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

Form 10-K

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

For the fiscal year ended October 1, 2022

or

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

Commission File Number: 001-38603

SONOS, INC.

(Exact name of Registrant as specified in its charter)

Delaware			**03-0479476**
(State or other jurisdiction of incorporation or organization)			(I.R.S. Employer Identification No.)
614 Chapala Street	**Santa Barbara**	**CA**	**93101**
(Address of principal executive offices)			(Zip code)

805-965-3001

Registrant’s telephone number, including area code

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value	**SONO**	**The Nasdaq Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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, a 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 (Check one):

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the shares of SONO common stock held by non-affiliates of the registrant as of April 1, 2022, the last business day of the registrant's most recently completed second fiscal quarter, was $2,517.8 million based on the closing price of $27.68 as reported by The Nasdaq Global Select Market System.

As of November 7, 2022, the registrant had 126,685,545 shares of common stock outstanding, $0.001 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant’s definitive proxy statement (the "2023 Proxy Statement") relating to its 2023 Annual Meeting of Stockholders. The 2023 Proxy Statement will be filed with the United States Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements. All statements other than statements of historical fact contained in this Annual Report on Form 10-K, 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 on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the section titled "Risk Factors" set forth in Part I, Item 1A of this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission (the "SEC"). 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 Annual Report on Form 10-K may not occur, and actual results may differ materially and adversely from those anticipated or implied in the forward-looking statements. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- *our expectations regarding our results of operations, including gross margin, financial condition and cash flows;*
- *our expectations regarding the development and expansion of our business;*
- *anticipated trends, challenges and opportunities in our business and in the markets in which we operate;*
- *competitors and competition in our markets;*
- *our ability to maintain and promote our brand and expand brand awareness;*
- *our ability to successfully develop and introduce new products;*
- *our ability to manage our international operations;*
- *the effects of tariffs, trade barriers and retaliatory trade measures;*
- *our ability to expand our customer base and expand sales to existing customers;*
- *our expectations regarding development of our direct-to-consumer sales channels;*
- *expansion of our partner network;*
- *the macroeconomic environment and our ability to navigate it;*
- *the impact of the COVID-19 pandemic on our business and our response to it;*
- *our ability to retain and hire necessary employees and staff our operations appropriately;*
- *the timing and amount of certain expenses and our ability to achieve operating leverage over time; and*
- *our ability to maintain, protect and enhance our intellectual propert*y.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report on Form 10-K.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by law, we do not intend to update any of these forward-looking statements after the date of this Annual Report on Form 10-K or to conform these statements to actual results or revised expectations.

You should read this Annual Report on Form 10-K with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

PART I

Item 1: Business

Overview

Sonos is one of the world's leading sound experience brands.

We pioneered multi-room, wireless audio products, debuting the world’s first multi-room wireless sound system in 2005. Today, our products include wireless, portable, and home theater speakers, components, and accessories to address consumers’ evolving audio needs. We are known for delivering unparalleled sound, thoughtful design aesthetic, simplicity of use, and an open platform. Our platform has attracted a broad range of more than 130 streaming content providers, such as Apple Music, Spotify, Deezer, and Pandora. These partners find value in our independent platform and access to our millions of desirable and engaged customers. We frequently introduce new services and features across our platform, providing our customers with enhanced functionality, improved sound, and an enriched user experience. We are committed to continuous technological innovation as reflected in our growing global patent portfolio. We believe our patents comprise the foundational intellectual property for wireless multi-room and other audio technologies.

Our innovative products, seamless customer experience, and expanding global footprint have driven 17 consecutive years of sustained revenue growth since our first product launch. Our growth is driven by both new customers buying our products as well as existing customers continuing to add products to their Sonos systems. In fiscal 2022, existing customers accounted for approximately 44% of new product registrations. As of October 1, 2022, we had a total of nearly 41.8 million products registered in approximately 14.0 million households globally, including the addition of approximately 1.4 million new households during fiscal 2022. Our customers have typically purchased additional Sonos products over time. As of October 1, 2022, 60% of our 14.0 million households had registered more than one Sonos product. As of October 1, 2022, our households own 3.0 products on average. We also estimate that our customers listened to 12.8 billion hours, excluding Bluetooth listening, of audio content using our products in fiscal 2022, which represents 5.5% growth from fiscal 2021.

Our Products

We generate revenue from sales of our Sonos speaker products, including wireless speakers and home theater speakers, from our Sonos system products, which largely comprises our component products, and from partner products and other revenue, including partnerships with IKEA and Sonance, Sonos and third-party accessories, licensing, advertising, and subscription revenue. Our portfolio of products encourages customers to uniquely tailor their Sonos sound systems to best meet their sound and design preferences.

• *Sonos speakers.* Sonos speakers comprises our wireless speakers and home theater products, including:

Product	***Launch Date***	***Description***
Sub Mini	October 2022	Our wireless subwoofer which delivers powerful, balanced bass, rich, clear low end frequencies, in a compact cylindrical design.
Ray	June 2022	Our smallest, smart soundbar for TV, music, and more.
Beam (Gen 2)	October 2021	Our smart, compact soundbar for TV, music, and more, with support for Dolby Atmos. Originally introduced as Beam (Gen 1) in June 2018.
Roam Colors **Roam SL** **Roam**	May 2022 March 2022 April 2021	Our ultra-portable smart speaker with Bluetooth and WiFi for listening on the go and at home. Originally introduced as Roam in April 2021
Arc	June 2020	Our premium smart soundbar for TV, movies, music, gaming, and more, with support for Dolby Atmos. Replaced Playbar, our first smart soundbar released in April 2013 and Playbase, our powerful sound base for TVs released in 2017.
Five	June 2020	Our high fidelity speaker for superior sound. Originally launched as Play:5 (Gen 1) in November 2009 and completely redesigned in November 2015 as Play:5 (Gen 2).
Sub (Gen 3)	June 2020	Our wireless subwoofer for deep bass. Originally introduced as Sub (Gen 1) in June 2012.
Move	September 2019	Our durable, battery-powered smart speaker for outdoor and indoor listening.
One SL	September 2019	Our powerful microphone-free speaker for music and more. Replaced Play:1 which was introduced in October 2013.
One	October 2017	Our powerful smart speaker with voice control built in.

• *Sonos System Products.* Sonos system products comprises our component and other products which allow customers to convert third-party wired systems, stereo systems and home theater set-ups into our easy-to-use, wirelessly controlled streaming music system, including:

Product	***Launch Date***	***Description***
Port	September 2019	Our versatile streaming component for stereos or receivers. Replaced Connect which launched in January 2007.
Amp	February 2019	Our versatile amplifier powering all our customers' entertainment. Replaced Connect: Amp which launched in September 2012.

• *Partner Products and Other Revenue.* Partner products and other revenue categories comprise products sold in connection with our partnerships, accessories, professional services, licensing, and advertising revenue. Products in this category comprise accessories that allow our customers to integrate our products seamlessly into their homes as well as products manufactured by and/or sold by our partners, including:

Product	***Launch Date***	***Description***
Audi Partnership	April 2021	Our first-ever automotive audio partnership delivering Sonos-tuned premium sound experience for the Q4 e-tron and further models including the A1, Q2, and Q3.
Sonos Radio HD	November 2020	Our ad-free, high-definition streaming tier of our streaming radio service, Sonos Radio.
Sonos Radio	April 2020	Our free, ad-supported streaming radio experience bringing together more than 60,000 stations from multiple streaming partners alongside original programming from Sonos.
Sonos Architectural by Sonance	February 2019	Our collection of installed passive speakers for indoor and outdoor use designed and optimized for Amp in partnership with Sonance, including in-ceiling, in-wall, and outdoor speakers.
IKEA module units	Various	Hardware and embedded software integrated into final products manufactured and sold by IKEA. Current IKEA products include SYMFONISK picture frame, bookshelf speaker, and speaker lamp.
Accessories	Various	Our custom-designed stands, mounts, shelves, cables, chargers, and more.

Our Software

Our proprietary software is the foundation of the Sonos sound system and further differentiates our products and services from those of our competitors.

In June 2020, we introduced Sonos S2, a powerful new app and operating system to enable a new generation of Sonos products and experiences, which includes new features, usability updates, and more personalization while also enabling higher resolution audio technologies for music and home theater. In June 2022, we introduced Sonos Voice Control, the first voice experience purpose-built for listening to and controlling your music on Sonos speakers. Designed with privacy at its core, Sonos Voice Control is the simplest way to control your music, offering complete command of your Sonos system using only your voice. Sonos Voice Control works on every voice-capable Sonos speaker, processing requests entirely on the Sonos device.

Our software provides the following key benefits:

• *Multi-room experience.* Our system enables our speakers to work individually or together in synchronized playback groups, powered by wireless network and Bluetooth capabilities to route and play audio optimally.

• *Open platform for content partners.* Our platform enables customers to easily search and browse for content from a list of more than 130 content partners from around the world including stations, artists, albums, podcasts, audio books, and more. Content partners can connect to Sonos via our platform and find a new and growing audience for their catalogs.

• *Intuitive and flexible control.* Our customers can control their experiences through the Sonos app, voice control, from Sonos devices directly, or an expanding number of third-party apps and smart devices. As our customers navigate across different controllers, our technology synchronizes the control experience across the Sonos platform to deliver the music and entertainment experience they desire.

• *Smart audio tuning.* Our Trueplay technology uses the microphones on an iOS device to analyze room attributes, speaker placement and other acoustic factors to improve sound quality. We also developed Automatic TruePlay to deliver the same audio tuning experience, directly using the microphones integrated to our speakers and make this available to iOS and Android users.

• *Continuous Improvement.* Our software platform and cloud service enables feature enhancements and delivery of new experiences on an ongoing basis. As a result, the Sonos experience improves for customers over time.

Our Partner Ecosystem

We have built a platform that attracts partners to enable our customers to play content from their preferred services. Our platform has attracted a broad range of more than 130 streaming content providers and span across content, control, and third-party applications:

• *Content*. We partner with a broad range of content providers, such as streaming music services, internet radio stations, and podcast services, allowing our customers to enjoy their audio content from whichever source they desire.

• *Control.* We provide our customers with multiple options to control their home audio experiences, including voice control and direct control from within selected streaming music service apps. Our platform is the first to offer consumers the ability to buy a single smart speaker with more than one voice assistant choice. Our voice-enabled speaker products have Amazon Alexa and Google Assistant functionality, and in June 2022, we introduced Sonos Voice Control.

• *Third-party partnerships*. We partner with third-party developers to build new applications and services on top of the Sonos platform, increasing customer engagement and creating new experiences for our customers, such as architectural in-ceiling, in-wall and outdoor speakers in partnership with Sonance, picture frame, bookshelf and table lamp speakers in partnership with IKEA, and automotive sound in partnership with Audi.

Research and Development

Our research and development team develops new hardware products, software and services, while continually improving and enhancing our existing software and hardware products to address customer demands and emerging trends. Our teams have worked on features and enhancements to the Sonos system including developments to the Sonos app, product setup, Trueplay tuning, the ability to use Alexa or Google voice services, and Sonos Voice Control. Our audio team has developed a series of acoustic technologies which enabled us to create speakers that produce high-fidelity sound. In April 2022, we added a talented group of employees to our research and development team through our acquisition of Mayht, a Netherlands-based company, which invented a new approach to audio transducers. We expect that the addition of this team and its strategic technology will help transform and enhance our product portfolio.

Our wireless and radio team established world-class wireless performance that enabled multi-room experience, wireless surround sound, and many other applications. Our industrial design and mechanical engineering teams developed a cohesive, unique family of products across multiple categories and use-cases such as home theater, all-in-one, and portable. These products demonstrate a range of proprietary manufacturing and design details, logo application techniques, and assembly architecture. The products and software we develop require significant technical knowledge and expertise to develop at a competitive pace. We believe our research and development capabilities and our intellectual property differentiates us from our competitors. We intend to continue to significantly invest in research and development to bring new products and software to market and expand our platform and capabilities.

Sales and Marketing

We sell our products primarily through over 10,000 third-party physical retail stores and our products are distributed in more than 60 countries. The majority of our sales are transacted through traditional physical retailers, including on their websites. We also sell through online retailers, to custom installers who bundle our products with services that they sell to their customers, and directly through our website sonos.com.

We invest in customer experience and customer relationship management to drive loyalty, word-of-mouth marketing and sustainable, profitable growth. Our marketing investments are focused on driving profitable growth through advertising, public relations and brand promotion activities, including digital platforms, sponsorships, collaborations, brand activations, and channel marketing. We continue to invest significant resources in our marketing and brand development efforts, including investing in capital expenditures on product displays to support our channel marketing through our retail partners.

Manufacturing, Logistics and Fulfillment

We outsource the manufacturing of our speakers and components to contract manufacturers, who produce our products based on our design specifications. Our products are manufactured by contract manufacturers in China and Malaysia, and in fiscal 2022, we began further diversifying our supply chain into Vietnam. In accordance with our agreements with our contract manufacturers, they will enter into purchase orders with their upstream suppliers for component inventory necessary to manufacture our products, based on our demand forecasts.

The vast majority of our products are shipped to our third-party warehouses which are then shipped to our distributors, retailers, and directly to our customers. Our third-party warehouses are located in the United States in California and Pennsylvania, as well as internationally in Australia, Canada, the Netherlands, China, Japan, and the United Kingdom.

We use a small number of logistics providers for substantially all of our product delivery to both distributors and retailers. This approach generally allows us to reduce order fulfillment time, reduce shipping costs, and improve inventory flexibility.

Our Competitive Strengths

The proliferation of streaming services, the rapid expansion of digital audio content types, and the rise in voice assistants are significantly changing audio consumption habits and increasing demand for easy, premium, integrated audio experiences. As a leading sound system for consumers, content partners and developers, Sonos is capitalizing on the large market opportunity created by these dynamics. We believe the following combination of capabilities and features of our business model distinguish us from our competitors and position us well to capitalize on our opportunities:

- *Leading sound system*. We have developed and refined our sound system over the last 19 years. Our effort has resulted in significant consumer awareness and market share among home audio professionals. For example, a 2022 product study by CE Pro ranked Sonos as the leading brand in the wireless speakers, soundbar, and subwoofer categories. Our 93% share in the wireless speaker category among these industry professionals significantly outpaces our competitors.
- *Proprietary Sonos app and software platform.* We offer our customers a mobile app that controls the Sonos sound system and the entire listening experience. Customers can stream different audio content to speakers in different rooms or the same audio content synchronized throughout the entire home. Additionally, the Sonos app enables universal search, the ability to search for audio content across streaming services and owned content so that customers can easily find, play, or curate music.

• *Platform enables freedom of choice for consumers*. Our broad and growing network of partners provides access to voice control, streaming music, internet radio, podcasts, and audiobook content, enabling consumers with freedom of choice in content and services. Our platform attracts a broad set of content providers, including leading streaming music services and third-party developers.

• *Differentiated consumer experience creates engaged households who often repeat purchases*. We deliver a differentiated customer experience to millions of households every day, cultivating a long-term passionate and engaged customer base. This engagement with our products, and our ability to continuously improve and enhance the functionality of our existing products through software updates, can help drive momentum in our flywheel as customers add products to their Sonos sound systems. We generate significant revenue and profits from existing customers purchasing additional products to expand their Sonos sound systems. In fiscal 2022, existing households represented approximately 44% of new product registrations. We have proven our ability to profitably develop new experiences that drive existing customers to add additional products to their home, while continuing to add new homes. We believe that we have yet to fully realize the lifetime value of our customer base and this aspect of our financial model will continue to contribute to our ability to achieve sustainable, profitable growth over the long term.

• *Commitment to innovation drives continuous improvement*. We have made significant investments in research and development since our inception and believe that we own the foundational intellectual property of wireless multi-room and other audio technologies. Our patent portfolio continues to grow each year. We were included in the Intellectual Property Owners Association "Top 300 Patent Owners" report for calendar year 2021. As of calendar year 2021, we held approximately 1,150 issued patents in the United States versus approximately 15 in 2011.

Our Growth Strategies

Key elements of our growth strategy include:

• *Continued introduction of innovative products and services and expansion into new categories.* To address our market opportunity, we have developed a long-term roadmap to deliver innovative products, services and software enhancements, and expand into new categories. We intend to continue to introduce products and services across multiple categories designed for enjoyment in all the places and spaces that our customers listen to audio content, including outside of the home, as well as business and enterprise customers. Executing on our roadmap will position us to acquire new customers, increase sales to existing customers, and improve the customer experience.

• *Expansion of direct-to-consumer efforts and building relationships with existing channel partners and prospective customers.* We are focused on reaching and converting prospective customers through third-party retail stores, e-commerce retailers, our website sonos.com, and custom installers of home audio systems. We expect that our direct-to-consumer channel will continue to contribute to our growth. We intend to continue to build direct relationships with current and prospective customers through sonos.com and the Sonos app to drive direct sales. In fiscal 2022, we generated 22.5% of total revenue through our direct-to-consumer channel, primarily sonos.com. While we seek to increase sales through our direct-to-consumer sales channel, we expect that our third-party retailers will continue to be an important part of our ecosystem. We will continue to seek retail partners that can deliver differentiated in-store experiences to support customer demand for product demonstrations. 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 example, a 2022 product survey by CE Pro ranked Sonos as the leading brand in the wireless speakers, soundbar, and subwoofer categories. Our 93% share in the wireless speakers category among these industry professionals significantly outpaces our competitors. In fiscal 2022, we generated 21.2% of total revenue through our installer solutions channel.

• *Expand partner ecosystem to enhance platform*. We intend to deepen our relationships with our current partners and expand our partner ecosystem by providing our customers access to streaming music services, voice assistants, internet radio, podcasts and audiobook content.

• *Increase brand awareness in existing geographic markets*. We intend to increase our household penetration rates in our existing geographic markets by increasing brand awareness, expanding our product offerings and growing our partner ecosystem.

• *Expansion into new geographic markets.* Geographic expansion represents a growth opportunity in currently underserved countries. We intend to expand into new countries over time by employing country-specific marketing campaigns and distribution channels.

Factors Affecting Performance

New Product Introductions. Since 2005, we have released 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. Our promotional discounting activity is typically higher in the first fiscal quarter as well, which negatively impacts gross margin during this period. However, our higher sales volume in the holiday shopping season has historically resulted in a higher operating margin in the first fiscal quarter due to positive operating leverage.

Ability to Sell Additional Products to Existing Customers. Our existing customers typically increase the number of Sonos products in their homes. In fiscal 2022, existing households represented approximately 44% of new product registrations. As we execute on our product roadmap to address evolving consumer preferences, we believe we can expand the number of products in our customers' homes. Our ability to sell additional products to existing customers is a key part of our business model, as follow-on purchases indicate high customer engagement and satisfaction, decrease the likelihood of competitive substitution, and result in higher customer lifetime value. We will continue to innovate and invest in product development in order to enhance customer experience and drive sales of additional products to existing customers.

