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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2023

OR

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

For the transition period from ______ to ______

Commission file number 001-39907

SONDER HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	85-2097088
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 E 84th Ave., Suite A-10 Thornton, Colorado	80229
(Address of principal executive offices)	(Zip Code)

(617) 300-0956
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	SOND	The Nasdaq Stock Market LLC
Warrants, each whole warrant exercisable for one share of Common Stock at an exercise price of $11.50 per share	SONDW	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted 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 and post 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The registrant had 220,251,949 shares of common stock outstanding as of August 2, 2023.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally relate to future events or our expected future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or our present expectations.

Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our focus on achieving positive Free Cash Flow without additional fundraising and to target "capital light" lease signings, whereby real estate owners fund the vast majority of our upfront capital expenditures in exchange for slightly higher rents, as part of our Cash Flow Positive Plan announced on June 9, 2022;
- our financial, operating and growth forecasts and projections, including our focus on revenue growth rates;
- expectations for our business, revenue, expenses, operating results, and financial condition;
- our ability to achieve or maintain profitability in the future;
- trends in the travel and hospitality industries;
- our ability to continue meeting the listing standards of Nasdaq;
- our pricing and revenue management strategies, pricing and occupancy forecasts and anticipated trends, and expectations about demand elasticity;
- our expectations concerning future transaction structures and the anticipated rent, rent abatement, capital expenditure provisions, and other terms of our future leases;
- potential ancillary revenue opportunities and our ability to improve our revenue management capabilities;
- anticipated capital expenditure obligations, including expectations for real estate owners' funding of capital expenditures and other pre-opening costs at our leased properties;
- the expected adequacy of our capital resources, and the anticipated use of proceeds from any financings;
- anticipated occupancy rates and expectations about guests' average length of stay;
- expectations about our geographic market mix and product mix between hotels and apartments, and their impact on our financial results;
- expectations about employee relations and our ability to attract and retain qualified personnel;
- our plans to roll out additional features, amenities and technologies, and our beliefs about the positive impact of our technology investments on our brand and financial results;
- our future competitive advantages and anticipated differentiation in cost structure and guest experience compared to other accommodation providers;
- our ability to anticipate and satisfy guest demands, including through the introduction of new features, amenities or services;
- expectations for increased cost efficiencies and technological improvements;
- expectations and plans for expanding in existing and new markets and accommodation categories;
- the anticipated growth in our portfolio of Live Units and Contracted Units, including the anticipated scope and timing of any removals of units from our portfolio;
- expectations about our relationships with third-party distribution channels and indirect channels, and the percentage of future revenue attributable to bookings through indirect channels;
- anticipated seasonality and other variations in our results of operations from period-to-period, including statements about anticipated Revenue per Available Room ("RevPAR") in specified quarters;
- trends in corporate travel and the potential for additional group and corporate travel revenue;
- our assessments and beliefs regarding the timing and outcome of pending legal proceedings and any liability that we may incur as a result of those proceedings;
- the anticipated effects of the COVID-19 pandemic or other public health crises;
- our assessments and estimates that determine our effective tax rate and regarding any tax-related audits or other tax proceedings; and
- other expectations, beliefs, plans, strategies, anticipated developments, and other matters that are not historical facts.

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

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties, and other factors, many of which are beyond our control. Neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. Moreover, the forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

For a discussion of our risk factors, see the section entitled “Risk Factors” herein. Additional factors that could cause results or performance to materially differ from those expressed in our forward-looking statements are detailed in other filings we may make with the Securities and Exchange Commission (“SEC”), copies of which are available from us at no charge. Please consider our forward-looking statements in light of those risks as you read this report. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SONDER HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 177,444	$ 246,624
Restricted cash	42,069	42,562
Accounts receivable, net of allowance of $1,461 and $972 at June 30, 2023 and December 31, 2022, respectively	14,042	5,613
Prepaid expenses	8,786	8,066
Other current assets	11,516	10,065
Total current assets	253,857	312,930
Property and equipment, net	31,616	34,926
Operating lease right-of-use ("ROU") assets	1,308,719	1,209,486
Other non-current assets	13,667	16,270
Total assets	$ 1,607,859	$ 1,573,612
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 19,878	$ 16,082
Accrued liabilities	18,555	20,131
Taxes payable	15,476	14,418
Deferred revenue	59,858	41,664
Current operating lease liabilities	183,487	158,346
Total current liabilities	297,254	250,641
Non-current operating lease liabilities	1,259,207	1,166,538
Long-term debt, net	186,884	172,950
Other non-current liabilities	1,106	3,430
Total liabilities	1,744,451	1,593,559
Commitments and contingencies (Note 10)		
Stockholders' deficit:		
Common stock	21	21
Additional paid-in capital	968,047	947,601
Cumulative translation adjustment	7,652	12,985
Accumulated deficit	(1,112,312)	(980,554)
Total stockholders' deficit	(136,592)	(19,947)
Total liabilities and stockholders' deficit	$ 1,607,859	$ 1,573,612

See accompanying notes to unaudited condensed consolidated financial statements.

SONDER HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share information)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Revenue	$ 157,403	$ 121,322	$ 278,141	$ 201,788
Costs and operating expenses:				
Cost of revenue (excluding depreciation and amortization)	93,244	79,187	185,277	153,083
Operations and support	52,208	54,003	108,365	102,270
General and administrative	30,169	31,277	62,914	68,258
Research and development	5,563	8,088	12,143	15,713
Sales and marketing	18,231	12,414	34,067	21,875
Restructuring and other charges	—	4,033	2,130	4,033
Total costs and operating expenses	199,415	189,002	404,896	365,232
Loss from operations	(42,012)	(67,680)	(126,755)	(163,444)
Interest expense, net	6,155	4,382	11,862	12,584
Change in fair value of SPAC Warrants	(508)	(9,419)	(398)	(24,314)
Change in fair value of Earn Out Liability	(435)	(23,345)	(1,933)	(96,522)
Change in fair value of share-settled redemption feature and gain on conversion of convertible notes	—	—	—	(29,512)
Other (income) expense, net	(2,079)	6,251	(4,791)	8,875
Total non-operating expense (income), net	3,133	(22,131)	4,740	(128,889)
Loss before income taxes	(45,145)	(45,549)	(131,495)	(34,555)
Provision for income taxes	182	117	263	148
Net loss	$ (45,327)	$ (45,666)	$ (131,758)	$ (34,703)
Basic and diluted net loss per common share	$ (0.21)	$ (0.21)	$ (0.61)	$ (0.18)
Other comprehensive loss:				
Net loss	$ (45,327)	$ (45,666)	$ (131,758)	$ (34,703)
Change in foreign currency translation adjustment	(2,696)	5,085	(5,333)	7,084
Comprehensive loss	$ (48,023)	$ (40,581)	$ (137,091)	$ (27,619)

See accompanying notes to unaudited condensed consolidated financial statements.

SONDER HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
Three and six months ended June 30, 2023
(In thousands, except share information)
(Unaudited)

	Common Stock		Post-Combination Exchangeable Common Stock		Additional Paid-in Capital	Accumulated Translation Adjustment	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount				
Balance at December 31, 2022	198,394,331	$ 21	20,389,216	$ —	$ 947,601	$ 12,985	$ (980,554)	$ (19,947)
Exercise of common stock options	9,266	—	—	—	8	—	—	8
Vesting of restricted stock units	517,068	—	—	—	—	—	—	—
Conversion of exchangeable stock	930,512	—	(930,512)	—	—	—	—	—
Stock-based compensation	—	—	—	—	12,180	—	—	12,180
Components of comprehensive loss:								
Net loss	—	—	—	—	—	—	(86,431)	(86,431)
Change in cumulative translation adjustment	—	—	—	—	—	(2,637)	—	(2,637)
Balance at March 31, 2023	199,851,177	$ 21	19,458,704	$ —	$ 959,789	$ 10,348	$ (1,066,985)	$ (96,827)
Exercise of common stock options	121	—	—	—	—	—	—	—
Vesting of restricted stock units	971,242	—	—	—	—	—	—	—
Conversion of exchangeable stock	197,849	—	(197,849)	—	—	—	—	—
Stock-based compensation	—	—	—	—	8,258	—	—	8,258
Components of comprehensive loss:								
Net loss	—	—	—	—	—	—	(45,327)	(45,327)
Change in cumulative translation adjustment	—	—	—	—	—	(2,696)	—	(2,696)
Balance at June 30, 2023	201,020,389	$ 21	19,260,855	$ —	$ 968,047	$ 7,652	$ (1,112,312)	$ (136,592)

See accompanying notes to unaudited condensed consolidated financial statements.

SONDER HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (*continued*)
Three and six months ended June 30, 2022
(In thousands, except share information)
(Unaudited)

	Redeemable Convertible Preferred Stock		Exchangeable Preferred Stock		Common Stock		Exchangeable Series AA Stock		Post-Combination Exchangeable Common Stock		Additional Paid-in Capital	Accumulated Translation Adjustment	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2021	75,767,082	$518,750	12,570,228	$49,733	8,684,246	$ 1	9,421,190	$ —	—	$ —	$ 43,106	$ 7,299	$ (814,812)	$ (764,406)
Retroactive adjustment to reflect the exchange ratio due to business combination	35,504,342	—	5,929,180	—	4,067,956	—	4,414,756	—	—	—	—	—	—	—
Balance at December 31, 2021, as adjusted	111,271,424	$518,750	18,499,408	$49,733	12,752,202	$ 1	13,835,946	$ —	—	$ —	$ 43,106	$ 7,299	$ (814,812)	$ (764,406)
Exercise of common stock options	—	—	—	—	362,943	—	—	—	—	—	873	—	—	873
Conversion of Legacy Sonder Warrants from liabilities to equity	—	—	—	—	—	—	—	—	—	—	2,111	—	—	2,111
CEO promissory note settlement	—	—	—	—	(2,725,631)	—	—	—	—	—	—	—	—	—
Conversion of Legacy Sonder Warrants	—	—	—	—	155,239	—	—	—	—	—	1,243	—	—	1,243
Conversion of convertible note	—	—	—	—	19,017,105	1	—	—	—	—	159,172	—	—	159,173
Conversion of preferred stock	(111,271,424)	(518,750)	—	—	111,271,424	11	—	—	—	—	518,750	—	—	518,761
Conversion of exchangeable stock	—	—	(18,499,408)	(49,733)	—	—	(13,835,946)	—	32,335,354	—	49,733	—	—	49,733
Issuance of common stock in connection with business combination and PIPE offering	—	—	—	—	43,845,835	7	—	—	—	—	267,355	—	—	267,362
Assumption of SPAC Warrants upon consummation of business combination	—	—	—	—	—	—	—	—	—	—	(25,985)	—	—	(25,985)
Earn Out Liability recognized upon consummation of business combination	—	—	—	—	—	—	—	—	—	—	(98,117)	—	—	(98,117)
Issuance of Delayed Draw Warrants	—	—	—	—	—	—	—	—	—	—	5,598	—	—	5,598
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	6,680	—	—	6,680
Components of comprehensive loss:	—	—	—	—	—	—	—	—	—	—	—	—	—	
Net income	—	—	—	—	—	—	—	—	—	—	—	—	10,963	10,963
Change in cumulative translation adjustment	—	—	—	—	—	—	—	—	—	—	—	1,999	—	1,999
Balance at March 31, 2022	—	$ —	—	$ —	184,679,117	$ 20	—	$ —	32,335,354	$ —	$ 930,519	$ 9,298	$ (803,849)	$ 135,988

SONDER HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (*continued*)
Three and six months ended June 30, 2022 *(continued)*
(In thousands, except share information)
(Unaudited)

	Redeemable Convertible Preferred Stock		Exchangeable Preferred Stock		Common Stock		Exchangeable Series AA Stock		Post-Combination Exchangeable Common Stock		Additional Paid-in Capital	Accumulated Translation Adjustment	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at March 31, 2022	—	$ —	—	$ —	184,679,117	$ 20	—	$ —	32,335,354	$ —	$ 930,519	$ 9,298	$ (803,849)	$ 135,988
Exercise of common stock options	—	—	—	—	375,891	—	—	—	—	—	574	—	—	574
Vesting of restricted stock units	—	—	—	—	29,742	—	—	—	—	—	57	—	—	57
Conversion of exchangeable stock	—	—	—	—	4,259,343	—	—	—	(4,259,343)	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	5,054	—	—	5,054
Components of comprehensive loss:														
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	(45,666)	(45,666)
Change in cumulative translation adjustment	—	—	—	—	—	—	—	—	—	—	—	5,085	—	5,085
Balance at June 30, 2022	—	$ —	—	$ —	189,344,093	$ 20	—	$ —	28,076,011	$ —	$936,204	$ 14,383	$ (849,515)	$ 101,092

See accompanying notes to unaudited condensed consolidated financial statements.

SONDER HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six months ended June 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	$ (131,758)	$ (34,703)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	13,026	11,626
Stock-based compensation	20,438	11,734
Amortization of operating lease ROU assets	82,999	70,228
(Gain) loss on foreign exchange	(4,378)	6,458
Capitalization of paid-in-kind interest on long-term debt	13,135	4,253
Amortization of debt issuance costs	4	9,040
Amortization of debt discounts	797	(2,640)
Change in fair value of share-settled redemption feature and gain on conversion of convertible notes	—	(29,512)
Change in fair value of SPAC Warrants	(398)	(24,314)
Change in fair value of Earn Out Liability	(1,933)	(96,522)
Other operating activities	1,028	1,175
Changes in:		
Accounts receivable, net	(9,274)	(2,941)
Prepaid expenses	(538)	(4,877)
Other current and non-current assets	1,976	3,317
Accounts payable	3,637	(22,382)
Accrued liabilities	(1,920)	6,895
Taxes payable	1,161	4,251
Deferred revenue	17,963	19,089
Operating lease ROU assets and operating lease liabilities, net	(66,710)	(24,264)
Other current and non-current liabilities	(127)	2,474
Net cash used in operating activities	(60,872)	(91,615)

SONDER HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*
(In thousands)
(Unaudited)

	Six months ended June 30,	
	2023	2022
Cash flows from investing activities:		
Purchase of property and equipment	(8,799)	(16,145)
Capitalization of internal-use software	(689)	(2,236)
Net cash used in investing activities	(9,488)	(18,381)
Cash flows from financing activities:		
Proceeds from Delayed Draw Notes	—	159,225
Repayment of debt and payment of early termination fees	—	(27,745)
Proceeds from business combination and PIPE Investment	—	325,928
Common stock issuance costs	—	(58,555)
Proceeds from exercise of stock options	8	1,447
Net cash provided by financing activities	8	400,300
Effects of foreign exchange on cash	679	499
Net change in cash, cash equivalents, and restricted cash	(69,673)	290,803
Cash, cash equivalents, and restricted cash at beginning of period	289,186	69,941
Cash, cash equivalents, and restricted cash at end of period	$ 219,513	$ 360,744
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 390	$ 480
Cash paid for interest	$ 1,347	$ 2,044
Supplemental disclosure of non-cash investing and financing activities		
Accrued purchases of property and equipment	$ 222	$ 469
ROU assets acquired	$ 187,037	$ 126,868
Conversion of convertible notes	$ —	$ 159,172
Conversion of Legacy Sonder Warrants	$ —	$ 1,243
Reclassification of liability-classified Legacy Sonder Warrants to equity	$ —	$ 2,111
Recognition of Earn Out Liability	$ —	$ (98,117)
Recognition of SPAC Warrants	$ —	$ (25,985)
Issuance of Delayed Draw Warrants	$ —	$ 5,598
Conversion of Exchangeable Stock	$ —	$ 49,733
Conversion of Redeemable Convertible Preferred Stock	$ —	$ 518,750
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	$ 177,444	$ 359,500
Restricted cash	42,069	1,244
Cash, cash equivalents, and restricted cash at end of period	$ 219,513	$ 360,744

See accompanying notes to unaudited condensed consolidated financial statements.

SONDER HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Basis of Presentation

Nature of Operations

Sonder Holdings Inc., together with its wholly owned subsidiaries (collectively, the "Company"), provides short and long-term accommodations to travelers in various cities across North America, Europe, and the Middle East. The units in each apartment-style building and each hotel property are selected, designed, and managed directly by the Company. The Company also operates boutique hotels that are designated as Powered by Sonder properties, which each have their own unique design elements and features.

On January 18, 2022, the Company consummated the previously announced business combination by and among Gores Metropoulos II, Inc. ("GMII"), two subsidiaries of GMII, and Sonder Operating Inc., a Delaware corporation formerly known as Sonder Holdings Inc. ("Legacy Sonder") (the "Business Combination"). Refer to Note 13, Business Combination, for details of the transaction.

Basis of Financial Statement Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP", "U.S. GAAP", or "generally accepted accounting principles"). The consolidated financial statements include the accounts of Sonder Holdings Inc., its wholly owned subsidiaries, and one variable interest entity ("VIE") for which it is the primary beneficiary in accordance with consolidation accounting guidance. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, including normal recurring adjustments, necessary to present fairly the Company's financial position at June 30, 2023 and December 31, 2022, its results of operations and comprehensive loss and stockholders' deficit for the three and six months ended June 30, 2023 and 2022, and cash flows for the six months ended June 30, 2023 and 2022. The Company's condensed consolidated results of operations and comprehensive loss and stockholders' deficit for the three and six months ended June 30, 2023 and cash flows for the six months ended June 30, 2023 are not necessarily indicative of the results to be expected for the full year.

The Company qualifies as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, and, as such, may take advantage of specified reduced reporting requirements and deferred accounting standards adoption dates, and is relieved of other significant requirements that are otherwise generally applicable to other public companies.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company manages the credit risk associated with cash and cash equivalents by investing in lower risk money market funds and by maintaining operating accounts that are diversified among various institutions with good credit quality. The Company maintains cash accounts that, at times, exceed federally insured limits. The Company has not experienced any losses from maintaining cash accounts in excess of such limits. Management believes that it is not exposed to any significant risks on its cash and cash equivalent accounts.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expense during the reporting periods. Such significant management estimates include the fair value of share-based awards, estimated useful life of long-lived assets, bad-debt allowances, valuation of intellectual property and intangible assets, contingent liabilities, valuation allowance for deferred tax assets, and valuation of non-routine complex transactions, such as recognition of the Earn Out Liability and SPAC Warrants (both as defined below), among others. These estimates are based on information available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from those estimates.

Reclassification

Certain amounts reported in previous condensed consolidated financial statements have been reclassified to conform to current period presentation. These reclassifications did not affect previously reported amounts of net loss, total assets, total stockholders' deficit, net cash used in operating activities, net cash used in investing activities, or net cash provided by financing activities.

Restatement of Previously Reported Financial Statements

Subsequent to the issuance of the Company's unaudited condensed consolidated financial statements for the three and six months ended June 30, 2022, the Company identified and corrected the following:

The Company recorded $12.2 million as an adjustment to correct the initial recorded fair value of $23.7 million for the Public Warrants (as defined below) upon consummation of the Business Combination. This correction was made as a $12.2 million increase to the originally recorded additional paid-in capital and a corresponding reduction to other income in the June 30, 2022 condensed consolidated statements of operations and comprehensive loss. This adjustment, in addition to the adjustments in fair value from the date of the Business Combination to the end of the three and six months ended June 30, 2022, resulted in net changes in fair value of $1.9 million and $13.3 million for the three and six months ended June 30, 2022, respectively. Further, this adjustment resulted in a change in basic and diluted net loss per share from $0.20 per share as previously reported to $0.21 per share as corrected for the three months ended June 30, 2022 and from $0.10 per share as previously reported to $0.18 per share as corrected for the six months ended June 30, 2022.

Management considers such correction to be immaterial to the previously issued condensed consolidated financial statements.

The following table presents only those line items affected by the correction as discussed above (in thousands):

	As Previously Reported	Adjustments	As Corrected
Statement of Operations and Comprehensive Loss			
Three months ended June 30, 2022:			
Change in fair value of SPAC Warrants	$ (11,310)	$ 1,891	$ (9,419)
Total non-operating (income) expense, net	(24,022)	1,891	(22,131)
Loss before income taxes	(43,658)	(1,891)	(45,549)
Net loss	(43,775)	(1,891)	(45,666)
Comprehensive loss	(38,690)	(1,891)	(40,581)
Basic and diluted net loss per common share	$ (0.20)	$ (0.01)	$ (0.21)
Six months ended June 30, 2022:			
Change in fair value of SPAC Warrants	$ (37,634)	$ 13,320	$ (24,314)
Total non-operating (income) expense, net	(142,209)	13,320	(128,889)
Loss before income taxes	(21,235)	(13,320)	(34,555)
Net loss	(21,383)	(13,320)	(34,703)
Less: Net loss attributable to convertible and exchangeable preferred stockholders	1,180	(1,180)	—
Net loss attributable to common stockholders	(20,203)	(14,500)	(34,703)
Comprehensive loss	(14,299)	(13,320)	(27,619)
Basic and diluted net loss per common share	$ (0.10)	$ (0.08)	$ (0.18)
Statement of Stockholders' Equity			
Three months ended June 30, 2022:			
Net loss	$ (43,775)	$ (1,891)	$ (45,666)
Accumulated Deficit	(836,195)	(13,320)	(849,515)
Total stockholders' equity at June 30, 2022	$ 102,262	$ (1,170)	$ 101,092
Six months ended June 30, 2022:			
Assumption of SPAC Warrants upon consummation of business combination	$ (38,135)	$ 12,150	$ (25,985)
Net loss	(21,383)	(13,320)	(34,703)
Additional Paid-in Capital	924,054	12,150	936,204
Accumulated Deficit	(836,195)	(13,320)	(849,515)
Total stockholders' equity at June 30, 2022	$ 102,262	$ (1,170)	$ 101,092
Statement of Cash Flows			
Cash flows from operating activities			
Net loss	$ (21,383)	$ (13,320)	$ (34,703)
Change in fair value of SPAC Warrants	(37,634)	13,320	(24,314)

Note 2. Recently Issued Accounting Standards

The following reflect recent accounting standards that have been adopted or are pending adoption by the Company. As discussed in Note 1, Basis of Presentation, the Company qualifies as an emerging growth company, and as such, has elected to use the extended transition period for complying with new or revised accounting standards and is not subject to the new or revised accounting standards applicable to public companies during the extended transition period. The accounting standards discussed below indicate effective dates for the Company as an emerging growth company with the extended transition period.

Recently Adopted Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which has subsequently been amended by ASUs 2018-19, 2019-04, 2019-05, 2019-10, and 2019-11. The guidance changes how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance replaces the current 'incurred loss' model with an 'expected loss' approach. This generally will result in the earlier recognition of allowances for losses and requires increased disclosures. ASU 2016-13 was effective for public business entities for fiscal years beginning after December 15, 2019. In November 2019, the FASB issued amended guidance which defers the effective date for emerging growth companies for fiscal years beginning after December 15, 2022, and interim periods therein. The Company adopted this guidance on January 1, 2023 using the modified retrospective basis. The adoption did not have a material impact on the Company's condensed consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

The Company has not identified any recent accounting pronouncements not yet adopted that are expected to have a material impact on the Company's financial position, results of operations, or cash flows.

Note 3. Revenue

The Company generates revenues primarily by providing accommodations to its guests. Direct revenue is generated from stays booked through Sonder.com, the Sonder app, or directly through the Company's sales personnel. Indirect revenue is generated from stays booked through third party online travel agencies ("OTAs").

The following table sets forth the Company's total revenues for the periods indicated, disaggregated between direct and indirect (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Direct revenue	$ 78,536	$ 52,388	$ 136,875	$ 88,236
Indirect revenue	78,867	68,934	141,266	113,552
Total revenue	$ 157,403	$ 121,322	$ 278,141	$ 201,788

No individual guest represented over 10.0% of revenues for the three and six months ended June 30, 2023 and 2022.

One third-party corporate customer represented 15.9% of the net accounts receivable balance at June 30, 2023, and four third-party corporate customers and OTAs represented 23.8%, 18.3%, 17.0%, and 11.8%, respectively, of the net accounts receivable balance as of December 31, 2022.

Note 4. Fair Value Measurement and Financial Instruments

Fair Value Hierarchy

Accounting standards require the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

SPAC Warrants

As part of the GMII initial public offering ("GMII IPO"), GMII issued 9,000,000 public warrants (the "Public Warrants") and 5,500,000 private placement warrants (the "Private Placement Warrants"), each of which is exercisable at a price of $11.50 per share (collectively, the "SPAC Warrants").

Management has determined that the SPAC Warrants issued in the GMII IPO, which remained outstanding at consummation of the Business Combination and became exercisable for shares of the Company's common stock, are subject to accounting treatment as a liability. At the consummation of the Business Combination and at June 30, 2023, the Company used the Public Warrants stock price to value the Public Warrants.

At consummation of the Business Combination, the Company used a Monte Carlo simulation methodology to value the Private Placement Warrants using Level 3 inputs, as the Company did not have observable inputs for the valuation. At December 31, 2022, the Company used the Black-Scholes option-pricing model to estimate the fair value of the Private Placement Warrants using Level 3 inputs. During the three months ended March 31, 2022, the Private Placement Warrants were transferred by the original holders and, in accordance with the contractual terms of the Private Placement Warrants, became Public Warrants upon transfer. As such, at June 30, 2023, the Company used the Public Warrants stock price to value all SPAC Warrants.

At June 30, 2023, the SPAC Warrants were valued at $0.04 per warrant.

Refer to Note 7, Warrants and Stockholders' Deficit, for additional information about the SPAC Warrants.

Earn Out Liability

In addition to the consideration paid at consummation of the Business Combination, certain investors may receive their pro rata share of up to an aggregate of 14,500,000 additional shares of the Company's common stock as consideration upon the common stock achieving certain benchmark share prices, as set forth in the merger agreement (the "Earn Out"). Management has determined that the Earn Out is subject to treatment as a liability (the "Earn Out Liability").

At June 30, 2023, the Company used a Monte Carlo simulation methodology to value the Earn Out using Level 3 inputs. The key assumptions used in the Monte Carlo simulation are related to expected share-price volatility of 70.0%, expected term of 4.03 years to 4.04 years, risk-free interest rate of 4.3%, and dividend yield of 0%. The expected volatility at June 30, 2023 was derived from the volatility of comparable public companies.

Delayed Draw Warrants

The fair value of the Delayed Draw Warrants (as defined in Note 5, Debt) was estimated by separating the Delayed Draw Notes into the debt and warrants components and assigning a fair value to each component. The value assigned to the debt component was the estimated fair value as of the issuance date of similar debt without the warrants. The value assigned to the Delayed Draw Warrants component was estimated using the Black-Scholes option-pricing model using Level 3 inputs and was considered to be non-recurring in nature, in accordance with ASC 820, *Fair Value Measurement*. The warrants component was recorded as a debt discount, which is amortized using the effective interest method over the period from the date of issuance through the maturity date. Upon consummation of the Business Combination, the fair value of the Delayed Draw Warrants was $5.6 million and was included in additional paid in capital in the condensed consolidated balance sheet.

Disclosures about Fair Value of Financial Instruments

At June 30, 2023, the Earn Out Liability and SPAC Warrants liability were included in other non-current liabilities in the condensed consolidated balance sheets. The following table summarizes the Company's Level 1, Level 2, and Level 3 financial liabilities measured at fair value on a recurring basis as of June 30, 2023 (in thousands):

	Level 1	Level 3	Total
Earn Out Liability	$ —	$ 484	$ 484
SPAC Warrants	507	—	507
Total financial liabilities measured and recorded at fair value	$ 507	$ 484	$ 991

At December 31, 2022, the Earn Out Liability and SPAC Warrants liability were included in other non-current liabilities in the condensed consolidated balance sheets. The following table summarizes the Company's Level 1, Level 2, and Level 3 financial liabilities measured at fair value on a recurring basis as of December 31, 2022 (in thousands):

	Level 1	Level 3	Total
Earn Out Liability	$ —	$ 2,417	$ 2,417
Public Warrants	630	—	630
Private Placement Warrants	—	275	275
Total financial liabilities measured and recorded at fair value	$ 630	$ 2,692	$ 3,322

The following table represents changes in the Company's Level 3 liabilities measured at fair value for the six months ended June 30, 2023 (in thousands):

	Level 3
Beginning balance at January 1, 2023	$ 2,692
Transfers out of Level 3	(275)
Change in fair value of Earn Out Liability	(1,933)
Total financial liabilities measured and recorded at fair value	$ 484

The following table presents changes in the Company’s Level 3 liabilities measured at fair value for the year ended December 31, 2022 (in thousands):

	Level 3
Beginning balance at January 1, 2022	$ 33,610
Recognition of Earn Out Liability	98,117
Private Placement Warrants liability recognized upon consummation of Business Combination	14,465
Change in fair value of share-settled redemption feature upon conversion of convertible notes	(30,322)
Change in fair value of Earn Out Liability	(95,700)
Change in fair value of Private Placement Warrants liability	(14,190)
Conversion of preferred stock warrant liabilities to equity	(3,288)
Total financial liabilities measured and recorded at fair value	$ 2,692

There were no transfers of financial instruments between valuation levels during the six months ended June 30, 2023 and the year ended December 31, 2022, other than the transfer of the Private Placement Warrants when they became Public Warrants, as discussed above.

Management estimates that the fair values of its cash equivalents, restricted cash, accounts receivable, prepaid expenses, other current assets, accounts payable, accrued liabilities, sales tax payable, deferred revenue, and other current liabilities approximates their carrying values due to the relatively short maturity of the instruments. The carrying value of the Company’s long-term debt approximates its fair value because it bears interest at a market rate and all other terms are also reflective of current market terms.

These assumptions are inherently subjective and involve significant management judgment. Any change in fair value is recognized as a component of other expense, net, on the condensed consolidated statements of operations and comprehensive loss.

