sales and marketing expenses increased \$12.0 million, or 9.1%, for the six months ended April 2, 2022, compared to the six months ended April 3, 2021. The increase was primarily due to higher brand and marketing expenses of \$4.4 million, additional professional fees of \$4.0 million, and an increase of \$2.8 million resulting from a gain that was recognized in the prior year related to an early termination of a facility lease that was part of the restructuring plan initiated in June 2020.

General and Administrative
Comparison of the three months ended April 2, 2022, and April 3, 2021

	Three Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
General and administrative	\$ 44,090	\$ 39,806	\$ 4,284	10.8 %
Percentage of revenue	11.0 %	12.0 %		

General and administrative expenses increased \$4.3 million, or 10.8% in the three months ended April 2, 2022, compared to the three months ended April 3, 2021. This increase was primarily driven by \$5.4 million in personnel-related expenses due to increased headcount and stock-based compensation, \$1.7 million in acquisition costs and other professional fees, and \$1.4 million related to our investments in information technology including replacing our legacy enterprise resource management system. This increase was partially offset by a decrease of \$5.7 million in legal fees incurred in connection with our IP litigation.

Comparison of the six months ended April 2, 2022, and April 3, 2021

	Six Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
General and administrative	\$ 83,816	\$ 75,047	\$ 8,769	11.7 %
Percentage of revenue	7.9 %	7.7 %		

General and administrative expenses increased \$8.8 million, or 11.7%, for the six months ended April 2, 2022, compared to the six months ended April 3, 2021. The increase was primarily driven by \$11.8 million in personnel-related expenses due to increased headcount and stock-based compensation, \$3.9 million related to our investments in information technology including replacing our legacy enterprise resource management system, and \$2.2 million in acquisition costs and other professional fees. This increase was partially offset by a decrease of \$10.8 million in legal fees incurred in connection with our IP litigation.

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

Comparison of the three months ended April 2, 2022, and April 3, 2021

	Three Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Other expense, net				
Interest income	\$ 123	\$ 44	\$ 79	179.5 %
Interest expense	(90)	(182)	92	(50.5)
Other expense, net	(2,281)	(1,578)	(703)	44.6
Total other expense, net	<u>\$ (2,248)</u>	<u>\$ (1,716)</u>	<u>\$ (532)</u>	<u>31.0 %</u>

Interest income for the three months ended April 2, 2022, compared to the three months ended April 3, 2021, increased due to higher yields in our cash and cash equivalents. Interest expense for the three months ended April 2, 2022, compared to the three months ended April 3, 2021, decreased primarily due to a lower principal balance. The increase in other expense, net for the three months ended April 2, 2022, compared to the three months ended April 3, 2021, was due to foreign currency exchange losses.

Comparison of the six months ended April 2, 2022, and April 3, 2021

	Six Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Other income (expense), net				
Interest income	\$ 156	\$ 80	\$ 76	95.0 %
Interest expense	(187)	(448)	261	(58.3) %
Other income (expense), net	(3,683)	2,680	(6,363)	*
Other income (expense), net	<u>\$ (3,714)</u>	<u>\$ 2,312</u>	<u>\$ (6,026)</u>	<u>*</u>

*not meaningful

Interest income for the six months ended April 2, 2022, compared to the six months ended April 3, 2021, increased due to higher yields in our cash and cash equivalents. Interest expense for the six months ended April 2, 2022, compared to the six months ended April 3, 2021, decreased primarily due to a lower principal balance. The decrease in other income (expense), net for the six months ended April 2, 2022, compared to the six months ended April 3, 2021, was due to foreign currency exchange losses.

Provision for (Benefit from) Income Taxes

Comparison of the three months ended April 2, 2022, and April 3, 2021

	Three Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Benefit from income taxes	\$ (772)	\$ (6,542)	\$ 5,770	(88.2) %

The benefit from income taxes decreased from \$6.5 million for the three months ended April 3, 2021, to \$0.8 million for the three months ended April 2, 2022.

For the three months ended April 2, 2022, and April 3, 2021, we recorded a provision for income taxes by applying an estimated annual effective tax rate ("AETR") to year-to-date earnings in accordance with ASC 740, offset by a discrete tax benefit for U.S. share-based compensation, resulting in an overall benefit from income taxes of \$0.8 million and \$6.5 million, respectively. The decrease in the income tax benefit for the three months ended

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April 2, 2022, as compared to the three months ended April 3, 2021, is primarily attributable to a reduction in the benefit from excess U.S. share-based compensation.

Comparison of the six months ended April 2, 2022, and April 3, 2021

	Six Months Ended		Change	
	April 2, 2022	April 3, 2021	\$	%
(In thousands, except percentages)				
Provision for income taxes	\$ 6,874	\$ 2,578	\$ 4,296	166.6 %

The provision for income taxes increased from \$2.6 million for the six months ended April 3, 2021, to \$6.9 million for the six months ended April 2, 2022.

