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

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): January 18, 2022

SONDER HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Delaware	001-39907	85-2097088
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

101 15th Street San Francisco, California	**94103**
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8–K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a–12 under the Exchange Act (17 CFR 240.14a–12)

☐ Pre–commencement communications pursuant to Rule 14d–2(b) under the Exchange Act (17 CFR 240.14d–2(b))

☐ Pre–commencements communications pursuant to Rule 13e–4(c) under the Exchange Act (17 CFR 240.13e–4(c))

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

Title of each class	Trading Symbols	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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b–2 of the Securities Exchange Act of 1934 (§240.12b–2 of this chapter).

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. ☐

EXPLANATORY NOTE

This Amendment No. 1 to Sonder Holdings Inc.'s (the "Company") Current Report on Form 8-K (the "Original Report") originally filed by the Company with the U.S. Securities and Exchange Commission on January 24, 2022, is being filed solely for the purpose of amending the historical financial statements provided under Items 9.01(a) and 9.01(b) in the Original Report to include the audited consolidated financial statements of Sonder Holdings Inc. ("Legacy Sonder") as of December 31, 2021 and 2020 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations of Legacy Sonder for the year ended December 31, 2021. This Amendment No. 1 does not amend any other item of the Original Report or purport to provide an update or a discussion of any developments at the Company subsequent to the filing date of the Original Report.

Capitalized terms used but not defined herein have the meanings assigned to them in the Original Report.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of business acquired.

The consolidated financial statements of Legacy Sonder as of and for the years ended December 31, 2021 and 2020 and notes thereto are filed herewith as Exhibit 99.1.

(b) Pro forma financial information.

The unaudited pro forma condensed combined financial information of the Company as of and for the years ended December 31, 2021 and 2020 is filed herewith as Exhibit 99.3.

(c) Exhibits

Exhibit No.	Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File No.	Exhibit No.	Filing Date	
2.1	Agreement and Plan of Merger, dated as of April 29, 2021, by and among Gores Metropoulos II, Inc., Sunshine Merger Sub I, Inc., Sunshine Merger Sub II, LLC, and Sonder Holdings Inc.	8-K	001-39907	2.1	April 30, 2021	
2.2	Amendment No. 1, dated as of October 27, 2021, by and among Gores Metropoulos II, Inc., Sunshine Merger Sub I, Inc., Sunshine Merger Sub II, LLC, and Sonder Holdings Inc.	8-K	001-39907	2.1	October 28, 2021	
3.1	Amended and Restated Certificate of Incorporation of Sonder Holdings Inc.	8-K	001-39907	3.1	January 24, 2022	
3.2	Amended and Restated Bylaws of Sonder Holdings Inc.	8-K	001-39907	3.2	January 24, 2022	
4.1	Specimen Stock Certificate of the Company	8-K	001-39907	4.1	January 24, 2022	
4.2	Specimen Warrant Certificate of the Company	S-1	333-251663	4.3	December 23, 2020	
4.3	Warrant Agreement, dated as of January 22, 2021, by and among Gores Metropoulos II, Inc., Computershare Inc., and Computershare Trust Company, N.A., as warrant agent	8-K	001-39907	4.1	January 25, 2021	
4.4	Form of Warrant Agreement by and among Sonder Holdings Inc., Computershare Inc., and Computershare Trust Company, N.A., dated January 19, 2022	S-1	333-262438	4.4	January 31, 2022	
10.1	Form of Existing Subscription Agreement	8-K	001-39907	10.1	April 30, 2021	
10.2	Form of Amendment to Existing Subscription Agreement	8-K	001-39907	10.1	October 28, 2021	
10.3	Form of New Subscription Agreement	8-K	001-39907	10.2	October 28, 2021	
10.4	Amended and Restated Registration Rights Agreement, by and among Sonder Holdings Inc. (f/k/a Gores Metropoulos II, Inc.), Gores Metropoulos Sponsor II, LLC, the Gores Holders and the Sonder Holders	8-K	001-39907	10.4	January 24, 2022	
10.5	Share Surrender Agreement	8-K	001-39907	10.3	October 28, 2021	
10.6#	Management Equity Incentive Plan	S-4	333-257726	10.4	July 7, 2021	

Exhibit No.	Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File No.	Exhibit No.	Filing Date	
10.7#	Form of Restricted Stock Unit Agreement under Management Equity Incentive Plan	8-K	001-39907	10.7	January 24, 2022	
10.8#	2021 Equity Incentive Plan	S-4/A	333-257726	10.8	December 13, 2021	
10.9#	Form of Option Agreement under 2021 Equity Incentive Plan	8-K	001-39907	10.9	January 24, 2022	
10.10#	Form of Restricted Stock Unit Agreement under 2021 Equity Incentive Plan	8-K	001-39907	10.10	January 24, 2022	
10.11#	Legacy Sonder 2019 Equity Incentive Plan	8-K	001-39907	10.11	January 24, 2022	
10.12#	Form of Option Agreement under Legacy Sonder 2019 Equity Incentive Plan	8-K	001-39907	10.12	January 24, 2022	
10.13#	Legacy Sonder Stock Option Plan	8-K	001-39907	10.13	January 24, 2022	
10.14#	Key Executive Change in Control and Severance Plan and related forms of agreement	S-4/A	333-257726	10.7	October 18, 2021	
10.15#	2021 Employee Stock Purchase Plan	S-4/A	333-257726	10.9	November 26, 2021	
10.16	Industrial Gross Lease for 101 15th Street (Sonder San Francisco HQ), dated as of March 22, 2018, by and between Thomas F. Murphy and Martina Murphy as settlors and trustees of the Murphy Trust UDT dated October 3, 2003, and Sonder USA Inc.	S-4	333-257726	10.8	July 7, 2021	
10.17	First Amendment to Lease for 101 15th Street (Sonder San Francisco HQ), dated as of December 3, 2019, by and between Thomas F. Murphy and Martina Murphy as settlors and trustees of the Murphy Trust UDT dated October 3, 2003, and Sonder USA Inc.	S-4	333-257726	10.9	July 7, 2021	
10.18#	Offer Letter from Sonder Holdings Inc. to Sanjay Banker, dated September 14, 2021	S-4/A	333-257726	10.10	September 17, 2021	
10.19#	Offer Letter from Sonder Holdings Inc. to Francis Davidson, dated September 14, 2021.	S-4/A	333-257726	10.11	September 17, 2021	
10.20#	Offer Letter from Sonder Holdings Inc. to Satyen Pandya, dated September 14, 2021.	S-4/A	333-257726	10.12	September 17, 2021	
10.21#	Employment Agreement by and between Sonder USA Inc. and Philip Rothenberg, effective as of November 5, 2018.	8-K	001-39907	10.21	January 24, 2022	
10.22#	Offer Letter from Sonder Holdings, Inc. to Ritesh Patel	8-K	001-39907	10.22	January 24, 2022	
10.23#	Employment Agreement by and between Sonder USA Inc. and Martin Picard	8-K	001-39907	10.23	January 24, 2022	
10.24	Form of Voting and Support Agreement, dated April 29, 2021, by and among Gores Metropoulos II, Inc., Sunshine Merger Sub I, Inc., Sunshine Merger Sub II, LLC, and the stockholder party thereto.	S-4	333-257726	10.13	July 7, 2021	
10.25	Outside Director Compensation Policy	8-K	001-39907	10.25	January 24, 2022	
10.26	Note and Warrant Purchase Agreement, dated December 10, 2021, by and among Sonder Holdings Inc., BlackRock Financial Management, Inc. - Fixed Income Group, on behalf of funds and accounts under management and Senator Investment Group LP.	S-4/A	333-257726	10.17	December 13, 2021	
10.27	Form of Indemnification Agreement	8-K	001-39907	10.28	January 24, 2022	
16.1	Letter to the Securities and Exchange Commission from KPMG LLP dated January 24, 2022	8-K	001-39907	16.1	January 24, 2022	
21.1	Sonder Holdings Inc. Subsidiaries	8-K	001-39907	21.1	January 24, 2022	
99.1	Consolidated Financial Statements as of and for the years ended December 31, 2021 and 2020					X
99.2	Management's Discussion and Analysis and Results of Operations					X
99.3	Unaudited pro forma condensed combined financial statements for the Company as of and for the years ended December 31, 2021 and 2020					X

Exhibit No.	Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File No.	Exhibit No.	Filing Date	
101.INS	Inline XBRL Instance Document					X
101.SCH	Inline 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.

SIGNATURE

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 hereunto duly authorized.

Sonder Holdings Inc.

Date: March 28, 2022

By:	/s/ Sanjay Banker
Name:	Sanjay Banker
Title:	President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Sonder Holdings Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Sonder Holdings Inc. and subsidiaries (Sonder) as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive loss, mezzanine equity and stockholders' deficit, and cash flows for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Sonder as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of Sonder's management. Our responsibility is to express an opinion on Sonder's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to Sonder in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Sonder is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of Sonder's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
March 28, 2022
We have served as Sonder's auditor since 2019.

SONDER HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except for number of shares and par value information)

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 69,726	$ 121,467
Restricted cash	215	1,641
Accounts receivable, net of allowance of $4,127 and $2,570 at December 31, 2021 and 2020, respectively	4,638	1,774
Prepaid rent	2,957	9,907
Prepaid expenses	5,029	3,112
Other current assets	16,416	8,375
Total current assets	98,981	146,276
Property and equipment, net	27,461	24,204
Other non-current assets	22,037	7,041
Total assets	$ 148,479	$ 177,521
Liabilities, mezzanine equity and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 19,096	$ 10,915
Accrued liabilities	19,557	8,248
Sales tax payable	8,412	6,880
Deferred revenue	18,811	10,203
Current portion of long-term debt	13,116	17,038
Convertible notes	184,636	—
Other current liabilities	—	917
Total current liabilities	263,628	54,201
Deferred rent	66,132	28,760
Long-term debt	10,736	25,022
Other non-current liabilities	3,906	2,935
Total liabilities	344,402	110,918
Commitments and contingencies (Note 10)		
Mezzanine equity:		
Redeemable convertible preferred stock, 173,803,110 and 159,303,110 shares authorized at December 31, 2021 and 2020, respectively; 75,767,082 and 75,664,679 shares issued and outstanding at December 31, 2021 and 2020, respectively; aggregate liquidation preference of $529,938 and $528,837 at December 31, 2021 and 2020, respectively	518,750	517,730
Exchangeable preferred stock, 12,675,029 and 12,675,029 shares authorized at December 31, 2021 and 2020, respectively; 12,570,228 and 12,579,755 shares issued and outstanding at December 31, 2021 and 2020, respectively; aggregate liquidation preference of $49,733 and $49,741 at December 31, 2021 and 2020, respectively	49,733	49,733
Total mezzanine equity	568,483	567,463
Stockholders' deficit:		
Common stock, $0.000001 par value—143,234,881 and 128,734,881 shares authorized at December 31, 2021 and 2020, respectively; 8,683,246 and 7,169,758 shares issued and outstanding at December 31, 2021 and 2020, respectively	1	1
Exchangeable AA stock, 22,517,608 and 22,517,608 shares authorized at December 31, 2021 and 2020, respectively; 9,421,190 and 9,437,358 shares issued and outstanding at December 31, 2021 and 2020, respectively	—	—
Additional paid-in capital	43,106	13,898
Cumulative translation adjustment	7,299	5,666
Accumulated deficit	(814,812)	(520,425)
Total stockholders' deficit	(764,406)	(500,860)
Total liabilities, mezzanine equity, and stockholders' deficit	$ 148,479	$ 177,521

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

SONDER HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except number of shares information)

	Years Ended December 31,	
	2021	2020
Revenue	$ 232,944	$ 115,678
Costs and expenses		
Cost of revenue (excluding depreciation and amortization)	201,445	136,995
Operations and support	142,728	115,072
General and administrative	106,135	77,033
Research and development	19,091	17,552
Sales and marketing	23,490	12,848
Total costs and expenses	492,889	359,500
Loss from operations	(259,945)	(243,822)
Interest expense, net and other (income) expense, net:		
Interest expense, net	44,090	6,402
Other (income) expense, net	(9,890)	(231)
Total interest expense, net and other (income) expense, net	34,200	6,171
Loss before income taxes	(294,145)	(249,993)
Provision for income taxes	242	323
Net loss	(294,387)	(250,316)
Net loss per share attributable to common stock holders		
Net loss per share, basic and diluted	$ (36.74)	$ (39.98)
Weighted average shares outstanding of common stock, basic and diluted	8,011,660	6,261,247
Other comprehensive loss:		
Net loss	(294,387)	(250,316)
Change in foreign currency translation adjustment	1,633	(740)
Comprehensive loss	$ (292,754)	$ (251,056)

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

SONDER HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEZZANINE EQUITY AND STOCKHOLDERS' DEFICIT
(In thousands, except number of shares and par amount information)

	Redeemable Convertible Preferred Stock		Exchangeable Preferred Stock		Common Stock		Exchangeable AA Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Par Amount	Shares	Amount				
Balances as of December 31, 2019	56,753,734	$ 314,967	12,159,185	$ 45,203	5,705,570	$ 1	9,842,579	$ —	$ 5,032	$ 6,406	$ (270,109)	$ (258,670)
Series D Redeemable convertible Preferred Stock extension round	47,637	$ 594	—	—	—	—	—	—	—	—	—	—
Issuance of Series E Redeemable Convertible Preferred Stock, net of issuance costs	18,863,308	202,169	—	—	—	—	—	—	—	—	—	—
Issuance of Exchangeable Series E Preferred Stock, net of issuance costs	—	—	420,570	4,530	—	—	—	—	—	—	—	—
Exchange of Series AA Special Voting shares for common stock	—	—	—	—	405,221	—	(405,221)	—	—	—	—	—
Issuance of common stock upon exercise of stock options	—	—	—	—	1,058,967	—	—	—	1,643	—	—	1,643
Stock-based compensation	—	—	—	—	—	—	—	—	7,223	—	—	7,223
Components of comprehensive loss:												
Net loss	—	—	—	—	—	—	—	—	—	—	(250,316)	(250,316)
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	—	(740)	—	(740)
Balances as of December 31, 2020	75,664,679	$ 517,730	12,579,755	$ 49,733	7,169,758	1	9,437,358	—	13,898	5,666	(520,425)	(500,860)
Exchange of Series Voting Series AA Common to Common Stock	—	—	—	—	16,168	—	(16,168)	—	—	—	—	—
Exchange of Exchangeable Preferred Stock to Convertible Preferred Stock	9,527	—	(9,527)	—	—	—	—	—	—	—	—	—
Issuance of Series E Convertible Preferred Stock, net of issuance costs	92,876	1,020	—	—	—	—	—	—	—	—	—	—
Issuance of common stock upon exercise of common stock warrants	—	—	—	—	56,075	—	—	—	120	—	—	120
Issuance of common stock upon exercise of stock options	—	—	—	—	1,441,245	—	—	—	3,841	—	—	3,841
Stock-based compensation	—	—	—	—	—	—	—	—	25,247	—	—	25,247
Components of comprehensive loss:												—
Net loss	—	—	—	—	—	—	—	—	—	—	(294,387)	(294,387)
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	—	1,633	—	1,633
Balances as of December 31, 2021	75,767,082	$ 518,750	12,570,228	$ 49,733	8,683,246	$ 1	9,421,190	$ —	$ 43,106	$ 7,299	$ (814,812)	$ (764,406)

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

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

	Years Ended December 31,	
	2021	**2020**
Cash flows from operating activities		
Net loss	$ (294,387)	$ (250,316)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	17,714	16,969
Stock-based compensation	25,247	7,223
Bad debt expense	142	2,567
Write-off of capital assets	668	3,782
Straight-line rent	37,525	1,821
Unrealized (gain) loss on foreign currency transactions	2,387	(245)
Amortization of debt issuance costs	2,378	716
Amortization of debt discounts	35,067	—
Change in fair value of share-settle redemption feature	(14,834)	—
Change in fair value of warrants, net	2,148	26
Other adjustments to net loss	—	(14)
Changes in operating assets and liabilities:		
Accounts receivable	(3,067)	1,681
Prepaid rent	6,922	4,121
Prepaid expenses	(1,931)	552
Other current assets	(7,930)	(5,058)
Other non-current assets	(15,081)	1,193
Accounts payable	8,199	3,668
Accrued liabilities	10,762	(590)
Sales tax payable	1,366	2,062
Deferred revenue	8,643	4,841
Other current liabilities	(223)	237
Other non-current liabilities	(1,106)	2,262
Net cash used in operating activities	(179,391)	(202,502)
Cash flows from investing activities		
Purchases of property and equipment	(16,161)	(12,247)
Development of internal-use software	(5,426)	(2,603)
Net cash used in investing activities	(21,587)	(14,850)
Cash flows from financing activities		
Repayment of debt	(18,776)	(6,741)
Proceeds from debt financing	165,000	25,000
Debt financing costs	(2,634)	(634)
Proceeds from exercise of stock options	3,841	1,643
Exercise of common stock warrants	120	—
Issuance of redeemable convertible preferred stock, net	1,020	207,293
Net cash provided by financing activities	148,571	226,561
Effects of foreign exchange on cash	(760)	(347)
Net change in cash, cash equivalents, and restricted cash	(53,167)	8,862
Cash, cash equivalents, and restricted cash at the beginning of year	123,108	114,246
Cash, cash equivalents, and restricted cash at the end of year	$ 69,941	$ 123,108

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

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

	Years Ended December 31,	
	2021	2020
Supplemental disclosures of cash flow information:		
Cash paid for income taxes during the year	$ 300	$ 100
Cash paid for interest during the year	4,550	5,428
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	$ 69,726	$ 121,467
Restricted cash	215	1,641
Total cash, cash equivalents, and restricted cash	$ 69,941	$ 123,108

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

Note 1. Description of Business

Company and Background

Sonder Holdings Inc. is headquartered in San Francisco, California, and together with its wholly owned subsidiaries (collectively, Sonder) provides short and long-term accommodations to travelers in various cities across North America, Europe and the Middle East. The Sonder units in each multi-family building and each hotel property are selected, designed and managed directly by Sonder.

On January 18, 2022, Sonder consummated the previously announced Business Combination by and among Gores Metropoulos II, Inc., Sunshine Merger Sub I, Inc. (“First Merger Sub”), a direct, wholly-owned subsidiary of Second Merger Sub (as defined below), Sunshine Merger Sub II, LLC, a direct, wholly-owned subsidiary of the Company (“Second Merger Sub”), and Sonder Holdings Inc. Refer to Note 18. Subsequent events for details of the transaction.

Note 2. Summary of Significant Accounting Policies

Basis of 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. The functional and the reporting currency of Sonder is the U.S. dollar.

Sonder consolidates its VIE in which it holds a variable interest and is the primary beneficiary. Sonder is the primary beneficiary when it (1) has the power to direct the activities that most significantly impact the economic performance of this VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to this VIE. As a result, Sonder consolidates the assets and liabilities of this VIE. If Sonder is not deemed to be the primary beneficiary in a VIE, it accounts for the investment or other variable interest in a VIE in accordance with applicable U.S. GAAP. As of December 31, 2021 and 2020, Sonder’s consolidated VIE was not material to the consolidated financial statements.

Correction of immaterial prior period error

During the year ended December 31, 2021, the Company corrected an out of period immaterial error through the current year income statement in the amount of $1.9 million in connection with prior period errors it discovered in the cost of revenue financial statement line item related to untimely recording of its lease agreements, by increasing the cost of revenue for $1.9 million with a corresponding increase to the deferred rent liability. This correction was considered to be immaterial by the Company to its consolidated financial statements.

COVID-19 Pandemic

The ongoing impact of the COVID-19 pandemic on the global economy and the extent to which it will continue to adversely impact Sonder remains uncertain. Sonder’s financial results for all of 2021 were materially adversely affected by the COVID-19 pandemic, which may continue to materially adversely impact business operations, results of operations and liquidity in the near term. The extent of the recovery is uncertain and will be largely dependent on the effectiveness of COVID-19 prevention (vaccination and continued social distancing) and treatment in the cities and countries in which Sonder operates, all of which are outside of Sonder’s control.

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 income and expense during the reporting periods. Significant management estimates include revenue recognition, bad debt allowance, the fair value of share-based awards, valuation of common stock, estimated useful life of software development costs, valuation of intellectual property and intangible assets, contingent liabilities, and valuation allowance for deferred tax assets, among others. These estimates are based on information available as of the date of the consolidated financial statements; therefore, actual results could differ from those estimates.

Deferred Transaction Costs

As of December 31, 2021, deferred transaction costs consisted of expenses incurred in connection with the Business Combination, including legal, accounting, printing, and other related costs. Sonder recorded $8.0 million of deferred transaction costs in other current assets on the consolidated balance sheet.

Segment Information

An operating segment is defined as a component of an entity that (a) engages in business from which it may earn revenues and incur expenses, (b) is regularly reviewed by the Chief Operating Decision Maker (CODM) for performance assessment and resource allocation decisions, and (c) has discrete financial information available. Sonder's CODM is its Chief Executive Officer.

Sonder has determined it has one operating and reportable segment as the CODM reviews financial information presented on a consolidated basis for purposes of performance assessment and resource allocation.

For the years ended December 31, 2021 and 2020, substantially all of Sonder's assets were held in the United States.

Revenue Recognition and Deferred Revenue

Sonder generates revenues primarily by providing short-term or month-to-month accommodations to its guests. Revenues are recognized on a straight-line basis over the guest stay commencing upon guest check-in and ending at guest check-out, net of discounts and refunds. For short-term accommodations, Sonder's guests agree to its Terms of Service (ToS) and make payments for their accommodations at the time of reservation. For month-to-month accommodations, Sonder's guests agree to its ToS and make payments for their accommodations in accordance with the lease contracts. For accommodations booked through online travel agencies, payments for those accommodations are made to Sonder based on the ToS that Sonder has with travel agencies.

Guests generally have the right to cancel prior to check-in, and are entitled to refunds in accordance with the agreed ToS. Payments received from guests prior to check-in are recognized as deferred revenue on the consolidated balance sheet. Payments received after guest check-ins are primarily from online travel agencies that guests use to book accommodations and are recognized as accounts receivable, net of allowance, post guest check-out. Sonder is required to collect certain taxes and fees from guests on behalf of governmental agencies and remit these to the applicable governmental agencies on a periodic basis. Sonder recognizes revenues net of taxes and fees collected.

For revenue generated from management contracts with third-party property owners, Sonder generally receives base fees, which are fixed fees, and incentive fees, which are a percentage of the revenues or profits of accommodations. Sonder recognizes base fees on a monthly basis over the term of the agreement as those amounts become payable and incentive fees on a monthly basis over the term of the agreement based on each property's financial results.

Leases

Sonder's cost of revenue primarily consist of rental expenses from buildings or portions of buildings that serve as accommodations for its guests. Cost of revenue also includes cleaning costs and payment processing charges. Sonder does not recognize depreciation expense in cost of revenue as the accommodations provided to its guests are considered to be operating leases. Sonder also leases other properties such as warehouses to store furniture and corporate offices. Under ASC 840, leases are classified at their inception as either operating or capital leases based on the economic substance of the agreement. As of December 31, 2021 and 2020, there were no capital leases. The lease term is also determined at lease inception and generally begins on the date Sonder takes possession of the full or partial portions of leased premises. Sonder's rent payment schedules vary by lease term per executed lease agreements and can be monthly, quarterly or bi-annually. A large majority of Sonder's leases contain provisions for rent abatement periods, rent escalation, and tenant improvement allowances. Upon termination of a lease, related lease balances on the consolidated balance sheet are written-off. A liability for costs to terminate a lease before the end of its term is recognized in accordance with the lease terms and recorded in operations and support on the consolidated statement of operations and comprehensive loss.

Certain leases require the payment of real estate taxes, insurance, and certain common area maintenance costs in addition to minimum rent payments. These amounts are expensed as incurred and are included within operations and support for the properties for its guests and within general and administrative for its warehouses and corporate offices in the accompanying consolidated statements of operations and comprehensive loss.

As a result of COVID-19, Sonder sought rent concessions from its real estate owners, which led to a series of lease amendments during 2020 and 2021. Sonder has concluded that the total cash flows resulting from the modified leases were substantially the same or less than the cash flows in the original lease contracts, and pursuant to the relief provided by the Financial Accounting Standards Board (FASB), has elected to not evaluate whether the concessions provided by the real estate owners due to COVID-19 are lease modifications under Accounting Standards Codification (*ASC*) 840. Sonder has accounted for the COVID-related concessions using variable lease expense approach, resulting in negative variable lease expenses for certain leases on its consolidated statement of operations and comprehensive loss during the periods in which the concession was received.