Expansion of Partner Ecosystem. Expanding and maintaining strong relationships with our partners will remain important to our success. Our ability to develop, manufacture, and sell voice-enabled speakers that deliver differentiated consumer experiences will be a critical driver of our future performance, particularly as we compete in a larger market with an expanding number of competitors. We currently compete with, and will continue to compete with, companies that have greater resources than we do, many of which have brought voice-enabled speakers to market. To date, our agreements with these partners have all been on a royalty-free basis. We believe our partner ecosystem improves customer experience, attracting more customers to Sonos, which in turn attracts more partners to the platform, further enhancing customer experience. We believe partners choose to be part of the Sonos platform because it provides access to a large, engaged customer base on a global scale. We look to partner with a wide variety of streaming music services, voice assistants, connected home integrators, content creators, and podcast providers. We have also partnered with certain companies in the development of our own voice-enabled products, while also bringing to market our own voice assistant focused specifically on the audio experience. Our competitiveness in the voice-enabled speaker market will depend on successful investment in research and development, market acceptance of our products and our ability to maintain and benefit from our technology partnerships.

As competition increases, we believe our ability to give users the freedom to choose across a broad set of streaming services and voice control partners will be an important key differentiating factor.

Channel Strategy. We believe growing 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. We are investing in our e-commerce capabilities and in-app experience to drive direct sales. In fiscal 2022, sales through our direct-to-consumer channel, primarily through sonos.com, represented 22.5% of our revenue in fiscal 2022, and 24.2% in fiscal 2021. Sales through our direct-to-consumer channel decreased 5.1% in fiscal 2022 and increased 46.5% in fiscal 2021.

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. In fiscal 2022, we generated 21.2% of total revenue through our installer solutions channel. Our physical retail distribution relies on third-party retailers and our ability to maintain our diversified manufacturing footprint and base of component suppliers in support of production efficiency and flexibility across our global supply chain.

International Expansion. Our products are sold in more than 60 countries, and in fiscal 2022, 45.0% of our revenue was generated outside the United States. Our international growth will depend on our ability to generate sales from the global population of consumers, develop international distribution channels, and diversify our partner ecosystem to appeal to a more global audience. We are committed to strengthening our brand in global markets and our future success will depend in part on our growth in international markets.

Investing in Product and Software Development. Our investments in product and software development consist primarily of expenses in the personnel who support our research and development efforts and capital expenditures for new tooling and production line equipment to manufacture and test our products. We believe that our financial performance will significantly depend on the effectiveness of our investments to design and introduce innovative new products and services and enhance existing products and software. If we fail to innovate and expand our product and software offerings or fail to maintain high standards of quality in our products, our brand, market position and revenue will be adversely affected. Further, if our development efforts are not successful, we will not recover the investments made.

Investing in Sales and Marketing. We continue to invest resources in our marketing and brand development efforts. Our marketing investments are focused on increasing brand awareness through advertising, public relations and brand promotion activities. While we maintain a base level of investment throughout the year, significant increases in spending are highly correlated with the holiday shopping season, new product launches, and software introductions. We also invest in capital expenditures on product displays to support our retail channel partners. Sales and marketing investments are typically incurred in advance of any revenue benefits from these activities.

Competition

We compete against established, audio-focused sellers of speakers and sound systems such as Bose, Samsung (and its subsidiaries Harman International and JBL), Sony, Bang & Olufsen, and Masimo (and its subsidiary Sound United that owns, among others, the Denon, Polk Audio and Bowers and Wilkens brands), and against developers of voice-enabled speakers and other voice-enabled products such as Amazon, Apple, and Google. In some cases, our competitors are also our partners in our product development and resale and distribution channels. Many of our competitors have significant market share, diversified product lines, well-established supply and distribution systems, strong worldwide brand recognition, loyal customer bases and significant financial, marketing, research, development and other resources.

The principal competitive factors in our market include:

- brand awareness and reputation;
- breadth of product offering;
- price;
- sound quality;
- multi-room and wireless capabilities;
- customer support;
- product quality and design;
- ease of setup and use; and
- network of technology and content partners.

We believe we compete favorably with our competitors on the basis of the factors described above.

Intellectual Property

Intellectual property is an important aspect of our business, and we seek protection for our intellectual property as appropriate. To establish and protect our proprietary rights, we rely upon a combination of patent, copyright, trade secret and trademark laws, and contractual restrictions such as confidentiality agreements, licenses and intellectual property assignment agreements. We maintain a policy requiring our employees, contractors, consultants and other third parties to enter into confidentiality and proprietary rights agreements to control access to our proprietary information. These laws, procedures and restrictions provide only limited protection, and any of our intellectual property rights may be challenged, invalidated, circumvented, infringed or misappropriated. There is no guarantee that we will prevail on any patent infringement claims against third parties. Furthermore, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States, and we therefore may be unable to protect our proprietary technology in certain jurisdictions.

Sonos is a leading innovator that holds a comprehensive portfolio of intellectual property rights, including patents, trade secrets, copyrights, trademarks, service marks, trade dress and other forms of intellectual property rights in the U.S. and various other countries. Sonos' patent portfolio, in particular, has been recognized as one of the strongest in consumer electronics. Our patents and patent applications relate to hardware, software, networking, accessories, and services, and include technology for the ability to stream content for playback wirelessly to one or more rooms in the home or business. It also includes technology for enabling a wide range of experiences and audio technologies that are important to the Sonos platform and enjoyed by millions of people every day across the globe. Experiences covered by our patents include simple system setup, seamless integration with other platforms and services, balanced sound, voice interactions and control, as well as experiences unique to home theater to name a few. We regularly file patent applications in the U.S. and throughout the world to protect our innovations and technology that come from areas such as research, development, and design. Our patents expire at various times and no single patent or other intellectual property right is solely responsible for protecting Sonos' products and services. Sonos continues to invest in protecting its expanding innovation through ongoing development of its patent portfolio. In addition to its own intellectual property, Sonos also enters into licensing agreements with our third-party partners to provide access to a broad range of technology, services, and content for our customers.

In January 2020, the Company filed a complaint with the U.S. International Trade Commission ("ITC") against Alphabet Inc. ("Alphabet") and Google LLC ("Google") and a counterpart lawsuit in the U.S. District Court for the Central District of California against Google alleging infringement of five Sonos patents. In September 2020, the Company filed another lawsuit against Google alleging infringement of an additional four Sonos patents. This lawsuit is currently pending in U.S. District Court for the Northern District of California. In December 2020, the Company filed another lawsuit against Google Germany Gmbh and Google Ireland Ltd. in the regional court of Hamburg, Germany, alleging infringement of a Sonos patent. Starting in 2020, Google has responded by filing patent infringement lawsuits against the Company in the ITC, U.S. District Court for the Northern District of California, Canada, Germany, France, and the Netherlands, and patent infringement lawsuits against the Company's subsidiary, Sonos Europe B.V., in Germany, France, and the Netherlands. See Note 13. Commitments and Contingencies of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further details.

While we believe that our active patents and patent applications are an important aspect of our business, we also rely heavily on the innovative skills, technical competence and marketing abilities of our personnel.

Human Capital

Sonos is dedicated to creating the ultimate listening experience for our customers, and our employees are critical to achieving this mission. In order to continue to design innovative experiences and products, and compete and succeed in our highly competitive and rapidly evolving market, it is crucial that we continue to attract and retain experienced employees. As part of these efforts, we strive to offer a competitive compensation and benefits program, foster a community where everyone feels included and empowered to do their best work, and give employees the opportunity to give back to their communities and make a social impact.

As of October 1, 2022, we had 1,844 full-time employees. Of our full-time employees, 1,312 were in the United States and 532 were in our international locations. Other than our employees in France and the Netherlands, none of our employees are represented by a labor union or covered by a collective bargaining agreement.

Compensation and Benefits Program. Our compensation program is designed to attract and reward talented individuals who possess the skills necessary to support our business objectives, assist in the achievement of our strategic goals and create long-term value for our stockholders. We provide employees with compensation packages that include base salary, annual incentive bonuses, and long-term equity awards ("RSUs") tied to the value of our stock price. We believe that a compensation program with both short-term and long-term awards provides fair and competitive compensation and aligns employee and stockholder interests, including by incentivizing business and individual performance (pay for performance), motivating based on long-term company performance and integrating compensation with our business plans. In addition to cash and equity compensation, we also offer employees benefits such as life and health (medical, dental & vision) insurance, paid time off, paid parental leave, and a 401(k) plan.

Diversity, Equity and Inclusion. At Sonos, we believe that music and sound is universal and connects us as people, and we strive to build products that move everyone. To do this, we are committed to building an equitable and inclusive environment where diverse teams build more creative solutions, drive better results, innovate and bring their authentic selves to work each day. We monitor the representation of women and racially or ethnically diverse team members at different levels throughout the company and disclose the composition of our team in our annual Listen Better Report, which is our corporate social responsibility report available on the Investor Relations section of our website.

As an organization, we've committed to annual diversity, equity and inclusion goals to increase representation at all levels and foster greater connection and belonging at Sonos. To accomplish these goals, we're implementing initiatives to help us reach these goals, including:

- holding management directly accountable in creating a more diverse and inclusive environment by designating 10% of the annual cash incentive plan for management for diversity, equity and inclusion goals;
- examining our hiring practices to ensure we source the best talent from the widest available pool;

- intentional listening to our employee resource groups who provide critical insight into the experience of underrepresented groups at Sonos and across our industry;
- frequent review of our policies and practices to ensure an equitable experience for all;
- coupling our hiring goals with a focus on retention, employee engagement, and inclusive leadership;
- implementing mentoring and allyship programs that connect employees to key support systems across Sonos; and
- deepening our organizational acumen around allyship, unconscious bias, and equity.

Community Involvement. We aim to enhance the communities where we live and work, and believe that this commitment helps in our efforts to attract and retain employees. We offer employees the opportunity to give back both through our Sonos Soundwaves program, which partners with leading non-profits, and our Sonos Cares program, which offers employees paid volunteer time each year.

Corporate Information

We incorporated in Delaware in August 2002 as Rincon Audio, Inc. and we changed our name to Sonos, Inc. in May 2004. We completed the initial public offering ("IPO") of our common stock in August 2018 and our common stock is listed on The Nasdaq Global Select Market under the symbol of "SONO." Our principal executive offices are located at 614 Chapala Street, Santa Barbara, California 93101, and our telephone number is (805) 965-3001.

Our website address is www.sonos.com. The information on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K. Investors should not rely on any such information in deciding whether to purchase our common stock.

Sonos, the Sonos logo, Sonos One, Sonos One SL, Sonos Five, Sonos Beam, Play:1, Play:5, Playbase, Playbar, Sonos Arc, Amp, Sub, Sonos Move, Port, Boost, Ray, Sonos Ray, Sonos Roam, Sonos Voice Control, Trueplay, Sub Mini, Sonos Sub Mini, Mayht and our other registered or common law trademarks, tradenames or service marks appearing in this Annual Report on Form 10-K are our property. Solely for convenience, our trademarks, tradenames, and service marks referred to in this Annual Report on Form 10-K appear without the ®, ™ and SM symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks, tradenames and service marks. This Annual Report on Form 10-K contains additional trademarks, tradenames and service marks of other companies that are the property of their respective owners.

Available Information

We make available, free of charge through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Sections 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, as soon as reasonably practicable after they have been electronically filed with, or furnished to, the SEC.

The SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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 Annual Report on Form 10-K, including our 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.

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. During the pandemic, consistent with its effects industry-wide, our supply chain has experienced disruptions, including lockdowns, port congestion, component supply-related challenges, and inflationary pressures, which may continue in the future. Supply chain challenges have increased our component and shipping and logistics costs, caused delayed product availability, and impacted our ability to forecast and meet product demand, procure certain components, and effectively manage our inventory levels, all of which has and could in the future, materially and adversely affected our business, results of operations, financial position, and cash flows. Although some pandemic-related impacts on our business have abated, they may emerge or intensify again given the uncertain course of the pandemic and its effects.

COVID-19 has also negatively impacted the global economy to date, including by contributing to significant global economic uncertainty. The duration and severity of the economic impacts of COVID-19 are unknown and may be prolonged and extend beyond the easing of mitigation measures, the widespread availability of vaccines and treatments or any eventual containment of the spread of COVID-19. In particular, any recession, depression, inflationary pressures, or other sustained adverse market event resulting from, among other causes, 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 efforts to contain the spread of COVID-19, any resurgence of infections or any variants that may emerge and the impact of the pandemic on the global economy. Moreover, we have experienced increased demand for our products during much of the COVID-19 pandemic and we cannot predict how or whether the easing of COVID-19 mitigation measures will impact demand for our products or shift consumer spending habits in general. During the second half of fiscal 2022, we saw a softening of consumer demand in part as a result of a shift in consumer spending from purchasing goods to purchasing services and it is uncertain whether such shift will continue.

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 Bose, Samsung (and its subsidiaries Harman International and JBL), Sony, Bang & Olufsen and Masimo (and its subsidiary Sound United that owns, among others, the Denon, Polk Audio and Bowers and Wilkens brands), 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 our speaker products. 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 2022 we introduced Ray, our compact soundbar and in September 2022 we introduced Sub Mini, the smaller of our two wireless subwoofer offerings. 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, our business is impacted by a number of factors, including those outside of our control like the global economy, and 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 starting in the fiscal year ended October 2, 2021, we may not be able to maintain or grow our profitability. We have experienced net losses in the past and may incur net losses in the future. We had an accumulated deficit of $2.5 million as of October 1, 2022.

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 grow 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 times of global economic, social and political uncertainty. For example, demand for our products was impacted in the second half of fiscal 2022, and in the future may be impacted, by uncertainty in the economic environment including the potential for an extended global recession, continued inflationary pressures, or, in certain markets, foreign currency exchange rate fluctuations, including those resulting from 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 continue to 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 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 and spending patterns, new product introductions, sales promotions, channel inventory levels, uncertainties related to the COVID-19 pandemic, Russia's invasion of Ukraine, and general economic conditions, including inflation and the potential for an extended global recession. 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 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 and offer products with wider applications may not succeed and could adversely impact our business.

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

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

Given the seasonal nature of our sales, accurate forecasting is critical to our business. Our fiscal year ends on the Saturday closest to September 30, the holiday shopping season occurs in the first quarter of our fiscal year and the typically slower summer months occur in the fourth quarter of our fiscal year. Historically, our revenue has been significantly higher in our first fiscal quarter due to increased consumer spending patterns during the holiday season. Any shortfalls in expected first fiscal quarter revenue, due to macroeconomic conditions like the potential for an extended global recession, product release patterns, a decline in the effectiveness of our promotional activities, supply chain disruptions, inflationary pressures 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 Roam, our portable smart speaker. In May 2022, we introduced Sonos Voice Control, our proprietary voice assistant, on all of our voice-enabled speakers. 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, Spotify, Deezer, and Pandora. 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, in January 2020 we filed a complaint with the ITC against Alphabet and Google and a counterpart lawsuit in the U.S. District Court for the Central District of California against Google alleging infringement of five Sonos patents, and in September 2020 we filed another lawsuit against Google alleging infringement of an additional four Sonos patents. The cost of defending our intellectual property has been and may in the future be substantial, and there is no assurance we will be successful. Our business could be adversely affected as a result of any such actions, or a finding that any patents-in-suit are invalid or unenforceable. These actions have led and may in the future lead to additional counterclaims or actions against us, which are expensive to defend against and for which there can be no assurance of a favorable outcome. For example, Google has responded to our legal proceedings by filing multiple patent infringement lawsuits against us in the U.S. District Court for the Northern District of California, cases against us in the ITC and patent infringement lawsuits against us and our subsidiary Sonos Europe B.V. in various foreign jurisdictions. 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 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. In fiscal 2020, we began our efforts to diversify our supply chain through the addition of new contract manufacturers and geographic diversification, starting with Malaysia and extending such efforts into Vietnam in fiscal 2022. 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 may impact or 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, and many of our components have long lead times, and our business and operating results could be adversely affected by shortages, disruptions and related challenges.

We are dependent on a limited number of suppliers for various key components used in our products, and we may from time to time have sole source suppliers. The cost, quality and availability of these components are essential to the successful production and sale of our products. We are subject to the risk of industry-wide shortages, price fluctuations and long lead times in the supply of these components and other materials, which risk has been and may continue to be heightened 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.

In addition, the longer lead time for many of our components presents challenges in our efforts to manage component inventory, as we procure such components based on our then current forecast of demand for our products. During the pandemic, we have also faced the challenge of managing component inventory during periods of fluctuating availability. In particular, many components with longer lead times have experienced shortages during the pandemic and, as a result, during fiscal 2022 we increased our investments in, and purchase commitments for, certain components where possible to secure inventory in anticipation of shortages and strong demand, and we may need to do so again in the future. In the event that actual demand for our products differs from our forecast, we may end up with an excess inventory of components, as we saw in the fourth quarter of fiscal 2022, negatively impacting our working capital.

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 lockdowns. Any disruption to the operations of our distribution facilities could delay product delivery, harm our reputation among our customers and adversely affect our operating results and financial condition.

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

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 15% of our revenue in fiscal 2022. 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. Many of our key channel partners temporarily closed or reduced operations in their retail stores at various times during the pandemic and may continue to do so in the future, which has had, and may continue to have, a material effect on our business and results of operations.

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

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

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

For these reasons, any decision to decrease or discontinue backward capability may decrease sales, generate legal claims and adversely affect our business, operating results and financial condition.

Product quality issues and a higher-than-expected number of warranty claims or returns could harm our business and operating results.

The products that we sell could contain defects in design or manufacture. Defects could also occur in the products or components that are supplied to us. There can be no assurance we will be able to detect and remedy all defects in the hardware and software we sell, which could result in product recalls, product redesign efforts, loss of revenue, reputational damage and significant warranty and other remediation expenses. Similar to other consumer electronics, our products have a risk of overheating and fire in the course of usage or upon malfunction. Any such defect could result in harm to property or in personal injury. If we determine that a product does not meet product quality standards or may contain a defect, the launch of such product could be delayed until we remedy the quality issue or defect. The costs associated with any protracted delay necessary to remedy a quality issue or defect in a new product could be substantial.