Note 5. Debt

Delayed Draw Note Purchase Agreement

On December 10, 2021, the Company entered into a note and warrant purchase agreement (the “Delayed Draw Note Purchase Agreement”) with certain private placement investors (“Purchasers”) for the sale of delayed draw notes in aggregate of $165.0 million to be available to the Company following the consummation of the Business Combination (the “Delayed Draw Notes”). The Delayed Draw Note Purchase Agreement also provided for the issuance of warrants to purchase an aggregate of 2,475,000 shares of the Company’s common stock with an exercise price of $12.50 per share (the “Delayed Draw Warrants”).

In January 2022, upon consummation of the Business Combination, the Company drew $165.0 million in Delayed Draw Notes and issued Delayed Draw Warrants to purchase 2,475,000 shares of common stock to the Purchasers. The Delayed Draw Notes have a maturity of five years from the date of issuance and are subject to interest on the unpaid principal amount at a rate per annum equal to the three-month secured overnight financing rate (“SOFR”) plus 9.00%. For the first two years, the Company may elect and has elected payment-in-kind interest, quarterly in arrears. The Delayed Draw Notes are secured by substantially all of the assets of the Company. The Delayed Draw Warrants expire five years after issuance.

Long term debt, net consisted of the following at the dates indicated (in thousands):

	June 30, 2023	December 31, 2022
Principal balance, including capitalized paid-in-kind interest	$ 196,394	$ 183,245
Less: debt discount related to Delayed Draw Warrants, net of amortization	(4,559)	(4,945)
Less: unamortized debt discount and deferred issuance costs	(4,951)	(5,350)
Long-term debt, net	$ 186,884	$ 172,950

Convertible Notes

In January 2022, upon consummation of the Business Combination, the outstanding principal and accrued and unpaid interest of the Company’s convertible notes were automatically converted into 19,017,105 shares of common stock for a value of $159.2 million. As a result, the Company recognized a gain on conversion of $29.5 million as a result of a change in the fair value of the share-settled redemption feature and $159.2 million additional-paid-in-capital. The Company also recognized the change in fair value of the share-settled redemption feature, prior to conversion, of $30.3 million, expense related to the debt discount of $10.0 million and interest expense of $1.4 million.

2018 Loan and Security Agreement

In December 2018, Legacy Sonder entered into a loan and security agreement (the “2018 Loan and Security Agreement”) with certain venture lenders that provided aggregate borrowing capacity of $50.0 million. In January 2022, upon consummation of the Business Combination, the Company paid $24.7 million of the outstanding principal of the 2018 Loan and Security Agreement and $3.1 million in early termination fees. Additionally, in connection with the repayment of the 2018 Loan and Security Agreement, the Company wrote off $0.4 million of deferred issuance costs and recognized $0.2 million of interest expense.

2022 Loan and Security Agreement

In December 2022, the Company entered into a loan and security agreement with Silicon Valley Bank (“SVB”) (now, a division of First Citizens Bank) (the “2022 Loan and Security Agreement”) for an aggregate principal balance of $60.0 million with a maturity date of December 21, 2025. The facility may be utilized for revolving loans or letter of credit issuances only if not fully collateralized per the terms of the agreement. As of June 30, 2023, all letters of credit under this facility are fully collateralized. The 2022 Loan and Security Agreement includes: (i) a letter of credit fee for each letter of credit equal to 1.5% per annum of the dollar equivalent of the face amount of each letter of credit issued and (ii) a non-use fee equal to 0.25% per annum of the average unused portion of the revolving line of credit.

In April 2023, the Company amended the 2022 Loan and Security Agreement. Among other things, the amendment reduced the required cash holdings account balances in the Company’s operating accounts, securities accounts, and depository accounts at or through SVB or its affiliates, amends the minimum consolidated adjusted EBITDA financial covenant in the 2022 Loan and Security Agreement, and provides additional flexibility to the Company under certain of the negative covenants in the agreement.

Furthermore, the Company provided cash collateral for all outstanding letters of credit with SVB as of and subsequent to June 30, 2023, and as a result, may not draw revolving loans against the facility. As such, the Company is in compliance with all financial covenants related to the 2022 Loan and Security Agreement, as amended, as of the date the condensed consolidated financial statements were issued. Additionally, as of the same date, there were no borrowings outstanding on the 2022 Loan and Security Agreement. Outstanding letters of credit at June 30, 2023 and December 31, 2022 under the 2022 Loan and Security Agreement totaled $17.9 million and $10.1 million, respectively.

Credit Facilities

2020 Credit Facility: In February 2020, Legacy Sonder entered into a revolving credit agreement (the “2020 Credit Facility”) for an aggregate principal balance of $50.0 million with a maturity date of February 21, 2023. In December 2022, the 2020 Credit Facility was terminated in conjunction with the Company obtaining the 2022 Loan and Security Agreement.

2020 Québec Credit Facility: In December 2020, a Canadian subsidiary of the Company entered into an agreement with Investissement Québec, a Quebecois public investment entity, that provides a loan facility of CAD $25.0 million and an additional loan, referred to as a conditional-refund financial contribution (“CRFC”), of CAD $5.0 million (the “2020 Québec Credit Facility”). The loan and the CRFC bear interest at a fixed rate of 6.0% per annum for a period of 10 years starting from the first date of the loan disbursement. At June 30, 2023 and December 31, 2022, the Company was in compliance with all financial covenants related to the 2020 Québec Credit Facility, but had not yet met the drawdown requirements, and as such, there have been no borrowings against the 2020 Québec Credit Facility.

Restricted Cash

Throughout 2023 and 2022, the Company entered into multiple cash collateral agreements in connection with the issuance of letters of credit and corporate credit card programs. At June 30, 2023 and December 31, 2022, the Company had $42.1 million and $42.6 million, respectively, of cash collateral which is reported as restricted cash on the condensed consolidated balance sheets.

Note 6. Leases

The Company leases buildings or portions of buildings for guest usage, warehouses to store furniture, and corporate offices under noncancellable operating lease agreements, which expire through 2044. The Company is required to pay property taxes, insurance, and maintenance costs for certain of these facilities.

The Company has lease agreements with lease and non-lease components and has elected to utilize the practical expedient to account for lease and non-lease components together in the condensed consolidated statements of operations.

Operating lease ROU assets are included within operating lease right-of-use assets in the condensed consolidated balance sheets. The corresponding operating lease liabilities are included within current operating lease liabilities and non-current operating lease liabilities in the condensed consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease.

Lease expense for fixed operating lease payments is recognized on a straight-line basis over the lease term. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option.

Components of lease expense were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Operating lease cost	$ 74,579	$ 65,876	$ 149,838	$ 128,823
Short-term lease cost	(201)	477	431	479
Variable lease cost	371	944	1,872	1,587
Total operating lease cost	$ 74,749	$ 67,297	$ 152,141	$ 130,889

Supplemental information related to operating leases was as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Cash payments for operating leases	$ 74,958	$ 56,838	$ 143,173	$ 106,603
New operating lease ROU assets obtained in exchange for operating lease liabilities	$ 148,510	$ 11,968	$ 187,037	$ 126,868

Total operating lease cost for the three months ended June 30, 2023 and 2022 was $74.7 million and $67.2 million, respectively, of which $74.3 million and $64.5 million, respectively, is recognized in cost of revenues, $0.2 million and $0.2 million, respectively, in operations and support, and $0.2 million and $1.1 million, respectively, in general and administrative in the condensed consolidated statements of operations and comprehensive loss.

Total operating lease cost for the six months ended June 30, 2023 and 2022 was $152.1 million and $130.9 million, respectively, of which $150.6 million and $128.1 million, respectively, is recognized in cost of revenues, $0.4 million and $0.9 million respectively, in operations and support, and $1.1 million and $1.9 million, respectively, in general and administrative in the condensed consolidated statements of operations and comprehensive loss.

Note 7. Warrants and Stockholders' Deficit

The condensed consolidated statements of stockholders' deficit reflect the consummation of the Business Combination on January 18, 2022. As Legacy Sonder was deemed the accounting acquirer in the Business Combination with GMII, all periods prior to the closing date reflect the balances and activity of Legacy Sonder. The balances at March 31, 2022 from the consolidated financial statements of Legacy Sonder as of that date, share activity (redeemable convertible preferred stock, exchangeable shares, and common stock), and per share amounts were retroactively adjusted, where applicable, using the recapitalization exchange ratio of 1.4686. All redeemable convertible preferred stock classified as mezzanine equity was converted into common stock, and reclassified into permanent equity as a result of the Business Combination.

Preferred Stock Warrants

Upon consummation of the Business Combination, (i) the Company's Series A and Series B preferred stock warrants were converted into 150,092 post-combination shares of the Company's common stock for a value of $1.2 million, and (ii) the Company's Series C and Series D preferred stock warrants automatically converted into warrants to purchase shares of the Company's common stock.

The Series C and Series D preferred stock warrants are accounted for as equity in accordance with ASC 815-40, *Derivatives and Hedging – Contracts on an Entity's Own Equity* ("ASC 815-40"). Upon consummation of the Business Combination, the Company reclassified $2.1 million related to such warrants from other non-current liabilities to equity in the condensed consolidated balance sheet.

Common Stock Warrants

Delayed Draw Warrants: The Delayed Draw Warrants are accounted for as equity-classified warrants in accordance with ASC 815-40. Upon consummation of the Business Combination, the value of the Delayed Draw Warrants was $5.6 million and was recorded within additional paid-in capital in the condensed consolidated balance sheets. The purchasers of the Delayed Draw Notes were also provided with customary registration rights for the shares issuable upon exercise of the Delayed Draw Warrants.

SPAC Warrants: The Public Warrants remained outstanding upon consummation of the Business Combination and became exercisable for whole shares of common stock. The Public Warrants will expire on January 18, 2027, or earlier upon redemption or liquidation. The Private Placement Warrants had terms and provisions that were identical to those of the Public Warrants, except that the Private Placement Warrants could be physical (cash) or net share (cashless) settled and were not redeemable, so long as they were held by Gores Metropoulos Sponsor II, LLC (the "Sponsor") or its permitted transferees, and are entitled to certain registration rights. As discussed in Note 4, Fair Value Measurement and Financial Instruments, during the three months ended March 31, 2022, the Private Placement Warrants were transferred by the warrant holders in accordance with the terms of the Private Placement Warrant agreement and became Public Warrants.

The SPAC Warrants are accounted for as liabilities, as there are certain terms and features of the warrants that do not qualify for equity classification in accordance with ASC 815-40. The fair value of the Public Warrants and the Private Placement Warrants at December 31, 2022 was a liability of $0.3 million and $0.6 million, respectively, and was recorded in other non-current liabilities in the condensed consolidated balance sheets. At June 30, 2023, the fair value of the SPAC Warrants was $0.5 million and was recorded in other non-current liabilities in the condensed consolidated balance sheets. The change in fair value of $0.4 million for the six months ended June 30, 2023 is reflected as non-operating income in the condensed consolidated statements of operations and comprehensive loss.

Exchangeable Stock

Upon consummation of the Business Combination on January 18, 2022, each share of Sonder Canada Inc. ("Legacy Sonder Canada") exchangeable common stock ("Legacy Sonder Canada Exchangeable Stock" and collectively, "Legacy Sonder Canada Exchangeable Shares") was exchanged into a new series of the same class of virtually identical Legacy Sonder Canada Exchangeable Common Stock ("Post-Combination Exchangeable Common Stock" and collectively, "Post-Combination Exchangeable Shares") exchangeable for the Company's common stock. On that date, all the Legacy Sonder Canada Exchangeable Shares were automatically converted into 32,296,539 Post-Combination Exchangeable Shares for a value of $49.7 million.

The Company had the following authorized and outstanding Post-Combination Exchangeable Common Stock at each of the dates indicated (in thousands except per share amounts):

	June 30, 2023	December 31, 2022
Shares Authorized	40,000,000	40,000,000
Shares Issued and Outstanding	19,260,855	20,389,216
Issuance Price Per Share	$ 1.54	$ 1.54
Net Carrying Value	$ 29,662	$ 31,399
Aggregate Liquidation Preference	$ 29,662	$ 31,399

The net carrying value of the Post-Combination Exchangeable Shares is included in additional paid-in capital in the condensed consolidated balance sheets.

Redeemable Convertible Preferred Stock

Upon consummation of the Business Combination, all the Company's shares of redeemable convertible preferred stock were automatically converted into shares of post-combination common stock for a value of $518.8 million.

Common and Preferred Stock

The Company's amended and restated certificate of incorporation following the Business Combination authorizes the issuance of 690,000,000 shares, consisting of: (a) 440,000,000 shares of general common stock ("General Common Stock"), including: (i) 400,000,000 shares of common stock, and (ii) 40,000,000 shares of Special Voting Common Stock ("Special Voting Common Stock"), and (b) 250,000,000 shares of preferred stock, par value $0.0001 per share ("Preferred Stock").

The Company had reserved the following shares of common stock for future issuance as of the dates indicated:

	June 30, 2023	December 31, 2022
Post-Combination Exchangeable Common Shares	19,260,855	20,389,216
Outstanding stock options	46,139,908	36,679,007
Outstanding restricted stock units ("RSUs")	9,923,367	11,691,813
Outstanding market stock units ("MSUs")	12,059,978	12,059,978
Outstanding warrants liability	14,499,946	14,499,946
Shares issuable pursuant to Earn Out Liability	14,500,000	14,500,000
Outstanding Delayed Draw Note warrants liability	2,475,000	2,475,000
Shares available for grant under the Employee Stock Purchase Plan	7,060,491	4,872,922
Shares available for grant under the 2021 Equity Incentive Plan	14,450,829	8,887,778
Shares available for grant under the 2023 Inducement Equity Incentive Plan	1,187,372	—
Total common stock reserved for future issuance	141,557,746	126,055,660

Note 8. Equity Incentive Plans and Stock-Based Compensation

Stock Option Repricing

On December 1, 2022 (the “Repricing Date”), the Company closed an offer to reprice certain eligible stock options, whether vested or unvested, with modified vesting terms such that all previously vested options became unvested on the Repricing Date. As a result of the repricing, the exercise price for a total of 20,292,621 options was reduced to $1.74 per share, or the closing price of the Company’s common stock on the Repricing Date. As a result of the repricing, total incremental expense to be recognized over the remaining requisite service period of the repriced options, beginning at the Repricing Date, was determined to be $8.4 million.

Stock-based Compensation Expense

Total stock-based compensation expense is as follows for the periods indicated (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Operations and support	$ 2,140	$ 1,042	$ 5,282	$ 1,972
General and administrative	4,980	3,091	12,132	8,020
Research and development	938	844	2,547	1,586
Sales and marketing	200	77	477	156
Total stock-based compensation expense	$ 8,258	$ 5,054	$ 20,438	$ 11,734

Stock Options: The Company measures stock-based compensation expense for stock options at the grant date fair value of the award and recognizes the expense on a straight-line basis over the requisite service period, which is generally the vesting period. The fair value of stock options is estimated using the Black-Scholes option-pricing model. During the three and six months ended June 30, 2023, the Company recorded stock-based compensation expense from stock options of approximately $5.9 million and $15.7 million, respectively. During the three and six months ended June 30, 2022 the Company recorded stock-based compensation expense from stock options of approximately $3.6 million and $8.1 million, respectively.

The Company recognizes only the portion of the option award granted that is ultimately expected to vest as compensation expense and elects to recognize gross share-based compensation expense with actual forfeitures as they occur.

Fair Value of Stock Options: The fair value of each stock option award is estimated using the Black-Scholes option-pricing model, which uses the fair value of the Company’s common stock and requires the input of the following subjective assumptions:

Expected term. The expected term for options granted to employees, officers, and directors is based on the historical pattern of option exercise behavior and the period of time they are expected to be outstanding.

Expected volatility. The expected volatility is based on the average volatility of similar public entities within the Company’s peer group as the Company’s stock has not been publicly trading for a long enough period to rely on its own expected volatility.

Expected Dividends. The dividend assumption is based on the Company’s historical experience. To date, Company has not paid any dividends on its common stock.

Risk-Free Interest Rate. The risk-free interest rate used in the valuation is the implied yield currently available on the United States Treasury zero-coupon issues, with a remaining term equal to the expected life term of the Company’s options.

The following table summarizes the key assumptions used to determine the fair value of the Company's stock options granted to employees, non-employees, officers, and directors:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Expected term (in years)	6.21 - 6.22	4.15	6.21 - 6.22	4.09 - 4.15
Expected volatility	50.5% - 50.6%	55.4 %	50.4% - 50.6%	54.7% - 55.4%
Dividend yield	— %	— %	— %	— %
Risk-free interest rate	3.50% - 3.58%	2.84 %	3.50% - 3.99%	1.79% - 2.84%
Weighted-average grant-date fair value per share	$0.29 - $0.32	$0.97	$0.29 - $0.68	$0.97 - $2.13

Performance and Market-Based Equity Awards:

The 2019 CEO Option Award. On November 15, 2019, the Legacy Sonder Board of Directors (the "Legacy Sonder Board") granted an award to Francis Davidson, the Company's Chief Executive Officer ("CEO"), for a total of 5,613,290 options (the "2019 CEO Option Award"), which Mr. Davidson exercised in full in December 2021, with a promissory note payable to the Company in the amount of $24.6 million. 2,041,197 of these options vest in 72 equal monthly installments starting on October 1, 2017 (the "Service-Based Options"), subject to Mr. Davidson's continuous employment with the Company, and 3,572,093 options are performance-based and vest upon completion of certain performance milestones, subject to Mr. Davidson's continuous employment with the Company. 2,551,495 of the performance-based options were modified during the year ended December 31, 2021 and, as a result, vested in full, while the remaining 1,020,598 performance-based awards vest upon the Company achieving a certain market capitalization milestone (the "Market Capitalization Condition").

The 2021 CEO Option Award. On February 18, 2021, the Legacy Sonder Board granted a total of 3,061,794 options to Mr. Davidson (the "2021 CEO Option Award"). The options vest upon the successful consummation of the Business Combination and upon certain share price milestones, subject to Mr. Davidson's continuous employment at the Company during each such event. The grant-date fair value of the 2021 CEO Option Award was estimated using the Monte Carlo simulation and was $3.0 million.

Modification of the 2019 CEO Option Award and the 2021 CEO Option Award. In December 2022, both the 2019 CEO Option Award and the 2021 CEO Option Award were amended to modify the vesting terms of the awards. The amendments represented modifications of the awards. The impact of the modification was immaterial to the consolidated financial statements for the year ended December 31, 2022 and resulted in approximately $1.5 million of incremental expense to be recognized in future years, over the remaining life of the awards.

Stock Compensation related to the 2019 and 2021 CEO Option Awards. The fair value of the Service-Based Options was estimated using the Black-Scholes option pricing model. The grant date fair value of these awards was $3.2 million and is being recognized on a straight-line basis over the term of the award.

The Company recognized $0.5 million and $1.0 million in stock-based compensation expense related to the Market Capitalization Condition of the 2019 CEO Option Award and the 2021 CEO Option Award during the three and six months ended June 30, 2023, respectively, and $0.5 million and $2.7 million during the three and six months ended June 30, 2022, respectively.

RSUs

The fair value of the Company's RSUs is expensed ratably over the vesting period. The Company's RSUs generally vest over four years, with a cliff equal to one-fourth of the award after the first year, and then quarterly thereafter over the remaining service period. For the three and six months ended June 30, 2023, the Company recorded stock-based compensation expense from RSUs of approximately $1.6 million and $3.3 million, respectively. For the three and six months ended June 30, 2022, the Company recorded stock-based compensation expense from RSUs of approximately $0.9 million.

MSUs

In May 2022, the Company issued MSUs to certain key executives in accordance with the Company's 2021 Management Equity Incentive Plan. One-sixth of the MSUs vest upon (including prior to but contingent on) the occurrence of each of six distinct triggering events, including if certain share price targets are met, within the five-year period ending July 17, 2027.

The Company determined the grant-date fair value of the MSUs using a Monte Carlo simulation. The Company recognizes stock-based compensation for the MSUs over the requisite service period, which is approximately four years, using the accelerated attribution method. During the three and six months ended June 30, 2023, the Company did not grant any MSUs. During the three and six months ended June 30, 2023, the Company recognized approximately $0.2 million and $0.4 million, respectively, in stock-based compensation expense from MSUs. For the three and six months ended June 30, 2022, the Company recorded an insignificant amount of stock-based compensation expense from MSUs.

Note 9. Net Loss per Common Share

The Company applies the two-class method when computing net loss per share attributable to common stockholders when shares are issued that meet the definition of a participating security. The two-class method determines net loss per share for each class of common stock and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. The two-class method requires earnings available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all earnings for the period had been distributed.

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less weighted-average shares subject to repurchase. The diluted net loss per share is computed by giving effect to all potentially dilutive securities outstanding for the period. For periods in which the Company reports net losses, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, because potentially dilutive common shares are anti-dilutive.

The following tables set forth the computation of basic and diluted net loss per share for the periods indicated (in thousands, except number of shares and per share information):

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Numerator:				
Net loss	$ (45,327)	$ (45,666)	$ (131,758)	$ (34,703)
Denominator:				
Weighted average basic and diluted common shares outstanding	218,027,496	215,085,516	217,630,938	197,658,542
Net loss per common share:				
Basic and diluted	$ (0.21)	$ (0.21)	$ (0.61)	$ (0.18)

The following potential common shares outstanding were excluded from the computation of diluted net loss per share because including them would have been anti-dilutive:

	June 30,	
	2023	2022
Options to purchase common stock	46,139,908	29,235,358
Common stock subject to repurchase or forfeiture	1,653,205	2,173,281
Outstanding RSUs	12,059,978	9,889,782
Outstanding MSUs	9,923,367	14,499,972
Exchangeable shares	19,260,855	28,076,011
Total common stock equivalents	89,037,313	83,874,404

Note 10. Commitments and Contingencies

Surety Bonds

A portion of the Company’s leases are supported by surety bonds provided by affiliates of certain insurance companies. At June 30, 2023, the Company had commitments from five surety providers in the amount of $64.3 million, of which $44.4 million was outstanding. The availability, terms and conditions, and pricing of bonding capacity are dependent on, among other things, continued financial strength and stability of the insurance company affiliates providing the bonding capacity, general availability of such capacity, and the Company’s corporate credit rating.

Legal and Regulatory Matters

The Company has been and expects to continue to become involved in litigation or other legal proceedings from time to time, including the matter described below. Except as described below, the Company is not currently a party to any litigation or legal proceedings that, in the opinion of management, is likely to have a material adverse effect on the Company’s business. Regardless of outcome, litigation and other legal proceedings can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources, possible restrictions on the business as a result of settlement or adverse outcomes, and other factors.

In February 2020, the Company was informed about an investigation underway by the New York City Department of Health and Mental Hygiene relating to possible Legionella bacteria contamination in the water supply at 20 Broad Street, New York, NY (the “Broad Street Property”). Due to the failure of the owner of the Broad Street Property (the “Broad Street Landlord”) to address the Legionella bacteria contamination and the associated health risks posed to Sonder’s guests, the Company withheld payment of rent to the Broad Street Landlord on grounds of, among other reasons, constructive eviction. On July 30, 2020, the Broad Street Landlord sued Sonder USA Inc., Sonder Canada Inc., and Sonder Holdings Inc. for breach of the lease, seeking no less than $3.9 million in damages. The Company filed counterclaims against the Broad Street Landlord and the property management company for breach of contract, seeking significant damages. The Broad Street Landlord filed a motion for summary judgment. The hearing and oral argument for the summary judgment motion occurred on December 21, 2021. No ruling was issued by the judge. The motion for summary judgment is now under submission. The Company intends to vigorously defend itself and management believes that the claims of the Broad Street Landlord are without merit.

On August 8, 2023, a purported class action lawsuit was filed against the Company in the U.S. District Court for the District of Colorado captioned Wang v. Sonder Holdings Inc. The complaint asserts claims based on the Company’s alleged failure to secure and safeguard the personally identifiable information of the putative class in connection with the Company’s previously disclosed November 2022 information technology security incident. The complaint seeks unspecified damages, injunctive relief, attorneys’ fees, and other costs. The Company has not been served in the case. The Company intends to vigorously defend itself. However, any litigation is inherently uncertain, and any judgment or injunctive relief entered against the Company or any adverse settlement could materially and adversely impact its business, results of operations, financial condition, and prospects.

The Company establishes an accrued liability for loss contingencies related to legal matters when a loss is both probable and reasonably estimable. These accruals represent management’s best estimate of probable losses. The Company recorded an estimated accrual of $4.4 million and $5.8 million in the condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022, respectively. Management’s views and estimates related to these matters may change in the future, as new events and circumstances arise and the matters continue to develop. Until the final resolution of legal matters, there may be an exposure to losses in excess of the amounts accrued. With respect to outstanding legal matters, based on management’s current knowledge, the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on the Company’s business, results of operations, financial condition, or cash flows.

Tax Contingencies

The Company is subject to audit or examination by various domestic and foreign tax authorities with regards to tax matters. Income tax examinations may lead to ordinary course adjustments or proposed adjustments to the Company's taxes or net operating losses with respect to years under examination as well as subsequent periods. Indirect tax examinations may lead to ordinary course adjustments or proposed adjustments to transaction taxes which may increase operating expenses. The Company establishes an accrued liability for loss contingencies related to tax matters when a loss is both probable and reasonably estimable. These accruals represent management's best estimate of probable losses. The Company recorded estimated accruals of $7.0 million and $7.9 million, respectively in the taxes payable line item of the condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022, respectively, for such matters.

Changes in tax laws, regulations, administrative practices, principles, and interpretations may impact the Company's tax contingencies. Due to various factors, including the inherent complexities and uncertainties of the judicial, administrative, and regulatory processes in certain jurisdictions, the timing of the resolution of income tax controversies is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ from the amounts accrued. It is reasonably possible that within the next twelve months the Company will receive additional assessments by various tax authorities or possibly reach resolution of tax controversies in one or more jurisdictions. These assessments or settlements could result in changes to the Company's contingencies related to positions on prior years' tax filings. The actual amount of any change could vary significantly depending on the ultimate timing and nature of any settlements, and the range of possible outcomes is not currently estimable.

Indemnifications

The Company has entered into indemnification agreements with all of its directors. The indemnification agreements and its Amended and Restated Bylaws (the "Bylaws") require the Company to indemnify these individuals to the fullest extent not prohibited by Delaware law. Subject to certain limitations, the indemnification agreements and Bylaws also require the Company to advance expenses incurred by its directors. No demands have been made for the Company to provide indemnification under the indemnification agreements or the Bylaws, and thus, there are no claims that management is aware of that could have a material adverse effect on the Company's business, results of operations, financial condition, or cash flows.

In the ordinary course of business, the Company has included limited indemnification provisions under certain agreements with parties with whom it has commercial relations of varying scope and terms with respect to certain matters, including losses arising out of its breach of such agreements or out of intellectual property infringement claims made by third parties. It is not possible to determine the maximum potential loss under these indemnification provisions due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, no material costs have been incurred, either individually or collectively, in connection with the Company's indemnification provisions.

Note 11. Income Taxes

Provision for income taxes for the three and six months ended June 30, 2023 was $0.2 million and $0.3 million, respectively, and the effective tax rates were 0.40% and 0.20%, respectively. Provision for income taxes for the three and six months ended June 30, 2022 was $117.0 thousand and $148.0 thousand, respectively, and the effective tax rates were 0.26% and 0.43%, respectively. The difference between the Company's effective tax rate and the U.S. statutory rate of 21.0% was primarily due to a full valuation allowance related to the Company's net deferred tax assets.

Note 12. Related Party Transactions

The Company did not have any material related party transactions in the six months ended June 30, 2023. For a discussion of related party transactions that occurred in the year ended December 31, 2022, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Note 13. Business Combination

On January 18, 2022, the Company closed the previously announced Business Combination pursuant to the Agreement and Plan of Merger, dated April 29, 2021 (as amended by the Amendment No. 1 to the Agreement and Plan of Merger, dated as of October 27, 2021 ("Amendment No. 1")) (collectively, the "Merger Agreement"), by and among GMII, Sunshine Merger Sub I, Inc., a Delaware corporation and a direct, wholly-owned subsidiary of Second Merger Sub, Sunshine Merger Sub II, LLC, a Delaware limited liability company and a direct, wholly-owned subsidiary of GMII, and Legacy Sonder.

Pursuant to the Merger Agreement:

- holders of existing shares of Common Stock of Legacy Sonder, par value $0.000001 per share (the "Legacy Sonder Common Stock") received approximately 140,544,052 shares of the Company's Common Stock, pursuant to the recapitalization exchange ratio of 1.4686 shares for each share of Legacy Sonder Common Stock held;
- holders of existing shares of Special Voting Series AA Common Stock, par value $0.000001 per share ("Legacy Sonder Special Voting Common Stock"), received approximately 32,296,539 shares of the newly created Post-Combination Special Voting Common Stock, par value $0.0001 per share ("Post-Combination Special Voting Common Stock"), pursuant to the recapitalization exchange ratio of 1.4686 shares for each share of Legacy Sonder Special Voting Common Stock held;
- holders of Series AA Common Exchangeable Preferred Shares ("Legacy Sonder Canada Exchangeable Common Shares") of Sonder Canada Inc. received Post-Combination Exchangeable Common Stock whose terms provided: (i) for a deferral of any mandatory exchange caused by the Business Combination for a period of at least 12 months from the closing date of the Business Combination, which period was subsequently extended for an additional five years to January 18, 2028; and (ii) that such Post-Combination Exchangeable Common Stock shall be exchangeable for Common Stock upon the completion of the Business Combination; and
- holders of options to purchase Legacy Sonder Common Stock ("Legacy Sonder Stock Options") received options to acquire approximately 30,535,549 shares of Company's Common Stock ("Rollover Options"), pursuant to the option exchange ratio of 1.5444 shares for each share of Legacy Sonder Stock Options held.