Deferred Rent

A large majority of Sonder's operating leases contain rent escalation clauses over the term of the lease, tenant improvement reimbursements, and rent abatement periods. For these leases, Sonder recognizes the related rent expense on a straight-line basis over the lease term and records the difference between rent expense and rent payments as deferred rent in the consolidated balance sheets. Sonder recognizes prepaid rent when rent payments are made in advance of the month the payment is related to. As of December 31, 2021 and 2020, deferred rent was $66.1 million and $28.8 million, respectively, and prepaid rent was $3.0 million and $9.9 million, respectively.

Certain leases contain contingent rent provisions that require additional rental payments based upon operating performance of the leased property. When achievement of such operating performance is probable, contingent rent is accrued in proportion to the operating performance recognized during the period that is attributable to the expected achievement of the operating performance.

Cash, Cash Equivalents, and Restricted Cash

Sonder considers all highly liquid investments with an original maturity of 90 days or less when purchased to be cash and cash equivalents. Cash is held in checking and interest-bearing accounts, and are recorded at cost, which approximates fair value. Restricted cash consists of cash collateral for standby letters of credit with a bank that were issued to Sonder's real estate owners and for collateral required by the bank to support Sonder's corporate credit card programs.

Fair Value Measurements

Sonder applies fair value accounting for certain financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Refer to Note 5. Fair value measurement and financial instruments for additional information.

Accounts Receivable, Net of Allowance

Trade accounts receivables are recorded for guest stays primarily from bookings made through online travel agencies where payments are made to Sonder post guest check-outs. Trade accounts receivable are recorded at the invoiced amount and are non-interest bearing.

Sonder maintains an allowance which reflects its best estimate of its exposure to balances deemed to be uncollectible. The determination of such allowance is based on an assessment which requires significant judgement. Because of this assessment, Sonder maintains an allowance for estimated losses resulting from the inability of certain customers to make all their required payments. Accounts receivable are written off as a decrease to the allowance when all collection efforts have been exhausted and an account is deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Concentration of Credit Risk

Financial instruments that potentially subject Sonder to concentrations of credit risk consist primarily of cash. Sonder places the majority of its cash with financial institutions in the United States that it believes to be of high credit quality and accordingly believes minimal credit risk exists with respect to these instruments. Certain of Sonder's cash balances held with a financial institution are in excess of Federal Deposit Insurance Corporation limits. Sonder believes no significant concentration risk exists with respect to its cash.

Property and Equipment, net

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets:

Classification	Useful Life
Furniture and fixtures	3 years
Computers, equipment, and software	3 years
Internal-use software	2 years
Leasehold improvements	Shorter of remaining lease term or the estimated useful life of 3 years

Depreciation and amortization expense are generally classified within the corresponding operating expenses categories on Sonder's consolidated statements of operations and comprehensive loss. The cost of maintenance and repairs is expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected on the consolidated statement of operations and comprehensive loss.

Internal-Use Software

Sonder capitalizes certain costs associated with software developed or obtained for internal use, which includes booking and pricing platform, mobile apps and website development. Sonder capitalizes costs when preliminary software development efforts are successfully completed, management has authorized and committed project funding and it is probable that the project will be completed and the software will be used as intended. Such costs are amortized on a straight-line basis over a two year estimated useful life of the related asset. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed as incurred. Costs incurred for software enhancements that are expected to result in additional material functionality are capitalized and amortized over the estimated useful life of the enhancements.

Foreign Currency

Sonder's reporting currency is the U.S. dollar. Sonder determines the functional currency for each of its foreign subsidiaries by reviewing its operations and currencies used in its primary economic environments. Assets and liabilities for foreign subsidiaries with functional currency other than the U.S. dollar are translated into U.S. dollars at the rate of exchange existing at the balance sheet date. Statements of operations and comprehensive loss amounts are translated at average exchange rates for the period. Translation gains and losses are recorded in cumulative translation adjustment as a component of stockholders' deficit in the consolidated balance sheets.

Remeasurement gains and losses are included in other expense, net in the consolidated statements of operations and comprehensive loss. Monetary assets and liabilities are remeasured at the exchange rate on the balance sheet date, and nonmonetary assets and liabilities are measured at historical exchange rates. Total net realized and unrealized gains (losses) on foreign currency transactions and balances totaled a loss of $2.6 million and a gain of $0.6 million for the years ended December 31, 2021 and 2020, respectively.

Operations and Support

Operations and support costs primarily consist of personnel-related expenses, costs to operate guest accommodations, including utilities, lease termination fees, and property security services, depreciation of property and equipment of fixed assets purchased as part of the onboarding of new properties, other costs to onboard new properties, and purchases of non-capitalized items. Sonder records its operations and support expenses as they are incurred.

General and Administrative

General and administrative costs primarily consist of personnel-related expenses for administrative functions, such as finance and accounting, legal, and human resources, real estate functions, such as market research and deal execution, and other corporate functions, such as expansion and sales management strategy and analytics. It also includes certain professional services fees, indirect taxes, rent expense related to Sonder's corporate offices and bad debt expense, and other expenses Sonder incurs to manage and support its corporate functions.

Research and Development

Research and development expenses primarily consist of personnel-related expenses, software expenses in connection with the development of its existing and new services, and depreciation of property and equipment such as network servers and computers. Sonder continues to focus its research and development efforts on adding new features and services, and increasing the functionality and enhancing the ease of use of Sonder's existing services. These costs are expensed as incurred.

Sales and Marketing

Sales and marketing costs primarily consist of channel transaction charges for bookings made through online travel agencies and personnel-related expenses.

Advertising expenses

Advertising expenses, a majority of which consist of internet and social media marketing, were $5.5 million and $4.9 million for the years ended December 31, 2021 and 2020, respectively.

Stock-Based Compensation Related to Stock Options

Sonder recognizes stock-based compensation expense related to stock options in the consolidated statements of operations and comprehensive loss on a straight line basis over the requisite service period, which is generally four years. The compensation expense related to stock options is based on Sonder's estimate of the fair value of stock options using the Black-Scholes-Merton option-pricing model on the grant date, which requires the use of highly subjective and complex assumptions, including the value of the underlying stock on the date of grant, the expected term of the option, the price volatility of the underlying stock, expected dividend yield, and risk-free interest rate.

Sonder estimates the expected term for options based on Sonder's historical pattern of option exercise behavior and the period of time they are expected to be outstanding. The contractual term of Sonder's stock options is generally ten years. Sonder estimates the volatility of its common stock on the date of grant based on the average historical stock price volatility of comparable publicly traded companies. Dividend yields have been in the past and are expected to be zero in the foreseeable future. The risk free interest rate is based on the yield curve of a zero-coupon U.S. Treasury bond on the grant date with a maturity equal to the expected term of the stock option award. Sonder has elected to account for forfeitures of stock-based compensation awards as they occur.

Recognition of any compensation expense relating to stock grants that vest contingent on an initial public offering or acquisition will be deferred until consummation of such initial public offering or acquisition.

Stock-Based Compensation Related to Performance Awards

Sonder recognizes the compensation expense related to performance awards based on its estimate of the fair value of the award using a Monte-Carlo simulation on the grant date. The Monte-Carlo simulation model utilizes multiple input variables to estimate the probability that performance conditions will be achieved. These variables include Sonder's expected stock price volatility over the expected term of the award, actual and projected employee stock option exercise behaviors, and the risk-free interest rate for the expected term of the award. Sonder recognizes compensation expense for its performance awards using an accelerated attribution method from the time it is deemed probable that the vesting condition will be met through the time the service-based vesting condition has been achieved.

As of December 31, 2021, due to the absence of an active market for Sonder's common stock, its board of directors determined the fair value of Sonder's common stock for purposes of granting stock options. In estimating the fair value of stock, Sonder utilized third-party valuation experts to assist the board of directors in determining the fair value of its common stock, and considered factors that it believed are material to the valuation process, including but not limited to, the price at which recent equity was issued by Sonder, actual and projected financial results, risks, prospects, economic and market conditions, and estimates of weighted average cost of capital. All grants of stock options have an exercise price equal to or greater than the fair value of Sonder's common stock on the date of grant.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations and comprehensive loss as of the enactment date. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2021 and 2020, Sonder has recorded a full valuation allowance against its deferred tax assets due to its history of losses.

Sonder is 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. Additionally, our effective tax rate can vary based on the amount of pre-tax income or loss.

Sonder recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at 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.

Sonder recognizes interest and penalties, if any, related to income tax matters as a component of income tax expense.

Comprehensive Loss

Comprehensive loss consists of net loss and other comprehensive loss. Other comprehensive loss primarily consists of foreign currency translation adjustments related to consolidation of foreign entities. Comprehensive loss is recorded as a component of stockholders' deficit and is excluded from net loss.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In August 2020, the FASB issued Accounting Standards Update ("ASU") 2020-06, Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. For public companies, the guidance is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted. Sonder has early adopted ASU 2020-06 beginning January 1, 2021, and the adoption did not have a significant impact on its consolidated financial statements.

Recently Issued Accounting Pronouncements

The Jumpstart Our Business Startups Act of 2012 and the SEC's Division of Corporation Finance's Financial Reporting Manual (FRM) paragraph 10230.1 permit an emerging growth company to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies until those standards would otherwise apply to private companies. As an emerging growth company (EGC), Sonder has elected to take advantage of this extended transition period for certain new accounting standards.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which has subsequently been amended by ASUs 2018-01, 2018-10, 2018-11, 2018-20, 2019-01, 2019-10, 2020-05, 2021-05, and 2021-09. The guidance requires the recognition of right of use (ROU) assets and lease liabilities for substantially all leases under U.S. GAAP. The guidance retains a distinction between finance leases and operating leases, and the classification criteria for distinguishing between finance leases and operating leases are substantially similar to that under previous U.S. GAAP. The expense recognition and cash flow treatment arising from either a finance lease or operating lease by a lessee have not changed significantly from previous U.S. GAAP. For operating leases, a lessee is required to do the following: (i) recognize a ROU asset and a lease liability, initially measured at the present value of the lease payments, on the consolidated balance sheets; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis; and (iii) classify all cash payments within operating activities in the statement of cash flows. ASU 2016-02 is effective for public entities and employee benefit plans that file or furnish financial statements with or to the SEC for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and all other entities for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, except for employee benefit plans that file or furnish financial statements with or to the SEC or not-for-profit entities. Early application is allowed. In November 2019, the FASB issued amended guidance which defers the effective date for EGCs for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The adoption of this standard is expected to have a material impact on Sonder's consolidated financial statements, with the most significant effects related to the recognition of new ROU assets and lease liabilities on Sonder's consolidated balance sheets for its real estate operating leases and providing significant new disclosures about Sonder's leasing activities. Sonder is currently evaluating the impact ASU 2016-13 will have on its consolidated balance sheet, consolidated statement of operations, and consolidated statement of cash flows.

In June 2016, the 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, 2019-05, 2019-10 and 2019-11. The guidance changes how entities will 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 is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years and is effective for all other entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021, with early adoption permitted. Sonder is currently evaluating the impact ASU 2016-13 will have on its consolidated financial position, results of operations, and cash flows.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*, which was subsequently amended by ASU 2021-01. The guidance provides optional expedients and exceptions to contract modifications and hedging relationships that reference the London Interbank Offered Rate or another reference rate expected to be discontinued. The standard is effective upon issuance through December 31, 2022 and may be applied at the beginning of the interim period that includes March 12, 2020 or any date thereafter. Sonder does not have any hedging relationships and currently does not have material contracts impacted by reference rate reform; however, Sonder will continue to assess contracts through December 31, 2022.

There are other new accounting pronouncements issued by the FASB that Sonder has adopted or will adopt, as applicable, and Sonder does not believe any of these accounting pronouncements have had, or will have, a material impact on its consolidated financial statements or disclosures.

Note 3. Revenue

Revenue Recognition

Sonder generates revenues primarily by providing short-term or month-to-month accommodations to its guests. Sonder's revenue is generated from stays booked through Sonder.com or the Sonder app, which it refers to as direct revenue, or from stays booked through third party online travel agencies, which it refers to as indirect revenue.

Sonder's minimum future receivables were not material as of December 31, 2021 due to the cancellation rights held by guests prior to check-in.

The following table sets forth Sonder's total revenue for the periods shown disaggregated by channel (in thousands):

	Year Ended December 31,	
	2021	2020
Direct revenue	$ 120,219	$ 59,340
Indirect revenue	112,725	56,338
Total revenue	$ 232,944	$ 115,678

Revenue by geographic area is attributed based on the location where the guest stays and is as follows (in thousands):

	Year Ended December 31,	
	2021	2020
Revenue:		
Americas		
United States	$ 167,462	$ 85,891
Other Americas	10,830	5,520
Total Americas	178,292	91,411
Europe, Middle East, and Africa (EMEA)		
Great Britain	16,910	8,607
United Arab Emirates	26,977	10,328
Other EMEA	10,765	5,332
Total EMEA	54,652	24,267
Total revenue	$ 232,944	$ 115,678

(1) As of December 31, 2021, Other Americas is comprised of Canada and Mexico.

No guest represented over 10% of revenues for the years ended December 31, 2021 and 2020.

Sonder had two online travel agencies that represented 25% and 13%, respectively, of Sonder's revenue for the year ended December 31, 2021, and one online travel agency that represented 31% of Sonder's revenue for the year ended December 31, 2020.

One online travel agency represented over 10% of the net accounts receivable balance as of December 31, 2021 and no online travel agency represented over 10% of the net accounts receivable balance as of December 31, 2020.

The following table summarizes Sonder's beginning allowance for doubtful accounts balance for each period, additions, write-offs net of recoveries, and the balance at the end of each period shown (in thousands):

	Year Ended December 31,	
	2021	2020
Beginning balance	$ 2,570	$ 2,503
Additions	4,719	2,577
Write-offs, net of recoveries	(3,162)	(2,510)
Ending balance	$ 4,127	$ 2,570

Note 4. Balance Sheet Details

Other current assets

Other current assets consists of the following (in thousands):

	December 31,	
	2021	2020
FF&E and leasehold improvement allowances	$ 8,206	$ 1,820
Non-income tax assets	6,728	5,829
Deposits due from landlords	1,165	490
Other current assets	317	236
Total other current assets	$ 16,416	$ 8,375

Other non-current assets

Other non-current assets consists of the following (in thousands):

	December 31,	
	2021	2020
Deferred transaction costs	$ 8,027	$ —
Long-term deposits due from landlords	14,010	6,892
Other non-current assets	—	149
Total non-current assets	$ 22,037	$ 7,041

Accrued Liabilities

Accrued liabilities consists of the following (in thousands):

	December 31, 2021	December 31, 2020
Accrued compensation	$ 5,607	$ 3,269
Accrued legal expenses	595	1,606
Accrued interest	2,503	—
Accrued travel voucher liability	2,130	976
Accrued other liabilities	8,722	2,397
Total accrued liabilities	$ 19,557	$ 8,248

Note 5. Fair value measurement and financial instruments

Sonder has established a fair value hierarchy used to determine the fair value of its financial instruments as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments.

Level 3—Unobservable inputs for which there is little or no market data that is significant to the fair value of the assets or liabilities. Consideration is given to the risk inherent in the valuation technique and the inputs to the model.

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.

Sonder did not have any assets or liabilities classified under Level 1 or Level 2 fair value measurements as of December 31, 2021 and 2020. The following table summarizes Sonder's Level 3 financial liabilities measured at fair value on a recurring basis (in thousands):

	Level 3 December 31, 2021	Level 3 December 31, 2020
Financial liabilities:		
Current liabilities:		
Share-settled redemption feature	$ 30,322	$ —
Other non-current liabilities:		
Preferred stock warrant liabilities	3,288	1,140
Total financial liabilities measured and recorded at fair value	$ 33,610	$ 1,140

The following table presents additional information about Sonder's financial liabilities that are measured at fair value for which it has utilized Level 3 inputs to determine fair value (in thousands):

	Level 3 December 31, 2021	Level 3 December 31, 2020
Beginning balance	$ 1,140	$ 822
Additions for new instruments issued	45,156	292
Increase in fair value of preferred stock warrants	2,148	26
Decrease in fair value of share-settled redemption feature	(14,834)	—
Total financial liabilities measured and recorded at fair value	$ 33,610	$ 1,140

There were no transfers of financial instruments between valuation levels during the years ended December 31, 2021 and 2020.

As of December 31, 2021 and 2020, Sonder did not have observable inputs for the valuation of its preferred stock warrant liabilities or share-settled redemption feature related to the Convertible Notes.

The fair value of the preferred stock warrant liabilities were based in part on aggregate equity value indications, consistent with the analysis for Sonder's common stock valuation using the option pricing method. The significant unobservable input used in the fair value measurement of the redeemable convertible preferred stock warrant liability was the fair value of the underlying preferred stock at the valuation measurement date. Generally, changes in the fair value of the underlying preferred stock resulted in a directionally similar impact to the fair value measurement.

The following table presents quantitative information on significant Level 3 liabilities (in thousands):

	December 31, 2021					
	Fair value (in thousands)	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average
Liabilities:						
Preferred stock warrants	$ 3,288	Probability-Weighted Expected Return Method (PWERM)	Probability of SPAC transaction	— %	95 %	N/A
			Expected transaction date	1/18/22	1/18/22	N/A
Share-settled redemption feature	30,322	PWERM	Probability of SPAC transaction	— %	95 %	N/A
			Expected transaction date	1/18/22	1/18/22	N/A

The determination of the fair value of the share-settled redemption feature is discussed in Note 7. Debt . The share-settled redemption feature was classified as Level 3 within the fair value hierarchy because the fair value was based on unobservable inputs in an inactive market.

Sonder estimates that the fair value of its restricted cash, accounts receivable, prepaid rent, prepaid expenses, other current assets, accounts payable, accrued liabilities, sales tax payable, deferred revenue, current portion of long-term debt, convertible notes and other current liabilities approximates carrying value due to the relatively short maturity of the instruments. The carrying value of Sonder's long-term debt approximates fair value because it was paid in full shortly after the year-end.

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

Note 6. Property and equipment, net

Property and equipment, net consisted of the following (in thousands):

	December 31,	
	2021	2020
Furniture and fixtures	$ 52,334	$ 41,092
Computers, equipment, and software	6,967	4,361
Internal-use software	12,283	7,023
Leasehold improvements	314	179
Property and equipment	71,898	52,655
Less accumulated depreciation	(44,437)	(28,451)
Property and equipment, net	$ 27,461	$ 24,204

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 was $17.7 million and $17.0 million, respectively. Sonder disposed of $2.5 million and $12.7 million of property and equipment and likewise removed previously recognized accumulated depreciation of $1.8 million and $8.8 million for the years ended December 31, 2021 and 2020, respectively. The disposal of property and equipment in the year ended December 31, 2020 was a result of the COVID-19 pandemic as furniture and fixtures were disposed of from terminated leases. For the year ended December 31, 2021, Sonder recognized $0.7 million in loss on disposal which was recorded in operations and support in Sonder's consolidated statement of operations and comprehensive loss. For the year ended December 31, 2020, Sonder recognized $3.8 million in loss on the disposal of which $3.5 million was recorded in operations and support and $0.3 million was recorded in general and administrative in Sonder's consolidated statement of operations and comprehensive loss.

Note 7. Debt

2021 Convertible Promissory Notes

In March 2021, pursuant to a note purchase agreement, Sonder issued the Convertible Notes to certain investors for an aggregate principal amount of $165.0 million. The net proceeds from the issuance of the Convertible Notes were approximately $162.4 million after deducting issuance costs of $2.6 million.

The Convertible Notes are subordinated obligations of Sonder, and interest is payable annually at a rate of 1.00% per annum. The Convertible Notes were scheduled to mature on March 12, 2022, unless converted in accordance with the conversion terms prior to such date. The Convertible Notes are convertible either automatically, at the option of holders, or at the option of Sonder upon the occurrence of certain specified events.

Automatic Conversion

The Convertible Notes will convert automatically upon the occurrence of the following events:

- Qualified Financing Conversion: If Sonder receives aggregate gross proceeds of at least $50.0 million in the next round of preferred stock financing on or prior to the maturity date (Qualified Financing), the outstanding principal and accrued and unpaid interest of the Convertible Notes shall be automatically converted at the closing of such financing into shares of the preferred stock issued in such financing.

- Qualified IPO Conversion: If Sonder closes an initial public offering with gross proceeds not less than $50.0 million on or prior to the maturity date (Qualified IPO), the outstanding principal and accrued and unpaid interest of the Convertible Notes shall be automatically converted into Sonder’s common shares.
- Qualified Public Transaction Conversion – Qualified SPAC: If the closing of an acquisition transaction with a publicly listed special purpose acquisition company or its subsidiary with not less than $200.0 million in available cash in its escrow or trust account occurs on or prior to the maturity date (Qualified SPAC), the outstanding principal and accrued and unpaid interest of the Convertible Notes shall be automatically converted into Sonder’s common stock.

The conversion rate for each of the above scenarios is the following:

- Qualified Financing Conversion: the lesser of (i) $2.3 billion divided by the number of outstanding shares of Sonder’s common stock on a fully diluted basis immediately prior to the closing of the next round preferred stock financing, and (ii) 87.5% of the lowest price per share paid by the investors purchasing the preferred stock issued in such financing in cash (Financing Conversion Price).
- Qualified IPO Conversion: the lesser of (i) $2.3 billion divided by the number of outstanding shares of Sonder’s common stock on a fully diluted basis, and (ii) 87.5% of the price to the public in the Qualified IPO.
- Qualified Public Transaction Conversion – Qualified SPAC: the lesser of (i) $2.3 billion divided by the number of outstanding shares of Sonder’s common stock on a fully diluted basis, and (ii) 87.5% of the amount obtained by dividing the enterprise value of Sonder by the number of outstanding shares of Sonder’s common stock on a fully diluted basis.

Conversion at the Option of the Holder

If, on or prior to the maturity date, Sonder’s next round of preferred stock financing is not a Qualified Financing, at the investors’ election, all or any portion of the outstanding principal and accrued and unpaid interest of the Convertible Notes may be converted into the preferred shares issued in such financing at the Financing Conversion Price.

Conversion at the Option of Sonder

At Sonder’s election, the outstanding principal and accrued and unpaid interest of the Convertible Notes may be converted on the maturity date into shares of Sonder’s then most senior series of preferred stock at a conversion price equal to $12.38.

Events of Default and Change in Control

The Convertible Notes will become due upon the occurrence of an event of default. In addition, upon the occurrence of a change in control, the holder will have the option to demand payment of the Convertible Notes or convert the outstanding principal amount of the Convertible Notes and accrued and unpaid interest into shares of Sonder’s most senior series of preferred stock at a price per share equal to the lesser of (i) $2.3 billion divided by the number of outstanding shares of Sonder’s common stock on a fully diluted basis, and (ii) 87.5% of the amount obtained by dividing the enterprise value by the number of outstanding shares of Sonder’s common stock on a fully diluted basis.

Recognition

As the Convertible Notes contain a share-settled redemption feature in the case of a Qualified Financing Conversion, Qualified IPO Conversion, Qualified SPAC Conversion, Non-Qualified Financing Conversion, or in the occurrence of a change in control, Sonder identified this feature as an embedded derivative that requires bifurcation from the host instrument (Share-settled Redemption Feature).

The Convertible Notes were separated into debt and the Share-settled Redemption Feature components and assigned a fair value. The value assigned to the debt component was the estimated fair value as of the issuance date of similar debt without the Share-settled Redemption Feature. The difference between the cash proceeds and this estimated fair value represents the value which has been assigned to the Share-settled Redemption Feature and recorded as a debt discount. The debt discount is being amortized using the effective interest method over the period from the date of issuance through the maturity date.

The following table outlines the amounts related to the amortization of discount and issuance costs, effective interest rate, and contractually stated interest expense for the Convertible Notes (in millions except for effective interest rate):

	Year Ended December 31, 2021
Amortization of discount and issuance costs	$ 37.1
Effective Interest Rate	35.83 %
Contractually Stated Interest Expense	$ 1.3

The initial debt component of the Convertible Notes was valued at $119.8 million, based on the contractual cash flows discounted at an appropriate market rate for non-convertible debt at the date of issuance, net of issuance costs. The fair value of the Share-settled Redemption Feature was initially valued at $45.2 million and is carried at fair value and marked-to-market under derivative accounting. Debt discount is amortized over the term of the debt. Issuance costs were recorded as a debt discount in the balance sheets and is amortized over the term of the debt. As of December 31, 2021, the fair value of the Share-settled Redemption Feature was $30.3 million. The change in fair value of the Share-settled Redemption Feature is recognized as a component of other income (expense), net, on the statements of operations and comprehensive loss.

Refer to Note 18. Subsequent events for the repayment of the Promissory Note following the Business Combination.