For the six months ended April 2, 2022, and April 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 \$6.9 million and \$2.6 million, respectively. The increase in the provision for income taxes from the six months ended April 3, 2021, to the six months ended April 2, 2022, is due to a reduction in the excess benefit recognized on U.S. share-based compensation.

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 April 2, 2022, our principal sources of liquidity consisted of cash flows from operating activities, cash and cash equivalents of \$606.7 million, including \$111.9 million held by our foreign subsidiaries, proceeds from the exercise of stock options and borrowing capacity under the Credit Facility. In accordance with our policy, the undistributed earnings of our non-U.S. subsidiaries remain indefinitely reinvested outside of the United States as of April 2, 2022, 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.

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. In October 2021, we entered into a Revolving Credit Agreement with JPMorgan Chase Bank, N.A., as the administrative agent, and the lenders party thereto (the "Revolving Credit Agreement") with JPMorgan Chase Bank, N.A., Bank of America N.A., Morgan Stanley Senior Funding, Inc., and Goldman Sachs Bank USA, which allows us to borrow up to \$100.0 million, with a maturity date of October 2026. 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

On October 13, 2021, we entered into the Revolving Credit Agreement, which replaced our prior \$80.0 million credit facility with JPMorgan Chase Bank, N.A., which matured in October 2021, in its entirety.

The Revolving Credit Agreement provides for (i) a five-year senior secured revolving credit facility in the amount of up to \$100.0 million and (ii) an uncommitted incremental facility subject to certain conditions. Proceeds are to be used for working capital and general corporate purposes. The facility may be drawn as an Alternative Base Rate Loan (at 1.00% plus an applicable margin) or Eurocurrency Loans (at the London interbank offered rate ("LIBOR") plus an applicable margin). We must also pay (i) an unused commitment fee ranging from 0.200% to 0.275% per annum of the average daily unused portion of the aggregate revolving credit commitment under the agreement and (ii) a per annum fee equal to the applicable margin over LIBOR multiplied by the aggregate face amount of outstanding letters of credit. As of April 2, 2022, we did not have any outstanding borrowings and had \$2.9 million in undrawn letters of credit that reduce the availability under the Revolving Credit Agreement.

Our obligations under the Revolving Credit Agreement are secured by substantially all of our assets. The Revolving Credit Agreement contains customary representations and warranties, customary affirmative and negative covenants, a financial covenant that is tested quarterly and requires us to maintain a certain consolidated leverage ratio, and customary events of default. As of April 2, 2022, we were in compliance with all financial covenants under the Revolving Credit Agreement.

Cash Flows

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

	Six Months Ended	
	April 2, 2022	April 3, 2021
(In thousands)		
Net cash provided by (used in):		
Operating activities	\$ 82,374	\$ 175,953
Investing activities	(42,766)	(19,927)
Financing activities	(68,758)	74,663
Effect of exchange rate changes	(4,207)	1,139
Net increase in cash, cash equivalents and restricted cash	<u>\$ (33,357)</u>	<u>\$ 231,828</u>

Cash flows from operating activities

Net cash provided by operating activities of \$82.4 million for the six months ended April 2, 2022, consisted of net income of \$132.0 million, non-cash adjustments of \$64.0 million, and a net decrease in cash related to changes in operating assets and liabilities of \$113.6 million. Non-cash adjustments primarily consisted of stock-based compensation expense of \$38.7 million, depreciation and amortization of \$18.8 million, and other non-cash adjustments. The net decrease in cash related to operating assets and liabilities was primarily due to an increase in inventory of \$86.2 million related to increased investments to mitigate ongoing supply chain challenges, a decrease in accrued compensation of \$45.1 million primarily due to the payment of bonuses in the first quarter of fiscal 2022, an increase in accounts receivable of \$12.8 million due to an increase in sales, a decrease in deferred revenue of \$11.8 million, an increase in other assets of \$6.1 million and a decrease in other liabilities of \$3.3 million. This net decrease in operating assets and liabilities was partially offset by an increase of \$51.6 million in accounts payable and accrued expenses related largely to the increase in inventory.

Cash flows from investing activities

Cash used in investing activities for the six months ended April 2, 2022, of \$42.8 million consisted primarily of payments for acquisitions, net of acquired cash of \$27.1 million, as well as purchases of property and equipment

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and intangible assets of \$15.7 million, which were primarily related to manufacturing-related tooling and test equipment to support the launch of new products, as well as purchased intangible assets.