As a result of the above, the share figures in the condensed consolidated statement of stockholders' deficit for the six months ended June 30, 2022 have been adjusted for the application of the recapitalization exchange ratio of 1.4686 per share. In addition, all options were adjusted for the option exchange ratio of 1.5444 shares for each share of Legacy Sonder Stock Options held.

The Business Combination was accounted for as a reverse recapitalization. Under this method of accounting, GMII was treated as the acquired company for financial statement reporting purposes. The most significant change in the Company's reported financial position and results was an increase in cash, as noted in the table below.

Closing of Private Investment in Public Equity ("PIPE") Investments

Pursuant to subscription agreements entered into in connection with the Merger Agreement and in connection with Amendment No. 1, certain investors agreed to subscribe for an aggregate of 31,216,785 shares of Class A Common Stock for an aggregate purchase price of $309.4 million (the "PIPE Investment"). Upon consummation of the Business Combination, the Company consummated the PIPE Investment.

The following table reconciles the elements of the Business Combination to the condensed consolidated statement of cash flows and the consolidated statement of stockholders' deficit for the six months ended June 30, 2022 (in thousands):

Cash - PIPE Investment	$	309,398
Cash - GMII trust and cash, net of redemptions		16,530
Less: transaction costs and advisory fees		(58,555)
Net proceeds from Business Combination and PIPE	$	267,373
Proceeds from Delayed Draw Notes, net of issuance costs		159,225
Repayment of debt, not including payment of early termination fees		(24,680)
Net proceeds from Business Combination, PIPE, and Delayed Draw Notes	$	401,918

Note 14. Restructuring Activities

On June 9, 2022, the Company announced its Cash Flow Positive Plan, including a restructuring of its operations which resulted in an approximate 21.0% reduction of existing corporate roles and 7.0% reduction of existing frontline roles. As part of this restructuring, the Company incurred $4.0 million in one-time restructuring costs, all of which had been paid out as of June 30, 2023.

On March 1, 2023, the Company announced a restructuring affecting approximately 14.0% of the corporate workforce. The restructuring was substantially complete by the end of the first quarter of 2023. As part of this restructuring, the Company incurred $2.1 million in one-time restructuring costs in the six months ended June 30, 2023, substantially all of which was paid out as of June 30, 2023. Restructuring costs are included in restructuring and other charges in the condensed consolidated statement of operations and comprehensive loss.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of operations of Sonder Holdings Inc. (“Sonder,” “we,” “us” or “our”) should be read together with Sonder’s condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Sonder’s actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the section entitled “Risk Factors” herein or in our Annual Report on Form 10-K for the year ended December 31, 2022 or in other parts of this Quarterly Report on Form 10-Q. Sonder’s historical results are not necessarily indicative of the results that may be expected for any period in the future. Except as otherwise noted, all references to 2022 refer to the year ended December 31, 2022.

On January 18, 2022, Sonder consummated the previously announced business combination by and among Gores Metropoulos II, Inc. (“GMII”), two subsidiaries of GMII, and Sonder Operating Inc., a Delaware corporation formerly known as Sonder Holdings Inc. (“Legacy Sonder”) (the “Business Combination”).

Overview

We are on a mission to revolutionize hospitality through innovative, tech-enabled service, and inspiring, thoughtfully designed accommodations combined into one seamless experience. Sonder was born from a desire to offer the modern traveler better accommodation choices than unremarkable “big box” hotels, often unreliable home-shares, and overly expensive boutique hotels. We lease and operate a variety of accommodation options — from fully-equipped serviced apartments to spacious hotel rooms — in 43 cities in 10 countries. As of June 30, 2023, we had approximately 11,100 units available for guests to book at over 250 properties.

Sonder’s Business Model

We lease properties that meet our standards, furnish and decorate them to provide a design-led, technology-enabled experience, and then make them available for guests to book directly (through the Sonder app, our website, or our sales personnel) or through indirect channels (such as Airbnb, Expedia, and Booking.com). Additionally, we operate boutique hotels designated as Powered by Sonder properties, which each have their own unique design elements and features, and are available for guests to book in the same manner as our other properties. We manage our properties using proprietary and third-party technologies and deliver services to guests via the Sonder app and 24/7 on-the-ground support. Incorporating technology into all aspects of the business, we offer consistent quality at a compelling value to our guests.

Our accommodations come in a variety of shapes and sizes to suit guests’ needs – from a multiple-bedroom apartment with fully-equipped kitchen and private laundry facilities, to a hotel room or suite. Our guests include leisure travelers, families, digital nomads, and business travelers.

We currently lease all of our properties. In many of our leases, we have negotiated an upfront allowance paid by the real estate owner to help offset the capital invested to prepare and furnish a building and the individual units.

Management Discussion Regarding Opportunities, Challenges and Risks

Cash Flow Positive Plan

On June 9, 2022, we announced our cash flow positive plan, which focused on achieving positive quarterly Free Cash Flow (“FCF”) within 2023 (the “Cash Flow Positive Plan”). The Cash Flow Positive Plan shifted our focus from hyper growth to generating positive FCF more rapidly than previously planned. We have continued to make meaningful progress against our Cash Flow Positive Plan, including reducing our FCF burn significantly from the first quarter of 2022 to the second quarter of 2023. As noted in our March 31, 2023 Quarterly Report on Form 10-Q, we lowered our RevPAR expectations for 2023 as a result of macroeconomic conditions. Additionally, we have experienced slow starts in a few of our recent North America property openings, in particular for properties that relied heavily on corporate demand before we took over their operations and we were unable to initially capture that revenue And while achieving a positive quarter of FCF this year is still a goal, we believe it is unlikely under these lower revenue assumptions. Our primary focus is to put the business on a solid path to achieving sustainable positive FCF as soon as possible, while preserving the business’ attractive top-line growth rates, without having to raise additional capital.

Our ability to reach our FCF goal is subject to certain risks, including a significant change in the macroeconomic environment and its impact on travel demand, inflation, uncertainties associated with the timing and scope of new property openings, and our ability to achieve our intended cost efficiencies.

Supply Growth

A key driver of our revenue growth is our ability to convert units for which we have signed real estate contracts but are not yet available for guests to book (“Contracted Units”) into units available for guest booking (“Live Units”) and to continue signing properties with favorable terms. Certain signed leases have contingencies or conditions that must be satisfied before we take over the units, and from time to time, we exclude some of these leases from our Contracted Units total based on our judgment about the likelihood that the contingencies or conditions will be satisfied.

As part of our Cash Flow Positive Plan, we slowed our planned pace of new unit signings to focus on growth primarily through our already Contracted Units. Our Live Units grew by 32.1% from the three months ended June 30, 2022 to the three months ended June 30, 2023 to approximately 11,100 units, driven by strong conversion of our Contracted Units to Live Units. We are also focused on targeting high quality, 100% capital light deals (as defined in the section entitled “Non-GAAP Financial Measures” below) for incremental unit signings. While we continue to sign high quality, capital light units, development cost uncertainty and augmented risk around financing and landlord sentiment surrounding our stock price performance began to slow the pace of signings starting in the second half of 2022. These challenges became more acute in the second quarter of 2023, resulting in fewer units signed in the second quarter of 2023 than in prior quarters. Despite these challenges, we continue to meaningfully scale the business, have a robust portfolio of Contracted Units and continue to actively pursue potential new unit signings.

Ability to Attract and Retain Guests

Another key driver of our revenue growth is our ability to bring back repeat guests and to attract new guests through various channels. We source demand from a variety of channels, including directly, through Sonder.com, the Sonder app, or our sales personnel, and indirectly, through online travel agencies (“OTAs”) such as Airbnb, Booking.com, and Expedia. While bookings made through OTAs incur channel transaction fees, they allow us to attract new guests who may not be familiar with the Sonder brand. In general, direct bookings are more advantageous to us as they do not incur channel transaction fees and also allow us to have a more direct relationship with our guests. Direct revenue as a percentage of total revenue has fluctuated in recent years due to the COVID-19 pandemic but has stabilized above 40% (49.9% for the three months ended June 30, 2023).

Additionally, we continue to focus on expanding our corporate business, including deepening our presence in the entertainment industry while also expanding into several new areas: education, government, and finance. We have also signed several new Global Distribution System partnerships and continue to work with many leading travel management companies.

Technology

We have invested, and will continue to invest, resources in our technology architecture and infrastructure. These improvements have allowed us to deploy the latest tools and technologies. Technology is essential to our user experience, as it leads guests through their entire Sonder stay, from booking through check-out. Technology also underpins our hospitality operations, from underwriting and supply growth, to building openings, pricing and revenue management, demand generation, interior design, and day-to-day operations. By leveraging technology, our goal is to reduce operating costs and provide a better guest experience at a compelling value.

Restructuring

In conjunction with the Cash Flow Positive Plan, in June 2022, we completed a restructuring of our operations resulting in an approximate 21.0% reduction of corporate roles and a 7.0% reduction of frontline roles. As part of this restructuring, we incurred $4.0 million in one-time restructuring costs in the year ended December 31, 2022, of which approximately $3.7 million was paid out in 2022, and the remainder was paid out by early 2023.

On March 1, 2023, we announced an additional restructuring affecting approximately 14.0% of the corporate workforce. As part of this restructuring, we incurred $2.1 million in one-time restructuring costs in the six months ended June 30, 2023, substantially all of which had been paid out as of June 30, 2023.

The Business Combination

On January 18, 2022, we consummated the Business Combination, pursuant to which Legacy Sonder merged into one of our subsidiaries and we changed our corporate name to Sonder Holdings Inc. Legacy Sonder has been deemed the accounting predecessor and as such, Legacy Sonder's financial statements for previous periods are disclosed in Sonder's periodic reports filed with the SEC subsequent to January 18, 2022. The Business Combination was accounted for as a reverse recapitalization. Under this method of accounting, GMII was treated as the acquired company for financial statement reporting purposes.

Key Business Metrics

We track the following key business metrics to evaluate our performance, identify trends, formulate financial projections, and make strategic decisions. Accordingly, we believe these key business metrics provide useful information to investors and others in understanding and evaluating our results of operations in the same manner as our management team. These key business metrics may be different from similarly titled metrics presented by other companies.

The following table provides the key metrics for the periods indicated (rounded):

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2023	2022	No.	%	2023	2022	No.	%
Live Units (End of Period)	11,100	8,400	2,700	32.1 %	11,100	8,400	2,700	32.1 %
Bookable Nights	957,000	725,000	232,000	32.0 %	1,855,000	1,414,000	441,000	31.2 %
Occupied Nights	789,000	598,000	191,000	31.9 %	1,511,000	1,101,000	410,000	37.2 %
Total Portfolio[1]	17,400	18,700	(1,300)	(7.0)%	17,400	18,700	(1,300)	(7.0)%
RevPAR	$ 164	$ 167	$ (3)	(1.8)%	$ 150	$ 143	$ 7	4.9 %
ADR	$ 200	$ 203	$ (3)	(1.5)%	$ 184	$ 183	$ 1	0.5 %
Occupancy Rate	82.4 %	82.5 %	(0.1)%	(0.1)%	81.5 %	77.9 %	3.6 %	4.6 %

(1) Total Portfolio consists of Live Units and Contracted Units.

Live Units

Live Units generate Bookable Nights (as defined below) which generate revenue. Live Units are a key driver of revenue, and a key measure of the scale of our business, which in turn drives our financial performance.

Growth in Live Units is driven by the number of units contracted in prior periods, and the lead time and opening period associated with making those units available to guests. The time from contract signing to building opening varies widely, ranging from relatively short periods for hotels that already meet Sonder's brand standards and/or that are already live hotels operating under another brand, to many months or even years for projects under renovation or construction. The number of Live Units at the end of a period is also affected by the number of units that were removed from Sonder's portfolio during that same period, which Sonder refers to as dropped units. Typically, Sonder does not drop many Live Units, other than certain units at the end of their contracts, during atypical times such as during the COVID-19 pandemic, with consistent financial underperformance, or due to unforeseen regulatory changes within an existing market.

The increase in Live Units from June 30, 2022 to June 30, 2023 was driven by our continued focus on converting Contracted Units into Live Units. As of June 30, 2023, our five largest cities (New York City, Dubai, Philadelphia, Miami, and New Orleans) accounted for approximately 34.8% of our Live Units, and our 10 largest cities accounted for approximately 55.0% of our Live Units.

Bookable Nights / Occupied Nights

Bookable Nights represent the total number of nights available for stays across all Live Units. Occupied Nights represent the total number of nights occupied across all Live Units. Occupancy Rate ("OR") is calculated as Occupied Nights divided by Bookable Nights. Bookable Nights, Occupied Nights, and OR are key drivers of revenue, which in turn drives financial performance.

The increase in Bookable Nights and Occupied Nights from the three months ended June 30, 2022 to the three months ended June 30, 2023 and from the six months ended June 30, 2022 to the six months ended June 30, 2023 was largely driven by the increase in Live Units.

RevPAR and Average Daily Rate

RevPAR represents the average revenue earned per available night and can be calculated either by dividing revenue by Bookable Nights, or by multiplying ADR by OR. ADR represents the average revenue earned per night occupied and is calculated as Revenue divided by Occupied Nights. RevPAR and ADR are key drivers of revenue, and key measures of our ability to attract and retain guests, which in turn drives financial performance.

Several factors may explain period-to-period RevPAR variances, including:

- Live Units that became live in recent months and have not yet reached mature economics. Typically, new Live Units take several months to achieve mature ADR and OR as buildings stabilize and drive organic bookings. If a period has a significant increase in Live Units, this may reduce the portfolio's RevPAR.
- Market mix represents the composition of our portfolio based on geographic presence. Certain markets such as New York or London typically earn higher RevPARs, while certain other markets such as Houston or Phoenix typically earn lower RevPARs. Therefore, if the market mix shifts toward lower RevPAR markets, it may adversely impact the portfolio's RevPAR.
- Product mix represents the composition of our portfolio between apartment and hotel style units. In general, apartments are higher RevPAR bookings because they typically offer more amenities (e.g., kitchen, in-unit washer/dryer) and have higher square footage compared to hotel units. Therefore, if the product mix shifts towards hotel units, it may reduce the average portfolio-wide RevPAR.
- Seasonality drives typical period-to-period variances in a particular property's RevPAR depending upon seasonal factors (e.g., weather patterns, local attractions and events, holidays) as well as property location and type. Based on results prior to the COVID-19 pandemic, RevPAR tends to be lower across our portfolio in the first quarter and fourth quarters of each year due to seasonal factors such as weather and holidays and the market mix and product mix of our portfolio at the time. However, the effect of seasonality will vary as our market mix and product mix continues to evolve.

The decrease in RevPAR from the three months ended June 30, 2022 to the three months ended June 30, 2023 was driven by a 1.5% decrease in ADR due to moderate pressure on pricing for our apartment product during the quarter, partially offset by relative strength in pricing for our hotel units. The increase in RevPAR from the six months ended June 30, 2022 to the six months ended June 30, 2023 was driven by a 4.6% Occupancy Rate increase and a 0.5% increase in ADR.

Impact of COVID-19 and Macroeconomic Factors on the Business

Our financial results for all of 2020, 2021, and the first half of 2022 were materially adversely affected by the COVID-19 pandemic, which could adversely impact business operations, results of operations, and liquidity if additional serious variants or resurgences of the virus occur. Additionally, the uncertainty surrounding macroeconomic factors in the U.S. and globally, characterized by inflationary pressures, rising interest rates, significant volatility of global markets and geopolitical conflicts, could have a material adverse effect on our business and could lead to further economic disruption and expose us to greater risk of a potential deceleration or reversal of the current travel market recovery trends.

Results of Operations

Three months ended June 30, 2023 compared to three months ended June 30, 2022

The following table sets forth our results of operations for the periods indicated and as a percentage of revenue (in thousands, except percentages):

	Three months ended June 30,			
	2023		2022	
Revenue	$ 157,403	100.0 %	$ 121,322	100.0 %
Cost of revenue (excluding depreciation and amortization)	93,244	59.2 %	79,187	65.3 %
Operations and support	52,208	33.2 %	54,003	44.5 %
General and administrative	30,169	19.2 %	31,277	25.8 %
Research and development	5,563	3.5 %	8,088	6.7 %
Sales and marketing	18,231	11.6 %	12,414	10.2 %
Restructuring and other charges	—	— %	4,033	3.3 %
Total costs and operating expenses	$ 199,415	126.7 %	$ 189,002	155.8 %
Loss from operations	$ (42,012)	(26.7)%	$ (67,680)	(55.8)%
Total non-operating expense (income), net	3,133	2.0 %	(22,131)	(18.2)%
Loss before income taxes	(45,145)	(28.7)%	(45,549)	(37.5)%
Provision for income taxes	182	0.1 %	117	0.1 %
Net loss	$ (45,327)	(28.8)%	$ (45,666)	(37.6)%
Other comprehensive loss:				
Change in foreign currency translation adjustment	$ (2,696)	(1.7)%	$ 5,085	4.2 %
Comprehensive loss	$ (48,023)	(30.5)%	$ (40,581)	(33.4)%

Revenue

Sonder generates revenues by providing accommodations to our guests. Direct revenue is generated from stays booked through Sonder.com, the Sonder app, or directly with our sales personnel, while indirect revenue is generated from stays booked through third-party corporate and online travel agencies.

The following table sets forth our revenue for the periods indicated (in thousands, except percentages):

	Three months ended June 30,		Change	
	2023	2022	$	%
Revenue	$ 157,403	$ 121,322	$ 36,081	29.7 %

Revenue increased, primarily due to a 32.1% increase in Live Units contributing to a 31.9% increase in Occupied Nights, on a slight decline in ADR.

Costs and Operating Expenses

The following table sets forth our total costs and operating expenses for the periods indicated (in thousands, except percentages):

	Three months ended June 30,		Change	
	2023	2022	$	%
Cost of revenue (excluding depreciation and amortization)	$ 93,244	$ 79,187	$ 14,057	17.8 %
Operations and support	52,208	54,003	(1,795)	(3.3)%
General and administrative	30,169	31,277	(1,108)	(3.5)%
Research and development	5,563	8,088	(2,525)	(31.2)%
Sales and marketing	18,231	12,414	5,817	46.9 %
Restructuring and other charges	—	4,033	(4,033)	(100.0)%
Total costs and operating expenses	$ 199,415	$ 189,002	$ 10,413	5.5 %

Cost of Revenue (excluding depreciation and amortization): Cost of revenue primarily consists of lease costs to real estate owners for our Live Units, cleaning costs, and payment processing charges. We expect our cost of revenue will continue to increase on an absolute dollar basis for the foreseeable future as we experience growth in bookings and expand our portfolio of properties. Cost of revenue may vary as a percentage of revenue from period-to-period based on the timing and seasonality of bookings. Additionally, our cost of revenue does not necessarily increase at a rate commensurate with the increase in revenue, given that drivers of increases in revenue, such as increases in ADR, do not necessarily require additional costs.

Cost of revenue increased, primarily due to: (i) a $10.9 million increase in rent expense due to an increase in Live Units; (ii) a $1.7 million increase in cleaning expenses as a result of an increase in the number of checkouts; and (iii) a $0.9 million increase in credit card fees due to an increase in bookings.

Operations and support: Operations and support costs are related to guest-facing functions and variable expenses associated with property-level operations, such as customer service and hospitality, depreciation of property and equipment, utilities, costs to open new properties, and the cost of guest-room consumable items and low-cost furnishings. We expect operations and support costs to increase on an absolute dollar basis for the foreseeable future to the extent that we continue to grow our Live Units.

The decrease in operations and support was primarily due to: (i) a $2.9 million decrease in pre-opening costs due primarily to the timing of costs related to onboarding new units in Q2 2022 compared to Q2 2023; (ii) a $1.7 million decrease in indirect taxes due to decreases in customs as a result of decreased FF&E spend; and (iii) a $1.1 million decrease in non-recurring legal and professional fees due to audit, consulting, and other professional fees incurred during the three months ended June 30, 2022 in connection with Sonder becoming a public company, partially offset by (iv) a $3.9 million increase in unit-related expenses such as utilities, property insurance, and property security services as a result of an increase in Live Units.

General and administrative: General and administrative costs primarily consist of personnel-related expenses for administrative functions, such as legal, finance and accounting, public policy, and human resources. It also includes certain professional services fees, the cost of corporate offices, technology expenses, bad debt expense, general corporate and director and officer insurance, and other corporate-level expenses we incur to manage and support our operations. We expect to continue to incur certain general and administrative costs as a result of operating as a public company, including expenses to comply with the rules and regulations of the SEC and Nasdaq, as well as expenses for corporate insurance, director and officer insurance, investor relations, and professional services. Overall, we expect our general and administrative costs will decrease as a percentage of revenue in 2023 as compared to 2022 as we grow and scale the business.

General and administrative decreased, primarily due to: (i) a $1.1 million decrease in in employee compensation cost, due to a decrease in average headcount; and (ii) a $1.9 million decrease in non-recurring legal and professional fees due to audit, consulting, and other professional fees incurred during the three months ended June 30, 2022 in connection with Sonder becoming a public company; partially offset by (iii) a $2.1 million increase in taxes due to increased property tax assessments.

Research and development: Research and development expenses primarily consist of personnel-related expenses and an allocation of our facility expenses incurred in connection with the development of our existing and new services. Our research and development efforts in the short- to mid-term are focused primarily on increasing the functionality and enhancing the ease of use of existing services, and to a lesser extent, adding new features and services. We capitalize the portion of our software development costs that meets the criteria for capitalization. We expect that our research and development expenses will decrease as a percentage of revenue in 2023 as compared to 2022.

Research and development decreased, primarily due to: (i) a $1.4 million decrease in employee compensation expense, driven by a decrease in average headcount; (ii) a $0.5 million decrease in professional fees due to audit, consulting, and other professional fees incurred during the three months ended June 30, 2022 in connection with Sonder becoming a public company; and (iii) a $0.3 million decrease in computer software expense.

Sales and marketing: Sales and marketing expenses primarily consist of service charges for bookings made through OTAs, personnel-related expenses for sales, marketing, advertising costs, and branding. We expect our sales and marketing expense will be relatively flat as a percentage of revenue in 2023 compared to 2022.

The increase in sales and marketing was primarily due to: (i) a $3.9 million increase in channel transaction fees resulting from an increase in revenue booked through third-party OTAs, consistent with total revenue growth; and (ii) a $1.9 million increase in performance marketing expense.

Restructuring and other charges: Restructuring and other charges consists primarily of employee termination benefits of approximately $4.0 million for the three months ended June 30, 2022 as a result of the restructuring completed in conjunction with the Cash Flow Positive Plan. The entirety of the decrease in restructuring and other charges is due to the restructuring discussed above.

Total Non-operating Expense (Income), Net

Total non-operating expense (income), net consists primarily of the change in fair value of the Earn Out Liability, SPAC Warrants, and other instruments carried at fair value, realized and unrealized gains and losses on foreign currency transactions and balances, and interest expense related to the term loans.

The following table sets forth our total non-operating expense (income), net for the periods indicated (in thousands, except percentages):

	Three months ended June 30,		Change	
	2023	2022	$	%
Interest expense, net	$ 6,155	$ 4,382	$ 1,773	40.5 %
Change in fair value of SPAC Warrants	(508)	(9,419)	8,911	(94.6)%
Change in fair value of Earn Out Liability	(435)	(23,345)	22,910	(98.1)%
Other (income) expense, net	(2,079)	6,251	(8,330)	(133.3)%
Total non-operating expense (income), net	$ 3,133	$ (22,131)	$ 25,264	(114.2)%

Interest expense, net. Interest expense, net increased, primarily due to interest expense recognized on the Company's Delayed Draw Term Loan.

Change in fair value of SPAC Warrants. The change in the fair value of the SPAC Warrants is impacted by the initial recognition of, and subsequent fair value adjustments to, the SPAC Warrants. The change in the fair value of this line item resulted primarily from a decrease in our stock price period-over-period.

Change in fair value of Earn Out Liability. The change in the fair value of the Earn Out Liability is impacted by the initial recognition of, and subsequent fair value adjustments to, the Earn Out Liability. The change in the fair value of this line item resulted from a decrease in our stock price period-over-period.

Other (income) expense, net. The change in other (income) expense, net is primarily due to fluctuations in foreign currency rates which impacted the remeasurement of foreign balances to reporting currency.

Provision for income taxes

As of June 30, 2023 and 2022, we have recorded a full valuation allowance against our deferred tax assets due to our history of losses.

We are subject to income taxes in the United States and foreign jurisdictions in which we do business. Foreign jurisdictions have different statutory tax rates than those in the United States. Additionally, certain of our foreign earnings may also be taxable in the United States. Accordingly, our effective tax rate is subject to significant variation due to several factors, including variability in our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, intercompany transactions, changes in how we do business, changes in our deferred tax assets and liabilities and their valuation, foreign currency gains and losses, changes in statutes, regulations, case law, and other laws and accounting rules in various jurisdictions, and relative changes of expenses or losses for which tax benefits are not recognized.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured as the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We recognize interest and penalties, if any, related to income tax matters as a component of income tax expense.

The following table sets forth the provision for income taxes for the periods indicated (in thousands, except percentages):

	Three months ended June 30,		Change	
	2023	2022	$	%
Provision for income taxes	$ 182	$ 117	$ 65	55.6 %

The provision for income taxes increased, primarily as a result of taxes related to operations in foreign jurisdictions.

Six months ended June 30, 2023 compared to six months ended June 30, 2022

The following table sets forth our results of operations for the periods indicated and as a percentage of revenue (in thousands, except percentages):

	Six months ended June 30,			
	2023		2022	
Revenue	$ 278,141	100.0 %	$ 201,788	100.0 %
Cost of revenue (excluding depreciation and amortization)	185,277	66.6 %	153,083	75.9 %
Operations and support	108,365	39.0 %	102,270	50.7 %
General and administrative	62,914	22.6 %	68,258	33.8 %
Research and development	12,143	4.4 %	15,713	7.8 %
Sales and marketing	34,067	12.2 %	21,875	10.8 %
Restructuring and other charges	2,130	0.8 %	4,033	2.0 %
Total costs and operating expenses	$ 404,896	145.6 %	$ 365,232	181.0 %
Loss from operations	$ (126,755)	(45.6)%	$ (163,444)	(81.0)%
Total non-operating expense (income), net	4,740	1.7 %	(128,889)	(63.9)%
Loss before income taxes	(131,495)	(47.3)%	(34,555)	(17.1)%
Provision for income taxes	263	0.1 %	148	0.1 %
Net loss	$ (131,758)	(47.4)%	$ (34,703)	(17.2)%
Other comprehensive loss:				
Change in foreign currency translation adjustment	$ (5,333)	(1.9)%	$ 7,084	3.5 %
Comprehensive loss	$ (137,091)	(49.3)%	$ (27,619)	(13.7)%

Revenue

The following table sets forth our revenue for the periods indicated (in thousands, except percentages):

	Six months ended June 30,		Change	
	2023	2022	$	%
Revenue	$ 278,141	$ 201,788	$ 76,353	37.8 %

Revenue increased primarily due to a 4.9% increase in RevPAR, along with a 32.1% increase in Live Units contributing to a 37.2% increase in Occupied Nights.

Costs and Operating Expenses

The following table sets forth our total costs and operating expenses for the periods indicated (in thousands, except percentages):

	Six months ended June 30,		Change	
	2023	2022	$	%
Cost of revenue (excluding depreciation and amortization)	$ 185,277	$ 153,083	$ 32,194	21.0 %
Operations and support	108,365	102,270	6,095	6.0 %
General and administrative	62,914	68,258	(5,344)	(7.8)%
Research and development	12,143	15,713	(3,570)	(22.7)%
Sales and marketing	34,067	21,875	12,192	55.7 %
Restructuring and other charges	2,130	4,033	(1,903)	(47.2)%
Total costs and operating expenses	$ 404,896	$ 365,232	$ 39,664	10.9 %

Cost of Revenue (excluding depreciation and amortization): Cost of revenue increased primarily due to: (i) a $23.7 million increase in rent expense due to an increase in Live Units; (ii) a $5.0 million increase in cleaning expenses as a result of an increase in the number of checkouts; and (iii) a $2.1 million increase in credit card fees due to an increase in bookings.

Operations and support: The increase in operations and support was primarily due to: (i) an $11.9 million increase in unit-related expenses such as utilities, property insurance, and property security services as a result of an increase in Live Units; partially offset by (ii) a $6.0 million decrease in certain pre-opening costs due primarily to the timing of costs related to onboarding new units in Q2 2022 compared to Q2 2023.

General and administrative: General and administrative expenses decreased, primarily due to: (i) a $5.1 million decrease in non-recurring legal and professional fees due to audit, consulting, and other professional fees incurred during the six months ended June 30, 2022 in connection with Sonder becoming a public company; and (ii) a $1.3 million decrease in taxes related to a decline in non-claimable value added tax and property taxes; and (ii).

Research and development: Research and development decreased, primarily due to a net $2.0 million decrease in employee compensation expense, inclusive of stock compensation expense, driven by a decrease in average headcount and a $1.2 million decrease in consultant spend.

Sales and marketing: The increase in sales and marketing was primarily due to: (i) an $8.8 million increase in channel transaction fees resulting from an increase in revenue booked through third-party OTAs, consistent with total revenue growth; and (ii) a $3.2 million increase in performance marketing expense.

Restructuring and other charges: Restructuring and other charges consists primarily of employee termination benefits of approximately $2.1 million for the six months ended June 30, 2023 as a result of the restructuring announced in March 2023, and approximately $4.0 million for the six months ended June 30, 2022 from the restructuring completed in conjunction with the Cash Flow Positive Plan. The entirety of the decrease in restructuring and other charges is due to the difference in amounts recognized for each of the restructurings discussed above.