Term Loans

2018 Loan and Security Agreement

In December 2018, 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, which was divided into three different parts, each subject to certain terms and conditions. Multiple promissory notes can be issued under each part and under various advance options up to the aggregate commitment amount. Outstanding balances may be repaid prior to maturity subject to an applicable prepayment premium.

The 2018 Loan and Security Agreement provides for a lien on substantially all of the assets of Sonder and certain of its subsidiaries. The 2018 Loan and Security Agreement is subordinated in right of payment and with respect to lien priority to Sonder’s 2020 Credit Facility (described below). The 2018 Loan and Security Agreement contains customary affirmative and negative covenants, such as those governing financial statement reporting requirements and maintenance of insurance, incurring additional indebtedness, granting of liens, merging or consolidating with other companies or selling its assets, paying dividends, making redemptions and repurchases of stock, making investments, loans and acquisitions, changing the nature of its business or engaging in transactions with affiliates.

In December 2018, Sonder executed a $25.0 million promissory note (the 2018 Promissory Note) under part 1 of the 2018 Loan and Security Agreement. The interest rate on the 2018 Promissory Note is the prime rate (as defined in the 2018 Loan and Security Agreement) plus 5.75% per annum, computed daily and payable on the applicable interest payment date. The prime rate is subject to a floor of 4.75%. The term loan under the 2018 Promissory Note includes an end of term payment for an amount equal to 5.25% of the principal amount. Final repayment is due on June 30, 2022. A facility fee of $0.3 million was due on the closing date of the 2018 Promissory Note. The $25.0 million was fully drawn as of December 31, 2019.

In December 2019, Sonder amended the 2018 Loan and Security Agreement to increase the aggregate borrowing capacity to $65.0 million (with an additional $10.0 million of loan commitments available at the discretion of the lenders), which is divided into five parts each subject to certain terms and conditions.

In March 2020, Sonder executed multiple promissory notes (the 2020 Promissory Notes) under part 2 and part 3 of the 2018 Loan and Security Agreement for an aggregate amount of $25.0 million. The interest rate on the 2020 Promissory Notes is the prime rate plus 5.75% per annum, computed daily and payable on the applicable interest payment date. The prime rate is subject to floor of 4.50%. The term loans under the 2020 Promissory Notes include an end of term payment for an amount equal to 4.75% of the principal amount. Final repayment is due on March 31, 2024. The $25.0 million was fully drawn under the term loan as of December 31, 2020.

The 2018 Loan and Security Agreement includes customary events of default, including, among other things, payment defaults, covenant defaults, breach of representations and warranties, cross-defaults to other material debt, bankruptcy and insolvency events of default, judgment defaults, change of control defaults and a material adverse change default. Upon the occurrence of an event of default under the 2018 Loan and Security Agreement, the lenders have 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 applicable interest rates by 5%, and exercise rights and remedies, including by way of initiating foreclosure proceedings against the collateral securing the obligations under the agreement.

As of December 31, 2021, the total long-term debt on the consolidated balance sheet was $10.7 million, consisting of $11.3 million of unpaid principal balance, net of the $0.6 million of deferred loan issuance costs. As of December 31, 2020, the total long-term debt on the consolidated balance sheet was $25.0 million, consisting of $26.2 million of unpaid principal balance, net of the $1.2 million of deferred loan issuance costs. Unused commitments under the 2018 Loan and Security Agreement as of December 31, 2021 and 2020 were $25.0 million and $15.0 million, respectively. Interest expense of the term loans totaled $4.9 million and $5.2 million for the years ended December 31, 2021 and 2020, respectively and was recorded in interest expense, net on the consolidated statements of operations and comprehensive loss. Future minimum principal repayments on the loans under the 2018 Loan and Security Agreement are $13.1 million, $9.0 million and $2.4 million for the years ending December 31, 2022, 2023 and 2024, respectively.

Credit Facility

2020 Credit Facility

In February 2020, Sonder entered into a revolving credit agreement (the 2020 Credit Facility) that provides an aggregate revolving capacity of $50.0 million, which may be borrowed as revolving loans or used for the issuance of letters of credit. Loans under the 2020 Credit Facility may be Base Rate Loans or Eurodollar Rate Loans, plus a margin of 2.00% per annum. The 2020 Credit Facility includes (i) a letter of credit fee for each letter of credit equal to 1.50% per annum times amount available to be drawn under such letter of credit and (ii) a non-use fee equal to 0.25% times the actual daily amount by which the aggregate commitments provided by facility exceed the sum of the outstanding amount of loans and letters of credit. All outstanding loan balances are due on February 21, 2023, the maturity date for the credit facility. Outstanding balances may be repaid prior to maturity without penalty.

The extensions of credit under the 2020 Credit Facility are guaranteed by certain of Sonder’s subsidiaries and secured on a senior basis by a lien on substantially all of Sonder’s and certain of its subsidiaries’ assets. The 2020 Credit Facility contains customary affirmative covenants, such as financial statement reporting requirements and maintenance of insurance, as well as customary negative covenants, such as restrictions on Sonder’s ability to incur debt and liens, make investments, dispose of assets, pay dividends and repurchase stock, enter into transactions with affiliates and undergo fundamental changes such as dissolution or disposal of assets except so long as no default exists. The 2020 Credit Facility, as amended, provides for a minimum EBITDA covenant and a covenant to maintain liquidity at least equal to the amount outstanding under the 2020 Credit Facility; provided that if liquidity is less than the amount outstanding plus $25.0 million, Sonder must provide cash collateral equal to 105% of the amount outstanding.

The 2020 Credit Facility also includes customary events of default, including, among other things, payment defaults, covenant defaults, breach of representations and warranties, cross-defaults to other material debt, bankruptcy and insolvency events of default, judgment defaults and change of control defaults. Upon the occurrence of an event of default under the 2020 Credit Facility, the lender has the right to terminate its 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 applicable interest rates by 2%, and exercise rights and remedies, including by way of initiating foreclosure proceedings against the collateral securing the obligations under the agreement.

As of December 31, 2021, Sonder was in compliance with all financial covenants and there were no borrowings of loans outstanding on the 2020 Credit Facility, and outstanding letters of credit under the 2020 Credit Facility totaled $23.7 million.

2020 Québec Credit Facility

In December 2020, a Canadian subsidiary of Sonder entered into an agreement (the *2020 Québec Credit Facility*) with Investissement Québec, a Quebecois public investment entity, that provides a loan facility of CAD $25.0 million and an additional loan of CAD $5.0 million referred to as a conditional-refund financial contribution (the *CRFC*), which Sonder is not obligated to repay if it satisfies certain milestones relating to the Project (as defined below). The 2020 Québec Credit Facility provides an incentive for expanding Sonder's operations in Canada (the "*Project*"), including establishing Sonder's Canadian head office and increasing Sonder's payroll there starting January 1, 2021. The disbursements of the loan and CRFC are based on a percentage of the increase in the accrued and paid gross payroll. The loan and the CRFC will bear interest at a fixed rate of 6% per year for a period of 10 years starting from the first date of the loan disbursement. The amount of principal and accrued and capitalized interest on the CRFC that Sonder must repay can be reduced up to $5.0 million if Sonder achieves certain milestones, including job creation and preservation and cumulative gross payroll milestones. In the event that Sonder does not complete the Project, the outstanding loan and CRFC and related interest become immediately due. An assessment fee of CAD $0.3 million was paid upon acceptance of the credit facility.

The 2020 Québec Credit Facility is secured by a lien on substantially all of the subsidiary's assets and is guaranteed by Sonder. The 2020 Québec Credit Facility contains customary affirmative covenants, such as maintenance requirement of the subsidiary's operations in Québec, maintenance and creation of jobs in Québec, and financial statement reporting requirements, as well as customary negative covenants, such as declaring dividends, voluntary dissolution or liquidation and relocating a substantial portion of its assets outside of Québec without prior written approval. As of December 31, 2021, the Canadian subsidiary of Sonder was in compliance with all covenants, and there were no borrowings or CRFC outstanding on the 2020 Québec Credit Facility.

Restricted Cash

Throughout 2021 and 2020, Sonder entered into multiple cash collateral agreements in connection with the issuance of letters of credit and corporate credit cards programs. As of December 31, 2021 and 2020, Sonder had $0.2 million and $1.6 million, respectively, of cash collateral which was considered to be restricted cash.

Note 8. Preferred Stock Warrants

Sonder has the following preferred stock warrants outstanding as of December 31, 2021 (Number outstanding and exercise price are prior to the de-SPAC exchange ratio conversion, which occurred upon the consummation of the Business Combination on January 18, 2022):

Type of Warrant	Number Outstanding	Issuance Date	Exercise Price	Expiration Date
Series A	59,440	10/20/2016	$ 1.36	10/20/2026
Series B	57,696	1/30/2018	$ 2.40	1/30/2028
Series C	218,417	12/28/2018	$ 5.04	12/28/2025
Series D	71,456	2/21/2020	$ 10.50	2/21/2027

The shares of preferred stock issuable upon exercise of the warrants are convertible into common stock at the ratios described in Note 12. Exchangeable shares and redeemable convertible preferred stock. The warrants are recorded as a discount to long-term debt in the consolidated balance sheets and are amortized over the term of the related debt.

Series A Warrants

In connection with the 2016 Loan and Security Agreement, Sonder issued warrants to purchase 59,440 shares of Series A preferred shares with an exercise price of $1.36 per share (Series A warrants). The warrants expire on October 20, 2026, and the exercise price can be settled in cash or in net shares at the holder’s option. The fair value of the warrants at issuance was $0.1 million and was recorded as a liability in other non-current liabilities on the consolidated balance sheets. The change in fair value of the Series A warrant liability was not material for the year ended December 31, 2020. The fair value of the Series A warrant liability increased $0.4 million for the year ended December 31, 2021.

Series B Warrants

In connection with the January 2018 amendment to the 2016 Loan and Security Agreement, Sonder issued warrants to purchase 57,696 shares of Series B preferred shares with an exercise price of $2.40 per share (Series B warrants). The warrants expire on January 30, 2028, and the exercise price can be settled in cash or in net shares at the holder’s option. The fair value of the warrants at issuance was $0.1 million and was recorded as a liability in other non-current liabilities on the consolidated balance sheets. The warrant liability is remeasured to fair value at each reporting date as long as the warrants remain outstanding and unexercised with changes in fair value recorded in other expense, net in the consolidated statements of operations and comprehensive loss. The change in fair value of the Series B warrant liability was not material for the year ended December 31, 2020. The fair value of the Series B warrant liability increased $0.4 million for the year ended December 31, 2021.

Series C Warrants

In connection with the 2018 Loan and Security Agreement as discussed in Note 7. Debt , Sonder issued warrants to purchase 238,274 shares of Series C preferred stock with an exercise price of the lower of (i) $5.04 and (b) the lowest per share price for which Sonder’s preferred stock is sold in the next round (the Series C warrants). The number of shares is subject to adjustment based on Sonder meeting certain borrowing thresholds. The warrants are available for the greater of (i) 7 years from December 28, 2018 or (ii) 5 years from the effective date of an IPO or any reverse takeover transaction under a prospectus, filing statement, registration statement, or other similar document filed under applicable securities laws whereby Sonder’s shares are sold to the public on a securities exchange. The exercise price can be settled in cash or in net shares at the holder’s option.

In December 2019, Sonder amended its Series C warrant agreements as a result of Sonder reaching the borrowing thresholds in the original warrant agreements. The warrant agreements were amended to purchase 218,417 shares of Series C preferred stock. All other terms under the original warrant agreements remained the same. Sonder determined that the warrant amendments did not qualify as an extinguishment.

The fair value of the Series C warrants at issuance was $0.2 million and was recorded as a liability in other non-current liabilities on the consolidated balance sheets. The warrant liability is remeasured to fair value at each reporting date as long as the warrants remain outstanding and unexercised with changes in fair value recorded in other expense, net in the consolidated statements of operations and comprehensive loss. The change in fair value of the Series C warrant liability was not material for the year ended December 31, 2020. The fair value of the Series C warrant liability increased $1.2 million for the year ended December 31, 2021.

Series D Warrants

In connection with the December 2019 amendment to the 2018 Loan and Security Agreement as discussed in Note 7. Debt, Sonder also issued additional warrants to purchase 71,456 shares of Series D preferred stock with an exercise price of the lower of (i) $10.50 and (b) the lowest per share price for which Sonder’s preferred stock is sold in the next round (Series D warrants). The number of shares is subject to adjustment based on warrant coverage amounts. The warrants are available for the greater of (i) 7 years from February 21, 2020 or (ii) 5 years from the effective date of an IPO or otherwise specified exit event. The exercise price can be settled in cash or in net shares at the holder's option. The fair value of the warrants at issuance was $0.1 million and was recorded as a liability in other non-current liabilities on the consolidated balance sheets. The warrant liability is remeasured to fair value at each reporting date as long as the warrants remain outstanding and unexercised with changes in fair value recorded in other expense, net in the consolidated statements of operations and comprehensive loss. The change in fair value of the Series C warrant liability was not material for the year ended December 31, 2020. The fair value of the Series D warrant liability increased $0.2 million during the year ended December 31, 2021.

Note 9. Leases

Sonder leases buildings or portions of buildings for guest usage, warehouses to store furniture, and corporate offices under noncancellable operating lease agreements, which expire through 2035. Sonder is required to pay property taxes, insurance and maintenance costs for certain of these facilities.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2021, are as follows (in thousands):

Years Ended December 31,	Amount
2022	$ 279,093
2023	366,299
2024	418,156
2025	433,541
2026	403,582
Thereafter	1,641,237
Total minimum future lease payments	$ 3,541,908

Sonder does not have material lease receivables from noncancellable lease contracts that would reduce the total minimum future lease payments.

Rent expense for operating leases for the years ended December 31, 2021 and 2020 was $184.8 million and $133.1 million, respectively, of which $176.5 million and $124.8 million, respectively, is recognized in cost of revenue, $5.5 million and $2.8 million, respectively, in operations and support, and $2.8 million and $5.5 million, respectively, in general and administrative in the consolidated statements of operations and comprehensive loss. Exit cost of terminated leases was not material for the year ended December 31, 2021 and $5.5 million for the year ended December 31, 2020, recognized in operations and support in the consolidated statement of operations.

Note 10. Commitments and contingencies

Surety Bonds

A portion of Sonder's leases are supported by surety bonds. As of December 31, 2021, Sonder had assembled commitments from six surety providers in the amount of $56.4 million, of which $32.1 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 and Sonder's corporate credit rating.

Legal and Regulatory Matters

Sonder has been and expects to continue to become involved in litigation or other legal proceedings from time to time, including the matters 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 our business as a result of settlement or adverse outcomes, and other factors.

In late 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 20 Broad Street Landlord are without merit.

Sonder establishes an accrued liability for loss contingencies related to legal matters when a loss is both probable and reasonably estimable. These accruals represent Sonder's best estimate of probable losses. Sonder has recorded an estimated accrual of $5.3 million and $0.6 million in the consolidated balance sheet as of December 31, 2021 and 2020, respectively. Sonder'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 current knowledge, Sonder believes the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on Sonder's business, results of operations, financial condition, or cash flows.

Note 11. Guarantees and Indemnifications

Indemnifications

Sonder has entered into indemnification agreements with all of its directors. The indemnification agreements require Sonder to indemnify these individuals to the fullest extent not prohibited by Delaware law. Subject to certain limitations, the indemnification agreements require Sonder to advance expenses incurred by its directors. No demands have been made upon Sonder to provide indemnification under the indemnification agreements or the Bylaws, and thus, there are no claims that Sonder believes could have a material adverse effect on its business, results of operations, financial condition, or cash flows.

In the ordinary course of business, Sonder 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 significant costs have been incurred, either individually or collectively, in connection with Sonder's indemnification provisions.

Note 12. Exchangeable shares and redeemable convertible preferred stock

Exchangeable Shares

In connection with the corporate inversion in December 2019, shareholders of Sonder Canada Inc. became either (a) holders of shares of Sonder Holdings Inc. by exchanging their Sonder Canada Inc. shares, or (b) holders of Exchangeable Shares of Sonder Canada and holders of Special Voting Stock of Sonder Holdings Inc. The holders of Exchangeable Shares do not have any rights as shareholders of Sonder Canada with respect to voting rights and rights to attend shareholder meetings. Further, Sonder Holdings Inc. issued one share of Special Voting Stock for each Exchangeable Share. The Special Voting Stock is designed to provide Sonder Canada Inc.'s shareholders who hold Exchangeable Shares with voting rights in Sonder Holdings Inc., consistent with those of the same class of share of Delaware preferred stockholders. The shares of Special Voting Stock are not entitled to receive dividends and do not participate in any distribution of Sonder's assets pursuant to its certificate of incorporation.

The following tables present Sonder's authorized and outstanding exchangeable shares as of December 31, 2021 and 2020 (in thousands except per share amounts):

	December 31, 2021				
	Shares Authorized	Shares Issued and Outstanding	Issuance Price Per Share	Net Carrying Value	Aggregate Liquidation Preference
Series AA Common	22,518	9,421	$ —	$ —	$ —
Series Seed 1	2,589	2,589	0.53	1,359	1,372
Series Seed 2	1,209	1,209	0.50	606	605
Series Seed 3	704	704	1.09	787	768
Series A	183	183	1.36	250	250
Series B	2,336	2,336	2.40	5,610	5,605
Series C	3,175	3,175	5.04	15,991	16,003
Series D	2,058	1,953	10.50	20,600	20,600
Series E	421	421	10.77	4,530	4,530
Total exchangeable shares	35,193	21,991		$ 49,733	$ 49,733

	December 31, 2020				
	Shares Authorized	Shares Issued and Outstanding	Issuance Price Per Share	Net Carrying Value	Aggregate Liquidation Preference
Series AA Common	22,518	9,437	$ —	$ —	$ —
Series Seed 1	2,589	2,589	0.53	1,359	1,372
Series Seed 2	1,209	1,209	0.50	606	605
Series Seed 3	704	704	1.09	787	768
Series A	183	183	1.36	250	250
Series B	2,336	2,336	2.40	5,610	5,605
Series C	3,175	3,175	5.04	15,991	16,003
Series D	2,058	1,963	10.50	20,600	20,608
Series E	421	421	10.77	4,530	4,530
Total exchangeable shares	35,193	22,017		$ 49,733	$ 49,741

Redeemable Convertible Preferred Stock

The following tables present Sonder's authorized and outstanding redeemable convertible preferred stock as of December 31, 2021 and 2020 (in thousands except per share amounts):

	December 31, 2021				
	Shares Authorized	Shares Issued and Outstanding	Issuance Price Per Share	Net Carrying Value	Aggregate Liquidation Preference
Series Seed 1	3,703	785	$ 0.53	$ 269	$ 416
Series Seed 1-A	3,703	328	0.53	174	174
Series Seed 2	1,720	471	0.50	222	235
Series Seed 2-A	1,720	39	0.50	20	20
Series Seed 3	704	—	1.09	—	—
Series Seed 3-A	704	—	1.09	—	—
Series A	7,023	6,780	1.36	9,241	9,221
Series A-1	7,023	—	1.36	—	—
Series B	15,611	13,218	2.40	27,105	31,723
Series B-1	15,611	—	2.40	—	—
Series C	19,071	12,144	5.04	56,496	61,204
Series C-1	19,071	3,514	5.04	17,708	17,708
Series D	21,603	3,482	10.50	35,808	36,560
Series D-1	21,603	16,049	10.50	168,518	168,518
Series E	34,933	18,956	10.77	203,189	204,159
Total redeemable convertible preferred stock	173,803	75,767		$ 518,750	$ 529,938

	December 31, 2020				
	Shares Authorized	Shares Issued and Outstanding	Issuance Price Per Share	Net Carrying Value	Aggregate Liquidation Preference
Series Seed 1	3,703	1,114	$ 0.53	$ 443	$ 590
Series Seed 1-A	3,703	—	0.53	—	—
Series Seed 2	1,720	510	0.50	242	255
Series Seed 2-A	1,720	—	0.50	—	—
Series Seed 3	704	—	1.09	—	—
Series Seed 3-A	704	—	1.09	—	—
Series A	7,023	6,780	1.36	9,241	9,221
Series A-1	7,023	—	1.36	—	—
Series B	15,611	13,218	2.40	27,105	31,723
Series B-1	15,611	—	2.40	—	—
Series C	19,071	15,657	5.04	74,204	78,912
Series C-1	19,071	—	5.04	—	—
Series D	21,603	16,663	10.50	174,315	174,967
Series D-1	21,603	2,858	10.50	30,011	30,011
Series E	20,433	18,863	10.77	202,169	203,158
Total redeemable convertible preferred stock	159,303	75,665		$ 517,730	$ 528,837

The redeemable preferred stock are classified by (i) Senior Preferred Stock, comprising of Series Seed-1A Preferred Stock, Series Seed-2A Preferred Stock, Series Seed-3A Preferred Stock, Series A-1 Preferred Stock, Series B-1 Preferred Stock, Series C-1 Preferred Stock, Series D-1 Preferred Stock, and Series E Preferred Stock, and (ii) Junior Preferred Stock, comprising of Series Seed-1 Preferred Stock, Series Seed-2 Preferred Stock, Series Seed-3 Preferred Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock. The following summarizes the rights, preferences, and privileges of Sonder's redeemable convertible preferred stock:

Dividends

Holders of redeemable convertible preferred stock are entitled to receive noncumulative dividends, when, as, and if declared by Sonder's Board of Directors, and prior and in preference to any declaration or payment of dividends on any other series or class of capital stock on a pari passu basis.

Liquidation Preference

In the event of any voluntary or involuntary liquidation, dissolution or winding up of Sonder or "Deemed Liquidation Event" (as defined below) (collectively, a Liquidation Event):

- The Senior Preferred Stock then outstanding shall be entitled to be paid out of the assets of Sonder available for distribution to Sonder's stockholders before any payment shall be made to the holders of the Junior Preferred Stock or Common Stock, an amount per share equal to the greater of (i) the applicable original issue price of such series of Senior Preferred Stock, plus any dividends declared but unpaid thereon or (ii) such amount per share as would have been payable had all shares of each series of the Senior Preferred Stock that would have received a greater amount upon conversion into common stock in accordance with Sonder's certificate of incorporation immediately prior to the Liquidation Event.

- After the payment of all preferential amounts required to be paid to the holders of the Senior Preferred Stock, the holders of shares of Junior Preferred Stock then outstanding are entitled to be paid out of the assets of Sonder available for distribution to its stockholders before any payment shall be made to the holders of common stock, an amount per share equal to the greater of (i) the applicable original issue price of such series of Junior Preferred Stock, plus any dividends declared but unpaid thereon or (ii) such amount per share as would have been payable had all shares of each series of the Junior Preferred Stock that would have received a greater amount upon conversion into common stock in accordance with Sonder's certificate of incorporation immediately prior to the Liquidation Event.

- After the payment of all preferential amounts required to be paid to the holders of Senior Preferred Stock and Junior Preferred Stock, the remaining assets of Sonder available for distribution to its stockholders shall be distributed among the holders of common stock, pro rata based on the number of shares held by each such holder.

A Deemed Liquidation Event is defined to include (i) the merger or consolidation resulting in a disproportionate share of the shareholding before and after the consolidation or merger, (ii) the sale, lease, abandonment, transfer, exclusive license or other disposition of all or substantially all of the assets of Sonder and its subsidiaries, (iii) the sale, exchange or transfer by Sonder's stockholders, in a single transaction or series of transactions, of 50% or more of the voting shares of Sonder or (iv) sale or exchange of shares of Sonder, the merger, reorganization, consolidation, or other business combination, pursuant to which the holders of voting securities of Sonder immediately prior to the transaction hold, immediately after such transaction, less than 50% of the voting power of the outstanding capital stock, unless the holders of at least a majority of the outstanding shares of Preferred and Special Voting Investor Series Stock elect otherwise

Classification

Sonder classifies its redeemable convertible preferred stock and exchangeable preferred shares as mezzanine equity, or outside of stockholders' deficit, because the shares contain liquidation features that are not solely within its control.

Conversion Rights

Each share of redeemable convertible preferred stock is convertible at the option of the holder, at any time and without payment of additional consideration by the holder, into such number of common stock as is determined by dividing the original issue price for such series of preference stock by the conversion price for such series of preferred stock that is in effect at the time of the conversion as applicable to each series of preferred stock.