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

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

We have operations outside the United States, and we expect to continue to expand our international presence, especially in Asia. In fiscal 2022, 45% of our revenue was generated outside the United States. This subjects us to a variety of risks inherent in doing business internationally, including:

- fluctuations in currency exchange rates and costs of imposing currency exchange controls;
- political, social and/or economic instability, including related to the ongoing COVID-19 pandemic, 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 and staffing 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 in that region, 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, we replaced our legacy ERP 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 and information security laws and regulations change, and compliance with them may result in cost increases due to, among other things, systems changes and the development of new processes. If we or those with whom we share information fail to comply with laws and regulations, such as the General Data Protection Regulation ("GDPR") and California Consumer Privacy Act ("CCPA"), our reputation could be damaged, possibly resulting in lost business, and we could be subjected to additional legal risk or financial losses as a result of non-compliance. Complying with such laws may also require us to modify our data processing practices and policies and incur substantial expenditures.

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

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

Further, in the past, internet service providers ("ISPs") have attempted to implement usage-based pricing, bandwidth caps and traffic shaping or throttling. To the extent network operators create tiers of internet access service and charge our customers in direct relation to their consumption of audio content, our ability to attract and retain customers could be impaired, which would harm our business. Net neutrality rules, which were designed to ensure that all online content is treated the same by ISPs and other companies that provide broadband services, were repealed by the Federal Communications Commission ("FCC") effective June 2018. Although the FCC has preempted state jurisdiction over 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"). These 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 additional 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 fiscal 2020 and fiscal 2021 exemption periods and continue to see outstanding refund requests and corresponding refunds processed for such periods.

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, our efforts to diversify our supply chain outside of China are delayed or otherwise not successful, or China or other countries take retaliatory trade measures in response to existing or future tariffs, our business may be impacted and we may be required to raise prices or make changes to our operations, any of which could materially harm our revenue or operating results. In response to future new tariffs, we may intensify our efforts to diversify 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 1, 2022, we had gross U.S. federal net operating loss carryforwards of $105.8 million, of which $74.7 million have an indefinite life and $31.1 million that expire beginning in 2035, and gross state net operating loss carryforwards of $65.5 million, which expire beginning in 2027, as well as $41.7 million in foreign net operating loss carryforwards with an indefinite life. As of October 1, 2022, we also had U.S. federal research and development tax credit carryforwards of $70.0 million, and state research and development tax credit carryforwards of $48.1 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. 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 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 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 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 have and may in the future 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 1B. Unresolved Staff Comments

None.

Item 2. Properties

We are a global company with our corporate headquarters located in Santa Barbara, California. We lease office space in Santa Barbara, as well as offices in various locations in the U.S. and around the world. We believe our existing facilities are adequate to meet our current requirements.

Item 3. 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 13. Commitments and Contingencies of the notes to our consolidated financial statements included in Part II. Item 8 of this Annual Report, 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 4. Mine Safety Disclosures

None.

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PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market Information for Our Common Stock

Shares of our common stock trade on The Nasdaq Global Select Market under the symbol “SONO.”

Holders of Record

As of November 7, 2022, there were 1,638 holders of record of our common stock. This figure does not include a substantially greater number of beneficial holders of our common stock whose shares are held of record by banks, brokers and other financial institutions.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends for the foreseeable future. We expect to retain future earnings, if any, to fund the development and growth of our business. Any future determination to pay dividends on our common stock will be made at the discretion of the Board and will depend upon, among other factors, our financial condition, operating results, current and anticipated cash needs, plans for expansion and other factors that the Board may deem relevant. In addition, the terms of our credit facilities contain restrictions on our ability to declare and pay cash dividends on our capital stock.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

The following table presents information with respect to our repurchase of common stock during the quarter ended October 1, 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)
Jul 3 - Jul 30	483,797	$	19.68	483,797	$	23,374
Jul 31 - Aug 27	1,444,900	$	16.24	1,444,900	$	—
Aug 28 - Oct 1	—	$	—	—	$	—
Total	1,928,697			1,928,697		

(1) In November 2021, the Board of Directors authorized a common stock repurchase program of up to $150.0 million; as of October 1, 2022, we had fully utilized the amount available under this common stock repurchase program. Over the past three fiscal years, we have completed $250.0 million in share repurchases, for 11,760,762 shares, at an average price of $21.26 per share. See Note 8. Stockholders' Equity of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information. We also withhold shares of common stock in connection with the vesting of restricted stock unit awards issued to such employees to satisfy applicable tax withholding requirements. Although these withheld shares are not issued or considered common stock repurchases under our stock repurchase program and therefore are not included in the preceding table, they are treated as common stock repurchases in our consolidated financial statements as they reduce the number of shares that would have been issued upon vesting.

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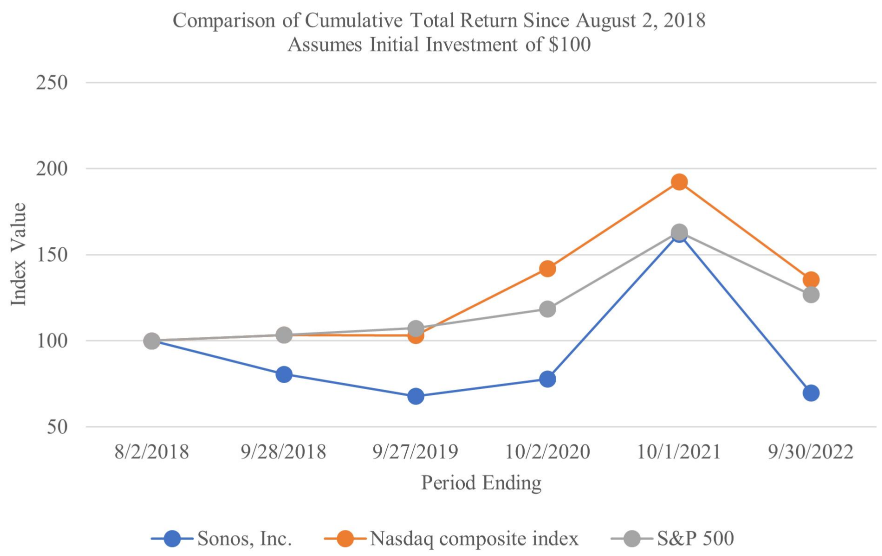
Stock Performance Graph



		September 28, 2018		September 27, 2019		October 2, 2020		October 1, 2021		September 30, 2022
Sonos, Inc.	$	80.56	$	67.86	$	77.85	$	162.03	$	69.81
Nasdaq composite index	$	103.34	$	103.11	$	141.94	$	192.31	$	135.54
S&P 500	$	103.43	$	107.29	$	118.44	$	163.28	$	126.82

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in the section titled "Risk Factors."

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. References to fiscal 2022 are to our 52-week fiscal year ended October 1, 2022, references to fiscal 2021 are to our 52-week fiscal year ended October 2, 2021, references to fiscal 2020 are to our 53-week fiscal year ended October 3, 2020.

Overview

Sonos is one of the world's leading sound experience brands.

We pioneered multi-room, wireless audio products, debuting the world's first multi-room wireless sound system in 2005. Today, our products include wireless, portable, and home theater speakers, components, and accessories to address consumers' evolving audio needs. We are known for delivering unparalleled sound, thoughtful design aesthetic, simplicity of use, and an open platform. Our platform has attracted a broad range of more than 130 streaming content providers, such as Apple Music, Spotify, Deezer, and Pandora. These partners find value in our independent platform and access to our millions of desirable and engaged customers. We frequently introduce new services and features across our platform, providing our customers with enhanced functionality, improved sound, and an enriched user experience. We are committed to continuous technological innovation as reflected in our growing global patent portfolio. We believe our patents comprise the foundational intellectual property for wireless multi-room and other audio technologies.

Our innovative products, seamless customer experience and expanding global footprint have driven 17 consecutive years of sustained revenue growth since our first product launch. We generate revenue from the sale of our Sonos speaker products, including wireless speakers and home theater speakers, from our Sonos system products, which largely comprises our component products, and from partner products and other revenue, including partnerships with IKEA and Sonance, Sonos and third-party accessories, licensing, and advertising revenue.

We have developed a robust product and software roadmap that we believe will help us capture the expanding addressable market for our products. We believe executing on our roadmap will position us to acquire new customers, offer a continuously improving experience to our existing customers, and grow follow-on purchases.

Recent developments

The impacts of, and uncertainty related to, the COVID-19 pandemic and its expected duration persist. Developments continue to occur, relating to the emergence of new variants of the virus, outbreaks, and resulting lockdowns globally. COVID-19 has affected our supply chain, consistent with its effect across many industries, including component supply-related challenges, inflationary pressures, port congestion and the continuing impacts of lockdowns in China. We began to see recovery in supply for some of our products, while supply chain constraints resulted in delayed product availability for certain products. As a result of these broader industry-wide supply chain challenges, in fiscal 2022, we experienced increased component costs, and increased shipping and logistics costs, as well as longer lead times.

More recently, macroeconomic trends have led to uncertainty in the economic environment. These include conditions such as the potential for a recession, foreign exchange rate fluctuations - particularly the strengthening of the U.S. dollar relative to the euro and the British pound, high inflation and the related negative impact on the global economy, and the continuing conflict between Russia and Ukraine. Foreign exchange rate fluctuations had an unfavorable impact on revenue for the second half of fiscal 2022, primarily due to the strength of the U.S. dollar relative to the euro and the British pound. These trends, as well as a shift in consumer spending from purchasing goods to purchasing services, led to softening demand in the second half of fiscal 2022. The falloff in demand resulted in an increase in our component supply and inventory as we had previously increased our investments and purchase commitments to secure inventory for long lead-time components during what had been a period of constrained availability and strong demand. We continue to work with our contract manufacturing partners to actively manage the impact of industry-wide supply chain challenges, including fluctuations in component availability and consumer demand. The extent to which our business, or the business of our suppliers or manufacturers, will be impacted in the future is unknown.

For additional information, refer to Part I, Item 1A. Risk factors.

Key Metrics

In addition to the measures presented in our consolidated financial statements, we use the following key metrics to evaluate our business, measure our performance, identify trends affecting our business and assist us in making strategic decisions. Our key metrics are total revenue, products sold, adjusted EBITDA and adjusted EBITDA margin. The most directly comparable financial measure calculated under U.S. GAAP for adjusted EBITDA is net income (loss). In the fiscal years ended October 1, 2022 and October 2, 2021, we had net income of $67.4 million and $158.6 million, respectively and in the fiscal year ended October 3, 2020, we had a net loss of $20.1 million.

	Fiscal Year Ended		
	October 1, 2022	October 2, 2021	October 3, 2020
(In thousands, except percentages)			
Revenue	$ 1,752,336	$ 1,716,744	$ 1,326,328
Products sold	6,281	6,503	5,806
Adjusted EBITDA[(1)]	$ 226,549	$ 278,585	$ 108,543
Adjusted EBITDA margin[(1)]	12.9 %	16.2 %	8.2 %

(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.

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, accessories such as speaker stands and wall mounts, professional services, licensing, and advertising revenue.

For a description of our revenue recognition policies, see the section titled "Critical accounting policies and estimates."

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, 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 the section titled "Results of Operations —Non-GAAP Financial Measures" for information regarding our use of adjusted EBITDA and adjusted EBITDA margin, and a reconciliation of net income (loss) to adjusted EBITDA.

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.

For a description of our revenue recognition policies, see the section titled "Critical accounting policies and estimates."

Cost of Revenue

Cost of revenue consists of product costs, including costs of our contract manufacturers for production, components, shipping and handling, 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. It also includes licensing costs, such as royalties to third parties, and attributable amortization of acquired developed technology. In addition, we allocate certain costs related to management and facilities, personnel-related expenses, and supply chain logistic costs. 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, depreciation for product displays, as well as related maintenance and repair expenses, 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 future taxable income can be considered a source of income to realize a benefit for deferred tax assets in certain foreign jurisdictions. In addition, we have concluded that a valuation allowance on deferred tax assets in the U.S. continues to be appropriate considering cumulative pre-tax losses in recent years and uncertainty with respect to future taxable income.

It is possible that in the foreseeable future 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.

Results of Operations

The consolidated statements of operations data for fiscal years 2022, 2021, and 2020, and the consolidated balance sheet data as of October 1, 2022, and October 2, 2021, are derived from our audited consolidated financial statements appearing in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K. The consolidated statements of operations data for fiscal years 2019, and 2018, and the consolidated balance sheet data as of October 3, 2020, September 28, 2019, and September 29, 2018, are derived from audited consolidated financial statements not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected in any future period.

	Fiscal Year Ended				
(In thousands, except share and per share amounts and percentages)	**October 1, 2022**	**October 2, 2021**	**October 3, 2020**	**September 28, 2019**	**September 29, 2018[4]**
Revenue	$ 1,752,336	$ 1,716,744	$ 1,326,328	$ 1,260,823	$ 1,137,008
Cost of revenue [1]	955,969	906,750	754,372	733,480	647,700
Gross profit	796,367	809,994	571,956	527,343	489,308
Operating expenses					
Research and development [1]	256,073	230,078	214,672	171,174	142,109
Sales and marketing [1]	280,333	272,124	263,539	247,599	270,869
General and administrative [1]	170,429	152,828	120,978	102,871	85,205
Total operating expenses	706,835	655,030	599,189	521,644	498,183
Operating income (loss)	89,532	154,964	(27,233)	5,699	(8,875)
Other income (expense), net					
Interest income	1,655	146	1,998	4,349	731
Interest expense	(552)	(592)	(1,487)	(2,499)	(5,242)
Other income (expense), net	(21,905)	2,407	6,639	(8,625)	(1,162)
Total other income (expense), net	(20,802)	1,961	7,150	(6,775)	(5,673)
Income (loss) before provision for (benefit from) income taxes	68,730	156,925	(20,083)	(1,076)	(14,548)
Provision for (benefit from) income taxes	1,347	(1,670)	32	3,690	1,056
Net income (loss)	$ 67,383	$ 158,595	$ (20,115)	$ (4,766)	$ (15,604)
Net income (loss) per share attributable to common stockholders:[2]					
Basic	$ 0.53	$ 1.30	$ (0.18)	$ (0.05)	$ (0.24)
Diluted	$ 0.49	$ 1.13	$ (0.18)	$ (0.05)	$ (0.24)
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:[2]					
Basic	127,691,030	122,245,212	109,807,154	103,783,006	65,706,215

Diluted	137,762,078	140,309,152	109,807,154	103,783,006	65,706,215
Other Data:					
Products sold[5]	6,281	6,503	5,806	6,204	5,165
Adjusted EBITDA [3]	$ 226,549	$ 278,585	$ 108,543	$ 88,689	$ 69,128
Adjusted EBITDA margin [3]	12.9 %	16.2 %	8.2 %	7.0 %	6.1 %

(1)Stock-based compensation was allocated as follows:

	Fiscal Year Ended				
(In thousands)	**October 1, 2022**	**October 2, 2021**	**October 3, 2020**	**September 28, 2019**	**September 29, 2018**
Cost of revenue	$ 1,620	$ 988	$ 1,106	$ 985	$ 198
Research and development	30,724	25,075	23,439	17,643	13,960
Sales and marketing	15,335	13,570	14,359	12,965	15,885
General and administrative	27,961	22,494	18,706	14,982	8,602
Total stock-based compensation expense	$ 75,640	$ 62,127	$ 57,610	$ 46,575	$ 38,645

(2)See Note 11. Net Income (Loss) Per Share Attributable to Common Stockholders of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for an explanation of the calculations of our net income (loss) per share attributable to common stockholders, basic and diluted.
(3)Adjusted EBITDA and adjusted EBITDA margin are financial measures that are not calculated in accordance with U.S. GAAP. See the section titled "—Non-GAAP Financial Measures" below for information regarding our use of these non-GAAP financial measures and a reconciliation of net income (loss) to adjusted EBITDA.
(4)Reflects the impact of the adoption of new accounting standard in fiscal year 2018 related to revenue recognition.
(5)Products sold for the fiscal years 2019 and 2018 have been recast to reflect the change in product revenue categorization.

	As of				
(In thousands)	**October 1, 2022**	**October 2, 2021**	**October 3, 2020**	**September 28, 2019**	**September 29, 2018**
Consolidated balance sheet data:					
Cash and cash equivalents	$ 274,855	$ 640,101	$ 407,100	$ 338,641	$ 220,930
Working capital	331,752	481,384	267,362	276,635	201,243
Total assets	1,188,388	1,138,804	816,051	761,605	587,498
Total long-term debt	—	—	18,251	24,840	33,097
Total liabilities	627,875	569,762	518,212	480,677	379,140
Accumulated deficit	(2,514)	(69,897)	(228,492)	(208,377)	(203,611)
Total stockholders' equity	560,513	569,042	297,839	280,928	208,358

Non-GAAP Financial Measures

To supplement our 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, 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 in these non-GAAP financial measures. Accordingly, we believe that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating our operating results, 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 of adjusted EBITDA, and the use of adjusted EBITDA margin rather than operating margin, which is the nearest U.S. GAAP equivalent of adjusted EBITDA margin. These 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 items that are not considered representative of our underlying operating performance which reduce cash available to us; and
- may not be comparable to similar non-GAAP financial measures used by other companies, because the expenses and other items that we exclude in our calculation of these non-GAAP financial measures may differ from the expenses and other items, if any, that other companies may exclude from these non-GAAP financial measures when they report their operating results.

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

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

			Fiscal Year Ended		
	October 1, 2022	**October 2, 2021**	**October 3, 2020**	**September 28, 2019**	**September 29, 2018**
(In thousands, except percentages)					
Net income (loss)	$ 67,383	$ 158,595	$ (20,115)	$ (4,766)	$ (15,604)
Depreciation and amortization	38,504	33,882	36,426	36,415	39,358
Stock-based compensation expense	75,640	62,127	57,610	46,575	38,645
Interest income	(1,655)	(146)	(1,998)	(4,349)	(731)
Interest expense	552	592	1,487	2,499	5,242
Other (income) expense, net	21,905	(2,407)	(6,639)	8,625	1,162
Provision for (benefit from) income taxes	1,347	(1,670)	32	3,690	1,056
Restructuring and related expenses	—	(2,446)	26,285	—	—
Legal and transaction related costs (1)	22,873	30,058	15,455	—	—
Adjusted EBITDA	$ 226,549	$ 278,585	$ 108,543	$ 88,689	$ 69,128
Revenue	1,752,336	1,716,744	1,326,328	1,260,823	1,137,008
Adjusted EBITDA margin	12.9 %	16.2 %	8.2 %	7.0 %	6.1 %

(1)Legal and transaction-related costs consist of expenses related to our intellectual property ("IP") litigation against Alphabet and Google as well as legal and transaction costs associated with our acquisition activities, which we do not consider representative of our underlying operating performance.