Total Non-operating Expense (Income), Net

The following table sets forth our total non-operating expense (income), net for the periods indicated (in thousands, except percentages):

	Six months ended June 30,		Change	
	2023	2022	$	%
Interest expense, net	$ 11,862	$ 12,584	$ (722)	(5.7)%
Change in fair value of SPAC Warrants	(398)	(24,314)	23,916	(98.4)%
Change in fair value of Earn Out Liability	(1,933)	(96,522)	94,589	(98.0)%
Change in fair value of share-settled redemption feature and gain on conversion of convertible notes	—	(29,512)	29,512	(100.0)%
Other (income) expense, net	(4,791)	8,875	(13,666)	(154.0)%
Total non-operating expense (income), net	$ 4,740	$ (128,889)	$ 133,629	(103.7)%

Interest expense, net. Interest expense, net decreased due to the conversion of our convertible promissory notes to equity.

Change in fair value of SPAC Warrants. The change in the fair value of this line item resulted primarily from a decrease in our stock price period-over-period.

Change in fair value of Earn Out Liability. The change in the fair value of this line item resulted from a decrease in our stock price period-over-period.

Change in fair value of share-settled redemption feature and gain on conversion of convertible notes. This change is a result of fair value adjustments due to the decrease in our stock price period-over-period and as a result of the conversion of the Company’s convertible notes.

Other expense (income), net. The change in other (income) expense, net is primarily due to fluctuations in foreign currency rates which impacted the remeasurement of foreign balances to reporting currency.

Provision for income taxes

The following table sets forth the provision for income taxes for the periods indicated (in thousands, except percentages):

	Six months ended June 30,		Change	
	2023	2022	$	%
Provision for income taxes	$ 263	$ 148	$ 115	77.7 %

The provision for income taxes increased, primarily as a result of taxes related to operations in foreign jurisdictions.

Non-GAAP Financial Measures

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP"). However, some of the financial measures discussed herein are non-GAAP financial measures. In accordance with SEC rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP in our consolidated statements of operations and comprehensive loss, balance sheets, or statements of cash flows.

To supplement the consolidated financial statements, which are prepared and presented in accordance with GAAP, we use the following non-GAAP financial measures: Free Cash Flow ("FCF"), Cash Contribution, and Cash Contribution Margin ("CCM") (collectively, the "non-GAAP financial measures").

FCF

The following table presents the calculation of FCF for the periods indicated (in thousands):

	Six months ended June 30,	
	2023	2022
Cash used in operating activities	$ (60,872)	$ (91,615)
Cash used in investing activities	(9,488)	(18,381)
FCF, including restructuring costs	(70,360)	(109,996)
Cash paid for restructuring costs	2,150	2,400
FCF, excluding restructuring costs	$ (68,210)	$ (107,596)

Free Cash Flow, excluding restructuring costs, represents cash used in operating activities less cash used in investing activities, excluding the impact of restructuring charges. The most directly comparable GAAP financial measure is cash used in operating activities. Our near-term focus is to reach sustainable positive FCF, as detailed in our Cash Flow Positive Plan. Our Cash Flow Positive Plan seeks to reach sustainable positive FCF without additional fundraising and while preserving strong liquidity. The Cash Flow Positive Plan includes four key levers: (i) reducing cash costs; (ii) reducing planned pace of signing new units (growing primarily by opening previously Contracted Units); (iii) only targeting 100% "capital light" deals for any incremental unit signings, whereby real estate owners fund the vast majority of our upfront capital expenditures in exchange for slightly higher rents; and (iv) focusing on RevPAR initiatives with a quick return on investment, such as increasing prices, adding parking fees, or other similar add-on options to bookings, and more.

We believe FCF, excluding restructuring costs, is meaningful to investors as it is the primary liquidity measure that we focus on internally to evaluate our progress towards the objectives outlined in our Cash Flow Positive Plan. We believe that achieving our goals around this measure will put us on a path to financial sustainability and will help fund our future growth.

Our FCF may differ from similarly titled measures used by other companies due to different methods of calculation. Presentation of these measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. In addition, this measure may not provide a complete understanding of our cash flow as a whole. As such, these measures should be reviewed in conjunction with our GAAP cash flow.

The change in FCF period-over-period represented a 36.6% improvement, primarily driven by a decrease in cash used in operating activities of $30.7 million and a decrease in cash used in investing activities of $8.9 million. Refer to the section entitled "Liquidity and Capital Resources – Cash Flow Information" below for further discussion surrounding the changes in our cash flow figures period-over-period.

Cash Contribution and CCM

The following table presents the calculation of Cash Contribution and CCM for the periods indicated (in thousands):

	Six months ended June 30,	
	2023	2022
Non-property level sales and marketing:		
Sales and marketing	$ 34,067	$ 21,875
Less: property level sales and marketing	25,041	16,349
Non-property level sales and marketing	$ 9,026	$ 5,526
Non-property level operations and support:		
Operations and support	$ 108,365	$ 102,270
Less: property level operations and support	60,855	46,918
Non-property level operations and support	$ 47,510	$ 55,352
Non-property level operating expenses:		
General and administrative	$ 62,914	$ 68,258
Add: research and development	12,143	15,713
Add: non-property level sales and marketing	9,026	5,526
Add: non-property level operations and support	47,510	55,352
Less: stock-based compensation	20,438	11,734
Less: depreciation and amortization	13,026	11,626
Non-property level operating expenses	$ 98,129	$ 121,489
Cash Contribution:		
Cash used in operating activities	$ (60,872)	$ (91,615)
Add: cash paid for restructuring costs	2,150	2,400
Add: non-property level operating expenses	98,129	121,489
Cash contribution (numerator)	$ 39,407	$ 32,274
Revenue (denominator)	$ 278,141	$ 201,788
CCM[(1)]	*14.2 %*	*16.0 %*

(1) Cash used in operating activities includes the benefit of furniture, fixtures, and equipment ("FF&E") allowance realized, and therefore, Cash Contribution and CCM include the benefit of FF&E allowance realized. FF&E allowance realized represents payments received from the real estate owner to help offset the capital invested to prepare and furnish a building and the individual units during the period.

Cash contribution is defined as operating cash flow before non-property level costs and the impact of restructuring charges, if any. CCM is defined as cash contribution as a percentage of revenue. The most directly comparable GAAP financial measure is cash used in operating activities. CCM is a unit economics measure for our property-level cash performance. We use CCM to assess the cash performance of our Live Units portfolio, taking into account the benefit of upfront rent abatement, which is typical in the deals we sign. We believe CCM is meaningful to investors as it functions as a useful measure of property-level unit cash economics.

Our CCM may differ from similarly titled measures used by other companies due to different methods of calculation. Presentation of this measure is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. In addition, this measure may not provide a complete understanding of our operating cash flow as a whole. As such, this measure should be reviewed in conjunction with our GAAP cash flow.

CCM declined from the six months ended June 30, 2022 to the six months ended June 30, 2023, largely due to the timing of working capital changes in operating cash flow and, to a lesser extent, a change in the classification of certain costs from non property-level costs to property-level costs in the current period. Refer to the section entitled “Liquidity and Capital Resources – Cash Flow Information” below for further discussion surrounding the changes in our cash flow figures period-over-period.

Liquidity and Capital Resources

Sources and Uses of Liquidity

At June 30, 2023, we had a cash balance, excluding restricted cash, of $177.4 million, which was held for working capital purposes. Cash consists of checking and interest-bearing accounts. Reaching sustainable positive Free Cash Flow is our primary focus in the near-term, as detailed in our Cash Flow Positive Plan. Once we reach sustainable positive Free Cash Flow, we expect cash from operations will provide our principal source of liquidity. We generate cash from transactions through Sonder.com or the Sonder app which are settled through a payment processor, from transactions with third party corporate customers which are settled based on contractual terms, and indirectly through OTAs, which are also settled based on contractual terms. The most significant source of liquidity in 2022 was the consummation of the Business Combination. This resulted in an increase in cash of approximately $401.9 million, net of the pay down of $24.7 million of debt, and non-recurring transaction costs of approximately $58.6 million. The most significant source of cash for the three and six months ended June 30, 2023 was cash inflows from guest bookings.

We have incurred losses since inception, and we expect to continue to incur additional losses in the near future. At June 30, 2023, our accumulated deficit was $1.1 billion. Our operations to date have been financed primarily by private equity investments in our common and redeemable convertible preferred stock, convertible notes, and other note and warrant purchase agreements, as described in Note 5, Debt, in the notes to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

We believe that our existing cash on hand is sufficient to fund our operations and debt obligations for at least the next 12 months given our significant reduction in cash burn over the last several quarters and our expectations for continued reduced burn. Our future capital requirements will depend on many factors, including our rate of RevPAR growth, our ability to achieve cost efficiencies, our ability to provide security instruments such as letters of credit in lieu of cash deposits pursuant to leases, and the extent of real estate owners’ funding of capital expenditures and other pre-opening costs at our leased properties. To the extent that our existing cash balance and ongoing cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing, including convertible debt, short-term bridge financing, or otherwise, but such funds may not be available on acceptable terms. If sufficient cash from operations or external funding is not available, we may be unable to adequately fund our business plans and it could have a negative effect on our business, operating cash flows, and financial condition.

Most of our cash is held in the United States. At June 30, 2023, our foreign subsidiaries held $31.5 million of cash in foreign jurisdictions. We currently do not intend or foresee a need to repatriate these foreign funds. As a result of the Tax Cuts and Jobs Act of 2017, however, we anticipate the U.S. federal tax impact to be minimal if these foreign funds are repatriated and would not repatriate funds where there was a material tax cost. In addition, based on our current and future needs, we believe our current funding and capital resources for our international operations are adequate.

Debt Arrangements

Debt arrangements, such as our credit facilities and Delayed Draw Notes, have been a source of cash for our day-to-day operations. Refer to Note 5, Debt, in the notes to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for discussion of our debt arrangements, including the timing of expected maturity of such arrangements. These arrangements include our $60.0 million loan and security agreement with Silicon Valley Bank ("SVB"), now a division of First Citizens Bank. As of June 30, 2023, for so long as we are unable to satisfy a minimum consolidated adjusted EBITDA covenant, we are required to cash collateralize our obligations under the SVB loan agreement.

Future Contractual Obligations

Our estimated future obligations as of June 30, 2023 include both current and long-term obligations. Our debt obligations, including both capitalized to-date and expected future paid-in-kind interest through the election date of January 2024, total $211.0 million, all of which is long-term. Additionally, we had $41.6 million of irrevocable standby letters of credit outstanding which were fully collateralized by our restricted cash, all of which represents a long-term cash obligation. Under our operating leases, we had a current obligation of $183.5 million and a long-term obligation of $1.3 billion.

Operating lease obligations primarily represent the initial contracted term for leases that have commenced as of June 30, 2023, not including any future optional renewal periods.

Cash Flow Information

The following table sets forth our cash flows for the periods indicated (in thousands):

	Six months ended June 30,		
	2023	2022	$ Change
Net cash used in operating activities	$ (60,872)	$ (91,615)	$ 30,743
Net cash used in investing activities	(9,488)	(18,381)	8,893
Net cash provided by financing activities	8	400,300	(400,292)
Effects of foreign exchange on cash	679	499	180
Net change in cash, cash equivalents, and restricted cash	$ (69,673)	$ 290,803	$ (360,476)

Operating Activities

Net cash used in operating activities decreased by $30.7 million for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022, primarily due to an improvement in our operating loss performance on the 37.8% increase in revenue. Cash used in operating activities is subject to variability period-over-period as a result of timing differences, including with respect to the collection of receivables and payments of interest expense, accounts payable, and other items, as well as variability in our stock price as it relates to fair value of the SPAC Warrants and Earn Out Liability.

Investing Activities

Net cash used in investing activities decreased by $8.9 million for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022, primarily as a result of a decrease in purchases of property and equipment of $7.3 million due to the timing of onboarding new Live Units.

Financing Activities

Net cash provided by financing activities decreased by $400.3 million for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022, primarily related to net cash inflows resulting from the consummation of the Business Combination in 2022, including proceeds of $159.2 million from the Delayed Draw Notes, net of issuance costs and proceeds of $325.9 million from the Business Combination and PIPE offering, partially offset by an increase in cash outflows of $58.6 million for common stock issuance costs. These cash flow activities did not recur during the six months ended June 30, 2023.

Off-Balance Sheet Arrangements

As of June 30, 2023, we had the following off-balance sheet arrangements:

Letters of Credit

We had $41.6 million of irrevocable standby letters of credit outstanding, of which $32.2 million were under our revolving credit facilities or our loan and security agreement. Letters of credit are primarily used as a form of security deposits for the buildings and partial buildings we lease.

Surety Bonds

A portion of our leases is supported by surety bonds provided by affiliates of certain insurance companies. As of June 30, 2023, we had assembled commitments from five surety providers in the amount of $64.3 million, of which $44.4 million was outstanding and was an off-balance sheet arrangement. The availability, terms and conditions, and pricing of bonding capacity are dependent on, among other things, continued financial strength and stability of the insurance company affiliates providing the bonding capacity, general availability of such capacity, our corporate credit rating, and the general perception of our financial performance.

Indemnification Agreements

See Note 10, Commitments and Contingencies, in the notes to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a description of our indemnification agreements.

Effect of Exchange Rates

Our changes in cash can be impacted by the effect of fluctuating exchange rates. Foreign exchange had a positive effect on cash in the six months ended June 30, 2022, increasing our total cash balance by $0.5 million at June 30, 2022, and a positive effect on cash in six months ended June 30, 2023, increasing our total cash balance by $0.7 million at June 30, 2023.

Critical Accounting Estimates

For a description of our critical accounting estimates, refer to Part II, Item 7, Critical Accounting Estimates in our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no material changes to our critical accounting policies and estimates since our Annual Report on Form 10-K for the year ended December 31, 2022.

Recent Accounting Standards

See Note 2, Recently Issued Accounting Standards, in the notes to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a description of recently adopted accounting standards and recently issued accounting standards not yet adopted.

Emerging Growth Company Status

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can choose not to take advantage of the extended transition period and comply with the requirements that apply to non-emerging growth companies, and any such election to not take advantage of the extended transition period is irrevocable.

We are an emerging growth company as defined in Section 2(a) of the Securities Act and have elected to take advantage of the benefits of the extended transition period for new or revised financial accounting standards. We will remain an emerging growth company until the earliest of: (i) the last day of the fiscal year in which the market value of Common Stock that is held by non-affiliates exceeds $700 million as of the end of that year's second fiscal quarter; (ii) the last day of the fiscal year in which we have total annual gross revenue of $1.235 billion or more during such fiscal year (as indexed for inflation); (iii) the date on which we have issued more than $1 billion in non-convertible debt in the prior three-year period; or (iv) December 31, 2026, and we expect to continue to take advantage of the benefits of the extended transition period, although we may decide to early adopt such new or revised accounting standards to the extent permitted by such standards. This may make it difficult or impossible to compare our financial results with the financial results of another public company that is either not an emerging growth company or is an emerging growth company that has chosen not to take advantage of the extended transition period exemptions because of the potential differences in accounting standards used.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk from the information provided in Part II, Item 7, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. In designing and evaluating our internal control over financial reporting, management recognizes that internal control over financial reporting, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of internal control over financial reporting must reflect the fact that there are resource constraints, and that management is required to apply its judgment in evaluating the benefits of possible internal control over financial reporting relative to their costs. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective due to the existence of the material weaknesses described below to provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms and that such information is accumulated to allow timely decisions regarding required disclosures.

Material Weaknesses in Internal Control Over Financial Reporting

As disclosed in Part II, Item 9A of our Annual Report on Form 10-K, as of December 31, 2022, management concluded that the following material weaknesses in internal control existed for the Company. Management concluded that these material weaknesses still exist as of June 30, 2023.

Leases

We previously identified a material weakness in our internal control over financial reporting related to the process to capture and record lease agreements timely and accurately. Management has concluded that this material weakness in internal control over financial reporting is due to the fact that the Company did not have the adequate resources with the appropriate level of experience and technical expertise to oversee the Company's leasing business processes and related internal controls.

Control Activities and Control Environment

Given the aggregation of the lease material weakness noted above and other control deficiencies, we have identified related material weaknesses based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), including: (i) deficiencies in the principles associated with the control activities component of the COSO framework relating to establishment of formal policies and procedures and consistent application thereof, and (ii) deficiencies in the principles associated with the control environment component of the COSO framework relating to hiring and training sufficient personnel to timely support the Company's internal control objectives to ascertain whether the components of internal control are present and functioning.

Remediation Plan

To remediate these material weaknesses, we have identified improvements related to our lease process to capture and record lease agreements timely and accurately that we plan to implement in 2023 and will provide additional training to personnel responsible for the relevant controls. We are in the process of designing and implementing internal controls to address the material weaknesses related to the control activities and control environment. A material weakness cannot be considered remediated until applicable controls have been designed, implemented, and operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. Accordingly, we will continue to monitor and evaluate the effectiveness of our internal control over financial reporting.

While we have invested in additional resources with the requisite skills and improved our processes and controls over financial reporting, these improvements have not operated for a sufficient period of time. We remain committed to taking actions to remediate the material weaknesses in our internal control over financial reporting as we work to further enhance our control environment.

Changes in Internal Control over Financial Reporting

Other than the remediation efforts in progress, during the period covered by this report, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Sonder has been and expects to continue to become involved in litigation or other legal proceedings from time to time, including the matter described below. Except as described below, Sonder is not currently a party to any litigation or legal proceedings that, in the opinion of Sonder's management, are likely to have a material adverse effect on Sonder's business. Regardless of outcome, litigation and other legal proceedings can have an adverse impact on Sonder because of defense and settlement costs, diversion of management resources, possible restrictions on its business as a result of settlement or adverse outcomes, and other factors.

In February 2020, Sonder was informed about an investigation underway by the New York City Department of Health and Mental Hygiene relating to possible Legionella bacteria contamination in the water supply at 20 Broad Street, New York, NY (the "Broad Street Property"). Due to the failure of the owner of the Broad Street Property (the "Broad Street Landlord") to address the Legionella bacteria contamination and the associated health risks posed to Sonder's guests, Sonder withheld payment of rent to the Broad Street Landlord on grounds of, among other reasons, constructive eviction. On July 30, 2020, the Broad Street Landlord sued Sonder USA Inc., Sonder Canada Inc., and Sonder Holdings Inc. for breach of the lease, seeking no less than $3.9 million in damages. Sonder filed counterclaims against the Broad Street Landlord and the property management company for breach of contract, seeking significant damages. The Broad Street Landlord filed a motion for summary judgment. The hearing and oral argument for the summary judgment motion occurred on December 21, 2021. No ruling was issued by the judge. The motion for summary judgment is now under submission. Sonder intends to vigorously defend itself and believes that the claims of the Broad Street Landlord are without merit.

On August 8, 2023, a purported class action lawsuit was filed against Sonder in the U.S. District Court for the District of Colorado captioned Wang v. Sonder Holdings Inc. The complaint asserts claims based on Sonder's alleged failure to secure and safeguard the personally identifiable information of the putative class in connection with Sonder's previously disclosed November 2022 information technology security incident. The complaint seeks unspecified damages, injunctive relief, attorneys' fees, and other costs. Sonder has not been served in the case. Sonder intends to vigorously defend itself. However, any litigation is inherently uncertain, and any judgment or injunctive relief entered against Sonder or any adverse settlement could materially and adversely impact its business, results of operations, financial condition, and prospects.

Item 1A. Risk Factors

You should carefully review and consider the following risk factors and the other information contained in this report, including the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated financial statements and related notes thereto included elsewhere in this report, in making an investment decision. Our business, operating results, financial condition or prospects could also be harmed by risks and uncertainties not currently known to us or that we currently do not believe are material. If any of the risks actually occur, our business, operating results, financial condition and prospects could be adversely affected. In that event, the market price of our common stock or other publicly traded securities could decline, and you could lose part or all of your investment. The occurrence of one or more of the events or circumstances described in these risk factors, alone or in combination with other events or circumstances, may have a material adverse effect on our business, cash flows, financial condition and results of operations. The risks discussed below may not prove to be exhaustive, and are based on certain assumptions made by us that later may prove to be incorrect or incomplete. We may face additional risks and uncertainties that are not presently known to us, or that are currently deemed immaterial, which may also impair our business or financial condition. The following discussion should be read in conjunction with the financial statements and notes to the financial statements included herein.

Risk Factor Summary

Below is a summary of the principal factors that could materially harm our business, operating results and/or financial condition, impair our future prospects, or cause the price of our publicly traded securities to decline. This summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, and other risks that we face, can be found below under the heading "Risk Factors" and should be carefully considered, together with other information in this Quarterly Report on Form 10-Q and our other filings with the SEC before making an investment decision regarding our securities.

- We may be unsuccessful in achieving positive, sustainable Free Cash Flow without additional fundraising, and restructuring initiatives may not provide the expected benefits and could adversely affect us.
- Our actual results may differ materially from our forecasts and projections.
- Our results could be negatively affected by inflation and other macroeconomic factors and by changes in travel, hospitality, and real estate markets.
- We may be unable to negotiate satisfactory leases or other arrangements to operate new properties, onboard new properties in a timely manner, or renew or replace existing properties on satisfactory terms or at all.
- Delays in real estate development and construction projects could adversely affect our ability to generate revenue from the related leased properties.
- Our common stock may fail to regain compliance with Nasdaq’s minimum bid price rule and we may otherwise fail to continue to meet Nasdaq’s listing standards.
- Our limited operating history and evolving business make it difficult to evaluate our future prospects and challenges.
- Newly leased properties may generate revenue later than we estimated and may be more difficult or expensive to integrate into our operations than expected.
- We have a history of net losses, and we may not be able to achieve or maintain profitability in the future.
- We depend on landlords to deliver properties in a suitable condition and to manage and maintain them.
- Claims, lawsuits, and other proceedings relating to our leases could adversely affect our business and financial condition.
- Our long-term and fixed-cost leases limit our operating flexibility.
- Our leases may be subject to termination prior to the scheduled expiration of the term, which can be disruptive and costly.
- Our long-term success depends, in part, on our ability to expand internationally, and our business is susceptible to risks associated with international operations.
- We may be unable to effectively manage our growth.
- We may be unable to attract new guests or generate repeat bookings from previous guests.
- Our success depends on acceptance by guests and property owners of our distinctive type of hospitality services.
- We operate in the highly competitive hospitality market.
- Third-party distribution channels have historically accounted for a substantial percentage of our bookings and business generated through such channels could adversely affect guest loyalty and poses other risks to us.
- Our results of operations vary from period-to-period, and historical performance may not be indicative of future performance.
- Certain measures we use to evaluate our operating performance may be subject to future adjustments.
- Our business depends on our reputation and the strength of our brand, and any deterioration could adversely impact our market share, revenues, business, financial condition, or results of operations.
- We are involved in and may in the future become involved in claims, lawsuits, and other proceedings incidental to the ordinary course of our business that could adversely affect our business, financial condition, and results of operations.
- We may be subject to liability or reputational damage for guests’ activities or other incidents and potential health and safety issues at our properties.
- We are subject to the risk of financial and reputational damage due to fraud.
- We face challenges in attracting and retaining key personnel and sufficient, highly skilled personnel, and are subject to risks, including unionized labor, associated with employment of hospitality personnel.
- We have identified and may in the future identify material weaknesses in our internal control over financial reporting or we may otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our consolidated financial statements.
- Our business could be harmed if we are unable to adapt to changes in technology.
- We rely on third parties for certain services and technologies, include payment processing, and their availability and performance are uncertain.
- Our processing, storage, use and disclosure of personal data expose us to risks of internal or external security breaches and has given rise and could give rise to claims, governmental investigations and penalties, other liabilities, increased costs including higher insurance premiums, damage to reputation, and/or reduced revenue.
- Limitations in our technologies, systems, and network infrastructure, or disruptions in Internet access or guests’ usage of mobile devices, could adversely affect us.
- Supply chain interruptions may increase our costs or reduce our revenues.
- Public health concerns, including but not limited to the COVID-19 pandemic and any future public health crises, may have a negative impact on us.
- We face risks related to our intellectual property.

- Costs relating to the opening, operation and maintenance of our leased properties could be higher than expected.
- Our properties are concentrated in a limited number of cities, which increases our exposure to local factors affecting demand or hospitality operations.
- We may be unable to introduce upgraded amenities, services or features for our guests in a timely and cost-efficient manner.
- Failure to comply with governmental regulations, such as securities regulations, anti-bribery laws, import/export controls (including sanctions), privacy, data protection, consumer protection, marketing, and advertising laws could adversely affect us.
- Our business is highly regulated across multiple jurisdictions, including evolving and sometimes uncertain short-term rental regulations and tax laws, which may limit our growth, cause us to incur compliance costs, or otherwise negatively affect us.
- We may require additional capital, which might not be available in a timely manner or on favorable terms.
- Our indebtedness and credit facilities contain financial covenants and other restrictions that may limit our operational and financial flexibility or otherwise adversely affect us.

Risks Related to Our Business and Industry

Unless the context requires otherwise, references to “Sonder,” “we,” “our” and “us” in this section are to the business and operations of Legacy Sonder prior to the Business Combination and our business and operations as directly or indirectly affected by Legacy Sonder by virtue of our ownership of the business of Legacy Sonder through our subsidiaries following the Business Combination.

Our focus on achieving positive, sustainable Free Cash Flow may be unsuccessful, we may not realize some or all of the expected benefits of our previously announced restructuring or any future restructuring initiatives, and our restructuring efforts may adversely affect our business.

The focus of our Cash Flow Positive Plan is to achieve positive, sustainable Free Cash Flow without additional fundraising, by reducing cash costs, reducing our planned pace of signing new Contracted Units, increasing our focus on signing “capital light” properties, and focusing on rapid payback RevPAR initiatives. The Cash Flow Positive Plan included a restructuring of operations, with a reduction in corporate and frontline headcount in mid-2022, as well as a further reduction in corporate headcount announced on March 1, 2023. In early 2020, we also undertook staff furloughs and reductions, lease exits, and other cost-saving actions due to the COVID-19 pandemic, and we may undertake other restructuring or cost-saving initiatives in the future. The actions we announced in June 2022 and on March 1, 2023, as well as future restructuring or cost-saving initiatives, may not achieve our goal of achieving positive FCF without additional fundraising, or at all, increase the number of “capital light” properties in our portfolio, or otherwise achieve our cash flow, profitability or operational objectives.

In addition, implementing any restructuring plan presents potential risks that may impair our ability to achieve anticipated cost reductions, revenue enhancements, or operational improvements. These risks include the potential for inadequate support of important business functions due to staffing changes and other cost reduction efforts, management distraction from ongoing business activities, potential failure to maintain adequate controls and procedures while executing our restructuring plans, and damage to our reputation and brand image with real estate owners, potential guests and others. Additionally, as a result of restructuring initiatives, we may experience a loss of continuity and accumulated knowledge, as well as adverse effects on employee morale and productivity and on our ability to attract and retain highly skilled employees. Increased employee attrition and difficulties in recruiting could, among other things, impair our ability to maintain and enhance our internal controls and procedures, complicate our efforts to pursue new RevPAR initiatives and execute effectively on engineering and technology development projects, cause inefficiencies, and make it more difficult to pursue, open and operate new properties. In addition, the reduction in our pace of signings and our increased focus on signing “capital light” properties may result in fewer Live Units than we have forecasted, which may result in lower than expected revenues and cash flow. Any of the above consequences could adversely impact our business, and we may not achieve positive FCF when we anticipate, or at all.

Our forecasts and projections are based upon assumptions, analyses and estimates developed by our management. If these assumptions, analyses or estimates prove to be incorrect or inaccurate, our actual results may differ materially from those forecasted or projected.

Our forecasts and projections, including projected revenues, margins, profitability, cash flows, Bookable Nights, RevPAR, lease signings and Live Units, and our anticipated market opportunity, growth and penetration, are subject to significant uncertainties and are based on assumptions, analyses and estimates developed by our management, including with reference to third-party forecasts, any or all of which may prove to be incorrect or inaccurate. These include assumptions, analyses and estimates about future pricing and Occupancy Rates, and the anticipated cost savings, more favorable capital requirements and other benefits of our Cash Flow Positive Plan, announced in June 2022. Other assumptions include the type and size of future properties, the timing of lease signings, building openings and development, the satisfaction of conditions or contingencies in signed leases, local regulatory environments, the terms of future leases, and future costs, all of which are subject to a wide variety of business, regulatory and competitive risks and uncertainties. If these assumptions, analyses or estimates prove to be incorrect or inaccurate, our actual results may differ materially from those forecasted or projected, adversely affecting the value of our common stock.

Our revenue, expenses and operating results could be materially adversely affected by changes in travel, hospitality, and real estate markets, as well as general economic conditions such as an economic downturn or recession.

Our business is particularly sensitive to trends in the travel, hospitality, and real estate markets, and trends in the general economy, which are unpredictable. Travel, including demand for accommodations, is highly dependent on discretionary spending levels. As a result, hospitality sales tend to decline during general economic downturns and recessions, and times of political or economic uncertainty, as consumers engage in less discretionary spending, are concerned about unemployment or inflation, have reduced access to credit, or experience other concerns or effects that reduce their ability or willingness to travel. Leisure travel in particular, which we believe accounts for a majority of our bookings, is dependent on discretionary consumer spending levels. Downturns in worldwide or regional economic conditions or inflationary pressures have in the past led to a general decrease in leisure travel and travel spending, and similar downturns or inflationary pressures in the future may materially adversely impact demand for our accommodations. Such a shift in consumer behavior could materially and adversely affect our business, results of operations, and financial condition.