Each share of redeemable convertible preferred stock will automatically be converted into shares of common stock at the then-effective conversion rate of such shares upon either (i) the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, or pursuant to a prospectus under applicable Canadian securities laws as amended from time to time at a price per share at least equal to one times the original issuance price of the Series D redeemable convertible preferred stock and resulting in at least $100 million, or (ii) (a) with respect to the convertible preferred stock other than the Series C and Series D redeemable convertible preferred stock, the date and time, or the occurrence of an event, specified by vote or written consent of the majority of the redeemable convertible preferred stock and Special Voting Investor Series stock, voting together as a single class, (b) with respect to the Series C redeemable convertible preferred stock, the date and time, or the occurrence of an event, specified by vote or written consent of the holders of at least a majority of the Series C and Special Voting Series C stock, voting together as a single class and (c) with respect to the Series D redeemable convertible preferred stock, the date and time, or the occurrence of an event, specified by vote or written consent of the holders of at least a majority of the Series D and Special Voting Series D stock, voting together as a single class, for each (a), (b) and (c) on an as converted basis.

Voting

Each share of redeemable convertible preferred stock has voting rights equal to an equivalent number of shares of common stock into which it is convertible and votes together as one class with the common stock, except as below:

Holders of Series Seed 1, Series Seed 2, Series Seed 3, Series A, Series B, Series C, Series D redeemable convertible preferred stock vote together as a single class, except for meetings at which only holders of a specified class (other than the preferred shares) or specified series of shares are entitled to vote. The holders are also entitled to certain protective provisions, which require a majority of convertible holders of preferred stock to approve, among other actions, a liquidation event, an amendment, waiver, or repeal of provisions of Sonder’s certificate of incorporation or bylaws, a change to the number of directors of the corporation, and a declaration or payment of any dividend.

Holders of Series A redeemable convertible preferred stock and Special Voting Investor Series stock, voting together as a single class, are entitled to elect three members to Sonder’s Board of Directors.

Holders of Series C redeemable convertible preferred stock and Special Voting Investor Series C stock, voting together as a single class, are entitled to elect one member to the Board of Directors and are entitled to certain protective provisions, which require a majority of holders of Series C redeemable convertible preferred stock and Special Voting Investor Series C to approve, among other actions, an amendment to Sonder’s certificate of incorporation or bylaws that adversely affects the holders of Series C redeemable convertible preferred stock, and a change in the total number of authorized shares of Series C redeemable convertible preferred stock.

Holders of Series D redeemable convertible preferred stock and Special Voting Series D stock are entitled to certain protective provisions, which require a majority of holders of Series D redeemable convertible preferred stock and Special Voting Series D stock to approve, among other actions, an amendment to Sonder’s certificate of incorporation or bylaws that adversely affect the holders of Series D redeemable convertible preferred stock and a change in the total number of authorized shares of Series D redeemable convertible preferred stock.

Holders of common stock and Special Voting Series AA stock, voting together as a single class, are entitled to elect four members to the Board of Directors.

The holders of record of the shares of common stock and Special Voting Series AA stock and of any other class or series of voting stock (including the redeemable convertible preferred stock and Special Voting Stock), exclusively and voting together as a single class on an as-if-converted to common stock or Special Voting Series AA stock basis, as applicable, shall be entitled to elect the balance of the total number of directors.

Redemption Rights

The holders of the outstanding shares of redeemable convertible preferred stock do not have redemption rights; however, as noted above, Sonder's certificate of incorporation provides that upon any voluntary or involuntary liquidation, dissolution or winding up of Sonder or Deemed Liquidation Event such shares will be entitled to receive the applicable Liquidation Amount.

Note 13. Common stock

Sonder's Amended and Restated Certificate of Incorporation authorizes the issuance of 352,230,628 shares, including 143,234,881 of shares of common stock. The common stock has a par value of $0.000001 per share, and each common stockholder is entitled to one vote per share. Sonder is also authorized to issue 173,803,110 shares of redeemable convertible preferred stock and 35,192,637 shares of exchangeable shares, which are not included in the number of common shares authorized. As of December 31, 2021 and 2020, Sonder has reserved the following shares of common stock for future issuance:

	December 31,	
	2021	2020
Conversion of preferred stock and exchangeable shares[1]	208,995,747	194,495,747
Outstanding stock options	19,865,244	12,802,899
Options available for grant under the 2019 Equity Incentive Plan	1,859,784	3,413,074
Total common stock reserved for future issuance	230,720,775	210,711,720

(1) Includes the warrants reclassified to equity as of December 31, 2020 and those issued in connection with the 2019 Loan and Security Agreement and related amendment as of December 31, 2021 and 2020.

Equity Incentive Plans

2013 Stock Option and Grant Plan

In February 2015, Sonder adopted the 2013 Stock Option and Grant Plan (the "*2013 Plan*") pursuant to which the Board of Directors may grant incentive stock options ("ISOs") to purchase shares of Sonder's common stock, nonstatutory stock options ("NSOs") to purchase shares of Sonder's common stock, restricted stock awards, unrestricted stock awards, and restricted stock units (RSUs). The 2013 Plan was subsequently amended, and no shares of common stock have been reserved for issuance. Stock options must be granted with an exercise price equal to the stock's fair value at the date of grant. Stock options generally have a 10-year contractual term, however, we have in the past granted stock options with 6-year contractual terms. These options vest over a four-year period starting from the date specified in each agreement.

2019 Equity Incentive Plan

In December 2019, Sonder adopted the 2019 Equity Incentive Plan (the "*2019 Plan*") pursuant to which the Board of Directors may grant ISOs to purchase shares of Sonder's common stock, NSOs to purchase shares of Sonder's common stock, restricted stock awards, unrestricted stock awards, RSUs, stock appreciation rights, performance stock units, and performance stock awards. As of December 31, 2021, the 2019 Plan reserved 1,859,784 shares of common stock for issuance. Stock options must be granted with an exercise price equal to the stock's fair value at the date of grant. Stock options generally have a 10-year contractual term and vest over a four-year period starting from the date specified in each agreement.

Note 14. Stockholders' Deficit

Stock-based Compensation Expense

Total stock-based compensation expense is as follows (in thousands):

	Years Ended December 31,	
	2021	2020
Research and development	$ 1,740	$ 1,171
General and administrative	20,839	4,336
Operations and support	2,516	1,710
Sales and marketing	152	6
Total stock-based compensation expense	$ 25,247	$ 7,223

As of December 31, 2021, there was $57.0 million of total unrecognized stock-based compensation expense related to outstanding unvested stock options expected to be recognized over a weighted-average period of 4.27 years.

Sonder recognizes only the portion of the option award granted to employees, non-employees, officers, and directors that is ultimately expected to vest as compensation expense and elects to recognize gross share-based compensation expense with forfeitures recognized as they occur.

Fair Value of Stock Options

Sonder estimates the fair value of each stock option award using the Black-Scholes-Merton option-pricing model, which utilizes the estimated fair value of Sonder'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 calculated based on Sonder's historical pattern of option exercise behavior and the period of time they are expected to be outstanding. The expected term for options granted to consultants is determined using the remaining contractual life.

Expected Volatility—The expected volatility is based on the average volatility of similar public entities within Sonder's peer group as Sonder'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 Sonder's historical experience. To date Sonder has not paid any dividends on its common stock.

Risk-Free Interest Rate—The risk-free interest rate used in the valuation method 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 Sonder's options.

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

	Years Ended December 31,	
	2021	2020
Expected term (in years)	3.99 - 4.02	5.79
Expected volatility	63% - 64%	63% - 69%
Dividend yield	—%	—%
Risk-free interest rate	0.4% - 1.0%	0.4% - 1.5%
Weighted-average grant-date fair value per share	$4.54 - $6.59	$2.51 - $2.77

Stock Option Activity

Option activity under Sonder's plans was as follows (in thousands, except per share and term in years):

	Options Outstanding			
	Number of Options	Weighted-Average Exercise Price per Option	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance as of December 31, 2020	12,803	$ 3.02	7.97	$ 19,219
Grants	10,765	$ 10.28		
Exercises	(1,441)	$ 2.66		
Forfeited	(1,594)	$ 9.47		
Canceled	(668)	$ 3.18		
Balance as of December 31, 2021	19,865	$ 7.31	8.48	$ 107,556
As of December 31, 2021				
Options vested and exercisable	6,629	$ 4.26	7.25	$ 56,079
Options vested and expected to vest	19,865	$ 7.31	8.48	$ 107,556

The weighted-average grant-date fair value of options granted during the years ended December 31, 2021 and 2020 was $4.99 and $2.60, respectively. The total intrinsic value of options exercised during the years ended December 31, 2021 and 2020 was $14.5 million and $3.3 million, respectively.

Performance and Market-based Equity Awards

On November 15, 2019, the Sonder Board of Directors granted an award to Francis Davidson, Sonder's CEO, for a total of 5,613,290 options, all of which Mr. Davidson fully exercised in December 2019 with a promissory note payable to Sonder in the amount of $24.6 million (the "Promissory Note"). Of the 5,613,290 total options, 2,041,197 options vest in 72 equal monthly installments starting as of October 1, 2017 (the "Service-based Options"), subject to Mr. Davidson's continuous employment, and 3,572,093 options are performance-based ("CEO Performance Awards"), that vest as follows, subject to Mr. Davidson's continuous employment at each such event (the "Performance Conditions"):

- 1,530,897 performance awards upon an initial public offering ("IPO") if Sonder reaches certain share price targets (the "IPO Condition");
- 1,020,598 performance awards upon a qualified financing at certain valuation milestones (the "Qualified Financing Condition"); and
- 1,020,598 performance awards upon Sonder achieving a certain market capitalization milestone (the "Market Capitalization Condition").

The fair value of the 2,041,197 Service-based Options was estimated using the Black-Scholes-Merton pricing model. The grant date fair value of the Service-based Options was $3.2 million and is recognized on a straight-line basis over the term of the award. There was $11.6 million expense recognized for the CEO Performance Awards during the year ended December 31, 2021 and no expense was recognized in the year ended December 31, 2020, as it was not deemed probable that the Performance Conditions would be achieved.

The Promissory Note for $24.6 million represents the aggregate exercise price for the 5,613,290 options that were exercised by Mr. Davidson. The Promissory Note bears interest at the rate of 2.00% per annum, compounding semiannually. The principal amounts and accrued interest are due upon the earlier of: (i) four years after the issuance, or on December 1, 2023, (ii) the transfer or sale of the shares by the employee without approval by Sonder, or (iii) an initial public offering or an acquisition of Sonder by a public company. The Promissory Note was secured by the shares issued upon exercise of the award and in exchange for the note. While the Promissory Note is full recourse, it is considered to be non-recourse for accounting purposes and thus was not recorded in the consolidated balance sheets as a receivable. As of December 31, 2021 and 2020, the aggregate borrowings outstanding under the Promissory Note, including interest, were $25.7 million and $25.2 million, respectively. The aggregate outstanding principal amount and interest under the Promissory Note shall be repaid in full prior to the consummation of the Business Combination (Refer to Note 18. Subsequent events for the repayment of the Promissory Note following the Business Combination).

In the three months ended March 31, 2021, the CEO Performance Awards were modified to accelerate the vesting of the IPO Condition and the Qualified Financing Condition because the Sonder Board desired to reward Mr. Davidson in leading Sonder to perform above expectations given the worsened business conditions brought about by the unexpected COVID-19 pandemic, especially in the hospitality sector, and at the same time, engaging Sonder in potential strategic transactions valuing Sonder at increased valuations. While the vesting of the options under the Market Capitalization Condition were not accelerated by the Sonder Board, the Sonder Board approved a resolution clarifying that the Market Capitalization Condition would be eligible to vest in connection with a business combination with a special purpose acquisition company that otherwise achieves the applicable Market Capitalization Condition using an equivalent share price rather than the market capitalization. In the year ended December 31, 2021, Sonder recognized $11.6 million in stock-based compensation expense related to the acceleration of this vesting of the IPO Condition and the Qualified Financing Condition.

The modification-date fair value of the CEO Performance Awards was estimated using a Monte Carlo simulation. The Monte Carlo simulation utilizes multiple input variables to estimate the probability that performance conditions will be achieved. These variables include Sonder’s expected stock price volatility over the expected term of the award, actual and projected employee stock option exercise behaviors, and the risk-free interest rate for the expected term of the award. Sonder recognizes compensation expense for its performance awards using an accelerated attribution method from the time it is deemed probable that the vesting condition will be met through the time the service-based vesting condition has been achieved. The modification-date fair value of the CEO Performance Awards as determined using the Monte Carlo simulation on the modification date was $3.0 million.

Note 15. Income taxes

Sonder recorded an income tax provision of approximately $0.2 million and $0.3 million for the years ended December 31, 2021 and 2020. The income tax provision for the years ended December 31, 2021 and 2020 were primarily due to state and foreign income tax expense and consisted of the following (in thousands):

	December 31,	
	2021	2020
Current		
State	$ 113	$ 104
Foreign	129	219
Total provision for income taxes	$ 242	$ 323

	December 31, 2021	December 31, 2020
Deferred		
State	$ —	$ —
Foreign	—	—
Total provision for income taxes	$ —	$ —

Loss before provision for income taxes consisted of the following (in thousands):

	Years Ended December 31, 2021	Years Ended December 31, 2020
United States	($261,852)	($148,332)
Foreign	(32,293)	(101,661)
Total loss before provision for income taxes	($294,145)	($249,993)

A reconciliation of amounts computed by applying the U.S. federal statutory income tax rate to loss before income taxes to total income tax expense is as follows (in thousands):

	Years Ended December 31, 2021	Years Ended December 31, 2020
Income tax at U.S. statutory rate of 21%	$ (61,771)	$ (52,499)
Foreign tax rate differential	(7,645)	(889)
State income taxes (net of federal benefit)	89	(8,553)
Tax credits	(1,753)	(1,214)
Stock-based compensation	1,389	66
Convertible debt instruments	5,399	—
Capital loss	(9,640)	—
Non-deductible expenses and other, net	(2,362)	220
Change in valuation allowance	76,536	63,192
Total provision for income taxes	$ 242	$ 323

The components of Sonder's net deferred tax assets and liabilities were as follows (in thousands):

	Years Ended December 31, 2021	Years Ended December 31, 2020
Deferred tax assets:		
Net operating loss and capital loss carryforwards	$ 152,091	$ 85,972
Credit carryforwards	4,936	2,239
Accrued expenses and reserves	1,492	847
Deferred revenue	6,245	2,520
Deferred rent	9,128	4,747
Fixed and intangible assets	17,870	18,564
Other	13,781	7,131
Gross deferred tax assets	205,543	122,020
Valuation allowance	(205,543)	(122,020)
Total deferred tax assets	$ —	$ —

Realization of the deferred tax assets is dependent upon future taxable income, the amount and timing of which is uncertain. Accordingly, the federal, state, and foreign gross deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by approximately $83.5 million and $63.2 million during the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021, Sonder had tax net operating loss carryforwards for federal, state and foreign purposes and capital loss carryforwards for federal purposes of approximately $414.8 million, $389.6 million, $120.6 million, and $62.0 million, respectively, and as of December 31, 2020, it had tax net operating loss carryforwards for federal, state and foreign purposes of approximately $262.7 million, $239.9 million, and $87.0 million, respectively.

Of the federal net operating loss carryforwards, $11.0 million will begin to expire in 2035, and $403.8 million will carry forward indefinitely. The state and foreign net operating loss carryforwards will begin to expire in 2027.

Utilization of the net operating loss carryforwards and credits will be subject to an annual limitation due to the ownership change limitations provided by the U.S. Tax Code and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

Sonder’s ability to utilize its federal and state net operating loss and tax credit carryforwards may be subject to limitations if it incurs a Section 382 ownership change. A Section 382 ownership change generally occurs when there is a greater than 50% shift in ownership amongst 5% or greater shareholders (or shareholder groups) over a three year period. Although Sonder is not currently utilizing its federal or state tax carryforwards, it believes existing ownership changes and potential future ownership changes may impact its annual utilization of a portion of these attributes. Sonder has undertaken a Section 382 study and has identified that $94.9 million of net operating losses are subject to limitation.

As of December 31, 2021, Sonder had R&D Credit carryforwards for federal and state purposes of approximately $3.9 million and $2.2 million, respectively. The federal R&D Credit carryforwards will begin to expire in 2037. The state R&D Credit carryforwards will carryforward indefinitely.

Uncertain Tax Positions

Sonder has adopted authoritative guidance, which prescribes a recognition threshold and measurement attribute for the consolidated financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in its income tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits (in thousands):

	Years Ended December 31,	
	2021	**2020**
Beginning unrecognized tax benefits	$ 683	$ —
Addition to tax positions related to prior years	417	383
Addition to tax positions related to current year	253	300
Ending unrecognized tax benefits	$ 1,353	$ 683

Sonder files income tax returns in U.S. federal, various states and international jurisdictions. All periods since inception are subject to examination by U.S. federal, state and foreign authorities, where applicable. There are currently no pending income tax examinations.

Recognition of the unrecognized tax benefits would not have an impact on the effective tax because they would be offset by the reversal of related deferred tax assets which are subject to a full valuation allowance. Sonder does not anticipate any significant change in Sonder’s uncertain tax positions within 12 months of this date.

Sonder’s policy is to recognize interest and penalties associated with uncertain tax benefits as part of the income tax provision and include accrued interest and penalties with the related income tax liability on Sonder’s consolidated balance sheets. To date, Sonder has not recognized any interest and penalties in its consolidated statements of operations, nor has it accrued for or made payments for interest and penalties.

Note 16. Net Loss Per Common Share

Sonder's Amended and Restated Certificate of Incorporation authorizes the issuance of 143,234,881 shares of common stock. The common stock has a par value of $0.000001 per share, and each common stockholder is entitled to one vote per share.

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 the weighted-average unvested common stock subject to repurchase or forfeiture. Diluted net loss is computed by giving effect to all potential shares of common stock, including stock options, warrants, redeemable convertible preferred stock, and exchangeable shares prior to becoming a public company, to the extent dilutive. Basic and diluted net loss per share was the same for each period presented as the inclusion of all potential common shares outstanding would have been anti-dilutive.

The following table sets forth the computation of historical basic and diluted net loss per share (in thousands, except per share amounts):

	Years Ended December 31,	
	2021	2020
Numerator		
Net Loss	$ (294,387)	$ (250,316)
Denominator		
Weighted-average common shares used in computing basic and diluted net loss per share	8,011,660	6,261,247
Net loss per share, basic and diluted	$ (36.74)	$ (39.98)

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:

	Years Ended December 31,	
	2021	2020
Options to purchase common stock	19,865,244	12,802,899
Common stock subject to repurchase or forfeiture	1,656,613	4,562,207
Redeemable convertible preferred stock[(1)]	75,767,082	75,664,679
Exchangeable shares	21,991,418	22,017,113
Total common stock equivalents	119,280,357	115,046,898

(1) Includes the warrants reclassified to equity as of December 31, 2021 and those issued in connection with the 2018 Loan and Security Agreement and related amendment as of December 31, 2021 and 2020.

Note 17. Related party transactions

Francis Davidson Promissory Note

In November 2019, Sonder granted Mr. Davidson, its CEO, the ability to purchase 5,613,290 shares of common stock for an aggregate exercise price of $24.6 million, all of which Mr. Davison exercised in December 2019 with a full recourse promissory note payable to Sonder. As of December 31, 2021 and 2020, the aggregate borrowings outstanding under the note, including interest, were $25.7 million and $25.2 million, respectively. The aggregate outstanding principal amount and interest under the loan were payable in full prior to the consummation of the Business Combination. Refer to Note 14. Stockholders' Deficit and Note 18. Subsequent events for details.

2021 Convertible Promissory Notes

In March 2021, Sonder issued the Sonder Convertible Notes in an aggregate principal amount of $165.0 million to certain investors in exchange for Sonder's agreement to issue the investors shares of its capital stock upon the occurrence of certain events described in the Note Purchase Agreement dated March 12, 2021. As of December 31, 2021, Sonder's investors and their affiliates held $43.3 million of the Sonder Convertible Notes. The Sonder Convertible Notes automatically converted into shares of Sonder Common Stock immediately prior to the consummation of the Business Combination. See Note 7. Debt and Note 18. Subsequent events for details of the transaction.

Note 18. Subsequent events

Sonder has evaluated subsequent events through March 28, 2022, the date the consolidated financial statements were filed with the SEC and did not identify any transactions that require adjustment to, or disclosure in, the accompanying consolidated financial statements, except as noted below.

Closing of the Business Combination

On January 18, 2022 (the "Closing Date"), Sonder consummated the previously announced Business Combination pursuant to the Agreement and Plan of Merger, dated as of April 29, 2021 (as amended by the Amendment No. 1 to the Agreement and Plan of Merger, dated as of October 27, 2021), by and among Gores Metropoulos II, Inc., Sunshine Merger Sub I, Inc., a Delaware corporation ("First Merger Sub") and a direct, wholly-owned subsidiary of Second Merger Sub (as defined below), Sunshine Merger Sub II, LLC, a Delaware limited liability company and a direct, wholly-owned subsidiary of the Company ("Second Merger Sub"), and Sonder Operating Inc., a Delaware corporation formerly known as Sonder Holdings Inc. ("Legacy Sonder").

Pursuant to the Merger Agreement, (i) First Merger Sub merged with and into Legacy Sonder, with Legacy Sonder continuing as the surviving corporation (the "First Merger"), and (ii) immediately following the First Merger and as part of the same overall transaction as the First Merger, Legacy Sonder merged with and into Second Merger Sub, with Second Merger Sub continuing as the surviving entity (the "Second Merger" and, together with the First Merger, the "Mergers" and, together with the other transactions contemplated by the Merger Agreement, the "Business Combination"). As a result of the First Merger, Second Merger Sub owned 100% of the outstanding capital stock of Legacy Sonder as the surviving corporation of the First Merger and each share of capital stock of Legacy Sonder was cancelled and converted into the right to receive the merger consideration in accordance with the terms of the Merger Agreement. As a result of the Second Merger, the Company following the Business Combination owns 100% of the outstanding interests in the surviving entity of the Second Merger (the "Surviving Entity").

The aggregate merger consideration (excluding any Earn Out Shares (as defined below)) paid to securityholders of Legacy Sonder as of immediately prior to the effective time of the First Merger (the "Legacy Sonder Securityholders") in connection with the Business Combination was approximately 190,160,300 shares of the Company's Common Stock (the "Common Stock", which term (a) with reference to the Company prior to the Business Combination and the effectiveness of the Amended and Restated Certificate of Incorporation (the "Amended and Restated Certificate of Incorporation"), means the Class A Stock and the Class F Stock, and (b) with reference to the Company from and after the effectiveness of the Amended and Restated Certificate of Incorporation and the conversion of the Class F Stock in accordance with the Amended and Restated Certificate of Incorporation, means the Common Stock, par value $0.0001 per share, of the Company). Certain of these shares of Common Stock were reserved for issuance upon (a) the exercise of Rollover Options (as defined below) and (b) the exchange of the Post-Combination Canada Exchangeable Common Shares (as defined below) corresponding to shares of Post-Combination Company Special Voting Common Stock (as defined below) issued in the Business Combination.

Pursuant to the Merger Agreement:

- holders of existing shares of Common Stock of Legacy Sonder, par value $0.000001 per share ("Legacy Sonder Common Stock") (following the conversion of each issued and outstanding share of Legacy Sonder's preferred stock and the convertible promissory notes issued by Legacy Sonder to certain purchasers pursuant to the Note Purchase Agreement, dated March 12, 2021, as amended, into shares of Legacy Sonder Common Stock prior to the effective time of the First Merger), received approximately 140,544,052 shares of the Company's Common Stock, pursuant to the Exchange Rate 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 (the "Legacy Sonder Special Voting Common Stock"), received approximately 32,296,539 shares of the newly created Post-Combination Company Special Voting Common Stock, par value $0.0001 per share (the "Post-Combination Company Special Voting Common Stock" and, together with the Company's Common Stock, the "Post-Combination Company Stock"), pursuant to the Exchange Rate of 1.4686 shares for each share of Legacy Sonder Special Voting Common Stock held;
- holders of Series AA Common Exchangeable Preferred Shares (the "Legacy Sonder Canada Exchangeable Common Shares") of Sonder Canada Inc., a corporation existing under the laws of the province of Québec ("Legacy Sonder Canada") received a new series of the same class of virtually identical Legacy Sonder Canada Exchangeable Common Shares (the "Post-Combination Canada Exchangeable Common Shares") whose terms provide (a) for a deferral of any mandatory exchange caused by the Business Combination for a period of at least 12 months from the Closing Date, and (b) that such Post-Combination Canada Exchangeable Shares shall be exchangeable for Common Stock upon the completion of the Business Combination; and
- holders of options to purchase Legacy Sonder Common Stock (the "Legacy Sonder Stock Options") received options to acquire approximately 30,535,549 shares of Company's Common Stock (the "Rollover Options"), pursuant to the Option Exchange Ratio of 1.5444 shares for each share of Legacy Sonder Stock Options held.