Comparison of Fiscal Years 2022 and 2021

Revenue

(Dollars in thousands)	Fiscal Year Ended October 1, 2022	Fiscal Year Ended October 2, 2021	Change from Prior Fiscal Year $	Change from Prior Fiscal Year %
Sonos speakers	$1,368,916	$ 1,378,808	$ (9,892)	(0.7)%
Sonos system products	297,110	265,180	31,930	12.0
Partner products and other revenue	86,310	72,756	13,554	18.6
Total revenue	$1,752,336	$ 1,716,744	$ 35,592	2.1 %
Volume data (products sold in thousands)			**Units**	**%**
Total products sold	6,281	6,503	(222)	(3.4)%

Total revenue increased 2.1% for fiscal 2022, compared to fiscal 2021. The growth was driven by strong demand for our products in the first half of the fiscal year despite lower promotional activity, somewhat offset by the continuing impact of constrained product availability, as well as the softening demand in the third and fourth fiscal quarters.

Sonos speakers revenue represented 78.1% of total revenue for fiscal 2022. The category decreased 0.7% compared to fiscal 2021, mainly related to decreased sales in Move and One, which resulted primarily from lower promotional activity in the first fiscal quarter due to limited supply. Sonos system products represented 17.0% of total revenue for fiscal 2022, and increased 12.0% compared to the fiscal 2021, supported by demand and availability of supply. Partner products and other revenue represented 4.9% of total revenue for fiscal 2022, and increased 18.6% compared to fiscal 2021. The increase was driven by sales from our partnerships with Sonance and IKEA.

The volume of products sold decreased for fiscal 2022, compared to fiscal 2021, as we sold fewer units in the Sonos speakers category. Revenue increased despite a decrease in volume for fiscal 2022, compared to fiscal 2021, primarily due to the impact of higher selling prices.

Revenue for fiscal 2022, compared to fiscal 2021, increased 6.4% in the Americas, decreased 6.5% in EMEA, and increased 11.0% in APAC.

In constant currency U.S. dollars, total revenue increased 4.9% for the twelve months ended October 1, 2022, compared to the twelve months ended October 2, 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.

Cost of Revenue and Gross Profit

(Dollars in thousands)	Fiscal Year Ended October 1, 2022	Fiscal Year Ended October 2, 2021	Change from Prior Fiscal Year $	Change from Prior Fiscal Year %
Cost of revenue	$ 955,969	$ 906,750	$ 49,219	5.4 %
Percentage of revenue	54.6 %	52.8 %		
Gross profit	$ 796,367	$ 809,994	$ (13,627)	(1.7)%
Gross margin	45.4 %	47.2 %		

The increase in cost of revenue for fiscal 2022, compared to fiscal 2021, was primarily driven by an increase in air freight shipping in the first quarter of fiscal 2022, higher component costs, and an overall increase in shipping and logistics costs related to industry-wide supply chain dynamics.

Gross margin decreased 180 basis points for fiscal 2022, compared to fiscal 2021. The decrease was primarily due to increased shipping and logistics costs as well as increased component costs, both of which stemmed from broader industry-wide supply chain dynamics. The decrease in gross margin was also related to increased tariff expenses of $6.0 million, net of refunds recognized, compared to fiscal 2021, resulting from the impact of having an exemption from tariffs on core speaker products in the first half of fiscal 2021, which we did not have in the first half of fiscal 2022. The overall decrease was partially offset by the impact of reduced promotional activity and higher selling prices.

Research and Development

(Dollars in thousands)	Fiscal Year Ended October 1, 2022	Fiscal Year Ended October 2, 2021	Change from Prior Fiscal Year $	Change from Prior Fiscal Year %
Research and development	$ 256,073	$ 230,078	$ 25,995	11.3 %
Percentage of revenue	14.6 %	13.4 %		

Research and development expenses increased $26.0 million, or 11.3%, for fiscal 2022 compared to fiscal 2021. The increase was primarily driven by $17.0 million in personnel-related expenses due to increased headcount and stock-based compensation partially offset by lower variable compensation. The increase was also driven by an increase of $12.4 million in product development costs and professional fees, and $2.0 million in information technology, partially offset by a decrease of $10.0 million from a one-time product development investment in the prior year.

Sales and Marketing

(Dollars in thousands)	Fiscal Year Ended October 1, 2022	Fiscal Year Ended October 2, 2021	Change from Prior Fiscal Year $	Change from Prior Fiscal Year %
Sales and marketing	$ 280,333	$ 272,124	$ 8,209	3.0 %
Percentage of revenue	16.0 %	15.9 %		

Sales and marketing expenses increased $8.2 million, or 3.0%, in fiscal 2022 compared to fiscal 2021. The increase was primarily due to higher brand and marketing expenses of $5.3 million, additional professional fees of $3.9 million, and an increase of $2.8 million resulting from a gain that was recognized in the prior year related to the restructuring plan initiated in June 2020. The increase was partially offset by $5.7 million in lower personnel-related expenses due to lower variable compensation, partially offset by increased headcount and stock-based compensation.

General and Administrative

(Dollars in thousands)	Fiscal Year Ended October 1, 2022	Fiscal Year Ended October 2, 2021	Change from Prior Fiscal Year $	Change from Prior Fiscal Year %
General and administrative	$ 170,429	$ 152,828	$ 17,601	11.5 %
Percentage of revenue	9.7 %	8.9 %		

General and administrative expenses increased $17.6 million, or 11.5%, in fiscal 2022 compared to fiscal 2021. The increase was primarily driven by $11.6 million in personnel-related expenses due to increased headcount and stock-based compensation, offset by lower variable compensation. The increase was also driven by $8.4 million primarily related to our investments in information technology, including replacing our legacy enterprise resource planning system, offset by a $3.6 million decrease in legal fees, including legal fees incurred in connection with our IP litigation.

Other Income (Expense), Net

(Dollars in thousands)	Fiscal Year Ended October 1, 2022	Fiscal Year Ended October 2, 2021	Change from Prior Fiscal Year $	Change from Prior Fiscal Year %
Interest income	$ 1,655	$ 146	$ 1,509	*
Interest expense	$ 552	$ 592	$ (40)	(6.8)%
Other income (expense), net	$ (21,905)	$ 2,407	$ (24,312)	*

* not meaningful

Interest income increased by $1.5 million, in fiscal 2022 compared to fiscal 2021, due to higher yields earned on our cash and cash equivalents during fiscal 2022. Other income (expense), net decreased from other income of $2.4 million for fiscal 2021 to other expense of $21.9 million for fiscal 2022, due to foreign currency exchange losses.

Provision for (Benefit From) Income Taxes

	Fiscal Year Ended		Change from Prior Fiscal Year	
	October 1, 2022	October 2, 2021	$	%
(Dollars in thousands)				
Provision for (benefit from) income taxes	$ 1,347	$ (1,670)	$ 3,017	-180.7 %

The provision for income taxes increased from a benefit from income taxes of $1.7 million for fiscal 2021 to a provision for income taxes of $1.3 million for fiscal 2022. For fiscal 2022, we recorded a $2.3 million provision for non-U.S. entities and a benefit of $1.0 million for the U.S. entity, resulting in a total provision for income tax of $1.3 million. The most significant factors impacting the fiscal 2022 provision include a benefit of $7.3 million for the release of valuation allowances in certain foreign jurisdictions and a provision of $5.2 million for the revaluation of certain foreign deferred tax assets. For fiscal 2021, we recorded a benefit of $2.1 million for non-U.S. entities and a provision of $0.4 million for the U.S. entity, resulting in a total tax benefit of $1.7 million. The benefit from income taxes for the year ended October 2, 2021, includes a benefit of $7.8 million from the release of the valuation allowance in the Netherlands offset by the provision for income taxes recognized on current year earnings.

Comparison of Fiscal Years 2021 and 2020

For the comparison of fiscal years 2021 and 2020, refer to Part II, Item 7 "Management's discussion and analysis of financial condition and results of operations" on Form 10-K for our fiscal year ended October 2, 2021, filed with the SEC on November 22, 2021, under the subheading "Comparison of fiscal years 2021 and 2020."

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 October 1, 2022, our principal sources of liquidity consisted of cash flows from operating activities, cash and cash equivalents of $274.9 million, including $65.6 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 October 1, 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 credit agreement with JPMorgan Chase Bank, N.A., Bank of America N.A., Morgan Stanley Senior Funding, Inc., and Goldman Sachs Bank USA (the "Revolving Credit Agreement"), which allows us to borrow up to $100 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 October 1, 2022, we did not have any outstanding borrowings and $3.0 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 October 1, 2022, we were in compliance with all financial covenants under the Revolving Credit Agreement.

Cash Flows

Fiscal 2022 Changes in Cash Flows

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

	Fiscal Year Ended	
(In thousands)	**October 1, 2022**	**October 2, 2021**
Net cash provided by (used in):		
Operating activities	$ (28,260)	$ 253,226
Investing activities	(172,632)	(45,531)
Financing activities	(150,260)	24,967
Effect of exchange rate changes	(14,094)	148
Net increase in cash, cash equivalents and restricted cash	$ (365,246)	$ 232,810

Cash Flows from Operating Activities

Net cash used in operating activities of $28.3 million for fiscal 2022 consisted of net income of $67.4 million, non-cash adjustments of $134.4 million and a net decrease in cash related to changes in operating assets and liabilities of $230.0 million. Non-cash adjustments primarily consisted of stock-based compensation expense of $75.6 million and depreciation and amortization of $38.5 million. The net decrease in net operating assets and liabilities was primarily due to an increase in inventories of $277.5 million due to the recovery of supply for certain products, as well as higher inventory balances in preparation for the holiday season, a decrease in accrued compensation of $52.9 million due to a decrease in accrued variable compensation, an increase in other assets of $16.6 million related to capitalized costs related to the replacement of our legacy enterprise resource management system, a decrease in other liabilities of $5.5 million, and an increase in accounts receivable of $5.5 million. The decrease in net operating assets and liabilities was partially offset by an increase in accounts payable and accrued expenses of $129.7 million primarily related to an increase in accrued inventory payments.

Cash Flows from Investing Activities

Cash used in investing activities for fiscal 2022 of $172.6 million consisted primarily of payments for acquisitions, net of acquired cash of $126.4 million, as well as purchases of property and equipment and intangible assets of $46.2 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 fiscal 2022 of $150.3 million consisted primarily of payments for repurchases of common stock of $150.1 million, payments for repurchases of common stock related to shares withheld for tax in connection with vesting of RSUs of $39.7 million, as well as payments for debt issuance costs of $0.9 million, offset by proceeds from the exercise of stock options of $40.4 million.

Fiscal 2021 Changes in Cash Flows

For the comparison of fiscal 2021 to fiscal 2020, refer to Part II, Item 7 "Management's discussion and analysis of financial condition and results of operations" of our Form 10-K for our fiscal year ended October 2, 2021, filed with the SEC on November 22, 2021, under the subheading "Liquidity and capital resources."

Contractual obligations

See Note 6. Leases and Note 13. Commitments and Contingencies of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further details.

Critical Accounting Policies and Estimates

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

Our critical accounting policies requiring estimates, assumptions and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We generally enter into contracts that include a combination of products and services. Revenue is allocated to distinct performance obligations and is recognized net of allowances for returns, discounts, sales incentives and any taxes collected from customers, which are subsequently remitted to governmental authorities. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenue. We do not have material assets related to incremental costs to obtain or fulfill customer contracts.

Nature of Products and Services

Our product revenue primarily includes sales of Sonos speakers and Sonos system products, which include software that enables our products to operate over a customer’s wireless network as well as connect to various third-party services, including music and voice. We also generate a small 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 and advertising revenue. Module revenue comprises hardware and embedded software that is integrated into final products that are manufactured and sold by our partners. Our software primarily consists of firmware embedded in the products and the Sonos app, which is software that can be downloaded to consumer devices at no charge, with or without the purchase of one of our products. Products and related software are accounted for as a single performance obligation and all intended functionality is available to the customer upon purchase. The revenue allocated to the products and related software is the substantial portion of the total sale price. Revenue is recognized at the point in time when control is transferred, which is either upon shipment or upon delivery to the customer, depending on delivery terms.

Our service revenue includes revenue allocated to (i) unspecified software upgrades and (ii) cloud-based services that enable products to access third-party music and voice assistant platforms, which are each distinct performance obligations and are provided to customers at no additional charge. Unspecified software upgrades are provided on a when-and-if-available basis and have historically included updates and enhancements such as bug fixes, feature enhancements and updates to the ability to connect to third-party music or voice assistant platforms. Service revenue is recognized ratably over the estimated service period.

Significant Judgments

Our contracts with customers generally contain promises to transfer products and services as described above. Determining whether products and services are considered distinct performance obligations that should be accounted for separately may require significant judgment.

Determining the standalone selling price ("SSP") for each distinct performance obligation requires judgment. We estimate SSP for items that are not sold separately, which include the products and related software, unspecified software upgrades and cloud services, using information that may include competitive pricing information, where available, as well as analysis of the cost of providing the products or services plus a reasonable margin. In developing SSP estimates, we also consider the nature of the products and services and the expected level of future services.

Determining the revenue recognition period for unspecified software upgrades and cloud services requires judgment. We recognize revenue attributable to these performance obligations ratably over the best estimate of the period that the customer is expected to receive the services. In developing the estimated period of providing future services, we consider our past history, our plans to continue to provide services, including plans to continue to support updates and enhancements to prior versions of our products, expected technological developments, obsolescence, competition and other factors. The estimated service period may change in the future in response to competition, technology developments and our business strategy.

Estimating variable consideration such as sales incentives and product returns requires judgment. We offer sales incentives through various programs, consisting primarily of discounts, cooperative advertising and market development fund programs. We record transactions related to cooperative advertising and market development fund programs with customers as a reduction to revenue unless we receive a distinct benefit in exchange for credits claimed by the customer and can reasonably estimate the fair value of the benefit received, in which case we record them as operating expenses. We recognize a liability, or a reduction to accounts receivable, and reduce revenue for sales incentives based on the estimated amount of sales incentives that will be claimed by customers. Estimates for sales incentives are developed using the most likely amount and are included in the transaction price to the extent that a significant reversal of revenue would not result once the uncertainty is resolved. In developing our estimates, we also consider the susceptibility of the incentive to outside influences, the length of time until the uncertainty is resolved, our experience with similar contracts, and the range of possible outcomes. Reductions in revenue related to discounts are allocated to products and services on a relative basis based on their respective SSP. Judgment is required to determine the timing and amount of recognition of marketing funds, which we estimate based on past practice of providing similar funds.

We accept returns from direct customers and from certain resellers. To establish an estimate for returns, we use the expected value method by considering a portfolio of contracts with similar characteristics to calculate the historical returns rate. When determining the expected value of returns, we consider future business initiatives and relevant anticipated future events.

Inventories

Inventories consist of finished goods and component parts, which are purchased from contract manufacturers and component suppliers. Inventories are stated at the lower of cost and net realizable value. Cost is determined using a standard costing method, which approximates first-in first-out. We assess the valuation of inventory balances including an assessment to determine potential excess and/or obsolete inventory. We may be required to write down the value of inventory if estimates of future demand and market conditions indicate estimated excess and/or obsolete inventory. We may be required to write down the value of inventory if estimates of future demand and market conditions indicate excess and/or obsolete inventory. Inventory write-downs and losses on purchase commitments are recorded as a component of cost of revenue in the consolidated statement of operations and comprehensive income (loss).

Business Combinations

We use the acquisition method of accounting for business combinations and recognize assets acquired and liabilities assumed measured at their fair values on the date acquired. Goodwill is measured as of the acquisition date as the excess of consideration transferred over the net acquisition date fair value of the assets acquired and the liabilities assumed. These estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed may be recorded, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired and liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations and comprehensive income (loss).

Product Warranties

Our products are covered by a warranty to be free from defects in material and workmanship for a period of one year, except for products sold in the EU and select other countries where we provide a minimum two-year warranty, depending on the region, on all our products. At the time of sale, an estimate of future warranty costs is recorded as a component of the cost of revenue. Our estimate of costs to fulfill our warranty obligations is based on historical experience and expectations of future costs to repair or replace.

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect our best estimate of current and future taxes to be paid. Significant judgments and estimates are required in the determination of the consolidated income tax expense.

We prepare and file income tax returns based on our interpretation of each jurisdiction's tax laws and regulations. In preparing our consolidated financial statements, we estimate our income tax liability in each of the jurisdictions in which we operate by estimating our actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. Significant management judgment is required in assessing the realizability of our deferred tax assets. In performing this assessment, we consider whether it is "more-likely-than-not" that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making this determination, we consider the scheduled reversal of deferred tax liabilities, projected future taxable income and the effects of tax planning strategies. We recorded a valuation allowance against all our U.S. deferred tax assets and certain of our foreign deferred tax assets as of October 1, 2022. We intend to continue maintaining a full valuation allowance on our U.S. and certain foreign deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances.

We account for uncertain tax positions using a "more-likely-than-not" threshold for recognizing and resolving uncertain tax positions. We evaluate uncertain tax positions on a quarterly basis and consider various factors, that include, but are not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, information obtained during in process audit activities and changes in facts or circumstances related to a tax position. We accrue for potential interest and penalties related to unrecognized tax benefits in income tax expense.

Our policy with respect to the undistributed earnings of our non-U.S. subsidiaries is to maintain an indefinite reinvestment assertion as they are required to fund needs outside of the United States. This assertion is made on a jurisdiction by jurisdiction basis and takes into account the liquidity requirements in both the United States and of our foreign subsidiaries.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate and foreign currency risks as follows:

Interest Rate Risk

As of October 1, 2022, we had cash and cash equivalents of $274.9 million, which consisted primarily of cash on hand, money market fund investments, and bank deposits. Such interest-earning instruments carry a degree of interest rate risk due to floating interest rates.

To date, we have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

Foreign Currency Risk

Our inventory purchases are primarily denominated in U.S. dollars. Our international sales are primarily denominated in foreign currencies and any movement in the exchange rate between the U.S. dollar and the currencies in which we conduct sales in foreign countries could have an impact on our revenue, principally for sales denominated in the euro and the British pound. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to foreign currency exchange rate fluctuations. In certain countries where we may invoice customers in the local currency our revenues benefit from a weaker dollar and are adversely affected by a stronger dollar. The opposite impact occurs in countries where we record expenses in local currencies. In those cases, our costs and expenses benefit from a stronger dollar and are adversely affected by a weaker dollar.