In addition to the impact of economic conditions, our business could be adversely affected by other factors that cause reductions in travel, such as:

- Public health concerns, including but not limited to the COVID-19 pandemic or other future public health crises;
- Regional hostilities, war, terrorist attacks or civil unrest, such as the 2022 Russian invasion of Ukraine;
- Immigration policies and other governmental restrictions on residency and travel;
- Imposition of travel- or hospitality-related taxes or surcharges by regulatory authorities;
- Changes in regulations, policies, or conditions related to sustainability, including climate change, and the impact of climate change on seasonal destinations;
- Work stoppages or labor unrest at a potential travel destination; or
- Natural disasters or adverse weather conditions.

In addition to affecting demand, economic downturns, rising interest rates, rising construction costs, and other adverse developments in real estate markets may result in decreases in new construction starts, property conversions and renovations, and increases in foreclosures, which could result in fewer units available for leasing. Any or all of these and other factors could reduce the demand for our services and the supply of new units, thereby reducing our revenue. The above factors could also require higher marketing and other costs to attract guests, and could result in less favorable terms for new leases, which would increase our expenses.

We may be unable to successfully negotiate satisfactory leases or other arrangements to operate new properties, onboard new properties in a timely manner, or renew or replace existing properties on satisfactory terms or at all, any of which may limit our growth and could cause us to miss our growth or financial forecasts.

We currently lease all of our locations. We continually pursue additional units by signing new leases or additions to existing leases, and we also pursue other arrangements with property owners and developers. If we fail to secure or renew leases or other arrangements for attractive properties, we will not be able to expand our portfolio of properties and may not achieve our growth and financial forecasts.

We may not be able to add sufficient properties to our portfolio that meet our brand standards, at an acceptable cost and on acceptable terms, to meet our strategic growth goals and financial forecasts. Due to the number of properties that we have already secured under leases or other arrangements in many major U.S. and Canadian cities, we may find it more difficult to find additional attractive properties in those markets. In Europe and other international markets, we have less experience and fewer real estate personnel, and local regulations and real estate industry practices may make it more difficult to locate properties that are strategically aligned with our business model. Recent increases in interest rates, inflation in construction and other costs, and concerns about a recession have caused and may continue to cause some property developers to delay or abandon development projects that we would otherwise seek to add to our portfolio. Even where we identify suitable properties, we may not be able to negotiate leases or other arrangements on commercially reasonable terms. Real estate owners may not accept our proposed terms, including due to our focus on signing agreements with lower capital expenditure obligations and quick payback timeframes. We may have difficulties in providing real estate owners with acceptable letters of credit in lieu of cash deposits, and these difficulties may intensify due to any adverse developments affecting our letter of credit providers, such as the March 2023 government-arranged closure and receivership of Silicon Valley Bank (“SVB”), now a division of First Citizens Bank, one of the financial institutions that we use for letters of credit. Any such difficulties may result in higher cash outlays for lease security deposits, delays in signing leases as alternative sources of security are sought, or additional complications in signing leases in a timely manner. Certain real estate owners have been and may continue to be reluctant to enter into or continue transactions with us due to the decline in our stock price below $1.00 per share and the April 2023 notification from Nasdaq about our common stock’s non-compliance with Nasdaq’s minimum bid price rule, and related concerns of owners or their lenders about our creditworthiness, future cash position or ability to raise capital. See the paragraph entitled “*We may fail to continue to meet the listing standards of Nasdaq, and as a result our common stock and publicly traded warrants may be delisted, which could have a material adverse effect on the liquidity and trading price of our common stock and warrants and on our ability to raise capital, and other adverse consequences,”* below.

In addition, commercial terms that are negotiated by our real estate teams in existing markets may not be widely accepted in new markets, which may complicate or delay our planned expansion or make such expansion less attractive. Competition for attractive properties can be intense, and competitors may offer owners and developers more attractive terms. We also have relatively little experience with alternatives to traditional leases, which may make it more difficult for us to secure properties where the owner or developer prefers a management agreement or other occupancy arrangement over a lease.

Furthermore, our ability to extend an expiring lease on favorable terms or to secure an alternate location will depend on then-prevailing conditions in the real estate market, such as overall rental cost increases, competition from other would-be tenants for desirable leased spaces, our relationships with current and prospective building landlords, real estate owners’ perceptions of our creditworthiness and prospects, and other potential factors that are not within our control. For example, in markets where the prevailing rents for apartments have been increasing, real estate owners may also believe that, compared to the terms that we offer, they can achieve a superior return through more traditional individual tenancies. If we are not able to renew or replace an expiring lease, we will lose the opportunity to generate additional revenue from that space and will incur costs related to vacating it. If we renew or replace a lease with higher than expected rent or on terms that are otherwise less favorable to us than we expected, our profitability and cash flow could be adversely affected.

Delays in real estate development and construction projects related to our leases could adversely affect our ability to generate revenue from such leased properties, and newly leased properties may be more difficult or expensive to integrate into our operations than expected.

Our business is also subject to property development risks. We often enter into arrangements with property developers to lease all or a portion of a building that is being built or converted for housing accommodations. We expect the number of these early-stage development projects within our business to increase. Even where a project proceeds as planned, it can be many months or even years before the leased property is completed and Live Units become available for guest booking. In addition, the commitments of owners and developers under these arrangements are subject to various conditions and the completion of such development and construction projects are subject to numerous risks, including, in many cases, the owner’s or developer’s ability to obtain adequate financing, construction materials or labor, and governmental or regulatory approvals. Recent increases in interest rates, and inflation in construction and other costs, have caused and may continue to cause some property owners and developers to have difficulty financing, refinancing, or completing projects that we plan to lease. We have experienced unforeseen terminations of and delays in the readiness of property developments, and we expect to encounter similar events in the future. As a result, any such properties in our forecast property pipeline may not develop into new sources of revenue when we anticipated or at all.

Even when we succeed in signing a lease for a new property, the landlord or developer may be unable or unwilling to deliver the property in the timeline initially provided for or in the condition originally agreed to, or we may encounter other unforeseen delays in preparing the property for initial guest bookings. We refer to this process as "building opening." Delays in building openings also may occur due to supply chain shortages including fixtures, furnishings and other materials, delays in governmental permits and approvals, landlords' and developers' delays in obtaining adequate financing, labor shortages, or the unavailability of third-party contractors. Later than expected building openings at properties also results in a delay in generating revenue from such properties, which could cause us to miss our financial forecasts or fall short of our previously announced Cash Flow Positive Plan goals. In addition, the success of any new property will depend on our ability to integrate the property into existing operations, which is subject to uncertainties including potential difficulties in integrating guest-facing and back-office systems or in engaging third-party vendors to service the properties. Newly leased properties could be more difficult or expensive to onboard, have undisclosed conditions that result in unanticipated expenses or claims against us for which we may have little or no effective recourse against the landlord, or otherwise may not provide their anticipated benefits.

Our limited operating history and evolving business make it difficult to predict whether we will achieve our financial, operating and growth forecasts.

Our business continues to evolve. We have expanded significantly since our inception, including the number of cities and countries in which we operate. After initially focusing on apartment-style units, we now also operate hotel properties that have more extensive and complex amenities and systems. In the last few years, we have also focused our expansion efforts on leasing full buildings or larger numbers of units or floors within a property. In addition, we have operated many of our leased properties for a limited period of time, and their early results may not be indicative of their long-term performance. For example, a large portion of units available for guest bookings as of June 30, 2023, which we refer to as "live" units, had been live for less than one year. Our relatively limited operating history and evolving business make it difficult to evaluate the likelihood that we will achieve our financial, operating and growth forecasts, and to predict and plan for the risks and challenges we may encounter. These risks and challenges include our ability to:

- Forecast our revenue and budget for and manage our expenses, particularly at new buildings or in new markets;
- Onboard new, high-quality units in a timely and cost-effective manner;
- Keep existing units available for booking and reduce nights lost to repairs or other interruptions;
- Comply with existing and new laws and regulations applicable to our business, including those related to short-term rentals, hotel operations and any future public health crises;
- Plan for and manage capital expenditures for current and future properties, including renovations of units and development of new properties, and manage relationships with landlords, developers, service providers and other partners;
- Anticipate and respond to macroeconomic changes, fluctuations in travel and tourism, and other changes in the markets in which we operate;
- Maintain and enhance the value of our reputation and brand;
- Effectively manage growth;
- Successfully expand our geographic reach;
- Hire, integrate and retain talented people at all levels of our organization; and
- Successfully develop or integrate new features, amenities and services to enhance the experience of guests.

If we fail to address these risks and difficulties, our business, financial condition and results of operations could be adversely affected. Further, because we have limited historical financial data and operate in a rapidly evolving industry, any predictions about future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in more predictable markets. If we do not address these risks successfully, or if our assumptions regarding these risks and uncertainties, which are used to plan and operate our business, are incorrect or change, our results of operations could differ materially from expectations and our business, financial condition, and results of operations could be adversely affected.

We have a history of net losses, and we may not be able to achieve or maintain profitability in the future.

We have incurred net losses and negative cash flow each year since our inception, and we may not be able to achieve or maintain profitability or positive cash flow in the future. We incurred substantial net losses over the past several years, resulting in an accumulated deficit of $1.1 billion at June 30, 2023. We also had negative cash flow from operating activities of $60.9 million and $91.6 million for the six months ended June 30, 2023 and 2022, respectively. Our expenses will likely increase in the future as we seek to expand in existing and new domestic and international markets, focus heavily on sales and marketing efforts, continue to invest in new technologies, internal systems, designs and unit amenities, expand our operations, and hire additional employees. These efforts may be more costly than expected and may not result in expected increases in revenue or growth in our business, which would impair our ability to achieve or maintain profitability or positive cash flow. Our Cash Flow Positive Plan announced in June 2022 may not provide the cash flow, cost savings or other benefits that we anticipate, as described above.

In addition, we generally lease properties under multi-year arrangements, but guest revenues are generated through stays that currently average less than one week. Any failure to increase our revenue sufficiently to keep pace with the fixed components of our lease obligations, investments and other expenses could prevent us from achieving or maintaining profitability or positive cash flow on a consistent basis or at all. If we are unable to successfully address these risks and challenges, our business, financial condition and results of operations would be adversely affected.

We depend on landlords for certain maintenance and other significant obligations related to our properties, and any failures in this area could hurt our business.

We do not own any of our properties and manage and operate them under leases with third-party landlords. At some properties, our guest units comprise only a portion of the building and common areas and amenities are shared with other tenants or unit owners. We often have limited control over the common areas and amenities of buildings in which our units are located. In addition, we depend on our landlords to deliver properties in a suitable condition and to perform important ongoing maintenance, repair and other activities with respect to common areas, amenities and building systems such as plumbing, elevators, electrical, and fire and life safety. If our landlords do not fulfill their obligations or fail to maintain and operate their buildings appropriately, we could be subject to claims by guests and other parties, and our business, reputation and guest relationships may suffer.

Disputes and litigation relating to our leases have occurred and can be expected to occur in the future, which may result in significant costs, damage to landlord relationships, slower than expected expansion, and lower revenues.

The nature of our rights and responsibilities under our leases may be subject to interpretation, and our leasing relationships will from time to time give rise to disagreements, which may include disagreements over the timing and amount of capital investments or improvements, operational and repair responsibilities, liability to third parties, a party’s right to terminate a lease, and reimbursement for certain renovations and costs.

We seek to resolve any disagreements and develop and maintain positive relations with current and potential landlords, but we cannot always do so. Failure to resolve such disagreements has resulted in litigation in the past and could result in litigation in the future. Disputes may be expensive to litigate, even if the outcome is ultimately in our favor. We cannot predict the outcome of any litigation. An adverse judgment, settlement, or court order in a proceeding could cause significant expenses and constraints in our business operations and expansion plans. For example, we are involved in litigation with our former landlord at 20 Broad Street in New York, arising out of the landlord’s failure to address Legionella bacteria contamination in the building’s water supply and the associated health risks posed to our guests. In response, we withheld payment of rent on grounds of, among other reasons, constructive eviction. In response, the landlord disagreed with the contentions and terminated the lease in July 2020 and subsequently filed a lawsuit seeking unpaid rent from us. We counter-sued against the landlord and are seeking, among other remedies, substantial monetary damages against the landlord. If the landlord prevails, there may be significant damages against us. We are unable to predict the outcome of this dispute with the landlord, or our ultimate responsibility for any adverse outcome in the lawsuit. Even if this lawsuit is resolved favorably, the proceeding has required and may continue to require substantial management attention as well as significant legal fees and expenses.

The long-term and fixed-cost nature of our leases may limit our operating flexibility and could adversely affect our liquidity and results of operations.

We currently lease all of our properties and are committed for the leases' terms, generally without the right to terminate early. Our obligations to landlords under these agreements extend for years, while we do not have a corresponding source of guaranteed revenue because guests typically stay for less than a week at our properties.

Our leases generally provide for fixed monthly payments that are not tied to Occupancy Rates or revenues, and our leases typically contain minimum rental payment obligations. We sometimes offer landlords lower minimum payments in return for a share of the property's revenues, or other variable terms, but those currently represent a small portion of our portfolio, and we may be unsuccessful in securing variable or participating lease terms. There can be no assurance that we will be able to sign and operate successfully under leases with revenue-sharing or other variable terms. As a result of our fixed lease expenses, if we are unable to maintain sufficient Occupancy Rates and pricing, our lease expenses may exceed our revenue and we may not achieve our financial projections. For example, in an environment where the prevailing cost of accommodations may be decreasing, we may not be able to lower our fixed monthly payments under our leases at rates commensurate with the rates at which we would be pressured to lower our guest rates, which may also reduce our margins and cash flow. In any such event, we may be unable to reduce our rent under the lease or otherwise terminate the lease in accordance with its terms.

We have limited flexibility to rapidly alter our portfolio of properties and our lease commitments in response to changing circumstances. Leases require substantial time to negotiate and are typically multi-year commitments that can only be revised or terminated with the landlord's agreement. In addition, some of our leases require the landlord's consent to assign the lease or sublease the property, which may not be granted or may be granted only on unfavorable terms. Even if we are able to assign or sublease an unprofitable property, we may incur significant costs, including transaction costs associated with finding and negotiating with potential transferees, upfront payments or other inducements, costs to restore the property to its previous condition, and other costs to exit the property.

Our leases may be subject to termination before their scheduled expiration, which can be disruptive and costly.

Our leases may be subject to termination before they are scheduled to expire, in certain circumstances including the bankruptcy of a developer or landlord, noncompliance with underlying covenants governing the property, or, under some agreements, failure to meet specified financial or performance criteria. Some leases also contain conditions to the landlord's or our obligations or permit the landlord to terminate before the scheduled expiration date, including due to any failure by us to provide a cash security deposit or an acceptable letter of credit, surety bond or other security instrument. Some leases for Contracted Units (which are units that have signed real estate contracts but are not yet available for guests to book) have contingencies (including construction financing contingencies, zoning, permitting or other regulatory conditions, and landlord purchase contingencies) that must be satisfied prior to our takeover of the units. If these contingencies are not satisfied prior to our takeover of the units, the lease is terminable by us or the landlord. In addition, certain leases are terminable by the landlord for other reasons.

Many of our leased properties have been pledged as collateral for mortgage loans entered into by the owners of the properties when those properties were purchased or refinanced. If those owners cannot repay or refinance maturing indebtedness on favorable terms or at all, such owners may declare bankruptcy and/or lenders could declare a default, accelerate the related debt, and foreclose on the subject property. In addition, some of our units are subleased from parties that lease the underlying property from its owner. If our landlord fails to comply with its underlying lease, or the lease is otherwise terminated earlier than expected, we could lose the right to continue to operate our units or could be forced to cure the landlord's failure without being assured of recouping the related costs. From time to time, we have experienced the loss or disruption of leases for Contracted Units and Live Units for reasons such as those described above, and similar events may occur in the future.

The termination of our leases due to any of the foregoing events would eliminate our anticipated income and cash flows from the affected property, which could have a significant negative effect on our results of operations and liquidity. Landlords or other business partners may also assert the right to terminate leases or other significant contracts even where the agreements do not provide such a right. If terminations occur for these or other reasons, we may need to enforce our right to damages for breach of contract and related claims, which may cause us to incur significant legal fees and expenses. Any damages we ultimately collect could be less than the projected future value of the revenues and income we would have otherwise generated from the property. Early terminations of significant agreements could hurt our financial performance or our ability to grow our business.

Our long-term success depends, in part, on our ability to expand internationally, and our business is susceptible to risks associated with international operations.

Although in June 2022, we announced plans to moderate our pace of signing new real estate contracts and to focus new signings on countries where we already have operations, we continue to expand our operations. Currently, we maintain properties in the United States, Canada, the United Kingdom, Ireland, continental Europe, Mexico and the United Arab Emirates, and plan to continue our efforts to expand globally, including, eventually, in jurisdictions where we do not currently operate. Managing a global organization is challenging, time consuming and expensive, and any international expansion efforts that we undertake may not be profitable in the near or long term or otherwise be successful. We have limited operating experience in many foreign jurisdictions and must continue to make significant investments to build our international operations. Conducting international operations subjects us to risks that we generally do not face in the United States. These risks include:

- Costs, risks and uncertainties associated with tailoring our services in international jurisdictions as needed to better address and balance both our needs, the needs of our guests, and threats of local competitors with compliance under applicable rules and regulations;
- Uncertainties in forecasting revenues and expenses in markets where we have not previously operated;
- Costs and risks associated with international, national, and local laws, regulations and policies governing topics such as zoning (hotels and other accommodations) and permits, accessibility, property development and property rental, accessibility, health and safety, climate change and sustainability, and privacy, as well as labor and employment;
- Differences in local real estate and hotel industry practices, including leasing and hotel transaction terms, that may make it challenging for us to add properties on satisfactory terms or that may require higher than expected upfront payments, security deposits, repair and maintenance expenses, amenity expenses, or other costs;
- Operational and compliance challenges caused by distance, language, and cultural differences;
- Costs and risks associated with compliance with international tax laws and regulations;
- Costs and risks associated with compliance with the U.S. Foreign Corrupt Practices Act and other laws in the United States related to conducting business outside the United States, as well as the laws and regulations of non-U.S. jurisdictions governing bribery, anti-money laundering and other corrupt business activities;
- Costs and risks associated with human trafficking, modern slavery and forced labor reporting, training and due diligence laws and regulations in various jurisdictions;
- Being subject to other laws and regulations, including laws governing online advertising and other Internet activities, email and other messaging, collection, use and storage of personal information, ownership of intellectual property, taxation and other activities important to our online business practices;
- Additional exposure to adverse movements in currency exchange rates;
- Competition with companies that understand the local market better than we do or that have preexisting relationships with landlords, property developers, regulators and guests in those markets;
- Adverse effects resulting from the U.K.’s exit from the European Union (commonly known as “Brexit”);
- Reduced or varied protection for intellectual property rights in some countries; and
- Other events or factors, including political, social and macroeconomic factors, hostilities and war (including the 2022 Russian invasion of Ukraine), acts of terrorism or responses to these events.

Entry into certain transactions with foreign entities now or in the future may be subject to government regulations, including review related to foreign direct investment by U.S. or foreign government entities. If a transaction with a foreign entity is subject to regulatory review, such regulatory review might limit our ability to enter into the desired strategic alliance and thus our ability to carry out our long-term business strategy.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability and could instead result in increased costs without a corresponding benefit. We cannot guarantee that our international expansion efforts will be successful.

We may be unable to effectively manage our growth.

Since our inception, we have experienced rapid growth and continue to pursue significant unit growth in existing and new markets throughout the world. As we announced in June 2022, we have moderated our planned pace of signing new units and intend to drive near-term growth primarily by opening already Contracted Units; however, we continue to pursue additional signings in various markets. Despite our staff reductions announced in June 2022 and March 2023, we continue to recruit and hire personnel to support building openings, guest service and other functions, both in the United States and internationally.

Our business is becoming increasingly complex due in part to the continued rapid evolution of the hospitality industry (including rapid changes in regulations and guest preferences due to the COVID-19 pandemic), our continued expansion into new markets, the increasing number of hotels and larger buildings within our portfolio, the growing scope and variety of property amenities and systems for which we have or share responsibility, changing local and national tax regimes, regulatory requirements, and labor markets. This increased complexity and rapid growth have demanded, and will continue to demand, substantial resources and attention from our management. To support our planned growth, we will need to improve and maintain our technology infrastructure and business systems, which may be costly and is subject to uncertainties. We will also need to hire additional specialized personnel in the future as we balance the pursuit of our profitability and growth objectives. For example, we will need to hire, train and manage additional qualified employees to support our engineering, real estate, operations and support teams, as well as employees experienced in security and hospitality operations to support our growing city teams to properly manage our growth. When we enter or expand operations in a particular city, we will also need to hire building opening and guest services staff to meet target dates for opening new properties even before these properties begin to generate revenues.

We are experiencing, and may in the future experience, shortages of qualified hospitality personnel. Hospitality personnel in many markets left the industry due to the effects of the COVID-19 pandemic, and we may experience further staffing shortages again in the future. Local labor shortages may arise for other reasons, from time to time. If we are unable to hire, train and integrate a sufficient number of hospitality personnel when needed, if new hires perform poorly, or if we are unsuccessful in retaining existing employees, we may not be able to meet our business and growth objectives and provide effective guest services. A shortage of qualified hospitality personnel could also result in higher wages that would increase our labor costs, which could reduce our profits.

If we fail to attract new guests or generate repeat bookings from previous guests, our business, results of operations, and financial condition would be materially adversely affected.

Our success depends significantly on attracting new guests and securing repeat bookings from previous guests. Our ability to attract and retain guests could be materially and adversely affected by a number of factors, including:

- The impact of events beyond our control on demand for travel and accommodations in our markets, such as the COVID-19 pandemic or a future public health crisis, changes in government travel restrictions or policies, labor or civic unrest, war, travel-related incidents and weather;
- Failing to meet guests' expectations;
- Increased competition from other hotel and alternative accommodation providers;
- Any failure to provide differentiated, high-quality experiences at competitive prices;
- Guests not receiving timely and adequate customer/guest service support;
- Failure to provide new or enhanced amenities and services that guests value;
- Any disruptions in guests' access to properties or to the properties' amenities;
- Ineffectiveness of marketing efforts;
- Negative associations with, or failure to raise awareness of, our brand;
- Negative perceptions of the safety of our properties, including due to the absence of front desks or other traditional, onsite hotel staffing at some properties;
- Negative perceptions of the security of our app or website, including due to the security incident involving unauthorized access to one of our systems that included certain guest records, which we disclosed in November 2022, or any future data security incident; and
- Inflation, economic recessions or other macroeconomic factors, and other conditions outside of our control affecting travel and the hospitality industry generally.

In addition, we could fail to attract first-time guests or additional bookings from previous guests if our website and/or the Sonder app are not easy to navigate, if guests have an unsatisfactory sign-up, search, booking, payment, or check-in experience, if the listings and other content provided on our website or the Sonder app and on third-party listing platforms are not displayed effectively to guests, or if we fail to provide an experience that meets rapidly changing consumer preferences and travel needs, which could materially adversely affect our business, results of operations, and financial condition. If we fail to attract new guests or generate repeat bookings due to these or other factors, our revenues would suffer, we may not meet our financial projections or achieve or maintain profitability, and our business and planned expansion could be adversely affected.

We offer different types of hospitality services than traditional hospitality operators and short-term rental marketplaces, and if guest and property owner acceptance of this innovative approach to accommodations does not continue to grow or grows more slowly than we expect, our business, financial condition and results of operations could be adversely affected.

We offer a distinctive type of hospitality service for which the market is still relatively new, and it is uncertain to what extent market acceptance will continue to grow, if at all, and particularly during times of market volatility, rising interest rates, and general economic instability. Our success will depend on the willingness of potential guests and the market at large to widely adopt our particular model of hospitality services, which differs from both traditional hotels and short-term rental marketplaces such as Airbnb. In many geographies, including geographies that we hope to enter in the future, the market for our hospitality services is unproven, with little data or research available regarding the market and industry. If potential guests do not perceive our units' designs, amenities, location, or pricing to be attractive, or choose different accommodations due to concerns regarding safety, the availability of onsite staffing, amenities or services associated with traditional hotels, affordability or other reasons, then the market for our accommodations may not further develop, may develop more slowly than expected or may not achieve its expected growth potential. Such outcomes could adversely affect our business, financial condition, and results of operations.

Our growth also depends on the acceptance of our innovative business model by landlords and property developers, and on our ability to operate in markets without clear or well-established regulations covering properties used in our business. For these and other reasons, we may make errors in predicting demand and the supply of potential units in certain markets, which could cause us to spend more in a certain market than is justified by the resulting revenues, or to miss our financial targets, and could otherwise harm our business.

The hospitality market is highly competitive, and we may be unable to compete successfully with current or future competitors.

The hospitality market is highly competitive and fragmented. In addition, new competitors may enter the market at any time. Our current and potential competitors include global hotel brands, regional hotel chains, independent hotels, OTAs and short-term rental services. Numerous vacation, hotel and apartment rental listing websites and apps also compete directly with us for guests. Our competitors may continue to adopt aspects of our business model, which could reduce our ability to differentiate our services. For example, the COVID-19 pandemic caused some competitors, including traditional hotels, to introduce contactless check-in and self-service technologies that they did not previously offer, and to market their services to digital nomads, and has encouraged the development and rollout of in-room communications hubs and other technologies that may permit competitors to offer more technology-enabled guest services. Certain current and potential competitors may also offer inspiring designs at attractive locations or have greater economies of scale and other cost advantages that allow them to offer attractive pricing. We also compete with hotel operators, property rental and management companies, and others to secure leases for attractive properties to add to our portfolio. If we are unsuccessful in offering a distinctive combination of modern, technology-enabled service and superior design at an affordable price point, or are unable to lease new properties, we may be unable to compete effectively and may be unable to attract new or retain existing guests and landlords.

Additionally, current or new competitors may introduce new business models or services that we may need to adopt or otherwise adapt to in order to compete, which could reduce our ability to differentiate our business or services from those of our competitors. For example, some travel intermediaries, like OTAs, are entering into arrangements with hospitality providers that may compete with us more directly. Increased competition could result in a reduction in revenue, fewer attractive properties, higher lease rates, higher costs, or reduced market share.

We believe we compete for guests primarily on the basis of the quantity and quality of our units, the global diversity and attractiveness of our units, the quality of our guests' experience, and our customer service, brand identity and price. Competitive factors in our industry are subject to change, such as the increased emphasis on cleaning, social distancing and "healthy buildings" that occurred during the COVID-19 pandemic. If guests choose to use other competitive offerings in lieu of ours, our revenue could decrease, and we could be required to make additional expenditures to compete more effectively. Any of these events or results could harm our business, operating results and financial condition.

Many of our competitors enjoy substantial competitive advantages, such as greater name recognition in their markets, well-established guest loyalty programs, longer operating histories and larger marketing budgets, as well as substantially greater financial, technical and other resources. Many competitors operate restaurants or other amenities at their properties that our properties may not provide. Future competitors may also have these advantages compared to us. Moreover, the hospitality services industry has experienced significant consolidation, and we expect this trend may continue as companies attempt to strengthen or hold their market positions in a highly competitive industry. Consolidation among our competitors would give them increased scale and may enhance their capacity, abilities, and resources, and lower their cost structures. In addition, our current or potential competitors may have access to larger developer, landlord or guest bases. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, regulatory regimes, or landlord or guest requirements. Furthermore, because of these advantages, existing and potential landlords and guests might accept our competitors' offerings, even if they may be inferior to our own. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

We market our units through third-party distribution channels, and if such third parties do not perform adequately or terminate or modify their relationships with us, our business, financial condition, and results of operations could be adversely affected.

Our success depends in part on our relationships with third-party distribution channels to list our units online and raise awareness of our brand. In particular, we generate demand by marketing our units with OTAs, such as Airbnb, Booking.com, and Expedia. Bookings through these OTAs and other indirect channels accounted for over half of our revenues in the three and six months ended June 30, 2023. The terms of some of our agreements with these partners allow the partner to change or terminate terms at their discretion. If any of our partners terminate their relationship with us or refuse to renew their agreement with us on commercially reasonable terms, we would need to find alternate providers and may not be able to secure similar terms or replace such providers in acceptable time frames. Additionally, many of these OTAs have discretion in how units are listed or prioritized within their platform and may unilaterally reduce the visibility of our units. Our revenues could be adversely affected if our units are not featured prominently or accurately within OTA platforms for any reason, including changes in an OTA's relationship with us or its competitors, errors by an OTA, outages experienced by an OTA, disruptions in the interconnection of our systems with OTAs' systems, or otherwise. For example, certain of our units have been temporarily removed from OTAs' platforms due to misunderstandings about our units' regulatory status or misclassification of units by local regulators, resulting in lost revenue. If our relationship with an OTA is terminated or the OTA makes changes that reduce the prominence of our units on its platform, our revenue could be materially adversely affected.

Our relationships with OTAs and other distribution partners may shift as industry dynamics change, and these third parties may be less willing to partner with us as such shifts occur. For example, should a significant distribution partner adjust its platform to compete more directly with us, that partner may be more likely to promote and sell its own offerings, impose additional conditions on us or even cease listing our units. Similarly, if any significant distribution partner decided to sell another competitor's offerings over ours, it could adversely impact our sales and harm our business, operating results, and prospects.

Furthermore, any negative publicity related to any of our distribution partners, including any negative publicity related to quality standards, regulatory issues, or privacy or safety concerns at other properties listed by a particular channel partner, could adversely affect our reputation and brand, and could potentially lead to increased regulatory or litigation exposure.

Business generated through indirect channels could adversely affect guest loyalty and poses other risks to us.