Following the closing of the Business Combination, the Company owned all of the issued and outstanding equity interests in Legacy Sonder and its subsidiaries, and the Legacy Sonder Securityholders held approximately 79.7% of the Company. Following the closing of the Business Combination, the Company's Common Stock and the Company's Public Warrants (as defined below) began trading on the Nasdaq Global Select Market under the symbols "SOND" and "SONDW," respectively.

In addition to the consideration paid at the closing of the Business Combination, holders of Legacy Sonder Common Stock, Legacy Sonder Canada Exchangeable Common Shares and warrants of Legacy Sonder immediately prior to the effective time of the Business Combination may receive their pro rata share of up to an aggregate of 14,500,000 additional shares of Common Stock (the "Earn Out Shares") as consideration as a result of the Common Stock achieving certain benchmark share prices as contemplated by the Merger Agreement.

The Business Combination was viewed as an acquisition of control of Legacy Sonder's stock for tax purposes. As a result, the foreign capital loss carryforwards available to Legacy Sonder as of December 31, 2021 expired, and Sonder is no longer eligible to utilize these carryforwards in future periods.

Option awards granted to the CEO, including the CEO Performance Awards, that are eligible to vest in connection with the Business Combination that otherwise achieves the applicable market conditions were estimated using a Monte Carlo simulation. The fair value of the option awards using the Monte Carlos simulation was $5.5 million, which is to be recognized over the requisite service periods.

Closing of PIPE Investments

Pursuant to subscription agreements entered into in connection with the Merger Agreement (the "Existing Subscription Agreements"), certain investors agreed to subscribe for an aggregate of 20,000,000 newly issued shares of Class A Stock (which became Common Stock upon the effectiveness of the Amended and Restated Certificate of Incorporation) for a purchase price of $10.00 per share, or an aggregate of approximately $200 million (the "Existing PIPE Investment"). In addition, pursuant to subscription agreements entered into in connection with Amendment No.1, certain investors agreed to subscribe for an additional 11,507,074 newly issued shares of Class A Stock (which became Common Stock upon the effectiveness of the Amended and Restated Certificate of Incorporation) for a purchase price of for $8.89 per share, or an aggregate of approximately $102.3 million (the "New PIPE Investment"). In addition, concurrently with the execution of Amendment No. 1, the Company entered into a subscription agreement with Gores Metropoulos Sponsor II, LLC (the "Sponsor") whereby the Sponsor separately agreed to purchase an additional 709,711 shares of Class A Stock (which became Common Stock upon the effectiveness of the Amended and Restated Certificate of Incorporation) in a private placement for $10.00, or an aggregate of approximately $7.1 million (the “Additional Sponsor PIPE Commitment” and, together with the Existing PIPE Investment and the New PIPE Investment, the “PIPE Investment”). At the Closing, the Company consummated the PIPE Investment.

Delayed Draw Note Purchase Agreement

On December 10, 2021, Sonder entered into a Note and Warrant Purchase Agreement with certain PIPE Investors (the “Purchasers”) for the sale of delayed draw notes (the “Delayed Draw Notes”) to be available to Sonder following the completion of the Business Combination. The agreement also provided that the Purchasers will be issued warrants to purchase shares of Common Stock in connection with the transaction. In January 2022, Sonder drew down on $165 million in Delayed Draw Notes and issued warrants to purchase 2,475,000 shares of Common Stock to the Purchasers.

2021 Convertible Promissory Notes

In January 2022, upon the Closing of the Business Combination, the outstanding principal and accrued and unpaid interest of the Convertible Promissory Notes were automatically converted into Sonder’s 12,242,973 shares of common stock.

2018 Loan and Security Agreement

In January 2022, Sonder paid down $24.5 million outstanding principal of the 2018 Loan and Security Agreement and $2.5 million in end of term payments at the Closing of the Business Combination. Sonder also recognized $0.6 million of early termination fees, $0.4 million of the write down of deferred financing charges and $0.2 million of interest expense.

Francis Davidson Promissory Note

On January 14, 2022, Mr. Davidson repaid in full the Promissory Note issued in December 2019 by selling to Sonder 1,855,938 shares of Sonder’s common stock at a repurchase price of $13.85 per share, which was equal to the fair value of a share of Sonder’s common stock as of the repurchase date, for a total aggregate repurchase price of $25.7 million. The repurchase price was offset against and extinguished in full Mr. Davidson’s obligations under the Promissory Note, including the outstanding principal and accrued interest.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of the financial condition and results of operations of Sonder Holdings Inc. ("Sonder") together with Sonder's consolidated financial statements and related notes included elsewhere in the current report on Form 8-K of which this exhibit is a part, or this report. 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 titled "Risk Factors" or in other parts of this report. 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 2021 refer to the year ended December 31, 2021 and references to 2020 refer to the year ended December 31, 2020.

On January 18, 2022, Sonder consummated the previously announced Business Combination pursuant to that certain Agreement and Plan of Merger, dated as of April 29, 2021 (the "Merger Agreement"), as amended by that certain Amendment No. 1 to the Agreement and Plan of Merger, dated as of October 27, 2021, by and among the parties to such agreement, by and among Gores Metropoulos II, Inc. ("GMII" or the "Company"), Sunshine Merger Sub I, Inc., ("First Merger Sub") and a direct, wholly-owned subsidiary of Second Merger Sub (as defined below), Sunshine Merger Sub II, LLC, a Delaware limited liability company and a direct, wholly-owned subsidiary of GMII ("Second Merger Sub"), and Sonder Operating Inc., a Delaware corporation formerly known as Sonder Holdings Inc. ("Legacy Sonder"). Certain terms used in this discussion and analysis of the financial condition and results of operations of Sonder have the same meaning as set forth in GMII's proxy statement/prospectus/consent solicitation statement dated December 22, 2021 (the "Proxy Statement"), and filed by GMII with the Securities and Exchange Commission (the "SEC") on December 23, 2021.

Overview

Sonder's mission is to revolutionize hospitality through design and technology to make a world of better stays open to all. With its innovative end-to-end model, Sonder aims to provide better choice, comfort, reliability and value across a wide variety of use cases — from one night to extended stays — for its diverse mix of traveler types. Officially launched in 2014 and headquartered in San Francisco, California, Sonder's unique product portfolio of approximately 18,100 Live and Contracted Units — from rooms to suites to apartments — spans 38 cities in 10 countries and three continents as of December 31, 2021. Live Units represent the total number of units available for guest bookings on Sonder.com, the Sonder app and other channels at a given point in time. Contracted Units are Units for which Sonder has signed real estate contracts, but are not yet available for guests to book.

Sonder works directly with real estate developers and property owners to lease, manage and operate spaces, providing guests with exceptionally designed accommodations. Sonder operates and manages each of its more than 250 Live properties using proprietary technology, delivering services to guests via the Sonder app which features self-service and 24/7 on-the-ground support.

Management Discussion Regarding Opportunities, Challenges and Risks

Supply Growth

A key driver of Sonder's revenue growth is its ability to continue signing appealing apartment and hotel properties with favorable terms. Contracted properties become available for guests to book on their Live Date, which is when the property starts to generate Bookable Nights, which is the total number of nights available for stays across all Live Units, and, in turn, revenue.

Sonder quickly pivoted its supply growth strategy during the first quarter of 2020 when the COVID-19 pandemic began impacting the global hospitality industry. Sonder paused all efforts to contract new units in order to focus on preserving cash and optimizing its existing portfolio's performance. Additionally, Sonder exited leases for nearly 3,400 Live and Contracted Units from March 1, 2020 through December 31, 2020. This targeted unit phase-out enabled Sonder to minimize cash losses during the lockdowns, and rebalance its portfolio away from less favorable units. As a result, Sonder's total Live and Contracted Units decreased by approximately 10% in 2020, to approximately 12,000 units as of December 31, 2020.

Sonder resumed its growth efforts in the fourth quarter of 2020, and its focus during the fourth quarter of 2020 and first quarter of 2021 was on signing new properties and rebuilding its pipeline. In the second to fourth quarters of 2021, Sonder continued to build its pipeline of signed leases and targeted properties across various real estate asset classes (hotels, apartments, and office to apartment conversions). As a result, as of December 31, 2021, Sonder had a Total Portfolio of approximately 18,100 Live and Contracted Units.

Ability to Attract and Retain Guests

Another key driver of Sonder's revenue growth is its ability to continue to attract demand from repeat guests and to attract new guests through various channels. Sonder sources demand from a variety of channels, including Online Travel Agencies ("*OTAs*") such as Airbnb, Booking.com and Expedia, as well as directly through Sonder.com and the Sonder app. Bookings made through OTAs incur channel fees, where Sonder pays a certain percentage of the revenue booked on the OTA in order to compensate the OTA for its listing services. In general, direct bookings are more advantageous to Sonder as they do not incur channel fees.

Direct Bookings

Direct bookings as a percentage of booked revenue (*"Direct Bookings"*) have fluctuated in recent years due to the COVID-19 pandemic. While OTAs were historically Sonder's primary source of demand, Sonder saw an increase in Direct Bookings commencing in early 2020, as Sonder pursued performance marketing and offered extended stay discounts on Sonder.com during the early phases of the pandemic. For the year ended December 31, 2021, Direct Bookings were 45% as compared to 50% in the year ended December 31, 2020 as a result of the broader hospitality industry continuing to recover from the COVID-19 pandemic.

As the broader hospitality industry continues to recover from the COVID-19 pandemic, Sonder expects its direct bookings to remain at current levels or decrease moderately over time.

Technology

Sonder invests significant resources in its technology architecture and infrastructure. These improvements allow Sonder to deploy the latest tools and technologies to build proprietary external and internal facing technology. Sonder's technology is essential to its user experience, as its home-grown technology powers the entire guest journey, from booking through check-out.

External Facing Technology:

- Sonder's proprietary technology is essential to its user experience—from enabling easy, intuitive browsing of Sonder's full portfolio to allowing seamless reservations. Upon arrival at a Sonder property, Sonder's "lobby on your phone" technology guides guests through the in-app check-in and one-touch WiFi, while Sonder's digital concierge feature offers curated lists of localized food and experience recommendations to help guests get the most out of their stay. Sonder guests can book intra-stay cleaning and self-serve additional customer service requests on the Sonder app while also ensuring a frictionless check-out.

Internal Facing Technology:

- In addition to Sonder's guest-facing technology, proprietary technology powers Sonder's business processes and operations, from supply growth to building openings and day-to-day operations. Sonder has developed:
    - Its own infrastructure to fuel its real estate underwriting efforts;
    - Technology to facilitate its global supply chain for furniture, art and fixtures;
    - A proprietary booking engine;

- ◦ Pricing and calendar revenue management software;
- ◦ Room attribution algorithms; and
- ◦ Task and workflow management software.

Sonder's emphasis on continued technological improvement is key to continued guest experience improvements and guest retention, as well as continued reduction in operating costs compared to Traditional Hotels. Over the course of 2021, Sonder launched many new features, including a comprehensive mobile app lobby redesign, full roll-out of in-app early check-in/late check-out, launching an improved messaging tab, transitioning to building-based search and listings, launching mobile key one-touch check-in functionality, and more, and expects to continue rolling out additional features and technology in the future.

The Business Combination and Public Company Costs

On April 29, 2021, Legacy Sonder entered into the Merger Agreement with GM II, First Merger Sub and Second Merger Sub pursuant to which, among other things, on January 18, 2022, Legacy Sonder merged with First Merger Sub, with Legacy Sonder surviving and, immediately following the consummation of the First Merger and as part of the same overall transaction, Legacy Sonder, as the Surviving Corporation, merged with and into Second Merger Sub, with Second Merger Sub continuing as the Surviving Entity. Legacy Sonder will be deemed the accounting predecessor and GM II is the successor SEC registrant, which means that Legacy Sonder's financial statements for previous periods will be disclosed in Sonder's future periodic reports filed with the SEC.

The Business Combination is anticipated to be accounted for as a reverse recapitalization. Under this method of accounting, the Company will be treated as the acquired company for financial statement reporting purposes. The most significant change in the Company's future reported financial position and results is an increase in cash (as compared to Sonder's consolidated balance sheet at December 31, 2021) of approximately $405.9 million, net of the pay down of $29.0 million outstanding principal of the TPC loan, as well as non-recurring transaction costs of approximately $49.7 million, of which Sonder expects approximately $6.3 million to be expensed. The $405.9 million includes $158.8 million of delayed draw notes, net of commitment fees. For additional information please refer to Exhibit 99.3 "*Unaudited Pro Forma Condensed Combined Financial Information*."

Upon the closing of the Business Combination, the Company's Common Stock was listed on Nasdaq and now trades under the ticker symbol "SOND." As Legacy Sonder's management team and business operations now comprise the Company's management and operations, the Company will need to hire additional personnel and implement procedures and processes to address public company regulatory requirements and customary practices. The Company expects to incur additional annual expenses as a public company for, among other things, directors' and officers' liability insurance, director fees and additional internal and external accounting and legal and administrative resources, including increased audit and legal fees.

Sonder's Business Model

Sonder offers a selection of hotels and apartments in cities around the world that guests can book on a nightly, weekly or monthly basis. Sonder leverages its proprietary technology to select, design and manage its global portfolio of properties. Sonder secures its portfolio of properties by entering into agreements with real estate owners under multi-year contracts that allow Sonder to operate the properties on a nightly basis. Sonder's typical contract has an initial term of 5-7 years plus up to two 5-year renewals at Sonder's election. The agreements can take the form of a Fixed Lease, Mixed Lease or Revenue Share agreement.

- Fixed Lease agreement: The vast majority of Sonder's historical contracts with real estate owners have been Fixed Lease agreements, whereby Sonder agrees to a fixed periodic fee per unit. Sonder then generates revenue on a nightly basis through guests booking and staying at the Sonder operated property.
- Mixed Lease agreement: Sonder sometimes employs a hybrid contract structure whereby Sonder agrees to pay the real estate owner a minimum fixed periodic fee, plus a certain share of property revenue, typically with a capped periodic amount.

- Revenue Share agreement: Sonder intends to sign an increasing number of Revenue Share agreements, whereby Sonder agrees to pay the real estate owner a variable fee based on certain revenue related metrics as specified in the agreement, rather than Sonder paying a fixed periodic fee.

Sonder has increasingly migrated to a capital light model, whereby real estate owners fund the vast majority of Sonder's upfront Capital Expenditures. Among Sonder's post-COVID-19 lease signings, a substantial majority of all pre-opening costs are funded by real estate owners. In most cases, Sonder compensates the real estate owner in the form of slightly higher rents, effectively amortizing the allowance provided to Sonder over the term of the lease.

Sonder generates revenue on a nightly basis when guests book and stay at Sonder properties, which they can do either directly through Sonder.com or the Sonder app, or through one of several OTA partners with whom Sonder lists its properties.

Key Business Metrics and Non-GAAP Financial Measures

Sonder tracks the following key business metrics and non-Generally Accepted Accounting Principles (non-GAAP) financial measures to evaluate its performance, identify trends, formulate financial projections and make strategic decisions. Accordingly, Sonder believes these key business metrics and non-GAAP financial measures provide useful information to investors and others in understanding and evaluating Sonder's results of operations in the same manner as Sonder's management team.

These key business metrics and non-GAAP financial measures are presented for supplemental informational purposes only, should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly titled metrics or measures presented by other companies.

Key Business Metrics

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

	Years Ended December 31,		Change	
	2021	2020	#	%
Live Units (End of Period)	7,600	4,500	3,100	69 %
Bookable Nights	2,031,679	1,558,779	472,900	30 %
Occupied Nights	1,380,266	1,013,453	366,813	36 %
Occupancy Rate	68 %	65 %	3 %	N/A
RevPAR	$ 115	$ 74	$ 41	55 %

Live Units

Live Units represent the total number of units available for guest bookings on Sonder.com, the Sonder app and other channels at a given point in time. Live Units generate Bookable Nights which can ultimately generate revenue. Live Units are a key driver of revenue, and a key measure of the scale of Sonder's business, which in turn drives its financial performance.

Live Units are 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, 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, or due to unforeseen regulatory changes within an existing market.

As of December 31, 2021, Sonder had over 7,600 Live Units, compared to approximately 4,500 Live Units as of December 31, 2020. This 69% increase in Live Units as of December 31, 2021 compared to December 31, 2020, was driven by Sonder's renewed focus on portfolio growth in line with COVID-19 recovery.

Bookable Nights / Occupied Nights /Occupancy Rate

Bookable Nights represents the total number of nights available for stays across all Live Units. This excludes nights lost to full building closures greater than 30 nights. For example, one unit unavailable to guests for five nights due to regular maintenance would still be included as part of Bookable Nights. Occupied Nights represents the total number of nights occupied across all Live Units. Occupancy Rate is calculated as Occupied Nights divided by Bookable Nights. Bookable Nights, Occupied Nights, and Occupancy Rate are key drivers of revenue, and key measures of the scale of Sonder's business, which in turn drives financial performance.

For the year ended December 31, 2021, Sonder had 2,031,679 Bookable Nights, compared to 1,558,779 Bookable Nights during the year ended December 31, 2020. The 30% increase in Bookable Nights for the year ended December 31, 2021 compared to the year ended December 31, 2020 was driven by Sonder's renewed focus on Live Unit growth.

For the year ended December 31, 2021, Sonder had 1,380,266 Occupied Nights, compared to 1,013,453 Occupied Nights during the year ended December 31, 2020. In addition, for the year ended December 31, 2021, Sonder had a 68% Occupancy Rate, compared to 65% during the year ended December 31, 2020. This represents a 36% increase in Occupied Nights for the year ended December 31, 2021 compared to the year ended December 31, 2020, driven by a recovery in travel demand as COVID-19 vaccination rates continue to climb and cities begin to open and return to normal operations.

Revenue Per Available Room and Average Daily Rate

Revenue per Available Room ("*RevPAR*") represents the average revenue earned per available night, and can be calculated either by dividing revenue by Bookable Nights, or by multiplying Average Daily Rate ("*ADR*") by Occupancy Rate ("*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 Sonder's ability to attract and retain guests, which in turn drives financial performance.

RevPAR is driven by ADR and OR. Several factors may explain period-to-period RevPAR variances:

- Units in ramp represent units that became live in recent months and have not yet reached mature economics. Typically, new units take several months to achieve mature ADR and OR as buildings stabilize and drive organic bookings, so if a period has a significant increase in Live Units, this may reduce the portfolio's RevPAR.

- Market Mix represents the composition of Sonder's 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 Sonder's portfolio between apartments and hotels. In general, apartments are typically higher RevPAR bookings because they typically offer more amenities (e.g., kitchen, in-unit washer/dryer) and have higher square footage compared to Sonder's hotel units.

- Seasonality represents typical period-to-period variances in a particular property's RevPARs 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, Sonder generally expects its RevPARs to be lower on a constant portfolio basis in the first quarter and fourth quarters of each year due to seasonal factors such as weather and holidays and the current market mix and product mix of its portfolio. The effect of seasonality will vary as Sonder's market mix and product mix continues to evolve.

For the year ended December 31, 2021, Sonder achieved a RevPAR of $115 compared to a RevPAR of $74 for the year ended December 31, 2020, representing a 55% increase in RevPAR primarily driven by a 48% ADR increase from $114 to $169 because of a significant increase in travel as COVID-19 vaccination rates continue to climb and cities return to normal operations.

Non-GAAP Financial Measures

To supplement the consolidated financial statements, which are prepared and presented in accordance with GAAP, Sonder uses the following non-GAAP financial measures: Property Level Profit (Loss), Property Level Profit (Loss) Margin, and Adjusted EBITDA (collectively the "*non-GAAP financial measures*").

The following table presents a reconciliation of loss from operations to Property Level Profit (Loss) for the periods shown (in thousands):

		Years Ended December 31,	
		2021	2020
Loss from operations		$ (259,945)	$ (243,822)
Add:	Operations and support	142,728	115,072
	General and administrative	106,135	77,033
	Research and development	19,091	17,552
	Sales and marketing	23,490	12,848
Less:	Property Level Costs		
	Channel fees included in sales and marketing	(15,916)	(7,734)
	Customer service, laundry/consumables, maintenance and utilities and insurance included in operations and support	(57,879)	(33,527)
	Property Level Profit (Loss)	$ (42,296)	$ (62,578)
Property Level Profit (Loss) Margin		*(18.2)%*	*(54.1)%*
GAAP rent to Landlord Payments adjustment		$ 26,970	$ 4,916
GAAP rent to Landlord Payments adjustment margin		*11.6 %*	*4.2 %*

Property Level Profit (Loss)

Property Level Profit (Loss) ("*PLL*" or "*PLP*") represents loss from operations after adding back corporate-level expenses less Property Level Costs ("*PLC*"). PLC is defined as personnel-related expenses accumulated and directly associated with each of Sonder's properties, including channel fees (included in sales and marketing), customer service (included in operations and support), laundry/consumables (included in operations and support), maintenance (included in operations and support), and utilities and insurance (included in operations and support). This presentation provides the profitability at the property level in the aggregate before taking into account corporate expenses and is the most direct comparison to other hospitality companies that provide property level metrics.

Refer to the Operations and Support, Research and Development, General and Administrative, and Sales and Marketing discussion in the section titled "*Components of Results of Operations*" below for explanations of the changes in these figures.

PLP or PLL is a key measure of Sonder's PLC efficiency as well as financial performance and ability to operate units with compelling unit economics. PLL or PLP variances may be explained by the factors described above, as well as the following additional factors:

- **Transaction Structures** represent the varying types of lease agreements Sonder enters into with real estate owners, including (i) Fixed Lease, (ii) Mixed Lease and (iii) Revenue Share agreements.
    - The vast majority of Sonder's historical contracts with real estate owners have been Fixed Lease agreements, whereby Sonder agrees to a fixed periodic fee per unit during the term of the lease.

    - Sonder sometimes employs a hybrid Mixed Lease deal structure whereby it agrees to pay the real estate owner a minimum fixed periodic fee, plus a certain share of property revenue, typically with a capped periodic amount.
    - In the future, Sonder intends to sign an increasing number of Revenue Share agreements, whereby Sonder agrees to pay the real estate owner a variable fee based on certain revenue related metrics as specified in the agreement, rather than Sonder paying a fixed periodic rent to the property owner.
    - The transition to more liability light (Mixed Lease and Revenue Share) transaction structures is expected to increase Sonder's Property Level Profit (Loss) during the unit ramp process and partially offset the impact of seasonality, as real estate owner payments will be more closely tied to revenue generated.

- **Product Mix** represents the composition of Sonder's Total Portfolio between apartment and hotel units. In general, apartments require higher GAAP rent because they typically have larger square footage compared to Sonder's hotel units. The impact of higher GAAP rent combined with higher RevPARs for apartments typically leads to relatively similar Property Level Profit (Loss) for apartments and hotels.

- **Market Mix** represents the composition of Sonder's portfolio based on geographic presence. Certain markets such as New York or London typically require higher GAAP rent on a per unit basis, while certain markets such as Houston or Phoenix typically require lower GAAP rent on a per unit basis. Therefore, if the market mix shifts toward lower GAAP rent markets, it may compress aggregate portfolio GAAP rent. Typically, markets with higher RevPARs have higher GAAP rent, which often leads to relatively similar Property Level Profit (Loss) for high and low RevPAR markets.

- **Length of Stay** represents the average number of nights for each unique stay, and is calculated as Occupied Nights divided by Checkouts. Longer stays drive lower turnover costs (i.e., cleaning, laundry and consumables) and therefore results in higher PLP because these costs are incurred by Sonder less frequently for longer stays. Sonder's extended stay initiative following the onset of the COVID-19 pandemic drove average Length of Stay ("LOS") up significantly to a peak of 14 nights in April 2020. For the month of September 2021, LOS decreased to five nights. Sonder expects its LOS to remain at historical averages of approximately five nights following full COVID-19 recovery, with a modest portion of long-term revenue still driven by extended stay bookings.

- **Channel Fees** represent the percentage of revenue booked on an OTA that Sonder pays out as marketing fees to compensate the respective channel for its listing services. Sonder records these charges as an operating expense in sales and marketing on the GAAP consolidated statement of operations. These fees are captured in PLC and reduce PLP. In general, direct bookings drive a higher PLP given they do not incur channel fees.

- **Technological and Operational Improvements** represent opportunities to decrease PLC on an Occupied Night basis as Sonder grows and attempts to increase its operational efficiency. As Sonder grows in each of its markets, it expects to increase PLC efficiency through scale and greater building concentration (e.g., shorter transit times between service requests, bulk and scaled buys, vendor standardization, transition from reactive to preventative maintenance) as well as technological improvements to drive further efficiency and project management (e.g., warehouse and inventory management, listing distribution, tech-enabled customer service dispatch, automated replies to basic inquiries and self-service for requests).