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

We recognized a net loss from foreign currency of $21.9 million in fiscal 2022, and net gains from foreign currency of $2.4 million and $6.6 million in fiscal 2021 and fiscal 2020, respectively. Recently, we have seen a particular strengthening of the U.S. dollar relative to the euro and the British pound. If this trend continues, it 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 October 1, 2022, a hypothetical adverse change of 10% would have resulted in an adverse impact on income (loss) before provision for (benefit from) income taxes of approximately $22.5 million for the fiscal year ended 2022.

Recent Accounting Pronouncements

See Note 2. Summary of Significant Accounting Policies of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for a discussion of recent accounting pronouncements.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Sonos, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Sonos, Inc. and its subsidiaries (the “Company”) as of October 1, 2022 and October 2, 2021, and the related consolidated statements of operations and comprehensive income (loss), of stockholders’ equity and of cash flows for each of the three years in the period ended October 1, 2022, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of October 1, 2022, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of October 1, 2022 and October 2, 2021, and the results of its operations and its cash flows for each of the three years in the period ended October 1, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 1, 2022, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.
Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition - Estimates of Standalone Selling Price and Service Period for Unspecified Software Upgrades and Cloud-Based Services

As described in Notes 2 and 5 to the consolidated financial statements, the Company's contracts with customers generally contain promises to transfer products and services which are not sold separately. Service revenue includes revenue allocated to (i) unspecified software upgrades and (ii) cloud-based services, which are each distinct performance obligations, based on relative standalone selling price. Management's estimation of standalone selling price requires judgment. Management has disclosed factors considered in estimating standalone selling price including competitive pricing information, where available, analyses of the cost of providing the products or services plus a reasonable gross margin, the nature of the products and services and the expected level of future services. Determining the revenue recognition period for unspecified software upgrades and cloud-based services also requires judgment. Management recognizes revenue attributable to these performance obligations ratably over the estimated service period. In developing the estimated service period over which to recognize service revenue, management considers past history, plans to continue to provide services, including plans to continue to support updates and enhancements to prior versions of the Company's products, expected technological developments, obsolescence, competition and other factors. Deferred revenue primarily relates to revenue allocated to unspecified software upgrades and cloud-based services and was $73.8 million as of October 1, 2022.

The principal considerations for our determination that performing procedures relating to revenue recognition, specifically estimates of standalone selling price and service period for unspecified software upgrades and cloud-based services, is a critical audit matter are the significant judgment by management in estimating the standalone selling price and the service period, which in turn led to significant auditor judgment, subjectivity, and audit effort in performing procedures and evaluating audit evidence relating to (i) management's estimates of standalone selling price by considering estimates of the cost of providing the services plus a reasonable gross margin, and (ii) management's estimates of service period by considering management's plans to continue to support updates and enhancements to prior versions of the Company's products.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion
on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including over the estimation of the standalone selling prices and service period for unspecified software upgrades and cloud-based services. The procedures also included, among others, testing management's process for estimating the standalone selling price and service period. Procedures to test management's process for estimating standalone selling price included (i) evaluating the appropriateness of management's cost plus gross margin method of estimating standalone selling price; (ii) comparing the estimate of standalone selling price to competitive pricing information for comparable services using publicly disclosed information; (iii) evaluating the reasonableness of estimates of the cost of providing the services; and (iv) evaluating the reasonableness of gross margins. Evaluating the reasonableness of estimates of the cost of providing the services involved (i) testing the allocation of engineering costs, which is driven by time spent on software upgrades and cloud-based services and (ii) testing the completeness, accuracy, relevance, and classification of the engineering costs. Evaluating the reasonableness of gross margins involved comparing management's gross margin to the gross margin earned for similar services by third party peer companies within the same industry. Procedures performed to test management's process for estimating the service period for these services included (i) testing the completeness and accuracy of underlying data and (ii) evaluating the reasonableness of management's plans to continue to

support updates and enhancements to prior versions of the Company's products through a look-back analysis performed using historical software updates, as well as considering currently active products receiving software updates.

Acquisition of Mayht – Valuation of Acquired In-Process Research and Development Intangible Assets

As described in Notes 5 and 12 to the consolidated financial statements, on April 8, 2022, the Company completed the acquisition of 100% of the equity interests of Mayht for total purchase price consideration of $99.3 million. The Company accounted for this transaction as a business combination and recognized $71.8 million in intangible assets related to in-process research and development activity, which is not subject to amortization in the current period. The estimated fair value of acquired in process research and development intangible assets was determined using an income model valuation approach. Assumptions used in the determination of the fair value of the acquired in process research and development intangible assets include revenue pricing and volume forecasts, revenue growth rates, and the discount rate.

The principal considerations for our determination that performing procedures relating to the acquisition of Mayht, specifically the valuation of acquired in-process research and development intangible assets, is a critical audit matter are (i) a high degree of auditor judgment and subjectivity in performing procedures relating to the fair value of in-process research and development intangible assets acquired due to the significant judgment by management when developing the estimates; (ii) the significant audit effort in evaluating significant assumptions related to revenue pricing and volume forecasts, revenue growth rates, and the discount rate; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls over management’s valuation of the acquired in-process research and development intangible assets and controls over the development of management's significant assumptions related to revenue pricing and volume forecasts, revenue growth rates, and the discount rate. These procedures also included, among others (i) reading the purchase agreement and (ii) testing management’s process for estimating the fair value of the acquired in-process research and development intangible assets. Testing management’s process included evaluating the appropriateness of the valuation method, testing the completeness and accuracy of underlying data provided by management, and evaluating the reasonableness of significant assumptions related to revenue pricing and volume forecasts, revenue growth rates, and the discount rate. Evaluating the reasonableness of the assumptions related to revenue pricing and volume forecasts and revenue growth rates involved reviewing pre-existing contractual arrangements, reviewing third party economic and industry forecasts, as well as considering consistency with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the method used to value the acquired in-process research and development intangible assets and in the evaluation of the reasonableness of the discount rate assumption.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
November 23, 2022
We have served as the Company’s auditor since 2011, which includes periods before the Company became subject to SEC reporting requirements.

SONOS, INC.
Consolidated Balance Sheets
(in thousands, except share and par values)

	As of October 1, 2022	As of October 2, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 274,855	$ 640,101
Accounts receivable, net of allowances of $26,317 and $20,707 as of October 1, 2022, and October 2, 2021	101,206	100,779
Inventories	454,288	185,130
Prepaid and other current assets	37,042	31,504
Total current assets	867,391	957,514
Property and equipment, net	86,168	71,341
Operating lease right-of-use assets	28,329	33,841
Goodwill	77,300	15,545
Intangible assets, net:		
In-process research and development	64,680	20,100
Other intangible assets	26,384	4,350
Deferred tax assets	1,508	10,028
Other noncurrent assets	36,628	26,085
Total assets	$ 1,188,388	$ 1,138,804
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 335,758	$ 214,996
Accrued expenses	109,290	108,029
Accrued compensation	23,624	77,695
Deferred revenue, current	27,318	35,866
Other current liabilities	39,649	39,544
Total current liabilities	535,639	476,130
Operating lease liabilities, noncurrent	25,596	33,960
Deferred revenue, noncurrent	56,152	53,632
Deferred tax liabilities	9,642	2,394
Other noncurrent liabilities	846	3,646
Total liabilities	627,875	569,762
Commitments and contingencies (Note 13)		
Stockholders’ equity:		
Common stock, $0.001 par value; 1,500,000,000 and 500,000,000 shares authorized, 129,823,663 and 128,857,085 shares issued, 126,668,723 and 126,985,273 shares outstanding as of October 1, 2022, and October 2, 2021, respectively	130	129
Treasury stock, 3,154,940 and 1,871,812 shares at cost as of October 1, 2022, and October 2, 2021, respectively	(50,896)	(50,276)
Additional paid-in capital	617,390	690,462
Accumulated deficit	(2,514)	(69,897)
Accumulated other comprehensive loss	(3,597)	(1,376)
Total stockholders' equity	560,513	569,042
Total liabilities and stockholders’ equity	$ 1,188,388	$ 1,138,804

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

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SONOS, INC.
Consolidated Statements of Operations and Comprehensive Income (Loss)
(in thousands, except share and per share data)

	Year Ended October 1, 2022	Year Ended October 2, 2021	Year Ended October 3, 2020
Revenue	$ 1,752,336	$ 1,716,744	$ 1,326,328
Cost of revenue	955,969	906,750	754,372
Gross profit	796,367	809,994	571,956
Operating expenses			
Research and development	256,073	230,078	214,672
Sales and marketing	280,333	272,124	263,539
General and administrative	170,429	152,828	120,978
Total operating expenses	706,835	655,030	599,189
Operating income (loss)	89,532	154,964	(27,233)
Other income (expense), net			
Interest income	1,655	146	1,998
Interest expense	(552)	(592)	(1,487)
Other income (expense), net	(21,905)	2,407	6,639
Total other income (expense), net	(20,802)	1,961	7,150
Income (loss) before provision for (benefit from) income taxes	68,730	156,925	(20,083)
Provision for (benefit from) income taxes	1,347	(1,670)	32
Net income (loss)	$ 67,383	$ 158,595	$ (20,115)
Net income (loss) attributable to common stockholders:			
Basic and diluted	$ 67,383	$ 158,595	$ (20,115)
Net income (loss) per share attributable to common stockholders:			
Basic	$ 0.53	$ 1.30	$ (0.18)
Diluted	$ 0.49	$ 1.13	$ (0.18)
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:			
Basic	127,691,030	122,245,212	109,807,154
Diluted	137,762,078	140,309,152	109,807,154
Total comprehensive income (loss)			
Net income (loss)	$ 67,383	$ 158,595	$ (20,115)
Change in foreign currency translation adjustment	(2,221)	514	(1,826)
Comprehensive income (loss)	$ 65,162	$ 159,109	$ (21,941)

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

SONOS, INC.
Consolidated Statements of Stockholders' Equity
(in thousands, except share amounts)

	Common Stock			Treasury Stock				
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at September 28, 2019	109,623,417	$ 110	$ 502,757	(1,020,775)	$ (13,498)	$ (208,377)	$ (64)	$ 280,928
Issuance of common stock pursuant to equity incentive plans	8,392,371	8	42,278	—	—	—	—	42,286
Retirement of treasury stock	(4,100,555)	(4)	(53,652)	4,100,555	53,656	—	—	—
Repurchase of common stock	—	—	—	(3,787,783)	(50,015)	—	—	(50,015)
Repurchase of common stock related to shares withheld for tax in connection with vesting of restricted stock unit awards ("RSUs")	—	—	—	(863,135)	(11,029)	—	—	(11,029)
Stock-based compensation expense	—	—	57,610	—	—	—	—	57,610
Net loss	—	—	—	—	—	(20,115)	—	(20,115)
Change in foreign currency translation adjustment	—	—	—	—	—	—	(1,826)	(1,826)
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	17,544,060	18	147,800	—	—	—	—	147,818
Retirement of treasury stock	(2,602,208)	(3)	(68,458)	2,602,208	68,461	—	—	—
Repurchase of common stock	—	—	—	(1,394,006)	(50,014)	—	—	(50,014)
Repurchase of common stock related to shares withheld for tax in connection with vesting of RSU	—	—	—	(1,508,876)	(47,837)	—	—	(47,837)
Stock-based compensation expense	—	—	62,127	—	—	—	—	62,127
Net loss	—	—	—	—	—	158,595	—	158,595
Change in foreign currency translation adjustment	—	—	—	—	—	—	514	514
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	7,825,793	8	40,435	—	—	—	—	40,443
Retirement of treasury stock	(6,859,215)	(7)	(189,147)	6,859,215	189,154	—	—	-
Repurchase of common stock	—	—	—	(6,578,973)	(150,121)	—	—	(150,121)
Repurchase of common stock related to shares withheld for tax in connection with vesting of RSU	—	—	—	(1,563,370)	(39,653)	—	—	(39,653)
Stock-based compensation expense	—	—	75,640	—	—	—	—	75,640
Net income	—	—	—	—	—	67,383	—	67,383
Change in foreign currency translation adjustment	—	—	—	—	—	—	(2,221)	(2,221)
Balance at October 1, 2022	129,823,663	$ 130	$ 617,390	(3,154,940)	$ (50,896)	$ (2,514)	$ (3,597)	$ 560,513

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

SONOS, INC.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended October 1, 2022	October 2, 2021	October 3, 2020
Cash flows from operating activities			
Net income (loss)	$ 67,383	$ 158,595	$ (20,115)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	38,504	33,882	36,426
Impairment and abandonment charges	62	3,552	14,174
Stock-based compensation expense	75,640	62,127	57,610
Other	10,919	1,951	5,710
Deferred income taxes	(1,508)	(8,330)	(567)
Foreign currency transaction (gain) loss	10,775	(1,108)	(4,143)
Changes in operating assets and liabilities:			
Accounts receivable, net	(5,513)	(45,697)	49,593
Inventories	(277,489)	(7,911)	38,010
Other assets	(16,604)	(30,009)	(5,749)
Accounts payable and accrued expenses	129,686	26,231	(24,440)
Accrued compensation	(52,904)	33,447	1,088
Deferred revenue	(1,667)	27,587	4,754
Other liabilities	(5,544)	(1,091)	9,635
Net cash provided by (used in) operating activities	(28,260)	253,226	161,986
Cash flows from investing activities			
Purchases of property and equipment, intangible and other assets	(46,216)	(45,531)	(33,035)
Cash paid for acquisitions, net of acquired cash	(126,416)	—	(36,289)
Net cash used in investing activities	(172,632)	(45,531)	(69,324)
Cash flows from financing activities			
Payments for debt issuance costs	(929)	—	—
Proceeds from exercise of stock options	40,443	147,818	42,286
Payments for repurchase of common stock	(150,121)	(50,014)	(50,015)
Payments for repurchase of common stock related to shares withheld for tax in connection with vesting of RSUs	(39,653)	(47,837)	(11,029)
Repayments of borrowings	—	(25,000)	(8,333)
Net cash provided by (used in) financing activities	(150,260)	24,967	(27,091)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(14,094)	148	2,900
Net increase in cash, cash equivalents, and restricted cash	(365,246)	232,810	68,471
Cash, cash equivalents, and restricted cash			
Beginning of period	640,101	407,291	338,820
End of period	$ 274,855	$ 640,101	$ 407,291
Supplemental disclosure			
Cash paid for interest	$ 344	$ 502	$ 1,647
Cash paid for taxes, net of refunds	$ 9,306	$ 4,114	$ 783
Cash paid for amounts included in the measurement of lease liabilities	$ 14,636	$ 18,657	$ 17,194
Supplemental disclosure of non-cash investing and financing activities			
Purchases of property and equipment, accrued but not paid	$ 9,112	$ 5,653	$ 3,911
Right-of-use assets obtained in exchange for lease liabilities	$ 5,054	$ 2,010	$ 77,416

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

SONOS, INC.
Notes to Consolidated Financial Statements

1. Business Overview

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 60 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.

2. Summary of Significant Accounting Policies

Basis of Presentation and Preparation

The consolidated financial statements, which include the accounts of Sonos, Inc. and its wholly owned subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"). All intercompany accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

The Company operates on a 52-week or 53-week fiscal year ending on the Saturday nearest September 30 each year. The Company’s fiscal year is divided into four quarters of 13 weeks, each beginning on a Sunday and containing two 4-week periods followed by a 5-week period. An additional week is included in the fourth fiscal quarter approximately every five years to realign fiscal quarters with calendar quarters. This last occurred in the Company’s fiscal year ended October 3, 2020, and will reoccur in the fiscal year ending October 3, 2026. As used in the Annual Report on Form 10-K, “fiscal 2022” refers to the 52-week fiscal year ending October 1, 2022, “fiscal 2021” refers to the 52-week fiscal year ending October 2, 2021, “fiscal 2020” refers to the 53-week 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 consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. For revenue recognition, examples of estimates and judgments include: determining the nature and timing of satisfaction of performance obligations, determining the standalone selling price ("SSP") of performance obligations and estimating variable consideration such as sales incentives and product returns. Additionally, estimates and judgments are made by management for allowances for credit losses, excess and obsolete inventory, loss on purchase commitments, useful lives associated with property and equipment, incremental borrowing rates associated with leases, the recording of and release of valuation allowances with respect to deferred tax assets and uncertain tax positions, impairment of long-lived assets, impairment of goodwill and indefinite-lived intangible assets, warranty, contingencies and valuation and assumptions underlying stock-based compensation and other equity instruments. On an ongoing basis, the Company evaluates its estimates and judgments compared to historical experience and trends that form the basis for making estimates and judgments about the carrying value of assets and liabilities.

The Company has considered the impacts of the COVID-19 pandemic when developing its estimates and assumptions noted above. The impacts of, and uncertainty related to, the COVID-19 pandemic and its expected duration persist. Actual results and outcomes may differ from management's estimates and assumptions.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of two components: net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to net gains and losses that are recorded as an element of stockholders’ equity but are excluded from net income (loss). The Company’s other comprehensive income (loss) consists of net unrealized gains and losses on foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid financial instruments with insignificant interest rate risk that are readily convertible to cash and have maturities of three months or less from the date of purchase. As of October 1, 2022, and October 2, 2021, cash equivalents consisted of money market funds, which are recorded at fair value.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount less allowances for credit losses and sales incentives, do not require collateral and do not bear interest.

The allowance for credit losses is established through a provision for net bad debt expense which is recorded in general and administrative expense in the consolidated statements of operations and comprehensive (loss). The Company determines the adequacy of the allowance for credit losses by evaluating the collectability of accounts, including consideration of the age of invoices, each customer’s expected ability to pay and collection history, customer-specific information, and current economic conditions that may impact the customer's ability to pay. This estimate is periodically adjusted as a result of the aforementioned process, or when the Company becomes aware of a specific customer’s inability to meet its financial obligations.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents in several high-quality financial institutions. Cash and cash equivalents held at these banks, including those held in foreign branches of global banks, may exceed the amount of insurance provided on such deposits. These deposits may be redeemed upon demand, and management believes that the financial institutions that hold the Company’s cash and cash equivalents are financially sound and, accordingly, minimal credit risk exists with respect to cash. The Company has not experienced any losses in such accounts.

As of October 1, 2022, and October 2, 2021, the Company’s customers that accounted for 10% or more of total accounts receivable, net, were as follows:

	Accounts Receivable, net	
	October 1, 2022	**October 2, 2021**
Customer A	34 %	19 %
Customer B	*	10 %

* Accounts receivable was less than 10%.