Our strategy includes increasing the proportion of stays booked directly with us through our website, mobile app, and our sales personnel, but we may be unsuccessful in increasing direct bookings, and we expect to continue to rely to a significant extent on bookings through OTAs and other Internet-based travel intermediaries. In the three and six months ended June 30, 2023, over half of our revenues were attributable to bookings through OTAs and other indirect channels. Major Internet search companies also provide online travel services that compete with our direct bookings. If indirect channels increase in popularity, these intermediaries may be able to obtain higher commissions or other concessions from us. Some travel intermediaries are also entering into arrangements that compete with us more directly, such as partnering with hotel owners to provide access to technology or consumer data, or to operate under the intermediary's brand. Intermediaries may reduce bookings at our properties by de-emphasizing our properties in search results on their platforms, or requiring our listings to meet certain criteria, and other online providers may divert business away from our properties.

There can be no assurance that we will be able to negotiate or maintain favorable terms with intermediaries. Moreover, hospitality intermediaries generally employ aggressive marketing strategies, including significant advertising spending to drive consumers to their websites, and some consumers are conducting an increasing portion of their activities through so-called "super-apps." Consumers may develop brand loyalties to the intermediaries' brands, websites, apps and reservations systems rather than to ours. This may make our branding efforts less effective, reduce guest loyalty and recurring demand, and require us to increase our marketing expenses.

Our results of operations vary from period-to-period, and historical performance may not be indicative of future performance.

Our results of operations have historically varied from period-to-period, and we expect that our results of operations will continue to do so for a variety of reasons, many of which are outside of our control and difficult to predict. Because our results of operations may vary significantly from quarter-to-quarter and year-to-year, the results of any one period should not be relied upon as an indication of future performance. Our revenue, expenses, operating results and cash flows, as well as our key operating metrics, have fluctuated from quarter-to-quarter in the past and are likely to continue to do so in the future. These fluctuations are due to, or may result from, many factors, including:

- Changes in the number of our Live Units;
- Changes in Occupancy Rates and average length of stay (“LOS”), which dictate many turnover costs;
- Seasonal fluctuations in demand, in certain markets;
- Pricing fluctuations and the proportion of stays booked with extended stay discounts or promotional pricing;
- The introduction and performance of new properties, amenities, technologies and services, including how quickly new properties are ready for booking by guests;
- The effects of, and the extent to which we realize the expected benefits from, our Cash Flow Positive Plan;
- The timing, cost and success of advertising and marketing initiatives;
- The amount and timing of financing activities, operating expenses and capital expenditures;
- Changes in prevailing lease rates and any adjustments in rental rates under existing leases;
- Changes in cash flow due to lease signings, renewals and amendments and property openings;
- Changes in cash flow due to the unpredictability of guest cancellations;
- Changes in the cost of labor and supplies due to inflation and supply chain disruptions;
- Economic instability in major markets, and fluctuations in exchange rates;
- Declines or disruptions in the hospitality industry, particularly in cities or regions where we generate substantial revenue;
- The impact of natural disasters, and changes in the frequency and severity of natural disasters as a result of climate change;
- Changes in the mix of stays booked through indirect distribution channels, rather than directly with us, and any changes in distribution channels’ fees or relationships with us;
- Unanticipated disruptions or costs due to regulatory issues, including changes in short-term rental laws, hotel regulations, or zoning or accessibility laws;
- Litigation and settlement costs, including unforeseen attorneys’ fees and costs;
- The impact of the continuing COVID-19 pandemic or other public health crises;
- New accounting pronouncements and changes in accounting standards or practices, particularly any affecting the recognition of revenue as well as accounting for leases;
- Fluctuations in the fair value of certain of our warrants, the Earn Out related to the Business Combination, and other instruments carried at fair value, which have required and may in the future require us to record non-cash gains or losses in our quarterly results of operations, which may be material and which are driven by changes in our stock price and other factors outside of our control;
- Any impairments of the right-of-use assets recorded with respect to our operating leases, or other impairments of long-lived assets, that may be recorded if there are any events or changes in circumstances that indicate that the carrying amount of the long-lived asset might not be recoverable, which would result in additional non-cash expenses in our results of operations;
- New laws or regulations, or new interpretations of existing laws or regulations, that harm our business or restrict short-term rentals, the hospitality industry, travel, the Internet, e-commerce, online payments, or online communications; and
- Other risks described elsewhere herein.

Fluctuations in operating results may, particularly if unforeseen, cause us to miss projections or guidance we may have provided to the public. In addition, a significant portion of our expenses and investments, such as our leases, are fixed and such fluctuations in operating results may cause us to face short-term liquidity issues, impact our ability to retain or attract key personnel or expand our portfolio of properties, or cause other unanticipated issues. Company-wide margins may also be difficult to predict because a significant portion of the property portfolio will still be opening or only recently operating at any point in time, and therefore will not be comparable to the profitability of more mature units. In addition, seasonal fluctuations obscure important trends in key metrics such as Free Cash Flow, which may fall below the expectations of investors or securities analysts and cause our stock price to fluctuate or decline. As a result of the potential variability in our quarterly revenue and operating results, we believe that quarter-to-quarter comparisons of our revenue and operating results may not be meaningful, and the results of any one quarter should not be relied upon as an indication of future performance.

Certain of the measures we use to evaluate our operating performance are subject to inherent challenges in measurement and may be subject to future adjustments.

We track certain operational metrics, including key performance indicators such as Live Units, Contracted Units, Total Portfolio, Room Nights Booked, Bookable Nights, Occupied Nights, Occupancy Rate, Average Daily Rate (“ADR”), and RevPAR, with internal systems and tools that are not independently verified by any third party.

While the metrics presented herein are based on what we believe to be reasonable assumptions and estimates, our systems and tools have a number of limitations, and our methodologies for tracking these metrics may change over time. In addition, limitations or errors with respect to how we measure data or with respect to the data that we measure may affect our understanding of certain details of our business, which could affect our long-term strategies. If the internal systems and tools we use to track these metrics understate or overstate key performance indicators or contain other technical errors, the data we report or rely upon for planning and forecasting may not be accurate. If investors do not perceive our operating metrics to be accurate, or if we discover material inaccuracies with respect to these figures, our reputation may be significantly harmed, and our results of operations and financial condition could be adversely affected.

Our business depends on our reputation and the strength of our brand, and any deterioration could adversely impact our market share, revenues, business, financial condition, or results of operations.

Our business depends on our reputation and the strength of our brand. We believe that the strength of our reputation and brand are important to our ability to attract and retain guests, to compete for attractive new properties, and to establish and preserve good relationships with the communities in which we operate and with local governmental authorities and regulators. Many factors can affect our reputation and the strength of our brand, including:

- The quality of guest service and the guest experience, and the nature and severity of guest complaints;
- Guest safety and their perception of safety;
- Guest privacy and data security practices, and any breaches of privacy or data security, including the security incident involving unauthorized access to one of our systems, which included certain guest records, that we announced in November 2022;
- Publicized incidents in or around our properties;
- Employee and labor relations;
- Any local concerns about perceived over-tourism or the effect of new hotels or other accommodations on affordable housing, noise or neighborhood congestion;
- Our support for local communities, and other community relations matters;
- Our approach to supply chain management, sustainability, human rights, diversity, equity, and inclusion (“DEI”), and other matters relating to corporate social responsibility;
- The extent to which we operate properties that carry the owner’s branding or are co-branded with us;
- Our ability to protect and use our brand and trademarks; and
- Any perceived or alleged non-compliance with regulatory requirements.

Reputational value is also based on perceptions, and broad access to social media makes it easy for anyone to provide public feedback that can influence perceptions of us, our brand, and our properties. It may be difficult to control or effectively manage negative publicity, regardless of whether it is accurate.

Our ability to control our reputation and brand is also limited due to the role of third parties in our business. For example, guests who book stays through OTAs and other indirect channels sometimes have issues with their bookings that we do not control, such as refund and cancellation terms, which may result in disputes or otherwise negatively affect our reputation. We also rely on third-party companies to provide some guest services, including housekeeping and linen services at many of our locations, and remote guest support. We do not directly control these companies or their personnel. We also depend upon our landlords to perform important maintenance and other functions at our properties, particularly in common areas, and at many properties we do not control access to or amenities at the entire building, including pools, gyms and food and beverage services. Guest complaints or negative publicity about our properties, services or business activities, due to our own operations or actions or omissions of third parties, could diminish consumer confidence in the Sonder brand and impair our relationships with guests, landlords, governmental authorities, local residents, third-party business partners, and others that are important to our business.

We are involved in and may in the future become involved in claims, lawsuits, and other proceedings that could adversely affect our business, financial condition, and results of operations.

We are involved in various legal proceedings relating to matters incidental to the ordinary course of our business and may be subject to additional legal proceedings from time to time. Such legal actions include tort and other general liability claims, employee claims, consumer protection claims, violation of privacy claims, commercial disputes, claims by guests, claims under state and federal law, intellectual property claims, and disputes with landlords. For example, in August 2023, a purported class action lawsuit was filed against the Company asserting claims based on the Company's alleged failure to secure and safeguard the personally identifiable information of the putative class. For a discussion of this lawsuit, see the section entitled "Legal Proceedings" herein. Due to the potential risks, expenses, and uncertainties of litigation, we may, from time to time, settle disputes even where we have meritorious claims or defenses. We may also be the subject of subpoenas, requests for information, reviews, investigations, and proceedings (both formal and informal) by governmental agencies regarding our business activities. Legal and regulatory proceedings can be time-consuming, divert management's attention and resources, and cause us to incur significant expenses or liability for substantial damages. The timing and amount of these expenses and damages are difficult to estimate and subject to change, and they could adversely affect our business, financial condition, and results of operations.

We may be subject to liability for the activities of our guests or other incidents at our properties, which could harm our reputation and increase our operating costs.

We may be subject to claims of liability based on events that occur during guests' stays, including those related to robbery, injury, illness, death, physical damage to property, and other similar incidents. These claims could increase our operating costs and adversely affect our business and results of operations, even if they do not result in liability, as we may incur costs related to investigation and defense. This risk is heightened due to the fact that, in many cases, we do not control access to certain areas of buildings in which our units are located. From time to time, we must also spend time and resources resolving issues with guests who remain past their paid stay, which results in lost revenue and higher costs. If we are subject to additional disputes, liability or claims of liability relating to the acts of our guests, third parties in or around our leased properties (including residents of these properties who are not our guests) or the condition of the leased properties, we may be subject to negative publicity, incur additional expenses, face regulatory or governmental scrutiny, and be subject to liability, any of which could harm our business and operating results.

We are subject to claims and liabilities associated with potential health and safety issues and hazardous substances at our properties.

We and the developers and owners of our leased properties are exposed to potentially significant liabilities and compliance costs as a result of any hazardous or unsafe conditions at our properties, including under environmental, health and safety laws and regulations. These laws and regulations govern matters such as the release, use, storage, and disposal of hazardous and toxic substances, such as asbestos, mold, radon gas, or lead, and unsafe or unhealthy conditions at hotels and other residential premises. Failure to comply with these laws, including any required permits or licenses, can result in substantial fines or possible revocation of our authority to conduct operations. Any impairment of our or our landlords' authority to permit hospitality operations at our leased properties, due to these factors, could harm our reputation and revenue. We could also be liable under environmental, health and safety laws for the costs of investigation, removal, or remediation of hazardous or toxic substances or unsafe or unhealthy conditions at our currently or formerly leased or managed properties, even if we did not know of or cause the presence or release of the substances or conditions, and even where this is contractually the responsibility of our landlord.

The presence or release of toxic, unhealthy or hazardous substances or conditions at our properties could result in governmental investigations and third-party claims for personal injury, property or natural resource damages, business interruption or other losses, and costly disputes with our landlords and guests. For example, we have engaged in litigation with one of our landlords relating to the presence of toxic mold at one property, and we have faced expensive and disruptive claims relating to Legionella bacteria contamination in the water supply at another property, including lawsuits by guests. We expect to encounter claims, governmental investigations and potential enforcement actions about property conditions and related matters in the future. These claims and the need to investigate, remediate or otherwise address hazardous, toxic, or unsafe conditions could adversely affect our business, reputation, results of operations and financial condition. Environmental, health and safety requirements have also become increasingly stringent, and our costs may increase as a result. New or revised laws and regulations or new interpretations of existing laws and regulations, such as those related to climate change, could affect the operation of our properties or result in significant additional expense and restrictions on our business operations.

We rely on our third-party landlords to deliver properties to us in a safe and suitable condition, and in most cases we do not undertake to independently verify the safety, suitability or condition of the properties we lease. We expect to continue to rely on landlords to disclose information about their properties, though such disclosures may be inaccurate or incomplete, and to keep the properties in a safe and compliant condition in accordance with the terms of our leases and applicable law. If unsafe or unhealthy conditions are present or develop at our properties, our guests may be harmed, we may be subject to expensive and disruptive claims, and our reputation, business, results of operations, and financial condition could be materially and adversely affected. In certain cases, we may undertake to terminate a lease based on a landlord’s failure to remediate an unsafe or unhealthy condition at the property, in which case we could be subject to costly litigation which could harm our business and operating results.

We are subject to the risk of financial and reputational damage due to fraud.

We have from time to time experienced, and expect to continue to experience, fraud in connection with bookings and payments. The methods used by perpetrators of fraud are complex and constantly evolving. We devote substantial resources to trust and security measures, but they may not detect all fraudulent activity or prevent stays that are disruptive or harmful to neighbors or other guests. As a result, we expect to continue to receive complaints from guests and requests for reimbursement of their payments, as well as actual or threatened related legal action against us, due to fraudulent activity or the actions of persons booking stays under false pretenses.

We depend on our key personnel and other highly skilled personnel, and if we fail to attract, retain, motivate or integrate our personnel, our business, financial condition and results of operations could be adversely affected.

Our success depends to a significant degree on the continued service of our founders, senior management team, key technical, financial and operations employees and other highly skilled personnel and on our ability to identify, hire, develop, promote, motivate, retain, and integrate highly qualified personnel for all areas of our organization. We may not be successful in attracting and retaining qualified personnel to fulfill our current or future needs. In addition, all of our U.S.-based employees, including our management team, work for Sonder on an at-will basis, and there is no assurance that any such employee will remain with us. Competitors may be successful in recruiting and hiring members of our management team or other key employees, and it may be difficult to find suitable replacements on a timely basis, on competitive terms or at all. If we are unable to attract and retain the necessary personnel, particularly in critical areas of our business, we may not achieve our strategic goals.

We face intense competition for highly skilled personnel in all areas of our business, and the move by companies to offer a remote or hybrid work environment may increase the competition for employees. To attract and retain top talent, we have had to offer, and we believe we will need to continue to offer, competitive compensation and benefits packages. Job candidates and existing personnel often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, including due to the decline in our stock price since the consummation of the Business Combination, it may adversely affect our ability to attract and retain highly qualified personnel.

Volatility or lack of performance in our stock price may also affect our ability to attract and retain employees. The value to employees of stock options that vest over time may be significantly affected by decreases in our stock price (whether or not related to or proportional to our operating performance) and may at any time be insufficient to counteract more lucrative offers from other companies. We may face challenges in retaining and recruiting such individuals due to sustained declines in our stock price that could reduce the retention value of equity awards.

Our continued focus on operational efficiencies, particularly after the restructuring that we announced in June 2022 and the additional reduction in corporate headcount that we announced on March 1, 2023, may cause additional uncertainty among existing and prospective employees, which may make it more difficult to retain or attract highly qualified personnel for important roles. We may need to invest significant amounts of cash and equity to attract and retain new employees and expend significant time and resources to identify, recruit, train and integrate such employees, and we may never realize returns on these investments. In addition, prolonged remote work, as well as the impacts of COVID-19 more generally, introduced new dynamics into the households of many of our employees, including struggling with work-life balance, and we experienced and may continue to experience higher levels of attrition. If we are unable to effectively manage our hiring needs or successfully integrate new hires, or effectively retain current employees, our efficiency, ability to meet forecasts and employee morale, productivity and retention could suffer, which could adversely affect our business, financial condition, and results of operations.

We are subject to risks associated with the employment of hospitality personnel, particularly at locations that employ unionized labor, and the use of third-party guest services contractors.

Our hospitality employees and other guest services personnel are critical to our ability to add properties, maintain our units, enhance the guest experience, and attract and retain guests. If our relationship with employees in any city or at any key property, or within our central guest services function, deteriorates for any reason, our reputation, guest relationships and revenue may suffer, and we may incur costs to replace and retrain additional personnel or third-party contractors. In addition, many of our guest services representatives and housekeepers who provide services to us and our guests are employed by third-party agencies, which we do not control. Our business and reputation could be harmed in the event of any dispute with these agencies by their staff or with us, or if their staff do not provide services that meet our or our guests' standards and expectations. Guest services, live support for guest bookings, and our expenses may also be adversely affected by any event that disrupts the operations of our third-party guest services contractors. For example, the typhoon that struck the Philippines in December 2021 disrupted our outsourced service center there, causing temporary delays in guest responses and other temporary disruptions in our operations. In addition, labor costs are a significant component of our operating expenses, and any increase in the cost of wages, benefits or other employee-related costs could cause our results of operations and cash flow to be lower than anticipated. Certain cities have also adopted re-hiring ordinances and other requirements with respect to hotel and other hospitality employees, and these and other employment regulations may increase our costs and impair our operations.

Like other businesses in the hospitality industry, we may be adversely affected by organized labor activity. Certain of our non-U.S. employees are currently represented by labor unions and/or covered by a collective bargaining agreement. Union, worker council or other organized labor activity may occur at other locations. We cannot predict the outcome of any labor-related proposal or other organized labor activity. Increased unionization of our workforce or other collective labor action, new labor legislation or changes in regulations could be costly, reduce our staffing flexibility or otherwise disrupt our operations, and reduce our profitability. From time to time, hospitality operations may be disrupted because of strikes, lockouts, public demonstrations or other negative actions and publicity involving employees and third-party contractors. We may also incur increased legal costs and indirect labor costs because of disputes involving our workforce. The resolution of labor disputes or new or renegotiated labor contracts could lead to increased labor costs, which are a significant component of our operating costs, either by increases in wages or benefits or by changes in work rules that raise operating costs. Labor disputes and disruptions may also occur within landlords' workforces at buildings we occupy, which could harm our guests' experience and reduce bookings at the affected property.

We have identified material weaknesses in our internal control over financial reporting and may identify material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our consolidated financial statements.

We identified material weaknesses in our internal control over financial reporting as of December 31, 2022 and 2021, which, if not remediated, could affect the reliability of our consolidated financial statements and have other adverse consequences. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

We previously identified material weaknesses that related to our financial closing and reporting process and to our general information technology controls in 2020, which had been remediated as of December 31, 2021. However, we have identified material weaknesses in internal control over financial reporting as of December 31, 2022 and 2021, that we are currently working to remediate, related to (i) the process to capture and record lease agreements timely and accurately and (ii) the processes in place to design and test the operating effectiveness of internal control over financial reporting in a timely manner and to monitor and provide oversight over the completion of our assessment of internal controls over financial reporting.

We have concluded that these material weaknesses in our internal control over financial reporting are due to the fact that we have not had the necessary business processes and related internal controls formally designed and implemented for a sufficient period of time.

To remediate the material weakness related to the process to capture and record lease agreements timely and accurately, we have identified improvements related to our lease administration process that we plan to implement in 2023 and will provide additional training to personnel responsible for the relevant controls. Analysis and testing of the controls will be performed throughout 2023, at which time we will make a determination on whether the material weakness has been fully remediated.

To remediate the material weakness related to the process in place to design, test the operating effectiveness of, monitor, and provide oversight over our assessment of internal controls over financial reporting, we have invested in additional resources with the requisite skills and improved our process and controls over financial reporting. However, these remediation efforts have not operated for a sufficient period of time, and as such, we will continue the efforts throughout 2023, at which time we will make a determination on whether the material weakness has been fully remediated. Our inability to remediate this material weakness may make it more difficult for us to make a determination about the remediation of any of our material weaknesses in internal controls.

Although we remain committed to taking actions to remediate these material weaknesses in our internal control over financial reporting as we work to enhance our control environment, we can give no assurance that our efforts will succeed in remediating these deficiencies in internal control over financial reporting or that additional material weaknesses in our internal control over financial reporting will not be identified in the future.

Pursuant to the SEC rules that implement Section 404 of the Sarbanes-Oxley Act, as a public company, we are required to make a formal assessment of the effectiveness of our internal control over financial reporting, and once we cease to be an emerging growth company, we will be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To achieve compliance with these requirements within the prescribed time period, we have engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants, and adopt a detailed work plan to assess and document the adequacy of our internal control over financial reporting, validate through testing that controls are functioning as documented, and implement a continuous reporting and improvement process for internal control over financial reporting. Despite our efforts, there is a risk that we will not be able to conclude, within the prescribed time period or at all, that our internal control over financial reporting is effective as required by Section 404 of the Sarbanes-Oxley Act. Moreover, our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses.

Our failure to remediate any material weaknesses, and to implement and maintain effective internal control over financial reporting, could result in errors in our consolidated financial statements, including errors that could result in a restatement of our consolidated financial statements, and could cause us to fail to meet our reporting obligations and result in other adverse consequences, such as potential delisting from Nasdaq, other regulatory investigations and civil or criminal sanctions, or claims or litigation against us, any of which could diminish investor confidence in us and cause a decline in the price of our common stock and publicly traded warrants.

If we fail to maintain effective disclosure controls, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired, which may adversely affect investor confidence in us and, as a result, the market price of our common stock.

As a public company, we are required to comply with the requirements of the Sarbanes-Oxley Act, including, among other things, that we maintain effective disclosure controls and procedures. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers.

Any failure to implement and maintain effective disclosure controls and procedures could cause investors to lose confidence in the accuracy and completeness of our financial statements and reports, which would likely adversely affect the market price of our publicly traded securities and could subject us to claims, litigation, and/or potential delisting from Nasdaq. In addition, we could be subject to sanctions or investigations by the stock exchange on which our securities are listed, the SEC and other regulatory authorities.

If we are unable to adapt to changes in technology, our business could be harmed.

Our website and mobile app, and the technology-enabled features of our units, are critical to our business, and guests increasingly demand technology-driven features and amenities when they seek accommodations. Therefore, we will need to continuously modify and enhance our services and business systems to keep pace with technological changes. We may not be successful in developing necessary, functional, and popular modifications and enhancements. Furthermore, uncertainties about the timing and nature of these necessary changes could result in unplanned research and development expenses which could result in a failure to meet our financial projections or divert resources from other business initiatives. In addition, if our properties, website or mobile app, or internal systems fail to operate effectively with future technologies, we could experience guest dissatisfaction, lost revenue, difficulties in providing customer service or adding new properties to our portfolio, or other disruptions in our operations, any of which could materially harm our business.

We rely on certain third-party technologies and services, and any failures of or defects in these technologies or any inability to obtain or integrate third-party technologies could harm our business.

We rely on software and other technologies and services supplied by third parties to provide certain services to us and our guests, including internal communications, customer service communications, web hosting, payment processing of guest credit cards, fraud prevention, lease management, accounting and other internal functions, and other technologies employed to facilitate bookings and guests' use and enjoyment of our properties, such as digital locks and streaming television services. As new technology is developed, integration of our products and services with one another and other companies' offerings creates an increasingly complex ecosystem that is also partly reliant on third parties. Our business may be adversely affected to the extent such software, services and technologies contain errors or vulnerabilities, are compromised or experience outages, or otherwise fail to meet expectations. Errors, outages, vulnerabilities and other issues with third-party software, services and technologies have occurred in the past, and additional issues can be expected to occur in the future. Third-party vendors may also fail to provide timely and effective support. Our increasing reliance on third parties for technology development and support may also subject us to additional risks, including potential challenges in protecting our intellectual property rights in the related technology, and reduced control over the individuals working on our technology projects. Any of these risks could increase our costs and adversely affect our business, financial condition, and results of operations. In addition, we are in the process of implementing additional third-party systems and other infrastructure, and we may encounter unexpected difficulties or disruptions in implementing or integrating these systems, possibly including disruptions to critical systems or other unanticipated effects on existing systems or other concurrent technology development projects.

When we incorporate technology from third parties with our technology or otherwise use it to operate our business, we cannot be certain that our licensors are not infringing the intellectual property rights of others or that our suppliers and licensors have sufficient rights to the technology in all jurisdictions in which we may operate. If we are unable to obtain or maintain rights to any of this technology because of intellectual property infringement claims brought by third parties against our suppliers and licensors or against us, our ability to operate some aspects of our business could be severely limited and our business could be harmed. In addition, some of our license agreements may be terminated by our licensors for convenience. If we are unable to obtain necessary technology from third parties, we may be forced to acquire or develop alternate technology, which may require significant time and effort and may be of lower quality or performance standards. This would limit and delay our ability to provide new or competitive offerings and increase our costs. In addition, we may be unable to enter into new agreements on commercially reasonable terms or develop our own technologies and amenities relying on or containing technology previously obtained from third parties. If alternate technology cannot be obtained or developed, we may not be able to offer certain functionality to our guests or manage our business as we had intended, which could adversely affect our business, financial condition, and results of operations.

See the risk factor titled "*Our processing, storage, use and disclosure of personal data and other sensitive data expose us to risks of internal or external security breaches and has given rise and could give rise to regulatory investigations or actions; litigation; fines and penalties; disruptions of our business operations; reputational harm; loss of revenue or profits; loss of guest loyalty or sales; and other adverse consequences*" for further information concerning certain risks related to our reliance on third parties.

We rely on third-party payment processors to process payments made by guests, and if we cannot manage our relationships with such third parties and other payment-related risks, our business, financial condition and results of operations could be adversely affected.

We rely on third-party payment processors to process payments made by guests. If any of our third-party payment processors terminates its relationship with us or refuses to renew its agreement with us on commercially reasonable terms, we would need to find alternate payment processors, and we may not be able to secure similar terms or replace such payment processors in an acceptable time frame. Furthermore, the software and services provided by our third-party payment processors may fail to meet our expectations, contain errors or vulnerabilities, be compromised or experience outages. Any of these risks could cause us to lose our ability to accept online payments or other payment transactions or make timely payments to landlords, any of which could adversely affect our ability to attract and retain guests or disrupt our operations.
Nearly all payments made to us by our guests are made by credit card, debit card or through a third-party payment service, which subjects us to certain regulations and to the risk of fraud. We may in the future offer new payment options to guests that may be subject to additional regulations and risks. We are also subject to a number of other laws and regulations relating to the payments we accept from our guests, including with respect to money laundering, money transfers, privacy,
and information security, and these regulations may differ by locality and can be expected to change over time.

Our processing, storage, use and disclosure of personal data and other sensitive data expose us to risks of internal or external security breaches and has given rise and could give rise to regulatory investigations or actions; litigation; fines and penalties; disruptions of our business operations; reputational harm; loss of revenue or profits; loss of guest loyalty or sales; and other adverse consequences.

In the ordinary course of business, we collect, receive, store, process, generate, use, transfer, disclose, make accessible, protect, secure, dispose of, transmit, and share (collectively, processing) personal data and other sensitive information, including proprietary and confidential business data, trade secrets, intellectual property, sensitive third-party data, business plans, transactions, and financial information (collectively, sensitive data). The security of this sensitive data, including guests' personal data, is essential to maintaining consumer confidence in our services. Among other things, we may collect guests' name, birthdate, credit card data, proof of identity (including government-issued identification numbers and images of government-issued identification documents) and other personal information as part of the booking process. Cyber-attacks, malicious internet-based activity, online and offline fraud, and other similar activities threaten the confidentiality, integrity, and availability of our sensitive information and information technology systems, and those of the third parties upon which we rely. Such threats are prevalent and continue to rise, are increasingly difficult to detect, and come from a variety of sources, including traditional computer "hackers," threat actors, "hacktivists," organized criminal threat actors, personnel (such as through theft or misuse), sophisticated nation states, and nation-state-supported actors. Some actors now engage and are expected to continue to engage in cyber-attacks, including without limitation nation-state actors for geopolitical reasons and in conjunction with military conflicts and defense activities.

We and the third parties upon which we rely are subject to a variety of evolving threats, including but not limited to social-engineering attacks (including through phishing attacks), malicious code (such as viruses and worms), malware (including as a result of advanced persistent threat intrusions), denial-of-service attacks (such as credential stuffing), credential harvesting, personnel misconduct or error, ransomware attacks, supply-chain attacks, software bugs, server malfunctions, software or hardware failures, adware, telecommunications failures, earthquakes, fires, floods, and other similar threats. Any security breach whether instigated internally or externally on our systems or third-party systems could significantly harm our reputation and therefore our business, brand, market share and results of operations. In particular, severe ransomware attacks are becoming increasingly prevalent and can lead to significant interruptions in our operations, loss of sensitive data and income, reputational harm, and diversion of funds. Extortion payments may alleviate the negative impact of a ransomware attack, but we may be unwilling or unable to make such payments due to, for example, applicable laws or regulations prohibiting such payments. We have experienced targeted and organized phishing and account takeover attacks and may experience more in the future. These risks are likely to increase as we expand our business, integrate our products and services with those of third parties or at new properties, and store and process more data, including personal data, and as the use of generative artificial intelligence may permit more automated and effective attacks. Our efforts to protect information from unauthorized access may be unsuccessful or may result in the rejection of legitimate attempts to book reservations, each of which could result in lost business and have a material adverse effect on our business, reputation, and results of operations.

In addition, our reliance on third-party service providers could introduce new cybersecurity risks and vulnerabilities, including supply-chain attacks, and other threats to our business operations. We rely on third-party service providers and technologies to operate critical business systems to process sensitive data in a variety of contexts, including, without limitation, cloud-based infrastructure, data center facilities, employee email, content delivery to guests, and other functions. We also rely on third-party service providers to provide other products, services, or technologies. Our ability to monitor these third parties' information security practices is limited, and these third parties may not have adequate information security measures in place. If our third-party service providers experience a security incident or other interruption, we could experience adverse consequences. While we may be entitled to damages if our third-party service providers fail to satisfy their privacy or security-related obligations to us, any award may be insufficient to cover our damages, or we may be unable to recover such award. In addition, supply-chain attacks have increased in frequency and severity, and we cannot guarantee that third parties' infrastructure in our supply chain or our third-party partners' supply chains have not been compromised. See the risk factor titled "*We rely on certain third-party technologies and services, and any failures of or defects in these technologies or any inability to obtain or integrate third-party technologies could harm our business*" for further information concerning certain risks inherent to our reliance on third parties.