Property Level Profit (Loss) and Property Level Profit (Loss) Margin may differ from similarly titled measures used by other companies due to different methods of calculation. Presentation of Property Level Profit (Loss) and Property Level Profit (Loss) Margin 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. Property Level Profit (Loss) excludes certain costs, such as corporate costs, which are considered normal, recurring cash operating expenses and are essential to support the operation and development of Sonder's properties. Therefore, this measure may not provide a complete understanding of Sonder's operating results as a whole. Property Level Profit (Loss) and Property Level Profit (Loss) Margin should be reviewed in conjunction with Sonder's GAAP financial results.

For the year ended December 31, 2021, Sonder had a PLL of approximately $42.3 million with a PLL Margin of 18.2%, compared to a PLL of approximately $62.6 million with a PLL Margin of 54.1% for the year ended December 31, 2020. This represents a 32.4% improvement in PLL for the year ended December 31, 2021, driven by an increase in revenue of 101.4% for the year ended December 31, 2021 as compared to the year ended December 31, 2020 driven by a revival of travel demand as COVID-19 vaccination rates begin to increase throughout the globe and guests begin to look for vacation opportunities, and Live Unit growth contributing to increased Bookable Nights.

The following table provides a reconciliation of net loss to Adjusted EBITDA (in thousands):

	Years Ended December 31,	
	2021	2020
Net loss	$ (294,387)	$ (250,316)
Interest expense, net	44,090	6,402
Provision for income taxes	242	323
Depreciation and amortization	17,714	16,969
EBITDA	$ (232,341)	$ (226,622)
Stock-based compensation	25,247	7,223
Other expense (income), net	(9,890)	(231)
COVID-19 related offboardings	—	9,875
Adjusted EBITDA	$ (216,984)	$ (209,755)
GAAP rent to Landlord Payments adjustment	$ 26,970	$ 4,916
FF&E allowance realized[1]	$ 4,322	$ —

(1) Represents cash payments from real estate owners received for capital expenditure financing

Adjusted EBITDA

Adjusted EBITDA is defined as net loss excluding the impact of interest expense, net, provision for income taxes, depreciation and amortization, stock-based compensation, other expense (income) net, and COVID-19 related offboardings (costs associated with dropping units, such as lease termination fees and gain or loss on disposal of assets, at the beginning of the COVID-19 pandemic). Adjusted EBITDA is a key measure of Sonder's financial performance and measures Sonder's efficiency in managing its other operating expenses. Sonder utilizes Adjusted EBITDA because certain items, such as depreciation and amortization, are non-cash in nature or the amount and timing of these items are unpredictable, are not driven by core results of operations and render comparisons with prior periods and competitors less meaningful.

Adjusted EBITDA is driven by RevPAR and PLP / PLL. Adjusted EBITDA variances may be explained by the RevPAR and PLP / PLL factors described above, as well as the following additional factor:

- Technological and Operational Improvements will also drive decreased other operational expenses through portfolio scale and concentration (e.g., real estate business development agents covering multiple markets, cost efficiencies related to taking over full buildings), technological improvements in city / headquarter general and administrative costs, and research and development (e.g. underwriting, pricing, and supply chain automation) functions.

EBITDA and Adjusted EBITDA may differ from similarly titled measures used by other companies due to different methods of calculation. Presentation of EBITDA and Adjusted EBITDA 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. EBITDA and Adjusted EBITDA exclude certain normal recurring expenses. Therefore, these measures may not provide a complete understanding of Sonder's performance and should be reviewed in conjunction with our GAAP financial measures.

For the year ended December 31, 2021, Sonder had a net loss of $294.4 million, compared to a net loss of $250.3 million for the year ended December 31, 2020.

For the year ended December 31, 2021, Sonder's Adjusted EBITDA was a loss of approximately $217.0 million compared to an Adjusted EBITDA loss of approximately $209.8 million for the year ended December 31, 2020. For the year ended December 31, 2021, this represented a 3.4% increase in loss to Adjusted EBITDA which was primarily driven by an increase in general operating expenses in the period.

GAAP rent to Landlord Payments adjustment

Landlord Payments are cash payments to real estate owners recognizing abatement at the time it is utilized (often at the commencement of a real estate contract), expressed in U.S. dollars. This recognizes the economic substance of the payment to real estate owners as reflected in the real estate contract (e.g., if a building's Takeover Date was January 1, 2019 and it had three months of abatement at the beginning of the real estate contract, the Landlord Payments for the building in the first quarter of 2019 would be $0).

The GAAP rent to Landlord Payments adjustment translates GAAP rent to Landlord Payments, expressed in U.S. dollars. GAAP rent straight lines abatement, the benefit of FF&E allowance, and future escalation payments over the duration of the real estate contract. In contrast, Landlord Payments recognizes abatement from real estate owners at the time abatement is utilized (often at the commencement of a real estate contract), and future escalation payments at the time they actually occur, in an effort to most accurately reflect the timing of cash outflows for rent.

Abatement terms are negotiated for the vast majority of Sonder's real estate contracts and represent free months of payments to real estate owners. As Sonder attempts to rapidly increase its unit portfolio, abatement is expected to play a large role in driving down Landlord Payments during periods with a significant number of new Live Units.

COVID-19's Business Impact on Sonder

The ongoing impact of the COVID-19 pandemic on the global economy and the extent to which it will continue to adversely impact Sonder remains uncertain. Sonder's financial results for all of 2020 were materially adversely affected by the COVID-19 pandemic, and COVID-19 may continue to materially adversely impact business operations, results of operations and liquidity in the near term. While monthly RevPAR and Occupancy Rates have been improving since May 2020, the extent of the recovery is uncertain and will be largely dependent on the effectiveness of COVID-19 prevention (vaccination and continued social distancing) and treatment, infection rates, and governmental responses in the cities and countries in which Sonder operates. The COVID-19 pandemic transformed how society works, connects, and travels, while at the same time creating incredible challenges, particularly for the hospitality industry and Sonder. As the world locked down in Spring 2020, severely impacting Occupancy Rate and RevPAR, Sonder acted quickly to reduce costs and bolster revenues to mitigate the impacts of the COVID-19 pandemic. As part of its COVID-19 response strategy, Sonder renegotiated a significant portion of its Live and Contracted Unit property portfolio, significantly reduced overhead costs, and pivoted to new sources of demand.

As a result of Sonder's efforts to drive alternative sources of demand through the pandemic, Sonder substantially outperformed Traditional Hotels on both an Occupancy Rate and RevPAR basis from March 2020 through the end of 2021. Sonder's outperformance vs. Traditional Urban Upper Upscale hotels for Occupancy and RevPAR have narrowed from their peak during the height of the COVID-19 pandemic as leisure travel demand has increased across all accommodation categories.

The extent and duration of the impact of the COVID-19 pandemic over the longer term remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the introduction and spread of new variants of the virus (including, for example, the Delta and Omicron variants), that may be more contagious or resistant to currently approved vaccines.

Components of Results of Operations

Revenue

Sonder’s revenue consists of amounts received from guests for its accommodations, net of discounts and refunds provided to guests. Sonder’s revenue is generated from stays booked through Sonder.com or the Sonder app, which it refers to as direct revenue, or from stays booked through third party online travel agencies, which it refers to as indirect revenue. Discounts include member discounts, Length of Stay discounts, and hospitality discounts.

There is a difference in timing between when a booking is made and when Sonder recognizes revenue, which begins upon check-in and is recognized over the length of the stay. Sonder records the amounts that it collects from guests prior to check-in on its balance sheet as deferred revenue. If a guest cancels a reservation within the cancellation period, a refund is provided to the guest. If the cancellation occurs outside Sonder’s window, Sonder will recognize such cancellation as revenue in the period in which the cancellation occurs.

Cost of Revenue

Cost of revenue consists of those costs that are contractually fixed or variable, including, rental payments payable to real estate owners to acquire usage of the unit, cleaning costs, and payment processing charges. Sonder expects its cost of revenue will continue to increase on an absolute dollar basis for the foreseeable future to the extent that Sonder continues to see growth in bookings and expands its 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.

Operations and Support

Operations and support costs are related to guest-facing functions and variable expenses associated with guest units that are not payments to acquire usage of the room, such as customer service agents and hospitality agents, depreciation of property and equipment, and costs to operate rental spaces including utilities, opening new spaces, lease termination fees, and purchases of low value items for units such as small kitchen appliances. Sonder expects operations and support expense to increase on an absolute dollar basis for the foreseeable future to the extent that Sonder continues to expand its portfolio of properties.

General and Administrative

General and administrative costs primarily consist of personnel-related expenses for back-office administrative functions, such as legal, finance and accounting, public policy, and human resources. It also includes certain professional services fees, corporate offices, technology expenses, bad debt expense, general corporate and director and officer insurance, and other corporate-level expenses Sonder incurs to manage and support its operations. Sonder expects to incur additional 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 higher expenses for corporate insurance, director and officer insurance, investor relations, and professional services. Overall, Sonder expects its general and administrative costs will vary from period to period as a percentage of revenue for the foreseeable future.

Research and Development

Research and development expenses primarily consist of personnel-related expenses and an allocation of Sonder’s facility expenses incurred in connection with the development of its existing and new services. Sonder continues to focus its research and development efforts on adding new features and services, and increasing the functionality and enhancing the ease of use of existing services. Sonder capitalizes the portion of its software development costs that meets the criteria for capitalization. Sonder expects that its research and development expenses will increase on an absolute dollar basis and will vary from period to period as a percentage of revenue for the foreseeable future as Sonder continues to invest in research and development activities relating to ongoing improvements to and maintenance of its technology and other services, including the hiring of personnel to support these efforts.

Sales and Marketing

Sales and marketing expenses primarily consist of advertising costs, personnel-related expenses for Sonder's sales, marketing, branding, as well as service charges for bookings made through OTAs. Sonder expects its sales and marketing expense will vary from period to period as a percentage of revenue for the foreseeable future.

Interest Expense, Net and Other Expense, Net

Interest expense, net and other expense, net consists primarily of realized and unrealized gains and losses on foreign currency transactions and balances, interest expense related to the term loans and convertible debt, and the change in fair value of warrants or other instruments carried at fair value.

Provision for Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations and comprehensive loss as of the enactment date. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2021 and 2020, Sonder has recorded a full valuation allowance against its deferred tax assets due to its history of losses.

Sonder is 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. Additionally, our effective tax rate can vary based on the amount of pre-tax income or loss.

Sonder recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at 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.

Sonder recognizes interest and penalties if any, related to income tax matters as a component of income tax expense.

Results of Operations

Years Ended December 31, 2021 and 2020

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

	Years Ended December 31,			
	2021		2020	
Revenue	$ 232,944	100.0 %	$ 115,678	100.0 %
Cost of revenue (excluding depreciation and amortization)	201,445	86.5 %	136,995	118.4 %
Operations and support	142,728	61.3 %	115,072	99.5 %
General and administrative	106,135	45.6 %	77,033	66.6 %
Research and development	19,091	8.2 %	17,552	15.2 %
Sales and marketing	23,490	10.1 %	12,848	11.1 %
Total costs and expenses	$ 492,889	211.6 %	$ 359,500	310.8 %
Loss from operations	$ (259,945)	(111.6)%	$ (243,822)	(210.8)%
Interest expense, net and other expense, net	34,200	14.7 %	6,171	5.3 %
Loss before income taxes	$ (294,145)	(126.3)%	$ (249,993)	(216.1)%
Provision for income taxes	242	0.1 %	323	0.3 %
Net loss	$ (294,387)	(126.4)%	$ (250,316)	(216.4)%
Other comprehensive loss:				
Change in foreign currency translation adjustment	1,633	0.7 %	(740)	(0.6)%
Comprehensive loss	$ (292,754)	(125.7)%	$ (251,056)	(217.0)%

Revenue

The following table sets forth Sonder's revenue for the periods shown (in thousands, except percentages):

	Years Ended December 31,		Change	
	2021	2020	$	%
Revenue	$ 232,944	$ 115,678	$ 117,266	101.4 %

Revenue increased $117.3 million, or 101.4%, for the year ended December 31, 2021, compared to the year ended December 31, 2020, due to a 55% increase in RevPAR resulting from a revival of travel demand as COVID-19 vaccination rates begin to increase throughout the globe and guests begin to look for vacation opportunities, and Live Unit growth contributing to increased Bookable Nights.

Costs and Expenses

The following table sets forth Sonder’s total costs and expenses for the periods shown (in thousands, except percentages):

	Years Ended December 31,		Change	
	2021	2020	$	%
Cost of revenue (excluding depreciation and amortization)	$ 201,445	$ 136,995	$ 64,450	47.0 %
Operations and support	142,728	115,072	27,656	24.0
General and administrative	106,135	77,033	29,102	37.8
Research and development	19,091	17,552	1,539	8.8
Sales and marketing	23,490	12,848	10,642	82.8
Total costs and expenses	$ 492,889	$ 359,500	$ 133,389	37.1 %

Cost of Revenue (excluding depreciation and amortization)

Cost of revenue increased $64.5 million, or 47.0%, for the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily due to a $51.8 million increase in rental payments to real estate owners as a result of an increase in Live Units in the year ended December 31, 2021, a $8.7 million increase in cleaning expenses as a result of an increase in the number of check-outs as well as an increase in requests for cleaning services from Sonder’s guests, and an increase of $3.9 million in payment processing fees.

Operations and Support

Operations and support expense increased $27.7 million, or 24.0%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. This increase was primarily due to a $12.3 million increase in employee compensation expense inclusive of stock compensation expense due to increase in headcount related to expected growth as pent-up travel demand and anticipated improvements in COVID-19 related conditions take hold and general and business travel begins, a $10.8 million increase in unit-related expenses, a $3.8 million increase in legal and professional fees due to additional costs incurred in connection with Sonder’s efforts to become a public company, and a $3.5 million increase in facility expenses from rent concessions related to COVID-19 during the year ended December 31, 2020. These increases were offset by a decrease of $2.8 million in loss on disposal of fixed assets, driven by the offboarding of live units in the year ended December 31, 2020 as a result of COVID-19.

General and Administrative

General and administrative expense increased $29.1 million, or 37.8%, for the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily due to a $27.0 million increase in employee compensation expense inclusive of stock compensation expense, of which $14.1 million was due to Sonder meeting certain vesting conditions for the CEO’s performance-based stock options and $12.9 million was due to an increase in headcount to account for increase in travel demand, and a $9.0 million increase in legal and professional fees primarily due to one-time additional costs incurred in connection with Sonder’s efforts to become a public company. These increases were offset by a $3.0 million decrease in occupancy and other indirect tax expenses due to the resolution of prior year amounts and steps Sonder has taken to improve tax collection by OTAs, a $2.5 million decrease in facility expense from permanently closing one of the corporate offices due to adopting remote working conditions, and a $2.4 million decrease in bad debt expense from increased efforts to collect accounts receivables.

Research and Development

Research and development expense increased $1.5 million or 8.8%, for the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily due to an increase of $1.4 million related to the depreciation of certain assets.

Sales and Marketing

Sales and marketing expense increased $10.6 million, or 82.8%, for the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily due to an increase of $8.2 million in channel transaction fees resulting from an uptick in bookings through Sonder's various OTAs and an increase in employee related expenses inclusive of stock compensation expense of $1.9 million related to an increase in headcount to account for increased travel demand.

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

The following table sets forth Sonder's total interest expense, net and other expense (income), net for the periods shown (in thousands, except percentages):

	Years Ended December 31,		Change	
	2021	2020	$	%
Interest expense, net	$ 44,090	$ 6,402	$ 37,688	588.7 %
Other income, net	(9,890)	(231)	(9,659)	4181.4
Total other (income) expense, net	$ 34,200	$ 6,171	$ 28,029	454.2 %

Interest expense, net increased $37.7 million, or 588.7% for the year ended December 31, 2021 compared to the year ended December 31, 2020, due to Sonder entering into the Convertible Notes in March 2021.

Other income, net increased $9.7 million, or 4,181.4% for the year ended December 31, 2021 compared to the year ended December 31, 2020, due to a $12.8 million increase related to the fair value adjustments for the convertible debt and warrant liabilities, offset by a $3.2 million decrease related to foreign exchange losses as a result of an unfavorable change in exchange rates which impacted Sonder's outstanding intercompany loans denominated in foreign currency.

Provision for Income Taxes

The following table sets forth Sonder's total provision for income taxes for the periods shown (in thousands, except percentages):

	Years Ended December 31,		Change	
	2021	2020	$	%
Provision for income taxes	$ 242	$ 323	$ (81)	(25.1)%

Sonder's effective tax rate for the year ended December 31, 2021, was lower than the 21% federal statutory income tax rate due to a valuation allowance of our net deferred tax assets and nondeductible expenses measured against a pre-tax loss. Sonder's effective tax rate for the year ended December 31, 2020, was lower than the 21% federal statutory income tax rate due to a valuation allowance of our net deferred tax assets and nondeductible expenses measured against a pre-tax loss.

Sonder is subject to taxation in the United States and foreign jurisdictions. Its income tax filings are regularly examined by federal, state, and foreign tax authorities.

We have a valuation allowance for our net deferred tax assets, including federal, foreign and state net operating loss carryforwards, tax credits, and intangible assets. We expect to maintain these valuation allowances until it becomes more likely than not that the benefit of our deferred tax assets will be realized by way of expected future taxable income in the United States and other foreign jurisdictions.

As of December 31, 2021, and 2020, Sonder had net operating loss carryforwards for federal income tax purposes of $414.8 million and $262.7 million, respectively. Of the federal net operating loss carryforwards, $11.0 million will begin to expire in 2035, and $403.8 million will carry forward indefinitely. As of December 31, 2021, and 2020, Sonder had net operating loss carryforwards for state income tax purposes of $389.6 million and $239.9 million, respectively. Sonder had previously undertaken a study of its loss carryforwards within the meaning of

Section 382 of the U.S. Tax Code and although a prior year change was identified it is not believed to have a material impact on the availability to use net operating losses in the future.

In the event that we experience an ownership change within the meaning of Section 382 of the Internal Revenue Code, our ability to utilize net operating losses, tax credits, and other tax attributes may be limited. The most recent analysis of our historical ownership changes was completed through December 31, 2021. Based on the analysis, we do not anticipate a permanent limitation on the existing tax attributes under Section 382, although subsequent changes in our ownership structure may create such a limitation.

Liquidity and Capital Resources

As of December 31, 2021, Sonder's principal source of liquidity was cash of $69.7 million, which was held for working capital purposes. Going forward, Sonder expects that cash from operations will provide a principal source of liquidity to Sonder. Sonder generates revenue from digital transactions directly with guests which are settled immediately through a payment processor, as well as generating revenue indirectly through OTAs, which is settled based on contractual terms. In March 2021, Sonder closed a securities offering consisting of convertible notes and received an aggregate principal amount of $165.0 million. Upon the Closing of the Business Combination on January 18, 2022, the convertible notes were converted into Sonder common stock. In addition, upon Closing of the Business Combination, the most significant change in Sonder's future reported financial position and results is an increase in cash (as compared to the consolidated balance sheet at December 31, 2021) of approximately $405.9 million, net of the pay down of $29.0 million outstanding principal of the TPC loan, as well as non-recurring transaction costs of approximately $49.7 million, Cash consists of checking and interest-bearing accounts.

As of December 31, 2021, since inception, Sonder has incurred cumulative losses of $814.8 million from its operations, and it expects to continue to incur additional losses in the future. Sonder's operations to date have been financed primarily by private equity investments in its common and redeemable convertible preferred stock.

Sonder believes that its existing sources of liquidity will be sufficient to fund its operations and debt obligations for at least the next 12 months. Sonder's future capital requirements will depend on many factors, including its rate of revenue growth, its investment in research and development activities, the rate at which it expands its property portfolio and any future business acquisitions. To the extent that existing cash from operations is insufficient to fund Sonder's future activities, it may need to raise additional funds through public or private equity or debt financing, including convertible debt or short-term bridge financing, or otherwise Sonder may be unable to adequately fund its business plans and it could have a negative effect on its business, operating cash flows, and financial condition.

Most of Sonder's cash is held in the United States. As of December 31, 2021, Sonder's foreign subsidiaries held $10.3 million of cash in foreign jurisdictions. Sonder currently does not intend or foresee a need to repatriate these foreign funds. As a result of the Tax Cuts and Jobs Act, however, Sonder anticipates the U.S. federal 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 Sonder's current and future needs, it believes its current funding and capital resources for its international operations are adequate.

Credit Facilities

Refer to Note 7. Debt of the Notes to Consolidated Financial Statements for discussion of Sonder's credit facilities as of December 31, 2021.

Delayed Draw Notes

Upon the Closing of the Business Combination, Sonder drew down on the Note and Warrant Purchase Agreement with certain PIPE Investors for the sale of an aggregate of $165 million in principal amount of Delayed Draw Notes, and the note purchasers were issued warrants to purchase 2,475,000 shares of Common Stock.

Cash Flows

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

	Years Ended December 31,	
	2021	2020
Net cash used in operating activities	$ (179,391)	$ (202,502)
Net cash used in investing activities	(21,587)	(14,850)
Net cash provided by financing activities	148,571	226,561
Effects of foreign exchange on cash	(760)	(347)
Net change in cash, cash equivalents, and restricted cash	(53,167)	8,862

Cash Used in Operating Activities

Net cash used in operating activities for the year ended December 31, 2021 was $179.4 million. Sonder's net loss for the year ended December 31, 2021 was $294.4 million, adjusted for non-cash charges, primarily consisting of $37.5 million due to the straight lining of rent over the period, $35.1 million related to the amortization of debt discount, $25.2 million of share-based compensation expense, $17.7 million of depreciation and amortization, $2.4 million of unrealized loss on foreign currency transactions, $2.4 million from the amortization of debt issuance costs, and $2.1 million related to the fair value of warrants, offset by $14.8 million of change in fair value of the share-settled redemption feature related to Sonder's convertible notes issued in March 2021. Additional sources of cash flows resulted from changes in working capital of $6.6 million.

Net cash used in operating activities for the year ended December 31, 2020 was $202.5 million. Sonder's net loss for the year ended December 31, 2020 was $250.3 million, adjusted for non-cash charges, primarily consisting of $17.0 million of depreciation and amortization, $7.2 million of share-based compensation expense, $3.8 million of capital assets which were written off, $2.6 million related to bad debt expense, and $1.8 million due to the straight lining of rent. Additional sources of cash flows resulted from changes in working capital of $15.0 million.

Cash Used in Investing Activities

Net cash used in investing activities for the year ended December 31, 2021 was $21.6 million, which was primarily related to the purchases of furniture and fixtures for Sonder's units made available to guests, in addition to costs related to internally developed software, and for corporate purchases for Sonder's general operating activities.

Net cash used in investing activities for the year ended December 31, 2020 was $14.9 million, which was primarily related to the purchases of furniture and fixtures for Sonder's units made available to guests as well as for corporate purchases for Sonder's general operating activities.

Cash Provided by Financing Activities

Net cash provided by financing activities for the year ended December 31, 2021 was $148.6 million, primarily related to $162.4 million from debt financing through the issuance of convertible notes, net of issuance costs, offset by $18.8 million in repayment of debt.

Net cash provided by financing activities for the year ended December 31, 2020 was $226.6 million, primarily related to $207.3 million in proceeds received from the issuance of convertible preferred and common stock, and $24.4 million in proceeds from debt financing, which was offset by $6.7 million in repayment of debt.

Effect of Exchange Rates

Sonder's changes in cash can be impacted by the effect of fluctuating exchange rates. For the years ended December 31, 2021 and 2020, Sonder recorded a $0.8 million decrease and a $0.3 million decrease in cash, respectively, primarily due to the strengthening of the U.S. dollar.

Off-Balance Sheet Arrangements

As of December 31, 2021, Sonder had the following off-balance sheet arrangements:

Letters of Credit

As of December 31, 2021, Sonder had $27.4 million of irrevocable standby letters of credit outstanding, of which $23.7 million were under its revolving credit facilities. Letters of credit are primarily used as a form of security deposits for the buildings and partial buildings Sonder leases.

Surety Bonds

A portion of Sonder's leases is supported by surety bonds provided by affiliates of certain insurance companies. As of December 31, 2021, Sonder had assembled commitments from six surety providers in the amount of $56.4 million, of which $32.1 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 and Sonder's corporate credit rating.

Indemnification Agreements

In the ordinary course of business, Sonder includes limited indemnification provisions under certain agreements with parties with whom Sonder has commercial relations of varying scope and terms. Under these contracts, Sonder may indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with breach of the agreements, or intellectual property infringement claims made by a third party, including claims by a third party with respect to Sonder's domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to its performance under the subject agreement. 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 significant costs have been incurred, either individually or collectively, in connection with Sonder's indemnification provisions.