The Company’s customers that accounted for 10% or more of total revenue were as follows:

	Revenue Year Ended		
	October 1, 2022	**October 2, 2021**	**October 3, 2020**
Customer A	15 %	14 %	12 %

Inventories

Inventories primarily consist of finished goods and component parts, which are purchased from contract manufacturers and component suppliers. Inventories are stated at lower of cost and net realizable value. Cost is determined using a standard costing method, which approximates first-in first-out. Inventory costs primarily consist of materials, inbound freight, import duties, tariffs, direct labor and manufacturing overhead, logistics, and other handling fees. The Company assesses the valuation of inventory balances including an assessment to determine potential excess and/or obsolete inventory. The Company may be required to write down the value of inventory if estimates of future demand and market conditions indicate excess and/or obsolete inventory. Inventory write-downs and losses on purchase commitments are recorded as a component of cost of revenue in the consolidated statement of operations and comprehensive income (loss). Losses in relation to purchase commitments amounted to $12.0 million for the fiscal year ended October 1, 2022. Ownership of inventory transfers to the Company at the time the goods are shipped from the suppliers. Inventories recorded on the Company's consolidated balance sheets include in transit inventory owned by the Company that have been shipped but have not yet been received at a Company distribution center.

Property and Equipment, Net

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Computer hardware and software	1-5 years
Furniture and fixtures	2-5 years
Tooling and production line test equipment	2-4 years
Leasehold improvements	1-15 years
Product displays	1-3 years

Costs incurred to improve leased office space are capitalized. Leasehold improvements are amortized on a straight-line basis over the shorter of the term of the lease or the estimated useful life of the improvement. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Maintenance, repair costs and gains or losses associated with disposals are charged to expense as incurred.

Product displays are deployed at retail locations. Because the product displays facilitate marketing of the Company’s products within the retail stores, depreciation for product displays is recorded in sales and marketing expenses in the consolidated statements of operations and comprehensive income (loss).

Cloud Computing Arrangements

The Company incurs costs to implement cloud computing arrangements that are hosted by a third-party vendor. Implementation costs incurred during the application development stage are capitalized until the software is ready for its intended use. The costs are then amortized on a straight-line basis over the term of the associated hosting arrangement and are recognized as an operating expense within the consolidated statements of operations and comprehensive income (loss). Beginning in fiscal 2020, and continuing through fiscal 2022, the Company began activities to replace its legacy enterprise resource management system in order to accommodate the Company's expanding operations. In May 2022, the Company went live with its implementation of a new enterprise resource planning ("ERP") system. Capitalized costs, net of accumulated amortization, were $21.7 million and $14.3 million as of October 1, 2022 and October 2, 2021, respectively, and are reported as a component of other noncurrent assets on the Company's consolidated balance sheets. Amortization expenses for implementation costs for cloud-based computing arrangements for the twelve months ended October 1, 2022 were $1.9 million.

Business Combinations

The Company uses the acquisition method of accounting for business combinations and recognizes assets acquired and liabilities assumed measured at their fair values on the date acquired. Goodwill is measured as of the acquisition date as the excess of consideration transferred over the net acquisition date fair value of the assets acquired and the liabilities assumed. These estimates are inherently uncertain and subject to refinement. During the measurement period, which maybe up to one year from the acquisition date, adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed may be recorded, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired and liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company’s consolidated statements of operations and comprehensive income (loss).

Impairment of Goodwill and Indefinite-lived Intangible Assets

Goodwill and indefinite-lived intangible assets are not amortized and are tested for impairment on an annual basis or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit or asset below its carrying value.

In connection with the Company's evaluation of goodwill impairment, the Company performs a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, the Company tests goodwill for impairment, including comparing the fair value of the reporting unit to its carrying value (including attributable goodwill). The Company determines fair value of its reporting unit using an income or market approach incorporating market participant considerations and management’s assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Fair value determinations may include both internal and third-party valuations. The Company performs its annual goodwill impairment assessment during the third quarter of each fiscal year and more frequently if circumstances otherwise dictate.

In connection with the Company’s evaluation of indefinite-lived intangible asset impairment, the Company performs a qualitative assessment to determine if it is more likely than not that the fair value of the asset is less than its carrying amount. If the qualitative assessment is not conclusive, the Company proceeds to test for impairment by comparing the fair value of the asset to the carrying value. Fair value is determined based on estimated discounted future cash flow analyses that include significant management assumptions such as revenue growth rates, weighted-average costs of capital and assumed royalty rates. If the carrying value exceeds fair value, an impairment charge will be recorded to reduce the asset to fair value.

Impairment of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets, which primarily comprises property and equipment and operating lease right-of-use assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company performs impairment testing at the level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability is measured by comparing the carrying amounts to the expected future undiscounted cash flows attributable to the assets. If it is determined that an asset may not be recoverable, an impairment loss equal to the excess of the asset’s carrying value over its fair value is recorded. Fair value is determined based on estimated discounted future cash flows analyses. There were no impairment charges identified on the Company's long-lived assets for fiscal 2022 or fiscal 2021. For fiscal 2020, there were impairment charges incurred related to the 2020 restructuring plan.

Product Warranties

The Company’s products are covered by warranty to be free from defects in material and workmanship for a period of one year, except in the EU and select other countries where the Company provides a minimum two-year warranty, depending on the region, on all its products. At the time of sale, an estimate of future warranty costs is recorded as a component of cost of revenue and a warranty liability is recorded for estimated costs to satisfy the warranty obligation. The Company’s estimate of costs to fulfill its warranty obligations is based on historical experience and expectations of future costs to repair or replace.

Legal Contingencies

If a potential loss from any claim or legal proceeding is considered probable, and the amount can be reasonably estimated, the Company records a liability for an estimated loss. Legal fees are expensed as incurred and included in general and administrative expenses in the consolidated statements of operations and comprehensive income (loss). See Note 13. Commitments and Contingencies for additional information regarding legal contingencies.

Treasury Stock

The Company accounts for treasury stock acquisitions using the cost method. The Company accounts for the retirement of treasury stock by deducting its par value from common stock and reflecting any excess of cost over par value as a deduction from additional paid-in capital on the consolidated balance sheets.

Fair Value Accounting

Assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

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

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level Input	Input Definition
Level 1	Quoted prices for identical assets or liabilities in active markets at the measurement date.
Level 2	Inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities, in active markets or other inputs that are observable or can be corroborated with market data at the measurement date.
Level 3	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Foreign Currency

Certain of the Company’s wholly owned subsidiaries have non-U.S. dollar functional currencies. The Company translates assets and liabilities of non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period and stockholders’ equity at historical rates. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from translation are recognized in foreign currency translation included in accumulated other comprehensive loss.

The Company remeasures monetary assets or liabilities denominated in currencies other than the functional currency using exchange rates prevailing on the balance sheet date, and non-monetary assets and liabilities at historical rates. Foreign currency remeasurement and transaction gains and losses are included in other income (expense), net.

Foreign currency remeasurement and transaction gains (losses) are recorded in other income (expense), net as follows:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Foreign currency remeasurement and transaction gains (losses)	$ (21,877)	$ 2,353	$ 6,594

Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company's contracts generally include a combination of products and services. Revenue is allocated to distinct performance obligations and is recognized net of allowances for returns, discounts, sales incentives and any taxes collected from customers, which are subsequently remitted to governmental authorities. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are not considered a separate performance obligation and are accounted for as a fulfillment cost and are included in cost of revenue. As of October 1, 2022, and October 2, 2021, the Company did not have any material assets related to incremental costs to obtain or fulfill customer contracts.

Nature of Products and Services

Product revenue primarily includes sales of Sonos speakers and Sonos system products, which include software that enables the Company’s products to operate over a customer’s wireless network, as well as connect to various third-party services, including music and voice. The Company also generates a small portion of revenue from Partner products and other revenue sources in connection with partnerships, accessories, professional services, licensing, advertising, and subscription revenue. Revenue for module units is related to hardware and embedded software that is integrated into final products that are manufactured and sold by the Company's partners. Software primarily consists of firmware embedded in the products and the Sonos app, which is software that can be downloaded to consumer devices at no charge, with or without the purchase of one of the Company’s products. Products and related software are accounted for as a single performance obligation and all intended functionality is available to the customer upon purchase. The revenue allocated to the products and related software is the substantial portion of the total sale price. Product revenue is recognized at the point in time when control is transferred, which is either upon shipment or upon delivery to the customer, depending on delivery terms.

Service revenue includes revenue allocated to (i) unspecified software upgrades and (ii) cloud-based services that enable products to access third-party music and voice assistant platforms, based on relative standalone selling price, which are each distinct performance obligations and are provided to customers at no additional charge. Unspecified software upgrades are provided on a when-and-if-available basis and have historically included updates and enhancements such as bug fixes, feature enhancements and updates to the ability to connect to third-party music or voice assistant platforms. Service revenue is recognized ratably over the estimated service period.

Significant Judgments

The Company's contracts with customers generally contain promises to transfer products and services as described above. Determining whether products and services are considered distinct performance obligations that should be accounted for separately requires significant judgment.

Determining the SSP for each distinct performance obligation requires judgment. The Company estimates SSP for items that are not sold separately, which include the products and related software, unspecified software upgrades and cloud-based services, using information that may include competitive pricing information, where available, as well as analyses of the cost of providing the products or services plus a reasonable margin. In developing SSP estimates, the Company also considers the nature of the products and services and the expected level of future services.

Determining the revenue recognition period for unspecified software upgrades and cloud-based services also requires judgment. The Company recognizes revenue attributable to these performance obligations ratably over the best estimate of the period that the customer is expected to receive the services. In developing the estimated period of providing future services, the Company considers past history, plans to continue to provide services, including plans to continue to support updates and enhancements to prior versions of the Company's products, expected technological developments, obsolescence, competition and other factors. The estimated service period may change in the future in response to competition, technology developments and the Company's business strategy.

The Company offers sales incentives through various programs consisting primarily of discounts, cooperative advertising and market development fund programs. The Company records cooperative advertising and market development fund programs with customers as a reduction to revenue unless it receives a distinct benefit in exchange for credits claimed by the customer and can reasonably estimate the fair value of the benefit received, in which case the Company records it as an expense. The Company recognizes a liability or a reduction to accounts receivable, and reduces revenue based on the estimated amount of sales incentives that will be claimed by customers. Estimates for sales incentives are developed using the most likely amount and are included in the transaction price to the extent that a significant reversal of revenue would not result once the uncertainty is resolved. In developing its estimate, the Company also considers the susceptibility of the incentive to outside influences, the length of time until the uncertainty is resolved and the Company's experience with similar contracts. Reductions in revenue related to discounts are allocated to products and services on a relative basis based on their respective SSP. Judgment is required to determine the timing and amount of recognition of marketing funds which the Company estimates based on past practice of providing similar funds.

The Company accepts returns from direct customers and from certain resellers. To establish an estimate for returns, the Company uses the expected value method by considering a portfolio of contracts with similar characteristics to calculate the historical returns rate. When determining the expected value of returns, the Company considers future business initiatives and relevant anticipated future events.

Supplier Concentration

The Company relies on third parties for the supply and manufacture of its products, as well as third-party logistics providers for the distribution of its products. In instances where these parties fail to perform their obligations, the Company may be unable to find alternative suppliers or satisfactorily deliver its products to customers on time, if at all. During fiscal 2022, 2021 and 2020, approximately 57%, 59% and 65%, respectively, of the Company's finished goods purchased during each year were from one vendor.

Deferred Revenue and Payment Terms

The Company invoices each order upon hardware shipment or delivery and recognizes revenue for each distinct performance obligation when transfer of control has occurred, which in the case of services, may extend over several reporting periods. Amounts invoiced in advance of revenue recognition are recorded as deferred revenue on the consolidated balance sheets. Deferred revenue primarily relates to revenue allocated to unspecified software upgrades and platform services, as well as for newly launched products sold to resellers not recognized until the date of general availability is reached. General availability deferrals are classified as current deferred revenue as the Company starts shipping the product to the reseller within one month prior to the general availability date. The Company classifies deferred revenue as noncurrent if amounts are expected to be recognized as revenue beyond one year from the balance sheet date.

Payment Terms

Payment terms and conditions vary among the Company’s distribution channels although terms generally include a requirement of payment within 30 days of product shipment. Sales directly to customers from the Company’s website are paid at the time of product shipment. Prior to providing payment terms to customers, an evaluation of the customer’s credit risk is performed. Contractual allowances are an offset to accounts receivable.

Research and Development

Research and development expenses consist primarily of personnel-related expenses, consulting and outside professional service costs, tooling and prototype materials and overhead costs. Substantially all of the Company’s research and development expenses are related to developing new products and services and improving existing products and services. 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.

In-process research and development ("IPRD") assets represent the fair value of incomplete research and development projects obtained as part of a business combination that have not yet reached technological feasibility and are initially not subject to amortization; rather, these assets are subject to impairment considerations of indefinite-lived intangible assets. Upon completion of development, IPRD assets are considered definite-lived intangible assets, transferred to developed technology and are amortized over their useful lives. If a project were to be abandoned, the IPRD would be considered fully impaired and expensed to Research and development.

Advertising Costs

Advertising costs are expensed as incurred and included in sales and marketing expenses. Advertising expenses were $66.6 million, $62.3 million and $43.9 million for fiscal 2022, 2021 and 2020, respectively.

Restructuring and Related Costs

Costs associated with a restructuring plan generally consist of involuntary employee termination benefits, contract termination costs, and other exit-related costs including costs to close facilities. The Company records a liability for involuntary employee termination benefits when management has committed to a plan that establishes the terms of the arrangement and that plan has been communicated to employees. Costs to terminate a contract before the end of the term are recognized on the termination date, and costs that will continue to be incurred in a contract for the remaining term without economic benefit are recognized as of the cease-use date. Restructuring and related costs may also include the write-down of related assets, including operating lease right-of-use assets, when the sale or abandonment of the asset is a direct result of the plan. Other exit-related costs are recognized as incurred. Restructuring and related costs are recognized as an operating expense within the consolidated statements of operations and comprehensive income (loss) and are classified based on the Company's classification policy for each category of operating expense.

Stock-Based Compensation

The Company measures stock-based compensation cost at fair value on the date of grant. Compensation cost for stock options is recognized, on a straight-line basis, as an expense over the period of vesting as the employee performs the related services, net of estimated forfeitures. The Company estimates the fair value of stock option awards using the Black-Scholes option-pricing model and is based on the Company’s closing stock price on the trading day immediately prior to the date of grant. The Company estimates forfeitures based on expected future terminations and will revise rates, as necessary, in subsequent periods if actual forfeitures differ from initial estimates. The fair value of RSUs is based on the Company's closing stock price on the trading day immediately preceding the date of grant. The Company estimates the fair value of performance stock units ("PSU") on the grant date and recognizes compensation expense in the period it becomes probable that performance conditions will be achieved. On a quarterly basis, the Company re-evaluates the assumption of the probability that performance conditions will be satisfied and revises its estimates as appropriate as new or updated information becomes available.

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 $8.2 million and $7.6 million for fiscal 2022 and 2021, respectively.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the consolidated financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income during the period that includes the enactment date.

The Company records a valuation allowance when necessary to reduce its deferred tax assets to amounts that are more likely than not to be realized. In making such a determination, all available positive and negative evidence is considered, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would result in a benefit to income taxes.

The Company records uncertain tax positions in accordance with a two-step process whereby (i) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (ii) for those tax positions that meet the more likely than not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes in the consolidated statements of operations and comprehensive income (loss). The Company has not incurred any interest or penalties related to unrecognized tax benefits in any of the periods presented.

The Company’s provision for (benefit from) income taxes, deferred tax assets and liabilities and liabilities for unrecognized tax benefits involves the use of estimates, assumptions and judgments. Although the Company believes its estimates, assumptions and judgments to be reasonable, any changes in tax law or its interpretation of tax laws and the resolutions of potential tax audits could significantly impact the amounts provided for income taxes in the Company’s consolidated financial statements. Actual future operating results and the underlying amount and type of income could differ materially from the Company’s estimates, assumptions and judgments thereby impacting the Company’s financial position and results of operations.

Segment Information

The Company operates as one operating segment as it only reports aggregate financial information on a consolidated basis, accompanied by disaggregated information about revenue by geographic region and product category to its Chief Executive Officer, who is the Company’s chief operating decision maker.

Leases

The substantial majority of the Company’s leases are for its office spaces and facilities, which are accounted for as operating leases. The Company determines whether an arrangement is a lease at inception if there is an identified asset, and if it has the right to control the identified asset for a period of time. Some of the Company’s leases include options to extend the leases for up to 5 years, and some include options to terminate the leases within 1 year. The Company's lease terms are only for periods in which it has enforceable rights and are impacted by options to extend or terminate the lease only when it is reasonably certain that the Company will exercise the option. For leases with terms greater than 12 months, the Company records the related right-of-use asset and lease obligation at the present value of lease payments over the lease terms. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized on a straight-line basis over the lease term. Lease agreements will typically exist with lease and non-lease components, which are accounted for separately. The Company's agreements may contain variable lease payments. The

Company includes variable lease payments that depend on an index or a rate and exclude those which depend on facts or circumstances occurring after the commencement date, other than the passage of time. As most of the Company’s leases do not contain an implicit interest rate, the Company uses judgment to determine an incremental borrowing rate to use at lease commencement.

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 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 timing of adoption of 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 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 October 1, 2022, and October 2, 2021:

	October 1, 2022			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Money market funds (cash equivalents)	$ 187,170	$ —	$ —	$ 187,170

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

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

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:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Americas	$ 1,044,113	$ 980,931	$ 755,874
Europe, Middle East and Africa ("EMEA")	578,034	618,476	470,883
Asia Pacific ("APAC")	130,189	117,337	99,571
Total revenue	$ 1,752,336	$ 1,716,744	$ 1,326,328

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:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
United States	$ 964,118	$ 890,837	$ 697,410
Other countries	788,218	825,907	628,918
Total revenue	$ 1,752,336	$ 1,716,744	$ 1,326,328

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:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Sonos speakers	$ 1,368,916	$ 1,378,808	$ 1,034,813
Sonos system products	297,110	265,180	218,788
Partner products and other revenue	86,310	72,756	72,727
Total revenue	$ 1,752,336	$ 1,716,744	$ 1,326,328

Disaggregation of Property and Equipment

Property and equipment, net by country as of October 1, 2022, and October 2, 2021 were as follows:

(In thousands)	October 1, 2022	October 2, 2021
China	$ 40,609	$ 23,460
United States	30,870	40,669
Other countries	14,689	7,212
Property and equipment, net	$ 86,168	$ 71,341

5. Balance Sheet Components

The following tables show the Company's balance sheet component details.