Cash flows from financing activities

Cash used in financing activities for the six months ended April 2, 2022, of \$68.8 million consisted primarily of payments for repurchases of common stock of \$74.5 million, payments for repurchases of common stock related to shares withheld for tax in connection with vesting of RSUs of \$22.6 million, as well as payments for debt issuance costs of \$0.9 million, offset by proceeds from the exercise of stock options of \$29.3 million.

Commitments and Contingencies

At April 2, 2022, we had \$101.6 million in non-cancelable purchase commitments for inventory that we expect to purchase in the remainder of fiscal 2022.

For additional information, see Note 7. *Commitments and Contingencies* in the above notes to condensed consolidated financial statements.

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 on Form 10-K.

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 on Form 10-K. 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

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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 April 2, 2022, and April 3, 2021, we recognized a loss from foreign currency of \$2.2 million and \$1.6 million, respectively. For the six months ended April 2, 2022, and April 3, 2021, we recognized a loss from foreign currency of \$3.7 million and a gain from foreign currency of \$2.6 million, respectively. We began to see a particular strengthening of the U.S. dollar relative to the euro in the latter part of the second quarter of fiscal 2022, which, if this trend continues, will negatively affect the U.S. dollar value of revenue and gross margins we earn on our foreign currency-denominated sales. Based on transactions denominated in currencies other than respective functional currencies as of April 2, 2022, a hypothetical adverse change of 10% would have resulted in an adverse impact on income before provision for (benefit from) income taxes of approximately \$5.1 million and \$15.6 million for the three and six months ended April 2, 2022, respectively.

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 April 2, 2022. 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 April 2, 2022, 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. The COVID-19 pandemic has persisted, and developments continue to occur rapidly, particularly as it relates to the emergence of new variants of the virus, as well as new outbreaks and resulting lockdowns globally. 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.

The COVID-19 pandemic and related mitigation measures have adversely affected our business and operating results and may continue to impact us in the future. Consistent with its effect across many industries, COVID-19 has adversely impacted our supply chain, including creating shipping and logistics challenges and significant limits on component supplies and inflationary pressures. 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. The pandemic has also delayed our efforts to fully diversify our supply chain into Malaysia. We expect these impacts, including increased component costs, increased shipping and logistics costs and delayed product availability, to continue for as long as the global supply chain is experiencing these challenges.

COVID-19 has also 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 have continued effects even after the widespread administration of vaccines and easing of mitigation measures in certain markets. In particular, any recession, depression, inflationary pressures, 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 and will depend on factors outside of our control, including the timing, impact or effectiveness of the roll-out of vaccines and treatments globally, the timing of easing of preventative or mitigation measures or

mandates, or the impact of any variants that emerge, including new lockdowns globally. Moreover, we have experienced increased demand for our products during the COVID-19 pandemic 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, Sonos Roam, 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, in November 2020, we introduced Radio HD, our ad-free high-definition streaming tier of our radio service, 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.

Although we have achieved profitability, we may not be able to sustain or increase our profitability and expect to incur increased operating costs in the future.

Although we achieved profitability in the fiscal year ended October 2, 2021, and had net income of \$158.6 million, we may not be able to continue to achieve profitability and have historically experienced net losses. In the fiscal years ended October 3, 2020, and September 28, 2019, we had net losses of \$20.1 million and \$4.8 million, respectively. We had an accumulated deficit of \$69.9 million as of October 2, 2021.

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.

In order to maintain or increase our profitability, we need to continue to increase our revenue and we cannot assure you that we will be able to do so, particularly during COVID-19 or during global economic and political uncertainty. For example, the COVID-19 pandemic and related disruptions have adversely affected the global supply chain and resulted in delayed product availability, which had certain adverse impacts on our revenue in fiscal 2021 and the first and second quarters of fiscal 2022. In addition, demand for our products may be impacted in the event of an economic recession or depression, continued inflationary pressures, or, in certain markets, foreign currency exchange rate fluctuations, including as a result of the Russian invasion of Ukraine. 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. The continued success of direct-to-consumer sales through our website is subject to risks associated with

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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, uncertainties related to the COVID-19 pandemic, Russia's invasion of Ukraine, 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 through the second quarter of fiscal 2022, 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 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, such as commercial or for the 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 voice-enabled premium home theater speaker, Sonos Arc, in June 2020. In April 2021, we introduced Sonos Roam, our portable smart 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, subsequently transferred to the Northern District of California, alleging infringement of five Sonos wireless audio patents, and, in December 2020, we 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. 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 are 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

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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 Sonos One, Sonos Beam, Sonos Move, Sonos Roam, and Sonos Arc, 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, 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 has been and may continue to be increased by the impact of COVID-19. If the supply of these components is 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.