In addition, Sonder has entered into indemnification agreements with Sonder's directors, executive officers and certain other employees that require Sonder, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, executive officers, or employees.

Contractual Obligations and Commitments

The following table summarizes Sonder's contractual obligations and commitments as of December 31, 2021 (in thousands):

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
2018 Term Loan	$ 24,484	$ 13,114	$ 11,370	$ —	$ —
Operating Lease Obligations[1]	3,541,908	279,093	784,455	837,123	1,641,237
Total	$ 3,566,392	$ 292,207	795,825	837,123	1,641,237

(1) Operating lease obligations primarily represent the initial contracted term for leases of Sonder's revenue generating buildings and partial buildings, not including any future optional renewal periods.

On March 12, 2021, pursuant to a note purchase agreement, Sonder issued the Convertible Notes to certain investors for an aggregate principal amount of $165.0 million. By their terms, the Convertible Notes will mature on March 12, 2022, unless converted in accordance with the conversion terms prior to such date. The outstanding principal and accrued and unpaid interest of the Convertible Notes were automatically converted into Sonder's common stock upon the closing of the Business Combination on January 18, 2022.

On December 10, 2021, Sonder entered into a Note and Warrant Purchase Agreement with certain PIPE Investors (the “Purchasers”) for the sale of delayed draw notes (the “Delayed Draw Notes”) to be available to Sonder following the completion of the Business Combination. The agreement also provided that the Purchasers will be issued warrants to purchase shares of Common Stock in connection with the transaction. In January 2022, Sonder drew down on $165 million in Delayed Draw Notes and issued warrants to purchase 2,475,000 shares of Common Stock to the Purchasers.

Quantitative and Qualitative Disclosures About Market Risk

Sonder’s substantial global operations exposes it to various market risks, primarily including foreign currency risk and interest rate risk.

Foreign Currency Exchange Risk

Sonder transacts business in multiple currencies worldwide, of which the most significant currency for the years ended December 31, 2021 and 2020 was the U.S. dollar supporting its operations. Sonder’s international revenue, as well as costs and expenses denominated in foreign currencies, exposes it to the risk of fluctuations in foreign currency exchange rates against the U.S. dollar. Accordingly, Sonder is subject to foreign currency risk, which may adversely impact its financial results.

Sonder has foreign currency exchange risks related primarily to:

- Revenue, rent, and cleaning fees, which are included in cost of revenue, associated with bookings through its direct and indirect channels denominated in currencies other than the U.S. dollar;

- Balances held as funds receivable and amounts held on behalf of guests as well as funds payable and amounts payable to guests; and

- Intercompany balances primarily related to its payment entities that process guest payments.

For revenue and cost of revenue associated with bookings through its direct and indirect channels outside of the United States, Sonder generally receives net foreign currency amounts and therefore benefits from a weakening of the U.S. dollar, and is adversely affected by a strengthening of the U.S. dollar. Movements in foreign exchange rates are recorded in other expense, net in Sonder’s consolidated statements of operations and comprehensive loss.

Sonder has experienced and will continue to experience fluctuations in foreign exchange gains and losses related to variable exchange rates. If Sonder’s foreign-currency denominated assets, liabilities, revenue, or expenses increase, its results of operations may be more significantly impacted by fluctuations in the exchange rates of the currencies in which Sonder does business.

Interest Rate Risk

Sonder is exposed to interest rate risk related primarily to its outstanding debt. Changes in interest rates affect the interest earned on its total cash as well as interest paid on its debt.

Sonder has not been exposed to, nor anticipates exposure to, material risks due to changes in interest rates. A hypothetical 100 basis points increase or decrease in interest rates would not have had a material impact on its consolidated financial statements as of December 31, 2021.

Critical Accounting Policies and Estimates

Sonder’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires Sonder to make estimates and assumptions that affect the reported amounts and related disclosures. Sonder considers an accounting policy and estimates to be critical if: (1) Sonder must make assumptions that were uncertain when the estimate was made; and (2) changes in the estimate, or selection of a different estimate methodology could have a material effect on Sonder’s consolidated results of operations or financial condition.

While Sonder believes that its estimates, assumptions, and judgments are reasonable, they are based on information available when the estimate or assumption was made. Actual results may differ significantly. Additionally, changes in assumptions, estimates or assessments due to unforeseen events or otherwise could have a material impact on Sonder's financial position or results of operations.

The critical accounting estimates, assumptions, and judgments Sonder believes to have the most significant impact on the audited annual consolidated financial statements are described below. See Note 2 to the audited consolidated financial statements included elsewhere in this report for additional information related to critical accounting estimates and significant accounting policies.

Revenue Recognition

Sonder generates revenues primarily by providing short-term or month-to-month accommodations to its guests. Revenues are recognized on a straight-line basis over the guest stay commencing upon guest check-in and ending at guest check-out, net of discounts and refunds. For short-term accommodations, Sonder's guests agree to its Terms of Service ("*ToS*") and make payments for their accommodations at the time of reservation. For month-to-month accommodations, Sonder's guests agree to its ToS and make payments for their accommodations in accordance with the lease contracts. Guests generally have the right to cancel prior to check-in, and are entitled to refunds in accordance with the agreed ToS. Payments received from guests prior to check-in are recognized as deferred revenue on the consolidated balance sheet. Sonder is required to collect certain taxes and fees from guests on behalf of governmental agencies and remit these to the applicable governmental agencies on a periodic basis. Sonder recognizes revenues net of taxes and fees collected.

For revenue generated from management contracts with third-party property owners, Sonder generally receives base fees, which are fixed fees, and incentives fees, which are a percentage of the revenues or profits of accommodations. Sonder recognizes base fees on a monthly basis over the term of the agreement as those amounts become payable and incentive fees on a monthly basis over the term of the agreement based on each property's financial results.

Leases

Sonder's cost of revenue primarily consists of rental expenses from buildings or portions of buildings that serve as accommodations for its guests. Cost of revenue also includes cleaning costs and payment processing charges. Sonder does not recognize depreciation expense in cost of revenue as the accommodations provided to its guests are considered to be operating leases. Sonder also leases other properties such as warehouses to store furniture and corporate offices. Under ASC 840, leases are classified at their inception as either operating or capital leases based on the economic substance of the agreement. As of December 31, 2021 and 2020, there were no capital leases. The lease term is also determined at lease inception and generally begins on the date Sonder takes possession of the full or partial portions of leased premises.

Sonder's rent payment schedules vary by lease term per executed lease agreements and can be monthly, quarterly or bi-annually. A large majority of Sonder's leases contain provisions for rent abatement periods, rent escalation, and tenant improvement allowances. Upon termination of a lease, related lease balances on the consolidated balance sheet are written-off. A liability for costs to terminate a lease before the end of its term is recognized in accordance with the lease terms and recorded in operations and support on the consolidated statement of operations and comprehensive loss. Certain leases require the payment of real estate taxes, insurance, and certain common area maintenance costs in addition to minimum rent payments. These amounts are expensed as incurred and are included within operations and support on Sonder's consolidated statement of operations for the properties for its guests and within general and administrative on Sonder's consolidated statement of operations for its warehouses and corporate offices in the accompanying consolidated statements of operations and comprehensive loss.

As a result of COVID-19, Sonder sought rent concessions from its real estate owners, which led to a series of lease amendments during 2020.

Sonder has concluded that the total cash flows resulting from the modified leases were substantially the same or less than the cash flows in the original lease contracts, and pursuant to the relief provided by the FASB, has elected to not evaluate whether the concessions provided by the real estate owners due to COVID-19 are lease modifications under ASC 840. Sonder has accounted for the COVID-related concessions using variable lease expense approach.

Income Taxes

Sonder is subject to income taxes in the United States and foreign jurisdictions in which it operates. Sonder accounts for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and attributable to operating loss and tax credit carry-forwards. A valuation allowance is recorded for deferred tax assets if it is more likely than not that the deferred tax assets will not be realized. Sonder is subject to the continuous examination of its income tax returns by tax authorities that may assert assessments against Sonder. Sonder regularly assesses the likelihood of adverse outcomes resulting from these examinations and assessments to determine the adequacy of Sonder's provision for income taxes.

Stock-Based Compensation

Stock-based compensation expense attributable to equity awards granted to employees is measured at the grant date based on the fair value of the award. The expense is recognized on a straight-line basis over the requisite service period for awards that vest, which is generally the period from the grant date to the end of the vesting period. Sonder estimates the fair value of stock option awards granted using the Black-Scholes-Merton option pricing model. This model requires various significant judgmental assumptions in order to derive a fair value determination for each type of award, including the fair value of Sonder's common stock, the expected term, expected volatility, expected dividend yield, and risk-free interest rate. These assumptions used in the Black-Scholes-Merton option-pricing model are estimated as follows:

- Expected Term — The expected term for options granted to employees, officers, and directors is calculated based on Sonder's historical pattern of option exercise behavior and the period of time they are expected to be outstanding. The expected term for options granted to consultants is determined using the remaining contractual life.

- Risk-Free Interest Rate — The risk-free interest rate used in the valuation method 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 Sonder's options.

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

- Expected dividend yield — Expected dividend yield is zero, as Sonder has not paid and does not anticipate paying dividends on its common stock.

All grants of stock options have an exercise price equal to or greater than the fair value of Sonder's common stock on the date of grant. Sonder accounts for forfeitures as they occur.

Common Stock Valuation

As there historically was no public market for Sonder's stock, it had used the assistance of a third-party valuation specialist in estimating the fair value of Sonder's stock in accordance with the guidance set forth in Valuation of Privately-Held-Company Equity Securities Issued as Compensation, as published by the American Institute of Certified Public Accountants. Sonder's board of directors historically exercised its reasonable judgement and considered subjective factors it believed were material to its valuation process which was prepared by third party valuation experts, and included but was not limited to:

- The price at which recent equity was issued by Sonder or transacted between third parties;

- The rights, preferences, privileges of Sonder’s preferred stock relative to those of its common stock;
- Actual and projected financial results;
- Risks, prospects, economic and market conditions;
- The time frame for a potential public offering;
- Estimates of weighted average cost of capital; and
- The lack of marketability of Sonder’s common stock.

Sonder believes the combination of these factors provided a best appropriate estimate of the fair value of its common stock at each grant date.

Prospective financial information, which considers Sonder’s past and expected future performance, was used in the computation of each valuation. There is inherent uncertainty in the prospective financial information as assumptions and estimates used are highly subjective and subject to changes as a result of factors that may impact Sonder’s business, such as changes in its operations or industry, regulatory or economic conditions.

Internal Control over Financial Reporting

During the year ended December 31, 2021, Sonder identified a material weakness in its internal control over financial reporting related to the design and implementation of systems to capture and record lease agreements timely and accurately. Sonder has concluded that this material weakness in its internal control over financial reporting is due to the fact that it has limited resources and has not had the necessary business processes and related internal controls formally designed and implemented. In addition, Sonder has not had the appropriate resources and the appropriate level of experience and technical expertise to oversee its business processes and controls.

To remediate this material weakness, Sonder has engaged a third party consultant and is developing formal policies and procedures over its lease administration process, implementing a lease administration and accounting system, and providing additional training to personnel responsible for the relevant controls.

During the year ended December 31, 2020, Sonder identified material weaknesses in its internal control over financial reporting related to its financial closing and reporting process and to its general information technology controls. These material weaknesses were remediated during the year ended December 31, 2021.

Recent Accounting Pronouncements

See Note 2. Summary of Significant Accounting Policies to Sonder’s consolidated financial statements included elsewhere in this report for a description of recently adopted accounting pronouncements and recently issued accounting pronouncements 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.

Sonder is an “emerging growth company” as defined in Section 2(a) of the Securities Act, and has elected to take advantage of the benefits of the extended transition period for new or revised financial accounting standards. Sonder 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 Sonder has total annual gross revenue of $1.07 billion or more during such fiscal year (as indexed for inflation), (iii) the date on which Sonder has issued more than $1 billion in non-convertible debt in the prior three-year period or (iv) December 31, 2026. Sonder expects to continue to take advantage of the benefits of the extended transition period, although it 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 Sonder’s 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.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Defined terms included below shall have the same meaning as terms defined and included elsewhere in this Current Report on Form 8-K (the "Form 8-K") and, if not defined in this Form 8-K, the proxy statement/prospectus/consent solicitation statement dated December 22, 2021 and filed with the SEC on December 23, 2021 (the "Proxy Statement"). Unless the context otherwise requires, the "Company" refers to Sonder Holdings Inc. and its subsidiaries after the Closing and Gores Metropoulos II, Inc. prior to the Closing.

The unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses" and presents the combination of the historical financial information of the Company and Legacy Sonder adjusted to give effect to the Business Combination, the PIPE Investments and the other related events contemplated by the Merger Agreement.

The unaudited pro forma condensed combined balance sheet as of December 31, 2021 combines the historical balance sheet of the Company as of December 31, 2021 with the historical condensed consolidated balance sheet of Legacy Sonder as of December 31, 2021 on a pro forma basis as if the Business Combination, the PIPE Investments and the other related events contemplated by the Merger Agreement, as described below and in the accompanying notes to the unaudited pro forma condensed combined financial statements, had been consummated on December 31, 2021.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2021 combines the historical statement of operations of the Company for the year ended December 31, 2021, and the historical condensed consolidated statement of operations of Legacy Sonder for the year ended December 31, 2021, on a pro forma basis as if the Business Combination, the PIPE Investments and other related events contemplated by the Merger Agreement, as described below and in the accompanying notes to the unaudited pro forma condensed combined financial statements, had been consummated on January 1, 2021. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 combines the historical statement of operations of the Company for the period from July 21, 2020 (*inception*) through December 31, 2020, and the historical consolidated statement of operations of Legacy Sonder for the year ended December 31, 2020, on a pro forma basis as if the Business Combination, the PIPE Investments and other related events contemplated by the Merger Agreement, as described below and in the accompanying notes to the unaudited pro forma condensed combined financial statements, had been consummated on January 1, 2020.

The unaudited pro forma condensed balance sheet does not purport to represent, and is not necessarily indicative of, what the actual financial condition of the Company would have been had the Business Combination taken place on December 31, 2021, nor is it indicative of the financial condition of the Company as of any future date. The unaudited pro forma condensed combined financial information is for illustrative purposes only and is not necessarily indicative of the future consolidated results of operations or financial position of the combined company would have been had the Business Combination, the PIPE Investments and other related events taken place on the dates indicated, nor are they indicative of the future consolidated results of operations or financial position of the Company. The unaudited pro forma condensed combined financial information is subject to several uncertainties and assumptions as described in the accompanying notes.

The unaudited pro forma condensed combined financial information was derived from and should be read in conjunction with the following historical financial statements and the accompanying notes, which are included elsewhere in the Proxy Statement, the current report on Form 8-K of which this exhibit is a part, and the annual report on Form 10-K:

- the historical audited financial statements of the Company as of December 31, 2021 and for the year ended December 31, 2021 included in the annual report on Form 10-K;
- the historical audited financial statements of Legacy Sonder as of December 31, 2021 and for the year ended December 31, 2021;

- the historical audited financial statements of the Company as of December 31, 2020 and for the period from July 21, 2020 (inception) through December 31, 2020;
- the historical audited consolidated financial statements of Legacy Sonder as of and for the year ended December 31, 2020;
- other information relating to the Company and Sonder included in the Proxy Statement, the current report on Form 8-K of which this exhibit is a part, and the annual report on Form 10-K, and incorporated herein by reference, including the Merger Agreement and the description of certain terms thereof set forth under the section titled "*The Business Combination*;" and
- the sections titled "*Company Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Sonder Management's Discussion and Analysis of Financial Condition and Results of Operations*" and other financial information included in the Proxy Statement, the current report on Form 8-K of which this exhibit is a part, and the annual report on Form 10-K, and incorporated by reference.

Description of the Business Combination

Pursuant to the Merger Agreement, First Merger Sub merged with and into Legacy Sonder, with Legacy Sonder continuing as the Surviving Corporation, and immediately following the First Merger and as part of the same overall transaction as the First Merger, the Surviving Corporation merged with and into Second Merger Sub, with Second Merger Sub continuing as the Surviving Entity and a wholly-owned subsidiary of the Company, under the name "Sonder Holdings Inc." Upon the Closing:

- Each share of Sonder Common Stock (following the conversion of each issued and outstanding share of Sonder Preferred Stock and Sonder Convertible Notes into shares of Sonder Common Stock prior to the effective time of the First Merger) was automatically converted into the right to receive a number of shares of Common Stock equal to the Per Share Sonder Common Stock Consideration;
- Each share of Sonder Special Voting Common Stock was converted into the right to receive a number of shares of the Company Special Voting Common Stock equal to the Per Share Company Special Voting Stock Consideration; and
- Each share of Sonder Canada Exchangeable Shares was exchanged into the right to receive shares of a new series of the same class of virtually identical Canada Exchangeable Shares whose terms provide (a) for a deferral of any mandatory exchange caused by the Business Combination for a period of at least 12 months from the Closing Date, and (b) that such Post-Combination Canada Exchangeable Shares shall be exchangeable for Common Stock upon the completion of the First Merger.

The aggregate consideration paid to Legacy Sonder stockholders in connection with the Business Combination (excluding any potential Earn Out Shares), was 190,160,300 shares. The Per Share Sonder Common Stock Consideration was approximately 1.4686.

The Business Combination occurred based on the following transactions contemplated by the Merger Agreement:

- Each issued and outstanding share of Sonder Preferred Stock was canceled and converted into the right to receive shares of Sonder Common Stock;
- Each Sonder Warrant was either (i) exercised in full in exchange for the issuance of shares of Sonder Common Stock to the holder of such Sonder Warrant or (ii) assumed by the Company, to the extent permissible pursuant to the terms of such Sonder Warrant;
- Pursuant to the Note Purchase Agreement, the Sonder Convertible Notes were converted into Sonder Common Stock;

- Each issued and outstanding share of Sonder Common Stock (including the items mentioned in the above bullet points) was converted into the right to receive shares of Common Stock equal to the Per Share Sonder Common Stock Consideration;
- Each issued and outstanding share of Sonder Special Voting Common Stock was converted into the right to receive shares of Post-Combination Company Special Voting Common Stock equal to the Per Share Sonder Special Voting Stock Consideration;
- Each issued and outstanding Sonder Canada Exchangeable Share was exchanged into a new series of the same class of virtually identical Post-Combination Canada Exchangeable Shares whose terms provide (a) for a deferral of any mandatory exchange caused by the Business Combination for a period of at least 12 months from the Closing Date, and (b) that such Post-Combination Canada Exchangeable Shares shall be exchangeable for Post-Combination Company Common Stock upon the completion of the First Merger;
- Each outstanding vested and unvested Sonder Stock Option was converted into a Rollover Option, exercisable for shares of Common Stock with the same terms except for the number of shares exercisable and the exercise price, each of which was adjusted using the Option Exchange Ratio that was determined at the closing of the Business Combination; and
- Under the Merger Agreement, Sonder Stockholders, excluding holders of Sonder Stock Options, are entitled to receive a number of Earn Out Shares comprising up to 14,500,000 shares of Common Stock in the aggregate. There are six distinct tranches of Earn Out Shares, each of which will be issued if the daily volume weighted average price (based on such trading day) of one share of Common Stock exceeds a certain threshold specified for such tranche in the Merger Agreement for a period of at least 10 days out of 20 consecutive trading days during the period beginning on the 180th day following the closing of the Business Combination and ending on the fifth anniversary of such date (the “Earn Out Period”). If the applicable triggering event is achieved for a tranche, the Company will account for the Earn Out Shares for such tranche as issued and outstanding Common Stock.

Other related events that took place in connection with the Business Combination are summarized below:

- The issuance and sale of 20,000,000 shares of Class A Stock at a purchase price of $10.00 per share for an aggregate purchase price of $200 million pursuant to the Existing PIPE Investment;
- The issuance and sale of 11,507,074 shares of Class A Stock at a purchase price of $8.89 per share for an aggregate purchase price of $102.3 million pursuant to the New PIPE Investment;
- The issuance and sale to the Sponsor of 709,711 shares of Class A Stock at a purchase price of $10.00 per share for an aggregate purchase price of $7.1 million pursuant to the New PIPE Investment;
- The forfeiture of 1,277,285 shares of Class F Stock by the Sponsor pursuant to the Share Surrender Agreement;
- Pursuant to the terms of certain letter agreement between the Sponsor and the Company, the Private Placement Warrants held by our Sponsor become exercisable on the later of 30 days after the consummation of the Business Combination or 12 months from the closing of the Company IPO, and will expire five years after the completion of the Business Combination or earlier upon redemption or liquidation, as described in the Proxy Statement;
- On January 14, 2022, Sonder received approximately 1.9 million shares of Sonder Common Stock from Sonder’s CEO in settlement of a promissory note issued in December 2019 by Sonder’s CEO for early exercise of stock options;
- Pursuant to its Note and Warrant Purchase Agreement with certain PIPE Investors, Sonder issued $165 million in aggregate principal amount of Delayed Draw Notes and 2,475,000 five-year Delayed Draw Warrants to the investors, shortly after the closing of the Business Combination; the warrants are exercisable for shares of Common Stock at an exercise price of $12.50 per share; and

- As of December 31, 2021, Sonder paid down $29.0 million of outstanding principal of one of its secured loans ("TPC Loan") of the Plain English Growth Capital Loan and Security Agreement, and $2.7 million in end of term payments, including a $0.2 million early termination fee, at the closing of the Business Combination.

Accounting Treatment of the Business Combination

The Business Combination is accounted for as a reverse recapitalization in accordance with GAAP as Legacy Sonder has been determined to be the accounting acquirer, primarily due to the fact that Sonder Stockholders continue to control the Post-Combination Company. Under this method of accounting, while the Company is the legal acquirer, it is treated as the "acquired" company for financial reporting purposes. Accordingly, the Business Combination will be treated as the equivalent of Legacy Sonder issuing stock for the net assets of the Company, accompanied by a recapitalization, which will be stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Business Combination will be presented as those of Sonder in future reports of the Post-Combination Company. The post-closing accounting treatment of the Company Warrants is reflected in the historical financial information of the Company as liability classified instruments.

Basis of Pro Forma Presentation

The unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses". Release No. 33-10786 replaces the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transaction ("*Transaction Accounting Adjustments*") and the option to present the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur ("*Management's Adjustments*"). Management has elected not to present Management's Adjustments and will only be presenting Transaction Accounting Adjustments in the following unaudited pro forma condensed combined financial information.

Management has made significant estimates and assumptions in its determination of the pro forma adjustments based on information available as of the date of filing this Current Report on Form 8-K and is subject to change as additional information becomes available and analyses are performed. As the unaudited pro forma condensed combined financial information has been prepared based on these preliminary estimates, the final amounts recorded may differ materially from the information presented as additional information becomes available. Management considers this basis of presentation to be reasonable under the circumstances. The following summarizes the consideration (excluding the Earn Out Shares):

(in thousands, except for per share and number of share amounts)		
Shares transferred at Closing[(1)]		190,160,300
Value per Share[(2)]	$	10.00
Total Aggregate Sonder Common Stock Consideration	$	1,901,603

(1) The number of outstanding shares in the table above includes the Post-Combination Company Special Voting Common Stock issued in the Business Combination (each of which corresponds to a share of Common Stock issued upon the exchange of Sonder Canada Exchangeable Common Shares after the consummation of the Business Combination pursuant to the terms of the Merger Agreement) and assumes the issuance of approximately 14,636,860 shares of Common Stock related to the exercise of Rollover Options that do not represent legally outstanding shares of Common Stock at the Closing.
(2) Aggregate Company Common Stock Consideration is calculated using a $10.00 reference price. The closing share price on the date of the Closing was $8.37.

The unaudited pro forma condensed combined financial information reflects the Company stockholders' approval of the Business Combination on January 14, 2022 and the redemption of 43,343,665 shares of the Company's Class A Stock at approximately $10.00 per share based on trust account figures prior to the Closing on January 18, 2022 for an aggregate payment of $433.5 million.