Any of the previously identified or similar threats could cause a security incident or other interruption that could result in unauthorized, unlawful, or accidental acquisition, modification, destruction, loss, alteration, encryption, disclosure of, or access to our sensitive data or our information technology systems, or those of the third parties upon whom we rely. A security incident or other interruption could disrupt our ability (and that of third parties upon whom we rely) to provide our services.

We may expend significant resources or modify our business activities to try to protect against security incidents. Additionally, certain data privacy and security obligations may require us to implement and maintain specific security measures or industry-standard or reasonable security measures to protect our information technology systems and sensitive data.

Our existing security measures may not be successful in preventing security breaches and other incidents. For example, in November 2022, we received an email from an unknown threat actor alleging to have accessed certain sensitive data. We immediately commenced an investigation and discovered that a single account in one of our cloud-hosted accounts containing information regarding certain guests, including name, address, email address, phone number, date of birth, government-issued photo identification, last four digits of credit card number, username, guest transaction receipts, IP address, and/or dates booked for past stays at Sonder properties, had been subject to unauthorized access. Upon discovery, we took immediate steps to address the incident, including disabling the threat actor's access to the single cloud-hosted account at issue, engaging outside counsel and forensic specialists to help determine the nature and scope of the incident, and notifying law enforcement, and we have notified affected consumers and regulators in accordance with applicable law. We have also experienced targeted and organized phishing and account takeover attacks and may experience more in the future. Additionally, while we take steps to detect and remediate vulnerabilities, we may not be able to detect and remediate all vulnerabilities in part because the threats and techniques used to exploit the vulnerability change frequently and are often sophisticated in nature. Therefore, such vulnerabilities could be exploited but may not be detected until after a security incident has occurred. These vulnerabilities may pose material risks to our business, including the risk that they result in material weaknesses in our internal controls over financial reporting. We identified and believe that we have remediated one such weakness in connection with the audit of our 2020 financial statements, , but we may experience or identify additional information security vulnerabilities. Further, we may experience delays in developing and deploying remedial measures designed to address any such identified vulnerabilities.

Security incidents, including the aforementioned, whether actual or perceived, experienced by us or third parties on whom we rely may result in adverse consequences, such as government enforcement actions (for example, investigations, fines, penalties, audits, and inspections); additional reporting requirements and/or oversight; restrictions on processing sensitive data (including personal data); litigation (including class claims); indemnification obligations; negative publicity; reputational harm; monetary fund diversions; interruptions in our operations (including availability of data); financial loss; and other similar harms. For example, in August 2023, a purported class action lawsuit was filed against the Company asserting claims based on the Company's alleged failure to secure and safeguard the personally identifiable information of the putative class. For a discussion of this lawsuit, see the section entitled "Legal Proceedings" herein. Security incidents and attendant consequences may cause guests to stop using our services, deter new guests from using our services, and negatively impact our ability to grow and operate our business, including by damaging our reputation. We incur costs in an effort to detect and prevent security breaches and other security-related incidents and we expect our costs will increase as we make improvements to our systems and processes designed to prevent further breaches and incidents. In the event of a future breach or incident, we could be required to expend additional significant capital and other resources in an effort to prevent further breaches or incidents, which may require us to divert substantial resources. Moreover, we could be required or otherwise find it appropriate to expend significant capital and other resources to respond to, notify third parties of, and otherwise address the incident or breach and its root cause. These issues are likely to become more difficult to manage as we expand the number of jurisdictions where we operate and the number and variety of services we offer, and as the tools and techniques used in such attacks become more advanced. Our insurance policies have coverage limits and deductibles and such insurance coverage may not be adequate to reimburse us for any or all losses caused by security breaches or incidents or otherwise related to our data privacy and security obligations, and we cannot be sure that such coverage will continue to be available on commercially reasonable terms or at all. Additionally, our contracts may not contain limitations of liability, and even where they do, there can be no assurance that limitations of liability in our contracts are sufficient to protect us from liabilities, damages, or claims related to our data privacy and security obligations.

System capacity constraints or system or operational failures could materially adversely affect our business, results of operations, and financial condition.

Since our founding, we have experienced rapid growth in consumer traffic to our website and usage of our app, and our portfolio of properties has grown and diversified. If our technologies, systems, and network infrastructure cannot be expanded or are not scaled to cope with increased demand or fail to perform, we could experience unanticipated disruptions in bookings and guest service, slower response times, decreased guest satisfaction, and delays in launching new properties and markets.

In the event of certain system failures, we may not have back-up systems, or may be unable to switch to back-up systems immediately, and the time to full recovery could be prolonged. We have experienced system failures from time to time, including failures of important guest-facing systems such as keyless entry systems at guest properties. In addition to placing increased burdens on our engineering staff, these outages can create a significant number of guest issues and complaints that need to be resolved by our guest services team. Any unscheduled interruption in our service could result in an immediate and significant loss of revenue, an increase in guest support costs (including refunds and reimbursements), and harm our reputation, and could result in some consumers switching to competitors or making claims against us. If we experience frequent or persistent system failures, our brand and reputation could be permanently and significantly harmed, and our business, results of operations, and financial condition could be materially adversely affected. Our ongoing efforts to increase the reliability of our systems will be expensive and may not be completely effective in reducing the frequency or duration of unscheduled downtime or in system errors affecting guest experience or our operations. We do not carry business interruption insurance sufficient to compensate us for all losses that may occur.

We use both internally developed systems and third-party systems to operate our mobile app, website and other critical infrastructure, including transaction and payment processing, and financial and accounting systems, and certain technology-enabled features at guest properties. We cannot guarantee the reliability or availability of third-party systems. If the number of consumers using our website increases substantially, or if critical internally developed or third-party systems stop operating as designed, we may need to significantly upgrade, expand, or repair our systems and other infrastructure. We may not be able to upgrade our systems and infrastructure to accommodate such conditions in a timely manner, and our systems could be impacted for a meaningful period of time, which could materially adversely affect our business, results of operations, and financial condition. The software underlying our services is highly complex and may contain undetected errors or vulnerabilities, some of which may only be discovered after the code has been released. Any errors or vulnerabilities discovered in our code after release could result in damage to our reputation, loss of guests, disruption to our sales channels, loss of revenue, or liability for damages, any of which could adversely affect our growth prospects and business.

Disruptions in Internet access or guests' usage of their mobile devices could harm our business.

Our business depends on the performance and reliability of the Internet, telecommunications network operators, and other infrastructures that are not under our control. Our revenue and guest experience are also heavily dependent on consumers' ability to interact with our mobile app and guest services functions using their mobile devices. Accordingly, we depend on consumers' access to the Internet through mobile carriers and their systems and on centralized and property-level systems' Internet access, which has been in the past and may be in the future subject to outages and other disruptions. Disruptions in Internet access, whether generally, in a specific region or otherwise, could materially adversely affect our business, results of operations, and financial condition.

Supply chain interruptions may increase our costs or reduce our revenues.

We depend on good vendor relationships and the effectiveness of our supply chain management systems to ensure reliable and sufficient supply, on reasonably favorable terms, of materials used in our renovation, building openings and operating activities, such as furniture, linens, unit decor and appliances, lighting, security equipment and consumables. The materials we purchase and use in the ordinary course of our business are sourced from a wide variety of suppliers around the world, including Vietnam, China, India, and the United States. Disruptions in the supply chain (including those that resulted from the COVID-19 pandemic and may result from other public health crises), weather-related events, natural disasters, trade restrictions, tariffs, cyber-attacks, increases in interest rates, inflationary pressures, border controls, acts of war, terrorist attacks, third-party strikes, work stoppages or slowdowns, shipping capacity constraints, supply or shipping interruptions or other factors beyond our control. In the event of disruptions in our existing supply chain, the labor and materials we rely on in the ordinary course of our business may not be available at reasonable rates or at all. In some cases, we may rely on a single source for procurement of furniture or other supplies in a given region. Our supply chain also depends on third-party warehouses and logistics providers, including a central distribution center in Texas and smaller warehouses in other markets. Any disruption in the supply, storage, or delivery of materials to our leased properties could disrupt operations at our existing locations or significantly delay our opening of a new location, which may cause harm to our reputation and results of operations.

We may be subject to liability claims and our insurance may be inadequate to wholly cover our losses.

We are subject to various types of claims and liabilities in the operation of our business. Despite the procedures, systems, and internal controls we have implemented to avoid or mitigate risks, we may experience claims and incur liabilities, whether through a weakness in these procedures, systems and internal controls, or because of negligence or the willful act of an employee, contractor, guest or other third party. Our insurance policies may be inadequate to wholly cover the potentially significant losses that may result from claims arising from incidents related to our units or leased properties, guest or employee acts or omissions, disruptions in our service, including those caused by cybersecurity incidents, failures or disruptions to our infrastructure, catastrophic events, and disasters or otherwise. In addition, such insurance may not be available to us in the future on economically reasonable terms, or at all. Further, the insurance may not cover all claims made against us and may not cover potentially significant attorneys' fees, and defending a suit, regardless of its merit, could be costly and divert management's attention.

Our business is subject to the risks of earthquakes, fire, floods, and other catastrophic events.

A significant natural disaster could materially adversely affect our business, results of operations, financial condition, and prospects. In addition, climate change could result in an increase in the frequency or severity of natural disasters and cause performance problems with our technology infrastructure.

Although we maintain incident management and disaster response plans, in the event of a major disruption caused by a natural disaster (such as the typhoon that struck the Philippines in December 2021 and disrupted our outsourced service center there) or man-made problem, or outbreak of pandemic diseases or other public health crises, including COVID-19, we may be unable to continue our operations and may experience system interruptions and reputational harm. Acts of terrorism and other geopolitical unrest or armed conflict, such as the 2022 Russian invasion of Ukraine, could also cause disruptions in our business or the business of our landlords, vendors or other business partners, or the economy as a whole. All of the aforementioned risks may be further increased if our disaster recovery plans prove to be inadequate.

Our business, operations, growth, and financial results had been adversely impacted by the effects of the COVID-19 pandemic and may be adversely impacted by COVID-19 or another pandemic, epidemic or infectious disease outbreak in the future.

The COVID-19 pandemic and related governmental and business responses had, and a resurgence of COVID-19 or another public health crisis may again have, an adverse effect on our customers, employees, landlords and other potential business partners, and our operations. For example, public health concerns arising out of the COVID-19 pandemic and efforts to mitigate its spread caused severe economic disruptions around the world as governments, public institutions and other organizations imposed or recommended, at various times and degrees, restrictions on a wide array of activities, including travel and in-person gatherings, as well as mandatory vaccination requirements, and quarantines and lock-downs. The COVID-19 pandemic drastically reduced demand for accommodations and necessitated more restrictive approaches to guest services, and required us to take drastic steps to reduce operating costs, including phasing units from our portfolio and laying off or furloughing employees. Similar actions that may be taken in response to any resurgence of COVID-19 or any future public health crisis may negatively our hospitality operations and guest satisfaction, damage our revenues and reputation, disrupt our operations,and lead to costly or disruptive disputes, impact our ability to attract and retain employees, result in reductions in our Live Unit and/or leased unit portfolio, and reduce our ability to realize revenue.

The extent to which a public health crisis could again impact us will depend on numerous evolving factors and future developments that are uncertain and that we are not able to predict at this time, including: the timing, extent, trajectory and duration of the pandemic or other health crisis; the emergence of new viral variants; the development, availability, distribution and effectiveness of vaccines and treatments; the imposition of protective public safety measures; and the impact of the pandemic or other crisis on the global economy and demand for our products and services. We could again experience adverse impacts to our business as a result of any economic recession that may occur from a resurgence of COVID-19 or other global pandemics.

Our technology contains third-party open-source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to operate as intended or could increase our costs.

Our technology contains software modules licensed to us by third-party authors under “open source” licenses. Use and distribution of open-source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide support, warranties, indemnification or other contractual protections regarding infringement claims or the quality of the code. In addition, the public availability of such software may make it easier for others to compromise our technology.

Some open-source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use, or grant other licenses to our intellectual property. If we combine our proprietary software with open-source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar offerings with lower development effort and time and ultimately could result in a loss of our competitive advantages. Alternatively, to avoid the public release of the affected portions of our source code, we could be required to expend substantial time and resources to re-engineer some or all of our software.

Although we monitor our use of open-source software to avoid subjecting our technology to conditions we do not intend, the terms of many open source licenses have not been interpreted by U.S. or foreign courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to provide or distribute our technology. From time to time, there have been claims challenging the ownership of open-source software against companies that incorporate open source software into their solutions. As a result, we could be subject to lawsuits by parties claiming ownership of what we believe to be open-source software. Moreover, we cannot assure you that our processes for controlling our use of open-source software in our technology will be effective. If we are held to have breached or failed to fully comply with all the terms and conditions of an open source software license, we could face infringement or other liability, or be required to seek costly licenses from third parties to continue providing our offerings on terms that may not be economically feasible, re-engineer our technology, discontinue or delay the provision of our offerings if re-engineering could not be accomplished on a timely basis or make generally available, in source code form, our proprietary code, any of which could adversely affect our business, financial condition and results of operations.

We may be unable to protect our brand and other intellectual property, and we have been and may be subject to legal proceedings and claims relating to intellectual property rights.

Our intellectual property is important to our success. We rely on a combination of trademark, copyright, and trade secret laws, employee, and third-party non-disclosure and/or invention assignment agreements and other methods to protect our intellectual property. However, these only afford limited protection, and unauthorized parties may attempt to copy aspects of our services, technology, mobile app, algorithms, or other features and functionality, or to use information that we consider proprietary or confidential. There can be no assurance that any of our intellectual property will be protectable by patents, but if it is, any efforts to obtain patent protection that are not successful may harm our business in that others will be able to use our technologies. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. There can be no assurance that the steps taken by us to protect our proprietary rights will be adequate or that third parties will not infringe or misappropriate our trademarks, copyrights, and similar proprietary rights. We endeavor to defend our intellectual property rights diligently, but intellectual property litigation is expensive and time-consuming, and may divert managerial attention and resources from our business objectives. We may not be able to successfully defend our intellectual property rights, which could have a material adverse effect on our business, brand, and results of operations.

From time to time, in the ordinary course of business, we have been and may be subject to legal proceedings and claims relating to the intellectual property rights of others, and we expect that third parties will continue to assert intellectual property claims, in particular trademark claims, against us, particularly as we expand the complexity and scope of our business. Successful claims against us could result in a significant monetary liability or prevent us from operating our business, or portions of our business. In addition, resolution of claims may require us to obtain licenses to use intellectual property rights belonging to third parties, which may be expensive to procure, or to cease using those rights altogether. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

We expend resources relating to the preparation and repair of our leased properties, which may be higher than anticipated.

We typically devote resources to prepare a newly leased property for its initial guests, referred to as building openings, and to keep our leased properties in a safe and attractive condition. Although we endeavor to have the landlord or developer bear the out-of-pocket opening costs, we are sometimes responsible for all or a portion of these costs. Even where landlords and developers are contractually responsible for some costs, they may dispute or fail to comply with their obligations. In addition, while the majority of our leases require landlords to bear responsibility for the repair and maintenance of building structures and systems, at times we are responsible for some of these obligations, and in most cases, we are responsible for the repair and maintenance of damage caused by our guests. Our leases may also require that we return the space to the landlord at the end of the lease term in essentially the same condition it was delivered to us, which may require repair work. The costs associated with our building openings, repair and maintenance may be significant and may vary from our forecasts.

We also periodically refurbish some of our units to keep pace with the changing needs of our guests and to maintain our brand and reputation. Although we include estimated refurbishments in our business and financial planning, refurbishments can result in lost revenues at the affected unit, may be more costly and time-consuming than we expect, may impair guests' experiences in other units, and may otherwise adversely affect our results of operations and financial condition.

Our properties are concentrated in a limited number of cities, which increases our exposure to local factors affecting demand or hospitality operations.

Our operations are relatively concentrated in a limited number of cities, and we expect that the majority of our operations will continue to be concentrated in a limited number of cities. As of June 30, 2023, our five largest cities (New York City, Dubai, Philadelphia, Miami, and New Orleans) accounted for approximately 34.8% of our Live Units, and our 10 largest cities accounted for approximately 55.0% of our Live Units. Geographic concentration magnifies the risk to us of localized economic, political, public health and other conditions such as natural disasters. Civil unrest, public health crises, unusual weather, natural disasters, or other factors affecting travel to these cities or other markets in which we are expanding, as well as changes in local competitive conditions and regulations affecting the hospitality industry, may have a disproportionate negative effect on our revenue and on our ability to secure sufficient staffing, supplies or services for our largest markets.

We are exposed to fluctuations in currency exchange rates.

Since we conduct a portion of our business outside the United States but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates, which may cause our revenue and operating results to differ materially from expectations. In addition, fluctuation in our mix of U.S. and foreign currency denominated transactions may contribute to this effect as exchange rates vary. Moreover, as a result of these exchange rate fluctuations, revenue, cost of revenue, operating expenses and other operating results may differ materially from expectations when translated from the local currency into U.S. dollars upon consolidation. For example, if the U.S. dollar strengthens relative to foreign currencies our non-U.S. revenue would be adversely affected when translated into U.S. dollars. Conversely, a decline in the U.S. dollar relative to foreign currencies would increase our non-U.S. revenue when translated into U.S. dollars. As exchange rates vary, revenue, cost of revenue, operating expenses, and other operating results, when translated, may differ materially from expectations. In addition, our revenue and operating results are subject to fluctuation if our mix of U.S. and foreign currency denominated transactions and expenses changes in the future. We do not currently have hedging arrangements to manage foreign currency exposure. If we do enter into such arrangements in the future, such activity may not completely eliminate fluctuations in our operating results.

We may focus on rapid innovation, expansion and growth, over short-term financial results.

Despite our Cash Flow Positive Plan announced in June 2022, which focuses on achieving sustainable positive Free Cash Flow, we may decide to emphasize innovation and growth over short-term financial results. We have taken actions in the past and may continue to make decisions that have the effect of reducing our short-term revenue or profitability if we believe that the decisions will benefit long-term revenue and profitability through enhanced guest experiences, penetration of new markets, greater familiarity with the Sonder brand, or otherwise. The short-term reductions in revenue or profitability could be more severe than anticipated. These decisions may not produce the expected long-term benefits, in which case our growth, guest experience, relationships with developers and landlords, and business and results of operations could be harmed.

If we are unable to introduce new or upgraded amenities, services or features that guests recognize as valuable, we may fail to attract guests, property developers and landlords. Our efforts to develop new and upgraded services and amenities could require us to incur significant costs.

In order to continue to attract new guests and generate repeat bookings from previous guests, and to attract property developers and landlords, we will need to continue to invest in the development of new amenities, services and features that add value to the Sonder brand and/or differentiate us from our competitors. The success of any new amenity, service or feature depends on several factors, including its timely completion, strategic introduction, and market acceptance, all of which remain subject to various uncertainties. If guests, property developers and landlords do not recognize the value of the new amenities, services, or features, they may choose not to engage with us.

Developing and delivering these new or upgraded amenities, services and features is costly and involves inherent risks and difficulties. Consumer preferences for interior design and furnishings and technology-related services are subject to frequent change. Technology development efforts may be unsuccessful, and any new features or services offered to guests through our website or app may be difficult to manage or maintain. We cannot guarantee that such efforts will succeed or that new or upgraded amenities, services and features will work as intended or provide their expected value. In addition, some new or upgraded amenities, services and features may be difficult for us to continue to market, may require additional regulatory permits and personnel, may subject us to additional liabilities, and may involve unfavorable pricing or fees. Further, the efforts required to develop, integrate, launch, and maintain new amenities, services, and features could divert resources away from other projects and initiatives. Even if we succeed in introducing new or upgraded amenities, services and features, we cannot guarantee that our guests or landlords will respond favorably to them, or that they will result in a positive return on investment.

In addition to developing our own amenities, features and services, we have and may continue to license or otherwise integrate applications, technologies, content and data from third parties. These third-party applications may not support our offerings as intended, may cause unanticipated disruptions in guests' bookings, in-room experience, or our other business operations, and may not remain available on commercially reasonable terms, or at all. If we partner with companies to offer food delivery, parking or other services through our app, these third-party services may be difficult to integrate with our other product offering, may not comply with guest security and privacy measures or otherwise operate as we intended, could give rise to guest complaints, and could damage our brand and reputation.

Changes in our effective tax rate could harm our future operating results.

We are subject to federal and state income taxes in the United States and in various international jurisdictions. Our provision for income taxes and our effective tax rate are subject to volatility and could be adversely affected by several factors, including:

- Earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates;
- Effects of certain non-tax-deductible expenses, including those arising from the requirement to expense stock options;
- Changes in the valuation of our deferred tax assets and liabilities;
- Adverse outcomes resulting from any tax audit, including transfer pricing adjustments with respect to intercompany transactions;
- Our ability to utilize our net operating losses, research and development credits, and other deferred tax assets; and
- Changes in accounting principles or changes in tax laws and regulations, or the application of the tax laws and regulations, including possible U.S. changes to the deductibility of expenses attributable to foreign income or the foreign tax credit rules.

Our corporate structure and intercompany arrangements cause us to be subject to the tax laws of various jurisdictions, and we could be obligated to pay additional taxes, which could materially adversely affect our business, financial condition, results of operations, and prospects.

We are expanding our international operations and personnel to support our business in international markets. We generally conduct our international operations through wholly owned subsidiaries and are or may be required to report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships are subject to complex transfer pricing regulations administered by tax authorities in various jurisdictions. The amount of taxes we pay in different jurisdictions may depend on the application of the tax laws of such jurisdictions, including the United States, to our international business activities, changes in tax rates, new or revised tax laws, interpretations of existing tax laws and policies, and our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The relevant tax authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest, and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows, and lower overall profitability of our operations.

If existing tax laws, rules or regulations are amended, or if new unfavorable tax laws, rules or regulations are enacted, including with respect to occupancy, sales, value-added taxes, withholding taxes, revenue-based taxes, unclaimed property, or other tax laws applicable to the multinational businesses, the results of these changes could increase our tax liabilities. Possible outcomes include double taxation, multiple levels of taxation, or additional obligations, prospectively or retrospectively, including the potential imposition of interest and penalties. Demand for our products and services could decrease if such costs are passed on to our guests, result in increased costs to update or expand our technical or administrative infrastructure or effectively limit the scope of our business activities should we decide not to conduct business in particular jurisdictions.

We are subject to federal, state, and local income, sales, and other taxes in the United States and income, withholding, transaction, and other taxes in numerous foreign jurisdictions. Evaluating our tax positions and our worldwide provision for taxes is complicated and requires exercising significant judgment. During the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting, and other laws, regulations, principles, and interpretations, including those relating to income tax nexus, by recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates, or higher than anticipated earnings in jurisdictions where we have higher statutory rates, by changes in foreign currency exchange rates, or by changes in the valuation of our deferred tax assets and liabilities. We have been and may in the future be audited in various jurisdictions, and such jurisdictions may assess additional taxes (including income taxes, sales taxes, and value added taxes) against us. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could differ materially from our historical tax provisions and accruals, which could have an adverse effect on our results of operations or cash flows in the period or periods for which a determination is made.

We may be subject to substantial liabilities if it is determined that we should have collected, or in the future should collect, additional sales and use, value added or similar taxes.

We currently collect and remit applicable sales taxes and other applicable transaction taxes in jurisdictions where we, through our employees or economic activity, have a presence and where we have determined, based on applicable legal precedents, that sales of travel accommodations are classified as taxable. We do not currently collect and remit state and local excise, utility user, or transfer taxes, fees, or surcharges in jurisdictions where we believe we do not have sufficient “nexus.” There is uncertainty as to what constitutes sufficient nexus for a state or local jurisdiction to levy taxes, fees, and surcharges on sales made over the Internet, and there is also uncertainty as to whether our characterization of our traveler accommodations in certain jurisdictions will be accepted by state and local tax authorities.

The application of indirect taxes, such as sales and use, value added, goods and services, business, and gross receipts taxes, to businesses that transact online, such as ours, is a complex and evolving area. Where we sell our services through OTAs, we do not directly control how taxes are collected or remitted. There are substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or may conduct business. If an OTA does not collect such taxes from travelers, we could be held liable for such obligations. The application of existing or future indirect tax laws, whether in the United States or internationally, or the failure to collect and remit such taxes, could materially adversely affect our business, financial condition, results of operations, and prospects.

Failure to comply with anti-bribery, anti-corruption laws and similar laws, could subject us to penalties and other adverse consequences.

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended, commonly referred to as the FCPA, the U.S. Travel Act, the United Kingdom Bribery Act 2010, and possibly other anti-bribery and anti-corruption laws in countries outside of the United States in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly to generally prohibit companies, their employees, agents, representatives, business partners, and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or sometimes the private sector.

We sometimes engage third parties to conduct our business abroad. We and our employees, agents, representatives, business partners and third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these employees, agents, representatives, business partners or third-party intermediaries even if we do not explicitly authorize such activities. We cannot guarantee that all of our employees and agents will not take actions in violation of applicable law, for which we may be ultimately held responsible. As we increase our international sales and business, the risks under these laws may increase.

These laws also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. While we have policies and procedures to address compliance with such laws, we cannot guarantee that none of our employees, agents, representatives, business partners or third-party intermediaries will take actions in violation of Company policies and applicable law, for which we may be ultimately held responsible.

Any allegations of or actual violation of the FCPA or other applicable anti-bribery and anti-corruption laws could result in whistleblower complaints, sanctions, settlements, prosecution, enforcement actions, fines, damages, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, results of operations, and prospects. Responding to any investigation or action will likely result in a materially significant diversion of management’s attention and resources and significant defense costs and other professional fees.

We are subject to governmental export and import controls and economic sanctions programs that could impair our ability to compete in international markets or subject us to liability if we violate these controls.

In many cases, our business activities are subject to U.S. and international import and export control laws and regulations including trade and economic sanctions maintained by the Office of Foreign Assets Control, or OFAC. For example, restrictions may exist on our ability to provide services to persons located in certain U.S. embargoed or sanctioned countries or listed on certain lists of sanctioned persons. U.S. and other international authorities recently imposed, and may further impose, sanctions related to the 2022 Russian invasion of Ukraine. Additionally, the import of furniture used in various properties must be conducted in accordance with applicable import laws and regulations. While we have policies and procedures in place designed to ensure compliance with sanctions and trade restrictions and other applicable laws, our employees, contractors, partners, and agents may take actions in violation of such policies and applicable law, for which we may be ultimately held responsible. If we were to fail to comply with such import or export control laws and regulations, trade and economic sanctions, or other similar laws, we could be subject to both civil and criminal penalties, including substantial fines, possible incarceration for employees and managers for willful violations, damage to our reputation, and the possible loss of export or import privileges, any of which could have a material and adverse impact on our business, operating results and financial condition.

Risks Related to Government Regulation

Unfavorable changes in, or interpretations or enforcement of, government regulations or taxation of the evolving short-term and long-term rental, Internet and e-commerce industries could harm our operating results.

We operate in markets throughout the world and are subject to various regulatory and taxation requirements of the jurisdictions in which we operate. Our regulatory compliance efforts are burdensome because each local jurisdiction has different requirements, including with respect to zoning, licensing, permitting, sanitation, accessibility, taxes, employment, labor and health and safety, and regulations in the industry are constantly evolving. Compliance requirements that vary significantly from jurisdiction to jurisdiction reduce our ability to achieve economies of scale, add compliance costs, and increase the potential liability for compliance deficiencies. Additionally, laws or regulations that increase our costs, require changes in our business practices, or otherwise harm our business could be adopted, or interpreted in a manner that affects our activities, including but not limited to the regulation of personal and consumer information, consumer advertising, labor laws, accessibility, health and safety, taxation, and real estate and hotel licensing and zoning requirements. Violations or new interpretations of these laws or regulations may result in penalties, disrupt our ability to operate existing properties or to develop new ones, negatively impact our guest relations or operations in other ways, increase our expenses, and damage our reputation and business. Even when we are in compliance with applicable laws, a suspected violation of these laws or regulations can temporarily disrupt our ability to operate existing properties, negatively impact our guest relations or operations in other ways, damage our reputation and business, and result in loss of revenues, even if the matter is ultimately resolved in our favor.

In addition, since we began operations, there have been, and continue to be, regulatory developments that affect the hospitality services industry and the ability of companies like us to offer units for specified durations or in certain neighborhoods. For example, some municipalities have adopted ordinances that limit our ability to offer certain properties to guests for fewer than a stated number of consecutive nights, such as 30 nights, or for more than an aggregate total number of nights per year, and other cities may introduce similar regulations, including after we have already leased properties and begun to offer stays to guests there. In addition, many of the fundamental statutes and regulations that impose taxes or other obligations on travel and hospitality companies were established before the growth of the Internet and e-commerce, which creates a risk of these laws being used in ways not originally intended that could harm our business. These and other similar new and newly interpreted regulations could increase our costs, require us to reduce or even cease operations in certain locations, reduce the diversity and number of units available for us to lease and offer to guests, and otherwise harm our business and operating results.

From time to time, we have been involved in and expect to continue to become involved in challenges to or disputes with government agencies regarding interpretations of laws and regulations. There can be no assurance that we will be successful in these challenges or disputes.

New, changed, or newly interpreted or applied laws, statutes, rules, regulations or ordinances, including tax laws, could also increase landlords' compliance, operating and other costs. This, in turn, could deter landlords from renting their properties to us, negatively affect lease renewals, impair landlords' ability or willingness to repair and maintain leased properties, or increase costs of doing business. Any or all of these events could adversely impact our business and financial performance.