Consistent with its effect across many industries, the pandemic has affected our supply chain, including creating shipping and logistics challenges, significant limits on component supplies, and longer lead times as a result of lockdowns in China, which has, and may continue to, adversely impact our ability to meet our product demand, result in additional costs, or otherwise adversely impact our business and results of operations. These challenges have also delayed our efforts to fully diversify our supply chain into Malaysia. 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 14% of our revenue in fiscal 2021. 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. At various times during the COVID-19 pandemic, many of our key channel partners temporarily closed or reduced operations in their retail stores and, in the event of a resurgence or new variant, may do so in the future, which has had, and may 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 during 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 or reduced operations 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, 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.

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We have operations outside the United States, and we expect to continue to expand our international presence, especially in Asia. In fiscal 2021, 48.1% 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, including volatility of the euro related to Russia's invasion of Ukraine, and costs of imposing currency exchange controls;
- political, social and/or economic instability, including related to the ongoing COVID-19 pandemic, Russia's invasion of Ukraine 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 continuing through the second quarter of fiscal 2022, we engaged in 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. Problems associated with, or disruptions resulting from, 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, result in errors in our financial and other reporting, and affect our ability to maintain an effective internal control environment and meet our external reporting obligations, any of which could harm our business and operating results and affect our stock price.

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, 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.

Under the previous administration, the U.S. government has imposed significant new tariffs on China related to the importation of certain product categories, including those 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. We were able to obtain an exemption from the Section 301 tariffs for certain of our products for a period of time during fiscal 2020 and, for our core speaker products, through the first quarter of fiscal 2021. In March 2022, we obtained an exclusion exemption for our core speaker products for the period from October 12, 2021 to December 31, 2022. To date, we have been able to obtain certain refunds on tariffs paid during the exemption periods and continue to see outstanding refund requests and corresponding refunds processed.

In the event that future tariffs are imposed on imports of our products, we do not successfully obtain the remaining refunds to which we are currently entitled, we are not successful in any future exemption 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

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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 2, 2021, we had gross U.S. federal net operating loss carryforwards of \$101.4 million, of which \$70.3 million have an indefinite life and \$31.1 million that expire beginning in 2035, and gross state net operating loss carryforwards of \$64.6 million, which expire beginning in 2027, as well as \$53.3 million in foreign net operating loss carryforwards with an indefinite life. As of October 2, 2021, we also had U.S. federal research and development tax credit carryforwards of \$62.0 million, and state research and development tax credit carryforwards of \$44.3 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 April 2, 2022. 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, including Russia's invasion of Ukraine, 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

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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.

In October 2021, we entered into a credit agreement with JPMorgan Chase Bank, N.A., Bank of America N.A., Morgan Stanley Senior Funding, Inc., and Goldman Sachs Bank USA, which allows us to borrow up to \$100.0 million, with a maturity date of October 2026. 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 the Company's repurchase of common stock during the quarter ended April 2, 2022.

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
Jan 2 - Jan 29	1,041,790	\$ 27.47	1,041,790	\$ 90,000
Jan 30 - Feb 26	58,640	\$ 26.50	58,640	\$ 88,445
Feb 27 - Apr 2	511,491	\$ 25.25	511,491	\$ 75,518
Total	<u>1,611,921</u>		<u>1,611,921</u>	

(1) In November 2021, the Board authorized a common stock repurchase program of up to \$150.0 million. See Note 8. *Stockholders' Equity* of the Company's condensed consolidated financial statements for further information. During the six months ended April 2, 2022, the Company repurchased 2,644,170 shares for an aggregate purchase price of \$74.5 million at an average price of \$28.15 per share under the repurchase program. Over the past two fiscal years, fiscal 2020 and fiscal 2021, the Company has completed \$100.0 million in share repurchases, for 5,181,789 shares, at an average price of \$19.30 per share. The Company withholds shares of common stock from certain employees in connection with the vesting of RSUs issued to such employees to satisfy applicable tax withholding requirements. Although these withheld shares are not issued or considered common stock repurchases under the Company's stock repurchase program and therefore are not included in the preceding table, they are treated as common stock repurchases in the Company's financial statements as they reduce the number of shares that would have been issued upon vesting.

Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibit Index

Exhibit number	Exhibit title	Incorporated by reference				
		Form	File no.	Exhibit	Filing date	Filed or furnished herewith
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 April 2, 2022, 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: May 11, 2022

By: /s/ Patrick Spence

Patrick Spence

Chief Executive Officer and Director

(Principal Executive Officer)

Date: May 11, 2022

By: /s/ Brittany Bagley

Brittany Bagley

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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: May 11, 2022

/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: May 11, 2022

/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 January 1, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2022

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 January 1, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2022

By:

/s/ Brittany Bagley

Brittany Bagley

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