Accounts Receivable Allowances

The following table summarizes changes in the allowance for credit losses for fiscal 2022 and 2021, and the allowance for doubtful accounts for fiscal 2020:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Beginning balance	$ 1,547	$ 1,307	$ 1,255
Increases	2,098	1,529	1,127
Write-offs	(901)	(1,289)	(1,075)
Ending balance	$ 2,744	$ 1,547	$ 1,307

The following table summarizes the changes in the allowance for sales incentives for fiscal 2022, 2021 and 2020:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Beginning balance	$ 19,160	$ 17,515	$ 20,051
Charged to revenue	51,225	95,249	108,843
Utilization of sales incentive allowance	(46,812)	(93,604)	(111,379)
Ending balance	$ 23,573	$ 19,160	$ 17,515

Inventories

Inventories, net, consist of the following:

(In thousands)	October 1, 2022	October 2, 2021
Finished goods	$ 406,657	$ 154,608
Components	47,631	30,522
Inventories	$ 454,288	$ 185,130

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. As of October 1, 2022, and October 2, 2021, inventory write-downs were $8.8 million and $4.8 million, respectively.

Property and Equipment, Net

Property and equipment, net consist of the following:

(In thousands)	October 1, 2022	October 2, 2021
Computer hardware and software	$ 42,000	$ 40,098
Furniture and fixtures	7,511	7,483
Tooling and production line test equipment	100,337	76,210
Leasehold improvements	49,656	49,846
Product displays	56,885	57,863
Total property and equipment	256,389	231,500
Accumulated depreciation and amortization	(170,221)	(160,159)
Property and equipment, net	$ 86,168	$ 71,341

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

Depreciation expense was $33.3 million, $31.8 million and $34.9 million for fiscal 2022, 2021 and 2020, respectively. During fiscal 2022, 2021 and 2020, the Company abandoned and disposed of gross fixed assets of $18.9 million, $32.9 million and $18.5 million, with accumulated depreciation of $18.8 million, $32.2 million and $14.2 million, respectively. Disposals of fixed assets were recorded in operating expenses in the consolidated statements of operations and comprehensive income (loss) and resulted in losses of $0.1 million, $0.7 million and $4.3 million for fiscal 2022, 2021 and 2020, respectively.

Goodwill

The following table presents the changes in carrying amount of goodwill for the fiscal year ended October 1, 2022:

(In thousands)	
Balance as of October 2, 2021	$ 15,545
Goodwill acquired	66,078
Effect of exchange rate changes on goodwill	(4,323)
Balance as of October 1, 2022	$ 77,300

Intangible Assets

As part of the acquisition of Mayht Holding BV ("Mayht"), the Company recognized $71.8 million in intangible assets related to in-process research and development activity, which is not subject to amortization for the current period. The following table reflects the changes in the net carrying amount of the components of intangible assets associated with the Company's acquisition activity:

	October 1, 2022				
(In thousands, except weighted-average remaining life)	**Gross Carrying Amount**	**Accumulated Amortization**	**Impact of FX**	**Net Carrying Value**	**Weighted-Average Remaining Life**
Tradename	$ 451	$ (23)	$ (44)	$ 384	5.50
Technology-based	34,032	(8,032)	0	26,000	5.50
Total finite-lived intangible assets	34,483	(8,055)	(44)	26,384	5.50
In-process research and development and other intangible assets not subject to amortization	71,759	0	(7,079)	64,680	
Total intangible assets	$ 106,242	$ (8,055)	$ (7,123)	$91,064	

The following table summarizes the estimated future amortization expense of the Company's intangible assets as October 1, 2022:

Fiscal years ending **(In thousands)**	**Future Amortization Expense**
2023	$ 6,176
2024	5,963
2025	3,363
2026	3,033
2027 and thereafter	7,849
Total future amortization expense	$ 26,384

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

Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	October 1, 2022	October 2, 2021
Accrued advertising and marketing	$ 21,292	$ 19,989
Accrued taxes	7,081	16,941
Accrued inventory and supply chain costs	51,011	48,672
Accrued product development	8,168	7,101
Accrued general and administrative expenses	21,634	14,243
Other accrued payables	104	1,083
Total accrued expenses	$ 109,290	$ 108,029

Deferred Revenue

Amounts invoiced in advance of revenue recognition are recorded as deferred revenue on the consolidated balance sheets. For the fiscal year ended October 1, 2022, deferred revenue included revenue allocated to unspecified software upgrades and cloud-based services of $73.8 million, as well as current deferred revenue related to newly launched products sold to resellers not recognized as revenue until the date of general availability was reached.

The following table presents the changes in the Company's deferred revenue balances for the fiscal years ended October 1, 2022, October 2, 2021, and October 3, 2020:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Deferred revenue, beginning of period	$ 89,498	$ 62,389	$ 56,449
Recognition of revenue included in beginning of period deferred revenue	(41,438)	(19,175)	(13,052)
Revenue deferred, net of revenue recognized on contracts in the respective period	35,410	46,284	18,992
Deferred revenue, end of period	$ 83,470	$ 89,498	$ 62,389

The Company expects the following recognition of deferred revenue as of October 1, 2022:

	For the fiscal years ending					
(In thousands)	2023	2024	2025	2026	2027 and Beyond	Total
Revenue expected to be recognized	$ 27,318	$ 15,587	$ 13,330	$ 11,029	$ 16,206	$ 83,470

Other Current Liabilities

Other current liabilities consist of the following:

(In thousands)	October 1, 2022	October 2, 2021
Reserve for returns	$ 18,263	$ 19,266
Short-term operating lease liabilities	10,532	10,724
Warranty liability	5,771	5,604
Other	5,083	3,950
Total other current liabilities	$ 39,649	$ 39,544

The following table presents the changes in the Company’s warranty liability for the fiscal years ended October 1, 2022, and October 2, 2021:

(In thousands)	October 1, 2022	October 2, 2021
Warranty liability, beginning of period	$ 5,604	$ 3,628
Provision for warranties issued during the period	13,033	15,304
Settlements of warranty claims during the period	(12,866)	(13,328)
Warranty liability, end of period	$ 5,771	$ 5,604

6. Leases

The Company entered into various non-cancelable lease agreements for offices and facilities, as well as auto leases. The substantial majority of the Company's leases are for its office spaces and facilities, which are accounted for as operating leases. The Company leases office space in California, as well as offices in various locations in the U.S., with additional sales, operations, and research and development offices around the world. These facilities operate under leases with initial terms from one to ten years and expire at various dates through 2027. The Company determines whether an arrangement is a lease at inception if there is an identified asset, and it has the right to control the identified asset for a period of time. Some of the Company's leases include options to extend the lease for up to 5 years, and some include options to terminate the lease within 1 year. The Company's lease terms are only for periods in which it has enforceable rights and are impacted by options to extend or terminate the lease only when it is reasonably certain that the Company will exercise the option.

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

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

Most of the Company's leases do not contain an implicit interest rate. Therefore, the Company uses judgment to estimate an incremental borrowing rate, which is defined as the rate of interest the Company would have to pay to borrow an amount that is equal to the lease obligations, on a collateralized basis, and over a similar term. The Company takes into consideration the terms of the Company's Credit Facility (as defined in Note 7. Debt), lease terms, and current interest rates to determine the incremental borrowing rate at lease commencement date. At October 1, 2022, the Company's weighted-average discount rate was 4.26%, while the weighted-average remaining lease term was 3.1 years. As part of the supplemental cash flow disclosure, the right-of-use assets obtained in exchange for new operating lease liabilities does not reflect the impact of prepaid or deferred rent.

The components of lease expense for the fiscal year ended October 1, 2022, was as follows:

(In thousands)	Year Ended October 1, 2022
Operating lease cost	$ 11,041
Short-term lease cost	258
Variable lease cost	4,326
Total lease cost	$ 15,625

For the fiscal years ended October 1, 2022, and October 2, 2021, rent expense, including leases for offices and facilities as well as auto leases, was $11.3 million and $11.8 million, respectively, and common area maintenance expense was $4.3 million and $3.8 million, respectively.

The following table summarizes the maturity of lease liabilities under operating leases as of October 1, 2022:

Fiscal years ending **(In thousands)**	Operating leases
2022	$ 12,952
2023	13,579
2024	10,206
2025	2,310
2026	789
Thereafter	225
Total lease payments	40,061
Less imputed interest	(3,933)
Total lease liabilities	$ 36,128

7. 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 October 1, 2022, the Company did not have any outstanding borrowings and had $3.0 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 maintain a certain consolidated leverage ratio, and customary events of default. As of October 1, 2022, the Company was in compliance with all financial covenants under the Revolving Credit Agreement.

8. Stockholders' Equity

Share Repurchase Program

On November 17, 2021, the Board of Directors authorized a common stock repurchase program of up to $150.0 million. During the fiscal year ended October 1, 2022, the Company repurchased 6,578,973 shares for an aggregate purchase price of $150.0 million at an average price of $22.80 per share under the repurchase program. As of October 1, 2022, the Company fully utilized the amount available under this stock repurchase program.

Treasury stock during the fiscal year ended October 1, 2022, included shares withheld to satisfy employees' tax withholding requirements in connection with vesting of RSUs. Additionally, during the fiscal year ended October 1, 2022, the Company retired 6,859,215 shares of treasury stock. The Company accounts for the retirement of treasury stock by deducting its par value from common stock and reflecting any excess of cost over par value as a deduction from additional paid-in-capital on the consolidated balance sheets.

9. Stock-Based Compensation

2018 Equity Incentive Plan

In July 2018, the Board of Directors (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. As of October 1, 2022, there were 38,593,443 shares reserved for future issuance under the 2018 Plan.

Stock Options

Pursuant to the 2018 Plan, the Company issues stock options to employees and directors. The option price, number of shares and grant date are determined at the discretion of the Board. For so long as the option holder performs services for the Company, the options generally vest over 48 months, on a monthly or quarterly basis, with certain options subject to an initial annual cliff vest, and are exercisable for a period not to exceed ten years from the date of grant.

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

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at October 2, 2021	14,545,239	$ 12.86	5.1	$ 282,141
Exercised	(3,570,150)	$ 11.32		
Expired	(340)	$ 2.50		
Forfeited	(171,867)	$ 12.69		
Outstanding at October 1, 2022	10,802,882	$ 13.37	4.5	$ 10,956
At October 1, 2022				
Options exercisable	10,340,382	$ 13.29	4.4	$ 10,886
Options vested and expected to vest	10,794,122	$ 13.37	4.5	$ 10,953

The Company granted no options in fiscal 2022, 2021 and 2020. Options vested in fiscal 2022, 2021 and 2020, respectively, have a fair value of $6.6 million, $10.8 million, and $27.4 million.

The total intrinsic value of stock options exercised was $58.0 million, $242.7 million and $40.1 million for fiscal 2022, 2021 and 2020, respectively.

As of October 1, 2022, and October 2, 2021, the Company had $0.4 million and $6.2 million, respectively, of unrecognized stock-based compensation cost, which is expected to be recognized over a weighted-average period of 0.2 years and 0.9 years, respectively.

The Company's policy for issuing stock upon stock option exercise is to issue new common stock.

Restricted Stock Units

Pursuant to the 2018 Plan, the Company issues RSUs to employees and directors. 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	4,287,612	$ 27.97	
Released	(4,255,643)	$ 14.00	
Forfeited	(1,007,317)	$ 17.65	
Outstanding at October 1, 2022	8,308,177	$ 19.25	$ 115,484
At October 1, 2022			
Units expected to vest	7,168,277	$ 18.93	$ 99,639

SONOS, INC.
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As of October 1, 2022 and October 2, 2021, the Company had $120.6 million and $90.0 million of unrecognized stock-based compensation expense related to RSUs, each of which are expected to be recognized over a weighted-average period of 2.5 years.

Performance Stock Units

Pursuant to the 2018 Plan, the Company has issued and may issue certain PSUs that vest on the satisfaction of service and performance conditions. PSUs vest upon satisfaction of service and performance conditions. The number of shares vested at the end of the performance period are based on the extent to which the corresponding performance goals have been achieved. The summary of the Company's PSU activity is as follows:

	Number of Units	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (In thousands)
Outstanding at October 2, 2021	158,521	$ 22.81	$ 5,114
Granted	252,296	$ 29.71	
Forfeited	(12,740)	$ 29.91	
Outstanding at October 1, 2022	398,077	$ 26.96	$ 5,533

As of October 1, 2022 and October 2, 2021, the Company had $0.4 million and $3.6 million of unrecognized stock-based compensation expense related to PSUs, which is expected to be recognized over a weighted-average period of 0.6 and 1.2 years, respectively.

Stock-based Compensation

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

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Cost of revenue	$ 1,620	$ 988	$ 1,106
Research and development	30,724	25,075	23,439
Sales and marketing	15,335	13,570	14,359
General and administrative	27,961	22,494	18,706
Total stock-based compensation expense	$ 75,640	$ 62,127	$ 57,610

10. Income Taxes

The Company's income (loss) before provision for (benefit from) income taxes for fiscal 2022, 2021 and 2020 were as follows:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Domestic	$ 54,609	$ 126,810	$ (15,194)
Foreign	14,121	30,115	(4,889)
Income (loss) before provision for (benefit from) income taxes	$ 68,730	$ 156,925	$ (20,083)

Components of the provision for (benefit from) income taxes consisted of the following:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Current:			
U.S. Federal	$ —	$ —	$ (1,388)
U.S. State	483	440	724
Foreign	3,401	6,216	1,220
Total current	3,884	6,656	556

Deferred:			
U.S. Federal	(1,459)	—	—
U.S. State	(21)	—	—
Foreign	(1,057)	(8,326)	(524)
Total deferred	(2,537)	(8,326)	(524)
Provision for (benefit from) income taxes	$ 1,347	$ (1,670)	$ 32

The Company is subject to income taxes in the United States and foreign jurisdictions in which it operates. The Company’s tax provision is impacted by the jurisdictional mix of earnings as its foreign subsidiaries have statutory tax rates different from those in the United States.

Components of the Company’s deferred income tax assets and liabilities are as follows:

(In thousands)	October 1, 2022	October 2, 2021
Deferred tax assets		
Accrued expenses and reserves	$ 8,872	$ 18,601
Deferred revenue	14,170	13,915
U.S. net operating loss carryforwards	26,363	25,284
Foreign net operating loss carryforwards	7,702	13,240
Research & development tax credit carryforwards	92,487	77,607
Stock-based compensation	9,261	9,082
Operating lease liability	7,717	9,908
Capitalized research & development	9,420	3,409
Other capitalized costs	3,799	4,622
Depreciation	2,239	1,843
Other	182	428
Total deferred tax assets	182,212	177,939
Valuation allowance	(162,267)	(155,978)
Deferred tax assets, net of valuation allowance	19,945	21,961
Deferred tax liabilities		
Tax accounting method change	—	(962)
Right-of-use asset	(5,940)	(7,388)
Intangibles	(22,125)	(5,833)
Other	(14)	(144)
Total deferred tax liabilities	(28,079)	(14,327)
Net deferred tax assets (liabilities)	$ (8,134)	$ 7,634
Reported as		
Deferred tax assets	$ 1,508	$ 10,028
Deferred tax liabilities	(9,642)	(2,394)
Net deferred tax assets (liabilities)	$ (8,134)	$ 7,634

The Company has assessed, on a jurisdictional basis, the realization of its net 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. The Company has concluded that based on cumulative taxable income and future taxable income that it is able to realize a benefit for net deferred tax assets in certain foreign jurisdictions. In addition, the Company has concluded that a valuation allowance on its net deferred tax assets in the U.S. and certain foreign jurisdictions continues to be appropriate considering cumulative taxable losses in recent years and uncertainty with respect to future taxable income.

During the fiscal year ended October 1, 2022, the Company determined that the net deferred tax assets of certain of our non-U.S. subsidiaries were more-likely-than-not realizable and released valuation allowance totaling $7.3 million as an income tax benefit. The Company determined that the valuation allowance releases were appropriate as sufficient positive evidence, notably fiscal 2022 profits and forecasted future taxable income in each jurisdiction, outweighed the available negative evidence. It is possible that within the next

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

12 months there may be sufficient positive evidence to release a portion or all of the remaining valuation allowance in the U.S. and certain foreign jurisdictions. 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.

As of October 1, 2022, the Company had gross U.S. federal net operating loss carryforwards of $105.8 million, of which $74.7 million have an indefinite life and $31.1 million expire beginning in 2035, gross state net operating loss carryforwards of $65.5 million, which expire beginning in 2027, and gross foreign net operating loss carryforwards of $41.7 million with an indefinite life. As of October 1, 2022, the Company also had gross federal and state research and development tax credit carryforwards of $70.0 million and $48.1 million, respectively. The federal research and development tax credits will begin to expire in 2025, and the state research and development tax credits will begin to expire in 2024.

Because of the change of ownership provisions of Sections 382 and 383 of the Internal Revenue Code, and similar state provisions, use of a portion of the Company's U.S. federal and state net operating loss and research and development tax credit carryforwards may be limited in future periods if there are future changes in ownership. Further, a portion of the carryforwards may expire before being applied to reduce future taxable income and income tax liabilities if sufficient taxable income is not generated in future periods.

The following table summarizes changes in the valuation allowance for fiscal 2022, 2021 and 2020:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Beginning balance	$ 155,978	$ 113,939	$ 95,088
Increase during the period	13,841	49,791	18,851
Decrease during the period	(7,552)	(7,752)	—
Ending balance	$ 162,267	$ 155,978	$ 113,939

Reconciliation of U.S. statutory federal income taxes to the Company's provision for (benefit from) income taxes is as follows:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
U.S. federal income taxes at statutory rate	$ 14,433	$ 32,954	$ (4,217)
U.S. state and local income taxes, net of federal benefit and state credits	(2,594)	(9,473)	(2,798)
Foreign income tax rate differential	970	1,430	(75)
Stock-based compensation	(15,532)	(47,496)	869
Federal research and development tax credits	(8,983)	(21,535)	(8,012)
Unrecognized federal tax benefits	(2,482)	4,041	815
Change in tax rate	5,013	(2,681)	—
Global intangible low taxed income, net of foreign tax credits	290	—	—
162(m) executive compensation limitation	2,574	—	—
Base erosion and anti-abuse tax	—	—	(781)
Other	1,079	(565)	598
Change in valuation allowance	6,579	41,655	13,633
Provision for income taxes	$ 1,347	$ (1,670)	$ 32

Change in gross unrecognized tax benefits, excluding interest and penalties, as a result of uncertain tax positions are as follows:

(In thousands)	October 1, 2022	October 2, 2021	October 3, 2020
Beginning balance	$ 21,252	$ 14,721	$ 12,527
Decrease - tax positions in prior periods	(6,039)	(4)	(768)
Increase - tax positions in current periods	1,808	6,535	2,962

Ending balance	$ 17,021	$ 21,252	$ 14,721

The Company does not anticipate changes to its unrecognized benefits within the next 12 months that would result in a material change to the Company’s financial position. The unrecognized tax benefits as of October 1, 2022, would have no impact on the effective tax rate if recognized.