Furthermore, as we expand or change our business and the services that we offer or the methods by which we offer them, we may become subject to additional legal regulations, tax requirements or other risks. Whether we comply with or challenge these additional regulations, our costs may increase, and our business could otherwise be harmed.

We will continue to incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our business, results of operations and financial condition. In addition, key members of our management team have limited experience managing a public company.

As a public company, we incur substantial legal, accounting, and other expenses that we did not incur as a private company, and these expenses may increase even more after we are no longer an "emerging growth company." For example, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, the rules and regulations of the SEC, and the listing standards of Nasdaq. Our management and other personnel devote a substantial amount of time to compliance with these requirements and we expect these rules and regulations to substantially increase our legal and financial compliance costs. For example, these rules and regulations make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to maintain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors, particularly to serve on our audit committee and compensation committee, or as our executive officers. In addition, we have expended, and anticipate that we will continue to expend, significant resources in order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting. In that regard, we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. In addition, as a public company, we may be subject to shareholder activism, which can lead to substantial costs, distract management, and impact the manner in which we operate our business in ways we cannot currently anticipate. As a result of disclosure of information in filings required of a public company, our business and financial condition have become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and results of operations.

Some members of our management team have limited experience managing a publicly traded company, interacting with public company investors, and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage the significant regulatory oversight and reporting obligations under the federal securities laws, and the continuous scrutiny of securities analysts and investors, associated with being a public company. These obligations and constituents require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial condition, and results of operations.

The costs and other risks associated with complying with the Americans with Disabilities Act and similar legislation outside of the United States may be substantial.

We are subject to the Americans with Disabilities Act, commonly referred to as the ADA, and similar laws and regulations in certain jurisdictions outside of the United States. These laws and regulations require public accommodations to meet certain requirements related to access and use by disabled people. Our landlords may not have designed, constructed, or operated their properties to comply fully with the ADA or similar laws, and our operations may not fully comply with such laws. Operators of hospitality websites, including ourselves, are also occasionally targeted by complaints that they have failed to make their sites and online reservation systems sufficiently accessible. We have been subject to minor claims by litigants regarding such website compliance in the past, and may encounter claims, governmental investigations, and potential enforcement actions in the future. We may be required to expend substantial resources to remedy any noncompliance at our leased properties or in our app or website, or to defend against complaints of noncompliance, even if they lack merit. If we fail to comply with the requirements of the ADA or similar laws, we could be subject to fines, penalties, injunctive action, costly legal proceedings, an award of damages to private litigants, mandated capital expenditures to remedy such noncompliance, reputational harm, and other business effects that could materially and adversely affect our brand and results of operations.

If we fail to comply with U.S. and foreign laws, rules, contractual obligations, policies, and other obligations relating to privacy and data protection, we may face potentially significant liability, negative publicity, and an erosion of trust, and increased regulation could materially adversely affect our business, results of operations, and financial condition.

We collect, receive, store, process, generate, use, transfer, disclose, make accessible, protect, secure, dispose of, transmit, and share (collectively, processing), a large volume of personal data and other sensitive information, including proprietary and confidential business data, trade secrets, intellectual property, sensitive third-party data, business plans, transactions, and financial information (collectively, sensitive data). Our data processing activities subject us to numerous data privacy and security obligations, such as various laws, regulations, guidance, industry standards, external and internal privacy and security policies, contractual requirements, and other obligations relating to data privacy and security.

Outside the United States, an increasing number of laws, regulations, and industry standards govern data privacy and security. For example, the EU GDPR and the UK GDPR impose strict requirements for processing personal data. In Canada, the PIPEDA and various related provincial laws, as well as Canada's Anti-Spam Legislation, may apply to our operations. Violation of PIPEDA can lead to a court action brought by individuals or by the Office of the Privacy Commissioner of Canada. In addition, under the EU GDPR, companies may face temporary or definitive bans on data processing and other corrective actions; fines of up to 20 million Euros or 4% of annual global revenue, whichever is greater; or private litigation related to processing of personal data brought by classes of data subjects or consumer protection organizations authorized at law to represent their interests. Other jurisdictions may adopt similar data protection regulations.

In the United States, federal, state, and local governments have enacted numerous data privacy and security laws, including data breach notification laws, personal data privacy laws, consumer protection laws (*e.g.*, Section 5 of the Federal Trade Commission Act), and other similar laws (*e.g*., wiretapping laws). For example, the CCPA applies to personal information of consumers, business representatives, and employees, and requires businesses to provide specific disclosures in privacy notices and honor requests of California residents to exercise certain privacy rights. The CCPA provides for civil penalties of up to $7,500 per violation and allows private litigants affected by certain data breaches to recover significant statutory damages. Moreover, California voters approved the CPRA, which significantly modifies the CCPA, creating additional obligations relating to consumer data effective as of January 1, 2023. Other states, such as Virginia, Connecticut, Utah, and Colorado, have also passed comprehensive privacy laws, and similar laws are being considered in several other states, as well as at the federal and local levels. These developments may further complicate compliance efforts and increase legal risk and compliance costs for us and the third parties upon whom we rely.

In the ordinary course of business, we may transfer personal data from Europe and other jurisdictions to the United States or other countries. Europe and other jurisdictions have enacted laws requiring data to be localized or limiting the transfer of personal data to other countries. In particular, the European Economic Area ("EEA") and the UK have significantly restricted the transfer of personal data to the United States and other countries whose privacy laws it believes are inadequate. Other jurisdictions may adopt similarly stringent interpretations of their data localization and cross-border data transfer laws. Although there are currently various mechanisms that may be used to transfer personal data from the EEA and UK to the United States in compliance with law, such as the EEA and UK's standard contractual clauses, these mechanisms are subject to legal challenges, and there is no assurance that we can satisfy or rely on these measures to lawfully transfer personal data to the United States. If there is no lawful manner for us to transfer personal data from the EEA, the UK or other jurisdictions to the United States, or if the requirements for a legally-compliant transfer are too onerous, we could face significant adverse consequences, including the interruption or degradation of our operations, the need to relocate part of or all of our business or data processing activities to other jurisdictions at significant expense, increased exposure to regulatory actions, substantial fines and penalties, the inability to transfer data and work with partners, vendors and other third parties, and injunctions against our processing or transferring of personal data necessary to operate our business. Additionally, companies that transfer personal data out of the EEA and UK to other jurisdictions, particularly to the United States, are subject to increased scrutiny from regulators, individual litigants, and activist groups. Some European regulators have ordered certain companies to suspend or permanently cease certain transfers out of Europe for allegedly violating the GDPR's cross-border data transfer limitations.

In addition to data privacy and security laws, we are also bound by contractual obligations related to data privacy and security, and our efforts to comply with such obligations may not be successful. We also publish privacy policies, marketing materials and other statements regarding data privacy and security. If these policies, materials, or statements are found to be deficient, lacking in transparency, deceptive, unfair, or not representative of our practices, we may be subject to investigation, enforcement actions by regulators or other adverse consequences.

We could be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations, or financial condition. For example, federal, state, and international governmental authorities continue to evaluate the privacy implications inherent in the use of third-party "cookies" and other methods of online tracking for behavioral advertising and other purposes. The United States and foreign governments have enacted, have considered, or are considering legislation or regulations that could significantly restrict the ability of companies and individuals to engage in these activities, such as by regulating the level of consumer notice and consent required before a company can employ cookies or other electronic tracking tools or the use of data gathered with such tools. For example, in the EEA and the UK, regulators are increasingly focusing on compliance with requirements related to the targeted advertising ecosystem. European regulators have issued significant fines in certain circumstances where the regulators alleged that appropriate consent was not obtained in connection with targeted advertising activities. It is anticipated that the ePrivacy Regulation and national implementing laws will replace the current national laws implementing the ePrivacy Directive, which may require us to make significant operational changes. In the United States, the CCPA, for example, grants California residents the right to opt-out of a company's sharing of personal data for advertising purposes in exchange for money or other valuable consideration and requires covered businesses to honor user-enabled browser signals from the Global Privacy Control. Additionally, some providers of consumer devices and web browsers have implemented, or announced plans to implement, means to make it easier for Internet users to prevent the placement of cookies or to block other tracking technologies, which could, if widely adopted, result in the use of third-party cookies and other methods of online tracking becoming significantly less effective. Regulation of the use of these cookies and other online tracking and advertising practices, or a loss in our ability to make effective use of services that employ such technologies, could increase our costs of operations, and limit our ability to track trends, optimize our services, or acquire new guests on cost-effective terms and consequently, materially adversely affect our business, financial condition and operating results. As a result, we may be required to change the way we market our accommodations and services.

Regulators and legislatures at the local, state, and national level are also taking an increased interest in regulating the collection and use of biometric data, which plays an important role in our trust and safety processes. Specifically, the third parties that provide the identity verification process for us use facial geometry data to verify that a guest's selfie picture matches the photograph on the government-issued identification provided by the guest, similar to a front desk worker at a traditional hotel visually comparing a guest's government identification to the guest's face. Legislation such as the EU GDPR and the Illinois Biometric Information Privacy Act ("BIPA"), as well as other U.S. and foreign laws and regulations, place tight regulation on the collection, use and sharing of biometric information, as well as requirements for notice and consent from individual data subjects. Violations of these laws may result in significant fines, damages, and other penalties. For example, BIPA provides for substantial penalties and statutory damages and has generated significant class action activity, and the cost of litigating and settling any claims that we have violated BIPA or similar laws could be significant. New laws and regulations regarding the collection, use, and sharing of biometric data have also recently been proposed or enacted in other states, and the eventual impact of those laws and regulations on Sonder's operations remains uncertain. A failure, or alleged or perceived failure, by us to comply with these requirements could adversely affect our reputation, brand and business, and may result in claims, proceedings, or actions against us by governmental entities or private litigants or require us to change our operations and/or our ability to ensure the safety of our guests, which could adversely affect our reputation or require us to make significant investments in new technologies or processes.

While we have invested and continue to invest resources to comply with privacy and data security obligations, including the EU GDPR, the UK GDPR, the CCPA/CPRA, and other privacy regulations and obligations, as applicable, these obligations are quickly changing, becoming increasingly stringent, and creating regulatory uncertainty. Additionally, these obligations may be extremely complex, and subject to different and inconsistent applications and interpretations. Preparing for and complying with these obligations requires us to devote significant resources, which may necessitate changes to our services, information technologies, systems, and practices and to those of any third parties that process personal data on our behalf. We may at times fail (or be perceived to have failed) in our efforts to comply with our data privacy and security obligations. Moreover, despite our efforts, our personnel or third parties on whom we rely may fail to comply with such obligations, which could negatively impact our business operations. Any failure, or perceived or alleged failure, by us or the third parties on which we rely to comply with any federal, state, local or international laws, regulations, industry self-regulatory principles, industry standards or codes of conduct, regulatory guidance, orders to which we may be subject, or other actual or asserted legal or contractual obligations relating to privacy, data protection, information security, or consumer protection could have significant consequences, including (but not limited to) government enforcement actions (e.g., investigations, fines, penalties, audits, inspections, and similar); litigation (including class-action claims); additional reporting requirements and/or oversight; indemnification obligations; bans on processing personal data or credit cards; and orders to destroy or not use personal data. For example, in August 2023, a purported class action lawsuit was filed against the Company asserting claims based on the Company's alleged failure to secure and safeguard the personally identifiable information of the putative class. For a discussion of this lawsuit, see the section entitled "Legal Proceedings" herein. Any of these events could have a material adverse effect on our reputation, business, or financial condition, including but not limited to: loss of guests; inability to process personal data or to operate in certain jurisdictions; limited ability to develop or commercialize new features, amenities, or services; expenditure of time and resources to defend any claim or inquiry; adverse publicity; or substantial changes to our business model or operations.

Failure to comply with consumer protection, marketing and advertising laws, including with regard to direct marketing and internet marketing practices, could result in fines or place restrictions on our business.

Our business is subject to various laws and regulations governing consumer protection, advertising, and marketing. We may encounter governmental and private party investigations and complaints in areas such as the clarity, transparency, accuracy, and presentation of information on our website or in third-party listings of our properties, as has occurred with respect to other hospitality booking sites. In addition, as we attempt to increase the proportion of stays booked directly through our website, our marketing activities will be subject to various laws and regulations in the U.S. and internationally that govern online and other direct marketing and advertising practices. For example, the Telephone Consumer Protection Act of 1991 ("TCPA") imposes specific requirements on communications with customers and various consumer consent requirements and other restrictions on certain communications with consumers by phone, fax or text message. TCPA violations can result in significant financial penalties, including penalties or criminal fines imposed by the Federal Communications Commission or fines of up to $1,500 per violation imposed through private litigation or by state authorities. Our marketing activities could be restricted, our guest relationships and revenues could be adversely affected, and our costs could increase, due to changes required in our marketing, listing, or booking practices, or any investigations, complaints, or other adverse developments related to these laws and regulations.

Industry-specific payment regulations and standards are evolving, and unfavorable industry-specific laws, regulations, interpretive positions or standards could harm our business.

Our payment processors expect attestation of compliance with the Payment Card Industry (PCI) Data Security Standards. If we are unable to comply with these guidelines or controls, or if our third-party payment processors are unable to obtain regulatory approval to use our services where required, our business may be harmed. For example, failing to maintain our Attestation of Compliance for PCI could result in monthly fines or other adverse consequences until compliance is re-established via an external PCI qualified security assessor. Existing third parties or future business partnerships may opt out of processing payment card transactions if we are unable to achieve or maintain industry-specific certifications or other requirements or standards relevant to our guests, business partners, and other third parties.

Risks Related to Indebtedness and Liquidity

We may require additional capital to support business growth or respond to business challenges, and this capital might not be available in a timely manner or on favorable terms.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop or add new properties or services or enhance our existing properties or services, enhance our operating infrastructure, add personnel, and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds in the future. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of our common stock. Any debt financing could involve restrictive covenants relating to financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions or strategic partnerships. If we are unable to obtain adequate or satisfactory financing when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Our indebtedness could adversely affect our business and financial condition.

As of June 30, 2023, we had indebtedness related to our Delayed Draw Notes in the aggregate principal amount of $196.4 million, including capitalized paid-in-kind interest, secured against substantially all of our assets. Risks relating to our indebtedness include:

- Increasing our vulnerability to general adverse economic and industry conditions;
- Requiring us to dedicate a portion of our cash flow to principal and interest payments on our indebtedness, thereby reducing the availability of cash flow to fund working capital, location acquisition costs, capital expenditures, acquisitions and investments and other general corporate purposes;
- Making it more difficult for us to optimally capitalize and manage the cash flow for our businesses;
- Limiting our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate, due in part to restrictive covenants in our debt instruments;
- Possibly placing us at a competitive disadvantage compared to our competitors that have less debt, a lower cost of borrowing or less restrictive debt covenants; and
- Limiting our ability to borrow additional funds or to borrow funds at rates or on other terms that we find acceptable.

Our indebtedness and credit facilities contain financial covenants and other restrictions on our actions that may limit our operational flexibility or otherwise adversely affect our results of operations.

The terms of certain of our indebtedness and credit facilities include a number of covenants that limit our ability and our subsidiaries' ability to, among other things, incur additional indebtedness, grant liens, merge or consolidate with other companies or sell our assets, pay dividends, make redemptions and repurchases of stock, make investments, loans and acquisitions, change the nature of our business or engage in transactions with affiliates. In addition, we must comply with a minimum EBITDA covenant, a minimum adjusted quick ratio covenant, and a minimum liquidity covenant, and maintain our common stock's listing on Nasdaq. Due to the March 2023 U.S. government-arranged temporary closure of SVB, we have added additional letters of credit issuance facilities and may seek additional or replacement credit arrangements, in part to support letters of credit or other security instruments for our leases of guest properties. Any future credit arrangements may have stricter covenants or other more onerous terms than our current arrangements. The terms of our indebtedness and credit facilities may restrict our current and future operations and could adversely affect our ability to finance our future operations or capital needs. In addition, complying with these covenants may make it more difficult for us to successfully execute our business strategy, including potential acquisitions, and to compete against companies that are not subject to such restrictions.

Any failure to comply with the covenants or payment requirements specified in our credit agreements could result in an event of default under the agreements, which, if not cured or waived, would give the lenders the right to terminate their commitments to provide additional loans, declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable, increase the interest rates applicable to such debt, and exercise rights and remedies, including by way of initiating foreclosure proceedings against any assets constituting collateral for the obligations under the credit facilities. If our debt were to be accelerated, we may not have sufficient cash or be able to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, which could immediately adversely affect our business, cash flows, results of operations, and financial condition. Even if we were able to obtain new financing, such financing may not be on commercially reasonable terms or on terms that are acceptable to us.

Risks Related to Ownership of Our Securities

We may fail to continue to meet the listing standards of Nasdaq, and as a result our common stock and publicly traded warrants may be delisted, which could have a material adverse effect on the liquidity and trading price of our common stock and warrants and on our ability to raise capital, and other adverse consequences.

Our common stock and publicly traded warrants currently trade on The Nasdaq Global Select Market. The Nasdaq Stock Market LLC has requirements for our equity securities to remain listed on Nasdaq, including a rule requiring our common stock to maintain a minimum closing bid price of $1.00 per share. On April 21, 2023, we received a notice from The Nasdaq Stock Market ("Nasdaq") that we are not in compliance with Nasdaq's Listing Rule 5450(a)(1), because the minimum bid price of our common stock has been below $1.00 per share for 30 consecutive business days (the "Notice"). The Notice has no immediate effect on the listing or trading of our common stock or warrants on The Nasdaq Global Select Market.

In accordance with Nasdaq Listing Rule 5810(c)(3)(A), we have 180 calendar days, or until October 18, 2023, to regain compliance with the minimum bid price requirement. To regain compliance, the closing bid price of our common stock must be at least $1.00 per share for a minimum of ten consecutive business days during this 180 calendar day grace period, unless Nasdaq exercises its discretion to extend this ten-day period. In the event we do not regain compliance with the minimum bid price requirement by October 18, 2023, we may be eligible for an additional 180 calendar day compliance period if we elect and are eligible to transfer to The Nasdaq Capital Market. To qualify, we would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, with the exception of the minimum bid price requirement, and would need to provide written notice of our intention to cure the bid price deficiency during the second compliance period. As of June 30, 2023, we did not meet the stockholders' equity initial listing requirement for The Nasdaq Capital Market, and we do not anticipate meeting that requirement before October 18, 2023. If it appears to Nasdaq's staff that we will not be able to cure the deficiency or if we are otherwise not eligible, or if our common stock has a closing bid price of $0.10 or less for ten consecutive trading days during any such compliance period, Nasdaq would notify us that our securities would be subject to delisting.

We intend to monitor our common stock's closing bid price and assess potential actions to regain compliance with Nasdaq's Listing Rule 5450(a)(1). At a special meeting of stockholders currently scheduled for September 15, 2023, our stockholders will consider a proposal to give our Board of Directors the authority to effectuate a reverse stock split for this purpose, if necessary. There can be no assurance that stockholder approval will be received, that any future reverse stock split will have the desired effects, or that we will regain compliance with Nasdaq's Rule 5450(a)(1) or will otherwise be in compliance with the other Nasdaq listing requirements.

If we fail to regain and maintain compliance with Nasdaq's minimum stock price requirement or other listing requirements, our common stock and publicly traded warrants could be delisted from Nasdaq. If that occurs, the liquidity of our common stock and publicly traded warrants would be adversely affected, and their market prices could decrease. Delisting would also constitute an event of default under certain of our debt instruments, which would require us to expend cash to repay debt or replace letters of credit. It could cause other adverse consequences, such as difficulties in raising capital and in providing stock-based incentives to attract and retain personnel. Delisting could also impair our reputation and our relationships with real estate owners and other business partners, which could make it more difficult or costly for us to expand our portfolio of leased properties. In addition, our common stock could be deemed to be a "penny stock," which could result in reduced levels of trading in our common stock, and we would also become subject to additional State securities regulations in connection with any sales of our securities.

Resales of shares of our common stock could depress the market price of our common stock.

A significant number of shares of our common stock have been registered under the Securities Act of 1933, as amended, or the Securities Act, and are freely tradable. Sales of shares of common stock in the public market or the perception that these sales might occur, may depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities, including convertible debt. We are unable to predict the effect that such sales, or of future conversions or exchanges of convertible or exchangeable securities for shares of common stock may have on the prevailing market price of our common stock.

The market price and trading volume of our common stock and publicly traded warrants may be volatile and could decline significantly.

The stock markets, including Nasdaq, have, from time to time, experienced significant price and volume fluctuations. Even if an active, liquid and orderly trading market develops and is sustained for our common stock, the market price of our common stock and our publicly traded warrants may be volatile and could decline significantly. In addition, the trading volume in our common stock and warrants may fluctuate and cause significant price variations to occur. The trading price of our common stock has recently declined and may decline further in the future. If the market price of our common stock declines significantly, you may be unable to resell your shares or warrants at or above the market price at which you acquired them. We cannot assure you that the market price of our common stock or warrants will not fluctuate widely or decline significantly in the future in response to a number of factors, including, among others, the following:

- The realization of any of the risk factors presented in this report;
- Actual or anticipated differences or changes in our estimates, or in the estimates of analysts, for our revenues, Free Cash Flow, or other cash flow measures, results of operations, operating metrics, level of indebtedness, liquidity or financial condition;
- Actual or anticipated fluctuations in our quarterly or annual operating results;
- Additions and departures of key personnel;
- Failure to comply with the listing requirements of Nasdaq, or the disclosure of any notifications from Nasdaq about the listing status of our common stock;
- Failure to comply with the Sarbanes-Oxley Act or other laws or regulations;
- Future or anticipated issuances, sales, resales or repurchases, of our securities;
- Publication of research reports about us or other publicity about us, our properties, or incidents at our properties;
- The performance and market valuations of other similar companies;
- Commencement of, or involvement in, litigation or other legal proceedings involving us;
- Broad disruptions in the financial markets, including sudden disruptions in the credit markets;
- Speculation in the press or investment community;
- Actual, potential or perceived control, accounting or reporting problems;
- Changes in accounting principles, policies, and guidelines; and
- Other events or factors, including those resulting from infectious diseases, health epidemics and pandemics (including the ongoing COVID-19 pandemic), natural disasters, war (including the 2022 Russian invasion of Ukraine), acts of terrorism, cyber-attacks, information security incidents, or responses to these events.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in the market price of their shares. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have a material adverse effect on us.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business, or our market, or if they change their recommendations regarding our common stock adversely, then the price and trading volume of our common stock could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market, or our competitors. If few securities or industry analysts commence coverage of us, our stock price and trading volume would likely be negatively impacted. If any of the analysts who may cover us change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, the price of our common stock would likely decline. If any analyst who may cover us ceases coverage of us or fails to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

Future issuances of debt securities and equity securities may adversely affect us, including the market price of our common stock, and may be dilutive to existing stockholders.

In the future, we may incur debt or issue equity securities ranking senior to our common stock. Those securities will generally have priority upon liquidation. Such securities also may be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences, and privileges more favorable than those of our common stock or provide for the issuance of additional equity securities that could be dilutive to existing stockholders. In addition, on December 1, 2022 we closed our offer to reprice certain eligible stock options. Options to purchase a total of 20,292,621 shares of our common stock were amended on that date and the exercise price of each such repriced option was reduced to $1.74 per share. Such offer to reprice may increase the potential dilutive effect of those options. Because our decision to issue debt or equity in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, nature or success of our future capital raising efforts. As a result, future capital raising efforts may reduce the market price of our common stock and be dilutive to existing stockholders.

There is no guarantee that the Public Warrants will ever be in the money, and they may expire worthless.

The exercise price for the Public Warrants is $11.50 per share of common stock. There is no guarantee that the Public Warrants will ever be in the money prior to their expiration, and as such, the Public Warrants may expire worthless.

We may amend the terms of the Public Warrants in a manner that may be adverse to holders with the approval by the holders of at least 50.0% of the then-outstanding Public Warrants.

Our Public Warrants were issued in registered form under a warrant agreement with Computershare that provides that the terms of the Public Warrants may be amended without the consent of any holder to cure any ambiguity or correct any defective provision but requires the approval by the holders of at least 50.0% of the then-outstanding Public Warrants to make any change that adversely affects the interests of the registered holders. Accordingly, we may amend the terms of the Public Warrants in a manner adverse to a holder if holders of at least 50.0% of the then-outstanding Public Warrants approve of such amendment. Although our ability to amend the terms of the Public Warrants with the consent of at least 50.0% of the then-outstanding Public Warrants is unlimited, examples of such amendments could be amendments to, among other things, increase the exercise price of the Public Warrants, shorten the exercise period, or decrease the number of shares of Common Stock purchasable upon exercise of a Public Warrant.

***We may redeem unexpired Public Warrants prior to their exercise at a time and at a price that is disadvantageous to warrant holders, thereby making their Public Warrants worthless, and an exercise of a significant number of warrants could adversely affect the market price of our Common Stock*.**

We have the ability to redeem outstanding Public Warrants at any time after they become exercisable and prior to their expiration, at a price of $0.01 per Public Warrant; provided that the last reported sales price of our Common Stock equals or exceeds $18.00 per share for any 20 trading days within a 30 trading-day period ending on the third trading day prior to the date on which we give proper notice of such redemption to the warrant holders and provided certain other conditions are met. If and when the Public Warrants become redeemable by us, we may exercise our redemption right even if we are unable to register or qualify the underlying securities for sale under all applicable state securities laws. Redemption of the outstanding Public Warrants could force the warrant holders: (i) to exercise their Public Warrants and pay the exercise price therefor at a time when it may be disadvantageous for them to do so; (ii) to sell their Public Warrants at the then-current market price when they might otherwise wish to hold their Public Warrants; or (iii) to accept the nominal redemption price which, at the time the outstanding Public Warrants are called for redemption, is likely to be substantially less than the market value of their Public Warrants. Additionally, if a significant number of Public Warrant holders exercise their Public Warrants instead of accepting the nominal redemption price, the issuance of these shares would dilute other equity holders, which could reduce the market price of our Common Stock. As of the date of this report, our Common Stock has never traded above $18.00 per share.

In addition, we may redeem Public Warrants after they become exercisable for a number of shares of Common Stock determined based on the redemption date and the fair market value of our Common Stock, starting at a trading price of $10.00. Any such redemption may have similar consequences to a cash redemption described above. In addition, such redemption may occur at a time when the Public Warrants are “out-of-the-money,” in which case holders of Public Warrants would lose any potential embedded value from a subsequent increase in the value of the Common Stock had such holders’ Public Warrants remained outstanding.

Provisions in the Amended and Restated Bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit the ability of our stockholders to bring a claim in a judicial forum that it finds favorable for disputes with us or with our directors, officers or employees and may discourage stockholders from bringing such claims.

Our Amended and Restated Bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another State court in Delaware or the federal district court of the District of Delaware) will, to the fullest extent permitted by law, be the sole and exclusive forum for:

- Any derivative action or proceeding brought on our behalf;
- Any action asserting a claim of breach of a fiduciary duty owed by any of our directors, stockholders, officers or other employees to us or our stockholders;
- Any action arising pursuant to any provision of the Delaware General Corporation Law, or DGCL, our Amended and Restated Certificate of Incorporation or our Amended and Restated Bylaws; or
- Any action asserting a claim governed by the internal affairs doctrine.

This exclusive forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, or other employees, which may discourage lawsuits with respect to such claims. However, this provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act, which provides for the exclusive jurisdiction of the federal courts with respect to all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. Notwithstanding the foregoing, this exclusive forum provision will not apply to actions arising under the Securities Act, as other provisions in the Amended and Restated Bylaws designate the federal district courts of the United States as the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act against any person in connection with any offering of our securities. However, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provision. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of the Amended and Restated Bylaws. However, there can be no assurance that the provisions will be enforced by a court in those other jurisdictions. If a court were to find the exclusive forum provision contained in the Amended and Restated Bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, results of operations and financial condition.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the quarter ended June 30, 2023, none of the Company’s directors or Section 16 officers adopted or terminated any “Rule 10b5-1 trading arrangement” or any “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

The following exhibits are filed as part of this report or hereby incorporated by references to filings previously made with the SEC.

		Incorporated by Reference				
Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed or Furnished Herewith
10.1	First Agreement to Loan and Security Agreement, dated as of April 28, 2023, by and among Sonder Holdings Inc., the other borrowers from time to time party thereto and Silicon Valley Bank, a division of First-Citizens Bank & Trust Company	8-K	001-39907	10.1	May 2, 2023	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	Inline XBRL Instance Document					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					X

# Indicates management contract or compensatory plan or arrangement.
* This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Sonder Holdings Inc. (registrant)
August 9, 2023	/s/ Chris Berry
Date	Chris Berry Senior Vice President and Chief Accounting Officer

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Francis Davidson, certify that:

1. I have reviewed this Quarterly Report for the quarter ended June 30, 2023 on Form 10-Q of Sonder Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2023

/s/ Francis Davidson
Francis Davidson
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dominique Bourgault, certify that:

1. I have reviewed this Quarterly Report for the quarter ended June 30, 2023 on Form 10-Q of Sonder Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2023

/s/ Dominique Bourgault
Dominique Bourgault
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Sonder Holdings Inc. (the "Registrant") for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Francis Davidson, Chief Executive Officer of the Registrant, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 9, 2023	/s/ Francis Davidson
	Francis Davidson
	Chief Executive Officer
	(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Sonder Holdings Inc. (the “Registrant”) for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dominique Bourgault, Chief Financial Officer of the Registrant, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that::

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 9, 2023

/s/ Dominique Bourgault
Dominique Bourgault
Chief Financial Officer
(Principal Financial Officer)