The Company conducts business in a number of jurisdictions and, as such, is required to file income tax returns in multiple jurisdictions globally. U.S. federal income tax returns for the 2018 tax year and earlier are no longer subject to examination by the U.S. Internal Revenue Service (the "IRS"). All U.S. federal and state net operating losses as well as research and development tax credits generated to date, including 2018 and earlier, used in open tax years are subject to adjustment by the IRS and state tax authorities.

The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expense. There were no accrued interest or penalties as of October 1, 2022, and October 2, 2021.

As of October 1, 2022, the Company continues to assert that the unremitted earnings in our foreign subsidiaries are permanently reinvested and therefore no deferred taxes or withholding taxes have been provided. If, in the future, the Company decides to repatriate its $7.2 million of undistributed earnings from these subsidiaries in the form of dividends or otherwise, the Company could be subject to withholding taxes payable at that time. Outside basis differences in the Company's foreign subsidiaries including unremitted earnings and any related taxes are not material.

11. Net Income (Loss) Per Share Attributable to Common Stockholders

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

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

(In thousands, except share and per share data)	**October 1, 2022**	**October 2, 2021**	**October 3, 2020**
Numerator:			
Net income (loss) attributable to common stockholders - basic and diluted	$ 67,383	$ 158,595	$ (20,115)
Denominator:			
Weighted-average shares of common stock - basic	127,691,030	122,245,212	109,807,154
Effect of potentially dilutive stock options	5,472,807	10,120,238	—
Effect of RSUs	4,385,406	7,875,245	—
Effect of PSUs	212,835	68,457	—
Weighted-average shares of common stock—diluted	137,762,078	140,309,152	109,807,154
Net income (loss) per share attributable to common stockholders:			
Basic	$ 0.53	$ 1.30	$ (0.18)
Diluted	$ 0.49	$ 1.13	$ (0.18)

The following potentially dilutive shares as of the end of each period presented were excluded from the computation of diluted net income (loss) per share for the periods presented because including them would have been antidilutive:

	October 1, 2022	**October 2, 2021**	**October 3, 2020**
Stock options to purchase common stock	6,877,530	9,030,004	33,503,698
Restricted stock units	5,041,645	3,505,140	9,225,127

Performance stock units	88,672	55,586	—
Total	12,007,847	12,590,730	42,728,825

12. 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 consolidated statements of operations and comprehensive income (loss). Pro forma results of operations for these acquisitions have not been presented because they are not material to the Company's consolidated financial statements, either individually or in the aggregate.

On April 8, 2022, the Company completed the acquisition of 100% of the equity interests of Mayht, a Netherlands-based company that has invented a new approach to audio transducers. The acquisition brought a talented group of employees and strategic technology that is expected to enable the Company to transform its product portfolio. The total purchase price consideration of the acquisition of Mayht was $99.3 million paid in cash. The Company accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed, with $72.2 million in intangible assets, $16.8 million in net liabilities assumed, and $43.9 million in estimated goodwill. The estimated fair value of acquired in process research and development intangible assets was determined using an income model valuation approach. Assumptions used in the determination of the fair value of the acquired in-process research and development intangible assets include revenue pricing and volume forecasts, revenue growth rate, and discount rate. The goodwill recognized was primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating Mayht’s technology into the Company's products. The goodwill is not deductible for income tax purposes.

The results of Mayht’s operations have been included in, but are not material to, the Company's consolidated results of operations since the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to the Company's consolidated statement of operations and comprehensive income (loss). One-time acquisition-related costs of $1.0 million were expensed as general and administrative expenses as incurred.

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

13. Commitments and Contingencies

Commitments to suppliers

The Company utilizes contract manufacturers to build its products. These contract manufacturers acquire components and build products based on demand forecast information the Company supplies, which typically covers the fiscal year. Consistent with industry practice, the Company acquires inventories from such manufacturers through blanket purchase orders against which orders are applied based on projected demand information and availability of goods. Such purchase commitments typically cover the Company's forecasted product and manufacturing requirements for periods that range a number of months. In certain instances, these agreements allow the Company the option to cancel, reschedule, and/or adjust our requirements based on its business needs for a period of time before the order is due to be fulfilled. While the Company's purchase orders are legally cancellable in some situations, there are many which are not cancellable in the event of a demand plan change or other circumstances, such as where the supplier has procured unique, Sonos-specific designs, and/or specific non-cancellable, non-returnable components based on our provided forecasts.

As of October 1, 2022, the Company's commitments to suppliers were estimated to be approximately $360 million, the majority of which is expected to be paid in the next two years, with approximately $185 million to $220 million expected to be paid in the next twelve months. These commitments are related to electrical components that can be specific to Sonos products, and for which the Company typically participates in negotiations directly with the suppliers, and comprised 1) contractual obligations to third-party manufacturers and suppliers, 2) the inventory owned by contract manufacturers procured to manufacture Sonos products, and 3) purchase commitments made by contract manufacturers to their upstream suppliers.

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.

The Company's Lawsuits Against Google:

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 counterpart 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. The counterpart lawsuit is stayed pending completion of the ITC investigation and appeal thereof. The ITC concluded its investigation in January 2022, finding all five of the Company's asserted patents to be valid and infringed by Google, and further finding that one redesign per patent proposed by Google would avoid infringement. The ITC issued a limited exclusion order and a cease-and-desist order with respect to Google's infringing products. The outcome of the ITC investigation is currently being appealed by the Company and Google.

On September 29, 2020, the Company filed another lawsuit against Google alleging infringement of additional Sonos patents and seeking monetary damages and other non-monetary relief. This suit is pending in U.S. District Court for the Northern District of California. In this lawsuit, Google has countersued the Company alleging breach of contract and conversion against the Company in connection with Google and the Company's collaboration in 2013. The Company disputes the claims and intends to defend these claims during the case. In this lawsuit, the judge has already concluded that Google infringes one asserted patent and that patent is not invalid. The judge has also ruled that another asserted patent is not infringed by Google and is invalid. This lawsuit is expected to conclude with a jury trial in May 2023.

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 seeking non-monetary relief. The Company has since withdrawn this action after having received some preliminary relief.

Google's Lawsuits Against the Company:

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 by the Company of five Google patents and seeking monetary damages and other non-monetary relief. Four of these patents have since been found invalid by the Court or by the U.S. Patent and Trademark Office at the Company's urging, or have been withdrawn from the case by Google. In this lawsuit, one patent remains asserted against the Company. No trial date is set.

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 seeking monetary damages and an injunction preventing sales of allegedly infringing products. In March 2021, the District Court Munich stayed the case for infringement of one Google patent pending the outcome of a nullity action concerning the validity of that patent. In June 2021, the Munich court issued a decision dismissing Google's complaint regarding the other Google patent for lack of infringement by the Company. Google has appealed the Munich court's ruling, which is pending.

On August 21, 2020, Google filed a lawsuit against the Company in Canada alleging infringement of one Google patent. On July 26, 2022, the Canadian court ruled that the Company does not infringe this patent after a trial on the merits. Google has appealed the Canadian's court's ruling, which is pending.

On August 21, 2020, Google filed a lawsuit against Sonos Europe B.V. and Sonos, Inc. in France, alleging infringement of two Google patents seeking monetary damages and an injunction preventing sales of allegedly infringing products. In February 2021, Google withdrew its infringement allegations regarding one patent in view of prior art brought to the attention of the court by the Company. In March 2022, the French trial court ruled for the Company on Google's other asserted patent. Google has appealed the French trial court's ruling, which is pending.

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

On August 21, 2020, Google filed a lawsuit against Sonos Europe B.V. and Sonos, Inc. in the Netherlands alleging infringement of a Google patent seeking an injunction preventing sales of allegedly infringing products. In October, 2022, the Netherlands court ruled that the Company does not infringe Google's patent.

In September 2020, Google filed a lawsuit against Sonos Europe B.V. in the Netherlands, alleging infringement of a Google patent seeking an injunction preventing sales of allegedly infringing products. In February 2022, the Court rejected Google's claims concerning this patent. Google has appealed this decision, which is pending.

On August 8, 2022, Google filed two complaints with the ITC against the Company and two counterpart lawsuits in the Northern District of California against the Company, collectively alleging infringement by the Company of seven Google patents generally related to wireless charging, device setup, and voice control, and seeking monetary damages and other non-monetary relief. The ITC investigations are currently pending while the counterpart lawsuits are stayed pending completion of the ITC investigations. The ITC has terminated the investigation as to one Google patent as a result of imminent expiration of that Google patent. One of the two ITC investigations is scheduled for an oral hearing in June 2023 and scheduled for a final decision in January 2024, while the other of the two ITC investigations is scheduled for an oral hearing in July 2023 and scheduled for a final decision in May 2024.

Implicit

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 October 1, 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.

Tariff refunds

On May 13, 2020, the Company was granted a temporary exclusion from the August 2019 Section 301 Tariff Action (List 4A) ("Section 301 tariffs"), eliminating the tariffs on the Company's component products imported from China until August 31, 2020. 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. On July 23, 2020, the Company was granted a temporary exclusion from Section 301 tariffs, eliminating the tariffs on the Company's core speaker products imported from China until August 31, 2020. These exemptions entitled the Company to refunds for tariffs paid from September 2019 through December 2020. 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 automatically reinstated on January 1, 2021. On March 23, 2022, the Company was granted an exclusion extension from the Section 301 tariffs, eliminating tariffs on the Company's core speaker products, including certain new product introductions, imported from China from April 13, 2022 through December 31, 2022. This exemption entitled the Company to refunds for tariffs paid from October 12, 2021 through April 12, 2022.

For fiscal 2022 and 2021, the Company recognized $15.8 million and $18.3 million, respectively, in refunds based upon acceptance of the Company's refund request, recognized as a reduction to cost of revenue. As of October 1, 2022, the remaining refunds the Company expected to recover totaled approximately $10.1 million, for tariffs paid from September 2019 through December 2020, and from October 12, 2021 through 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.

Guarantees and Indemnifications

In the normal course of business, the Company enters into agreements that contain a variety of representations and warranties and provide for general indemnification. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. To date, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. The Company has also entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers to the fullest extent permitted by the Delaware General Corporation Law. The Company also currently has directors' and officers' insurance. No amount has been accrued in the consolidated financial statements with respect to these indemnification guarantees.

14. Quarterly Financial Data (Unaudited)

The following table summarizes the Company's unaudited quarterly financial information for each of the four quarters of 2022 and 2021 (the sum of quarterly periods may not equal full-year amounts due to rounding):

	Three Months Ended			
(In thousands, except per share amounts)	**October 1, 2022**	**July 2, 2022**	**April 2, 2022**	**January 1, 2022**
Revenue	$ 316,290	$ 371,783	$ 399,781	$ 664,481
Gross profit	124,099	175,848	179,034	317,385
Net income (loss)	(64,067)	(597)	8,566	123,481
Net income (loss) per share - basic	$ (0.50)	$ 0.00	$ 0.07	$ 0.97
Net income (loss) per share - diluted	$ (0.50)	$ 0.00	$ 0.06	$ 0.87

	Three Months Ended			
(In thousands, except per share amounts)	**October 2, 2021**	**July 3, 2021**	**April 3, 2021**	**January 2, 2021**
Revenue	$ 359,539	$ 378,672	$ 332,949	$ 645,584
Gross profit	166,931	177,861	165,776	299,425
Net income (loss)	(8,744)	17,826	17,221	132,292
Net income (loss) per share - basic	$ (0.07)	$ 0.14	$ 0.14	$ 1.14
Net income (loss) per share - diluted	$ (0.07)	$ 0.12	$ 0.12	$ 1.01

15. Subsequent Event

On November 16, 2022, the Company announced that its Board of Directors has authorized a common stock repurchase program of up to $100.0 million.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 October 1, 2022. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective as of October 1, 2022.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f).

Our Chief Executive Officer and Chief Financial Officer, with assistance from other members of management, assessed the effectiveness of our internal control over financial reporting as of October 1, 2022, based on the framework and criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of October 1, 2022.

The effectiveness of our internal control over financial reporting as of October 1, 2022, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

During the third quarter of fiscal 2022, we transitioned to our new ERP system as our system of record for financial reporting, which included changes to certain financial processes impacting key controls related to our internal controls over financial reporting. We believe we have maintained appropriate internal control over financial reporting during the implementation and believe this new system will strengthen our internal control environment. However, there are inherent risks in implementing any new system, and we will continue to evaluate these control changes as part of our assessment of internal control over financial reporting. There were no other changes in our internal control over financial reporting in management's evaluation pursuant to Rule 13a-15(f) during the quarter ended October 1, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

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

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is included under the captions "Board of Directors and Corporate Governance," "Proposal One: Election of Directors," "Executive Officers" and "Delinquent Section 16(a) Reports" included in our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our year ended October 1, 2022, and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is included under the captions “Board of Directors and Corporate Governance” and "Executive Compensation" in our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our year ended October 1, 2022, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is included under the captions "Equity Compensation Plan Information" and “Security Ownership of Certain Beneficial Owners and Management” in our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our year ended October 1, 2022, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is included under the captions "Board of Directors and Corporate Governance" and “Certain Relationships and Related Party Transactions” in our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our year ended October 1, 2022, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is included under the caption “Proposal Two: Ratification of Appointment of Independent Registered Public Accounting Firm” in our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our year ended October 1, 2022, and is incorporated herein by reference.

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

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

The information concerning Sonos’ consolidated financial statements and the Report of Independent Registered Public Accounting Firm required by this Item 15(a)(1) is incorporated by reference herein to the section of this Annual Report on Form 10-K in Part II, Item 8, titled "Financial Statements and Supplementary Data."

(a)(2) Financial Statement Schedules

All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable or because the information required is already included in the consolidated financial statements or the notes to those consolidated financial statements.

(a)(3) Exhibits

We have filed, or incorporated into this Annual Report on Form 10-K by reference, the exhibits listed on the accompanying Exhibit Index immediately preceding the signature page of this Annual Report on Form 10-K.

EXHIBIT INDEX

Exhibit Number	Exhibit Title	Incorporated By Reference				Filed or Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation	10-Q	001-38603	3.1	9/11/2018	
3.2	Restated Bylaws	10-Q	001-38603	3.2	9/11/2018	
4.1	Form of Common Stock Certificate	S-1	333-226076	4.01	7/6/2018	
4.2	Amended and Restated Investor Rights Agreement, dated as of July 18, 2012, by and among the Registrant and certain investors of the Registrant	S-1	333-226076	4.02	7/6/2018	
4.3	Description of Securities	10-K	001-38603	4.3	11/26/19	
10.1+	Form of Indemnification Agreement entered into between Sonos, Inc. and each of its directors and executive officers	S-1	333-226076	10.01	7/6/2018	
10.2+	2003 Stock Plan, as amended, and forms of agreement thereunder	S-1	333-226076	10.02	7/6/2018	
10.3+	2018 Equity Incentive Plan and forms of agreement thereunder	10-Q	001-38603	10.1	8/12/2021	
10.4+	2018 Employee Stock Purchase Plan and form of subscription agreement	S-1	333-226076	10.04	7/6/2018	
10.5+	Offer Letter between Patrick Spence and the Registrant, dated May 25, 2012	S-1	333-226076	10.05	7/6/2018	
10.6+	Offer Letter between Brittany Bagley and the Registrant, dated March 29, 2019	10-Q	001-38603	10.1	5/10/2019	
10.7†	Manufacturing Agreement between Inventec Appliances Corporation and the Registrant, dated September 4, 2014, as amended	S-1	333-226076	10.08	7/6/2018	

10.8+	Offer Letter between Nicholas Millington and the Registrant, dated February 27, 2003	10-K	001-38603	10.9	11/28/2018	
10.9+	Offer Letter between Matthew Siegel and the Registrant, dated August 15, 2017	10-K	001-38603	10.10	11/28/2018	
10.10+	Executive Incentive Plan	10-Q	001-38603	10.1	2/7/2019	
10.11+	Performance Share Award Agreement between Patrick Spence and the Registrant, dated May 28, 2020	10-Q	001-38603	10.1	8/6/2020	
10.12+	Offer Letter between Edward Lazarus and the Registrant, dated December 5, 2018	10-Q	001-38603	10.1	2/6/2020	
10.13+	Form of Performance Share Award Agreement under 2018 Equity Incentive Plan	10-Q	001-38603	10.1	2/11/2021	
10.14+	Letter Agreement between Anna Fraser and the Registrant, dated September 5, 2022					X
21.1	List of subsidiaries of the Registrant	S-1	333-226076	21.01	7/6/2018	
23.1	Consent of Independent Registered Public Accounting Firm					X
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)					X
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and Rule 15d-14(a) of the Exchange Act					X
32.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in the Exhibit 101 attachments)					X

* Furnished and not filed.
+ Indicates a management contract or compensatory plan or arrangement.

† Confidential treatment has been granted with respect to portions of this exhibit.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

Sonos, Inc.

Date: November 23, 2022	By:	/s/ Patrick Spence
		Patrick Spence
		Chief Executive Officer and Director
		(Principal Executive Officer)
Date: November 23, 2022	By:	/s/ Eddie Lazarus
		Eddie Lazarus
		Chief Financial Officer and Chief Legal Officer
		(Principal Financial Officer)
Date: November 23, 2022	By:	/s/ Chris Mason
		Chris Mason
		SVP, Finance and Chief Accounting Officer
		(Principal Accounting Officer)

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Patrick Spence, Eddie Lazarus, Chris Mason, and each of them, such individual's true and lawful attorneys-in-fact and agents with full power of substitution, for such individual and in such individual's name, place and stead, in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as such individual might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Patrick Spence Patrick Spence	Chief Executive Officer and Director *(Principal Executive Officer)*	November 23, 2022
/s/ Eddie Lazarus Eddie Lazarus	Chief Financial Officer and Chief Legal Officer *(Principal Financial Officer)*	November 23, 2022
/s/ Chris Mason Chris Mason	SVP, Finance and Chief Accounting Officer *(Principal Accounting Officer)*	November 23, 2022
/s/ Karen Boone Karen Boone	Director	November 23, 2022
/s/ Joanna Coles Joanna Coles	Director	November 23, 2022
/s/ Thomas Conrad Thomas Conrad	Director	November 23, 2022
/s/ Deirdre Findlay Deirdre Findlay	Director	November 23, 2022
/s/ Julius Genachowski Julius Genachowski	Director	November 23, 2022
/s/ Panos Panay Panos Panay	Director	November 23, 2022
/s/ Michelangelo Volpi Michelangelo Volpi	Director and Chairperson of the Board of Directors	November 23, 2022