The following summarizes the pro forma shares of Post-Combination Company Common Stock issued and outstanding at the Closing:

	Shares	%
Common Stock issued to Legacy Sonder Stockholders (1) (2)	175,523,440	80.0
Public Stockholders	1,656,335	0.8
Initial Stockholders' Class F Stock (3)	9,972,715	4.5
Existing PIPE Investors (4)	20,000,000	9.1
New PIPE Investors (5)	11,507,074	5.3
New PIPE Investors - Sponsor (6)	709,711	0.3
Pro Forma Common Stock (7)(8)	**219,369,275**	**100.0**

(1) Excludes 14,500,000 shares of Common Stock in Earn Out Shares as they are not issuable until up to 10 business days after a triggering event has occurred following the Closing but within the Earn Out Period and are contingently issuable based upon triggering events that have not yet been achieved.
(2) The number of outstanding shares in the table above includes the Post-Combination Company Special Voting Common Stock issued in the Business Combination (each of which corresponds to a share of Common Stock issued upon exchange of Sonder Canada Exchangeable Common Shares after the consummation of the Business Combination pursuant to the terms of the Merger Agreement) and does not assume the issuance of 14,636,860 shares of Common Stock related to the exercise of Rollover Options that did not represent legally outstanding shares of Common Stock at the Closing.
(3) Excludes 4,310,500, 2,789,413 and 709,711 shares of Class A Stock, which became Common Stock upon the effectiveness of the Amended and Restated Certificate of Incorporation, purchased by Sponsor in the Existing PIPE Investment, the New PIPE Investment and Additional Sponsor Commitment, respectively, and excludes 1,277,285 shares of Class F Stock forfeited by the Sponsor after the Closing pursuant to the Share Surrender Agreement.
(4) Includes 4,310,500 shares of Class A Stock, which became Common Stock upon the effectiveness of the Amended and Restated Certificate of Incorporation, to be purchased by Sponsor in the Existing PIPE Investment.
(5) Includes 2,789,413 shares of Class A Stock, which became Common Stock upon the effectiveness of the Amended and Restated Certificate of Incorporation, purchased by Sponsor in the New PIPE Investment.
(6) Includes 709,711 shares of Class A Stock, which became Common Stock upon the effectiveness of the Amended and Restated Certificate of Incorporation, purchased by Sponsor in the Additional Sponsor Commitment.
(7) Excludes Warrants issued in connection with the Company IPO as such securities are not exercisable until 30 days from the Closing.
(8) Excludes warrants issued in connection with the Delayed Draw Note Purchase Agreement, which are exercisable for 2,475,000 shares of Common Stock.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2021
(in thousands, except share and per share amounts)

	As of December 31, 2021		Pro Forma Transaction Accounting Adjustments		As of December 31, 2021
	Sonder Holdings Inc. (Historical)	Gores Metropoulos II, Inc. (Historical)			Pro Forma Combined
ASSETS					
Current assets:					
Cash	$ 69,726	$ 264	$ (33,395)	(B)	$ 475,885
			$ (16,328)	(C)	
			$ (200)	(D)	
			$ 309,395	(E)	
			$ (433,498)	(M)	
			$ 450,063	(Q)	
			$ 158,825	(R)	
			$ (28,967)	(S)	
Restricted cash	$ 215	$ —	$ —		$ 215
Accounts receivable, net	$ 4,638	$ —	$ —		$ 4,638
Prepaid rent	$ 2,957	$ —	$ —		$ 2,957
Prepaid expenses	$ 5,029	$ 1,011	$ —		$ 6,040
Other current assets	$ 16,416	$ —	$ —		$ 16,416
Total current assets	**$ 98,981**	**$ 1,275**	**$ 405,895**		**$ 506,151**
Cash, cash equivalents and other investments held in Trust Account	$ —	$ 450,063	$ (450,063)	(Q)	$ —
Property and equipment, net	$ 27,461	$ —	$ —		$ 27,461
Other non-current assets	$ 22,037	$ —	$ (8,027)	(C)	$ 14,010
Total assets	**$ 148,479**	**$ 451,338**	**$ (52,195)**		**$ 547,622**
Liabilities and stockholders' equity (deficit)					
Current liabilities					
Accounts payable	$ 19,096	$ —	$ —		$ 19,096
Accrued liabilities	$ 19,557	$ —	$ —		$ 19,557
Sales tax payable	$ 8,412	$ —	$ —		$ 8,412
State franchise tax accrual	$ —	$ 200	$ (200)	(D)	$ —
Accrued expenses, formation and offering costs	$ —	$ 5,937	$ (5,937)	(B)	$ —
PIPE subscription	$ —	$ 250	$ (250)	(T)	$ —
Deferred revenue	$ 18,811	$ —	$ —		$ 18,811
Current portion of long-term debt	$ 13,116	$ —	$ (13,116)	(S)	$ —
Convertible notes	$ 184,636	$ —	$ (184,636)	(P)	$ —
Notes and advances payable - related party	$ —	$ 1,500	$ (1,500)	(B)	$ —
Other current liabilities	$ —	$ —	$ —		$ —
Public warrants derivative liability	$ —	$ 17,370	$ —		$ 17,370
Private warrants derivative liability	$ —	$ 10,615	$ —		$ 10,615
Total current liabilities	**$ 263,628**	**$ 35,872**	**$ (205,639)**		**$ 93,861**
Deferred rent	66,132	—	—		66,132
Long-term debt	10,736	—	150,781	(R)	150,781
			(10,736)	(S)	
Delayed Draw warrant liability	—	—	8,044	(R)	8,044
Deferred underwriting compensation	—	15,750	(15,750)	(B)	—
Other non-current liabilities	3,906	—	98,117	(L)	96,920
			(3,287)	(N)	
			(1,816)	(S)	
Total liabilities	**344,402**	**51,622**	**19,714**		**415,738**
Commitments and contingencies (Note 8)					

	As of December 31, 2021				As of December 31, 2021
	Sonder Holdings Inc. (Historical)	Gores Metropoulos II, Inc. (Historical)	Pro Forma Transaction Accounting Adjustments		Pro Forma Combined
Class A subject to possible redemption	—	450,000	(450,000)	(F)	—
Preferred stock					
Redeemable convertible preferred stock	518,750	—	593,665	(A)	—
			(1,112,415)	(G)	
Exchangeable preferred stock	49,733	—	134,824	(A)	—
			(184,557)	(G)	
Stockholders' equity (deficit)					
Common stock	1	—	—	(G)	—
			(1)	(I)	
			—	(N)	
			—	(O)	
			—	(P)	
Exchangeable AA stock	—	—	—		—
Class A common stock	—	—	3	(E)	166
			5	(F)	
			—	(H)	
			162	(I)	
			(4)	(M)	
Class F common stock	—	1	(1)	(H)	—
Additional paid-in capital	43,106	—	(254,461)	(A)	1,417,340
			(3,950)	(B)	
			(24,356)	(C)	
			309,392	(E)	
			449,995	(F)	
			1,296,971	(G)	
			1	(H)	
			(161)	(I)	
			1,033	(J)	
			(56,543)	(K)	
			(98,117)	(L)	
			(433,493)	(M)	
			3,287	(N)	
			—	(O)	
			184,636	(P)	
Cumulative translation adjustment	7,299	—	—		7,299
Accumulated deficit	(814,812)	(50,285)	(474,028)	(A)	(1,292,921)
			(6,258)	(B)	
			(1,033)	(J)	
			56,543	(K)	
			(3,298)	(S)	
			250	(T)	
Total stockholders' equity (deficit)	**(764,406)**	**(50,284)**	**946,574**		**131,884**
Total liabilities and stockholders' equity (deficit)	**148,479**	**451,338**	**(52,195)**		**547,622**

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2021
(in thousands, except share and per share amounts)

	Year Ended December 31, 2021					Year Ended December 31, 2021
	Sonder Holdings, Inc. (Historical)	Gores Metropoulos II, Inc. (Historical, as Adjusted)		Pro Forma Transaction Accounting Adjustments		Pro Forma Combined
Revenue	$ 232,944	$ —		$ —		$ 232,944
Cost of revenue (excluding depreciation and amortization)	201,445	$ —		$ —		$ 201,445
Operations and support	142,728	$ —		$ —		$ 142,728
General and administrative	106,135	$ —		$ 1,188	(BB)	$ 107,323
Research and development	19,091	$ —		$ —		$ 19,091
Sales and marketing	23,490	$ —		$ —		$ 23,490
Professional fees and other expenses	$ —	$ 7,784	(AA)	$ —		$ 7,784
State franchise taxes, other than income tax	$ —	$ —	(AA)	$ —		$ —
Gain from change in fair value of warrant liability	$ —	$ 1,740	(AA)	$ —		$ 1,740
Allocated expense for warrant issuance cost	$ —	$ 918	(AA)	$ —		$ 918
Total costs and expenses	$ 492,889	$ 10,442		$ 1,188		$ 504,519
Loss from operations	$ (259,945)	$ (10,442)		$ (1,188)		$ (271,575)
Interest expense, net and other expense, net	$ 34,200	$ —		$ (2,148)	(CC)	$ 17,804
				$ 14,834	(DD)	
				$ (38,395)	(EE)	
				$ 13,416	(HH)	
				$ (4,103)	(II)	
Other income - interest and dividend income	$ —	$ (63)	(AA)	$ 63	(FF)	$ —
Loss before income taxes	$ (294,145)	$ (10,379)		$ 15,145		$ (289,379)
Provision for income taxes	$ 242	$ —		$ —	(GG)	$ 242
Net loss	$ (294,387)	$ (10,379)		$ 15,145		$ (289,621)
Other comprehensive income - Change in foreign currency translation adjustment	$ 1,633	$ —		$ —		$ 1,633
Comprehensive loss	$ (292,754)	$ (10,379)		$ 15,145		$ (287,988)
Loss Per Share:						
Weighted average shares outstanding of common stock - basic and diluted	8,011,660					
Common Stock - basic and diluted	$ (36.74)					
Weighted average shares outstanding - Class A Stock		42,410,959				219,369,275
Class A Stock - basic and diluted [See Note 3]		$ (0.57)				$ (1.29)
Weighted average shares outstanding - Class F Stock		11,294,521				
Class F Stock - basic and diluted		$ (0.57)				

Unaudited Pro Forma Condensed Combined Statement of Operations and Comprehensive Loss
For the Year Ended December 31, 2020
(in thousands, except share and per share amounts)

	Year Ended December 31, 2020			Pro Forma Transaction Accounting Adjustments		Year Ended December 31, 2020
	Sonder Holdings, Inc. (Historical)	Gores Metropoulos II, Inc. (Historical, as Adjusted)				Pro Forma Combined
Revenue	$ 115,678	$ —		$ —		$ 115,678
Cost of revenue (excluding depreciation and amortization)	$ 136,995	$ —		$ —		$ 136,995
Operations and support	$ 115,072	$ —		$ —		$ 115,072
General and administrative	$ 77,033	$ —		$ 1,922	(BB)	$ 78,955
Research and development	$ 17,552	$ —		$ —		$ 17,552
Sales and marketing	$ 12,848	$ —		$ —		$ 12,848
Organizational expenses	$ —	$ 4	(AA)	$ —		$ 4
Professional fees	$ —	$ 33	(AA)	$ —		$ 33
State franchise tax	$ —	$ 3	(AA)	$ —		$ 3
Total costs and expenses	$ 359,500	$ 40		$ 1,922		$ 361,462
Loss from operations	$ (243,822)	$ (40)		$ (1,922)		$ (245,784)
Interest expense, net and other expense, net	$ 6,171	$ —		$ (26)	(CC)	$ 22,328
	$ —	$ —		$ 17,821	(HH)	$ —
	$ —	$ —		$ (1,638)	(II)	$ —
Loss before income taxes	$ (249,993)	$ (40)		$ (18,079)		$ (268,112)
Provision for income taxes	$ 323	$ —		$ —	(GG)	$ 323
Net loss	$ (250,316)	$ (40)		$ (18,079)		$ (268,435)
Other comprehensive loss - Change in foreign currency translation adjustment	$ (740)	$ —		$ —		$ (740)
Comprehensive loss	$ (251,056)	$ (40)		$ (18,079)		$ (269,175)
Losses Per Share:						
Weighted average shares outstanding of common stock - basic and diluted	6,261,247					
Common Stock - basic and diluted	$ (39.98)					
Weighted average shares outstanding - Class A Stock		—				219,369,275
Class A Stock - basic and diluted [See Note 3]		$ —				$ (1.22)
Weighted average shares outstanding - Class F Stock		11,500,000				
Class F Stock - basic and diluted		$ —				

1. Basis of Presentation

The Business Combination was accounted for as a reverse recapitalization in accordance with GAAP as Legacy Sonder has been determined to be the accounting acquirer, primarily due to the fact that Sonder Stockholders continue to control the Post-Combination Company. Under this method of accounting, while the Company is the legal acquirer, it will be treated as the "acquired" company for financial reporting purposes. Accordingly, the Business Combination will be treated as the equivalent of Legacy Sonder issuing stock for the net assets of the Company, accompanied by a recapitalization, which will be stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Business Combination will be presented as those of Legacy Sonder in future reports of the Company. The post-closing accounting treatment of the Company Warrants are reflected in the historical financial information of the Company as liability classified instruments.

The unaudited pro forma condensed combined balance sheet as of December 31, 2021 gives pro forma effect to the Business Combination, PIPE Investments, and the other related events contemplated by the Merger Agreement as if consummated on December 31, 2021. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2021 combines the historical statement of operations of the Company for the year ended December 31, 2021, and the historical condensed consolidated statement of operations of Legacy Sonder for the year ended December 31, 2021, giving pro forma effect to the Business Combination, PIPE Investments, and other related events contemplated by the Merger Agreement as if consummated on January 1, 2021. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 combines the historical statement of operations of the Company for the period from July 21, 2020 (inception) through December 31, 2020, and the historical consolidated statement of operations of Legacy Sonder for the year ended December 31, 2020, giving pro forma effect to the Business Combination, PIPE Investments, and other related events contemplated by the Merger Agreement as if consummated on January 1, 2020.

The unaudited pro forma condensed combined balance sheet as of December 31, 2021 has been prepared using, and should be read in conjunction with, the following:

- The Company's audited balance sheet as of December 31, 2021 and the related notes for the year ended December 31, 2021 incorporated by reference; and
- Legacy Sonder's audited consolidated balance sheet as of December 31, 2021 and the related notes for the year ended December 31, 2021 included in the Proxy Statement and incorporated by reference herein.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2021 has been prepared using, and should be read in conjunction with, the following:

- The Company's audited statement of operations for the year ended December 31, 2021 and the related notes incorporated by reference; and
- Legacy Sonder's audited condensed consolidated statements of operations for the year ended December 31, 2021 and the related notes included in the Proxy Statement and incorporated by reference herein.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 has been prepared using, and should be read in conjunction with, the following:

- The Company's audited statement of operations for the period from July 21, 2020 (inception) through December 31, 2020 and the related notes included elsewhere in the Proxy Statement and incorporated by reference; and
- Legacy Sonder's audited consolidated statements of operations for the year ended December 31, 2020 and the related notes included in the Proxy Statement and incorporated by reference herein.

Management has made significant estimates and assumptions in its determination of the pro forma adjustments based on information available as of the date of filing this Form 8-K and is subject to change as additional information becomes available and analyses are performed. As the unaudited pro forma condensed combined financial information has been prepared based on these preliminary estimates, the final amounts recorded may differ materially from the information presented as additional information becomes available. Management considers this basis of presentation to be reasonable under the circumstances.

The unaudited pro forma condensed combined financial information does not give effect to any anticipated synergies, operating efficiencies, tax savings, or cost savings that may be associated with the Business Combination.

2. Adjustments to Unaudited Pro Forma Condensed Combined Financial Information

The unaudited pro forma condensed combined financial information has been prepared to illustrate the effect of the Business Combination and other related events and has been prepared for informational purposes only.

The unaudited pro forma basic and diluted net loss per share amounts presented in the unaudited pro forma condensed combined statements of operations are based upon the number of the Post-Combination Company's shares outstanding, assuming the Business Combination occurred on January 1, 2020.

Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

The adjustments included in the unaudited pro forma condensed combined balance sheet as of December 31, 2021 are as follows:

(A) Reflects the accretion of Sonder Convertible Preferred Stock and Sonder Exchangeable Preferred Stock to a redemption value of $1,112.4 million and $184.6 million, respectively, based on the terms of the Business Combination.

(B) Reflects the Company's $33.4 million payment of fees, expenses, and related party notes and advances due at the Closing. This payment includes the payment of $10.1 million of deferred underwriters' fees, the pay down of $5.9 million in accrued expenses, formation and offering costs incurred during the Company's IPO that were due at the Closing, and the pay down of $1.5 million in related party notes and advances completed in connection with the Business Combination and other related events, and the Company's total advisory, legal, and accounting fees and other professional fees, including $4.0 million in transaction costs in connection with the PIPE Investments, which has been recorded as a reduction to additional paid-in capital. The remaining $11.9 million transaction costs have been reflected as an adjustment to accumulated deficit. Additionally, the Company recognized a $5.7 million reduction of estimated deferred underwriters' fees accrued as of December 31, 2021 as the actual deferred underwriters' fees at closing were less than the accrued estimated fees.

(C) Reflects Legacy Sonder's total advisory, legal, and accounting fees and other professional fees of $24.4 million. These transaction costs are in connection with the consummation of the Business Combination and other related events, and are deemed to be direct and incremental costs of the Business Combination, which have been recorded as a reduction to additional paid-in capital.

(D) Reflects the settlement of the Company's historical liabilities that were settled upon the closing of the Business Combination.

(E) Reflects the proceeds of $200 million from the issuance and sale of 20 million shares of Common Stock at $10.00 per share pursuant to the Existing PIPE Investment and the proceeds of $102.3 million from the issuance and sale of 11.5 million shares of Common Stock at $8.89 per share pursuant to the New PIPE Investment and the proceeds of $7.1 million from the issuance and sale of 0.7 million shares of Common Stock at $10.00 per share pursuant to the New PIPE Investment.

(F) Reflects the reclassification of Class A Stock subject to possible redemption to permanent equity immediately prior to the Closing.

(G) Reflects the conversion of Legacy Sonder Preferred Stock into Legacy Sonder Common Stock pursuant to the applicable conversion rate effective immediately prior to the Closing.

(H) Reflects the forfeiture of approximately 1.3 million shares of Class F Stock pursuant to the Share Surrender Agreement and the conversion of the remaining Class F Stock into Common Stock in connection with the Closing.

(I) Reflects the recapitalization of common stock between Legacy Sonder Common Stock, Class A Stock and additional paid-in capital.

(J) Reflects additional stock-based compensation expense recognized at the closing of the Business Combination under the terms of the stock awards issued to the CEO, upon the Closing.

(K) Reflects the elimination of the Company's historical retained earnings.

(L) Reflects the fair value of the Earn Out Shares contingently issuable and recorded as earn out liabilities as of the Closing.

(M) Reflects the cash disbursed to redeem 43,343,665 shares of Class A Stock for $433.5 million allocated to Common Stock and additional paid-in capital, using a par value of $0.0001 per share at a redemption price of $10.00 per share.

(N) Represents the reclassification of Legacy Sonder warrants from liability to equity classification as a result of the Business Combination.

(O) Reflects the settlement of a $25.7 million promissory note due from Legacy Sonder's CEO that was settled upon the Closing through the transfer of approximately 1.9 million shares of Legacy Sonder Common Stock.

(P) Reflects the conversion of Legacy Sonder Convertible Notes to Legacy Sonder Common Stock.

(Q) Reflects the liquidation and reclassification of $450 million of investments and cash held in the Trust Account to cash that became available upon the Closing.

(R) Reflects the $165.0 million draw that Legacy Sonder borrowed at the Closing pursuant to the Delayed Draw Note Purchase Agreement, entered into December 10, 2021, reduced by the $5.8 million commitment fee and $0.4 million in issuance costs. The Delayed Draw Notes include a warrant component where certain PIPE Investors received detachable five-year Delayed Draw Warrants exercisable for up to 2,475,000 shares of Common Stock, which were assumed by the Company after the Closing, at an exercise price of $12.50 per share. The Company is in the process of determining the appropriate equity versus liability accounting classification of these instruments and associated fair values required upon the closing of the Business Combination. The Company's third-party valuation indicates an estimated fair value of $8.0 million for the warrant component.

(S) Reflects Sonder's pay down of $24.5 million outstanding principal of the TPC loan and $2.5 million in end of term payments at the Closing. This adjustment also reflects the write down of deferred financing charges of $0.6 million and recognizes a $0.3 million early termination fee.

(T) Reflects PIPE subscription fees incurred in connection with the New PIPE Investment.

Adjustments to the Unaudited Pro Forma Condensed Combined Statement of Operations

The adjustments included in the unaudited pro forma condensed combined statements of operations for the audited years ended December 31, 2021 and December 31, 2020 were as follows:

(AA) Reflects the adjustment of the presentation of the Company's expenses to match the presentation of Legacy Sonder's expenses.

(BB) Reflects the additional amount of stock-based compensation expense recognized for the years ended December 31, 2021 and December 31, 2020 due to the vesting of stock awards to the CEO that were recognized starting at the Closing.

(CC) Reflects the elimination of the impact of change in fair value of Legacy Sonder warrant liabilities as the warrants become equity-classified as a result of the recapitalization, and therefore will not be marked to market at each reporting period.

(DD) Reflects the elimination of the mark-to-market adjustment of the embedded derivatives within the Legacy Sonder convertible debt and the accrued amortization of the Legacy Sonder Convertible Notes that converted into Sonder Common Stock at the Closing.

(EE) Reflects the elimination of the interest expense on the Legacy Sonder convertible debt due to its conversion into equity at the Closing.

(FF) Reflects the elimination of interest income on the Trust Account.

(GG) Given Legacy Sonder's history of net losses and valuation allowance, Sonder assumed an effective tax rate of 0%. Therefore, the pro forma adjustments to the statement of operations resulted in no additional income tax adjustment to the pro forma financials. The pro forma condensed combined provision for income taxes does not necessarily reflect the amounts that would have resulted had the Company and Legacy Sonder filed consolidated income tax returns during the period presented.

(HH) Reflects the amount of interest and amortization expense on the delayed draw notes recognized for the years ended December 31, 2021 and December 31, 2020 based on estimated interest rates using 3-month SOFR rate plus 0.26161 percent (subject to a floor of 1 percent) plus 9 percent per annum as per the Delayed Draw Note Purchase Agreement.

(II) Reflects the elimination of recognized interest expense and loan fees related to the Legacy Sonder TPC loan and recognition of $2.7 million in extinguishment expenses, including a $0.2 million early termination fee.

3. Loss per share

Represents the net loss per share calculated using the historical weighted average shares outstanding, and the issuance of additional shares in connection with the Business Combination, the PIPE Investments and other related events, assuming the shares were outstanding since January 1, 2020. As the Business Combination, PIPE Investments and other related proposed equity transactions are being reflected as if they had occurred at the beginning of the period presented, the calculation of weighted average shares outstanding for basic and diluted net loss per share assumes that the shares issuable relating to the Business Combination have been outstanding for the entire period presented. This calculation is retroactively adjusted to eliminate, the number of shares redeemed in the Business Combination for the entire period presented.

The unaudited pro forma condensed combined financial information has been prepared based on the following information:

(in thousands, except share and per share data)	Year Ended December 31, 2021	Year Ended December 31, 2020
Pro forma net loss	$ (289,621)	$ (268,435)
Weighted average shares outstanding of Class A Stock	219,369,275	219,369,275
Net loss per share of Class A Stock - basic and diluted	$ (1.29)	$ (1.22)
Weighted average shares outstanding - basic and diluted		
Class A Stock issued to Sonder Stockholders	175,523,440	175,523,440
Public Stockholders	1,656,335	1,656,335
Initial Stockholders' Class F Stock	9,972,715	9,972,715
Existing PIPE Investors	20,000,000	20,000,000
New PIPE Investors	11,507,074	11,507,074
New PIPE Investors - Sponsor	709,711	709,711
Total	219,369,275	219,369,275

The following potentially dilutive outstanding securities were excluded from the computation of pro forma net loss per share, basic and diluted, because their effect would have been anti-dilutive or issuance of such shares is contingent upon the satisfaction of certain conditions which were not satisfied by the end of the period:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Rollover Options	14,636,860	14,636,860
Earn Out Shares	14,500,000	14,500,000
Company's private placement and public warrants	14,500,000	14,500,000
Delayed Draw Warrant shares	2,475,000	2,475,000

4. Earn Out Shares

The fair values of the Earn Out Shares were determined by using a Monte Carlo simulation model implemented in a risk-neutral valuation framework. Assumptions used in the valuation, were as follows:

Current stock price: The current stock price was set at $9.97 per share for Common Stock, based on the closing price as of the valuation date of January 4, 2022.

Expected volatility: The volatility was determined based on the review of ten-year historical equity and asset volatilities for comparable companies.

Risk-free interest rate: The risk-free interest rate is based on the U.S. Treasury Constant Maturities. Linear interpolation was used to estimate a risk- free rate with an identical term to the remaining earn-out term.

Expected term: The expected term is the five-year term of the Earn Out Period.

Expected dividend yield: The expected dividend yield is zero as Sonder has never declared or paid cash dividends and has no current plans to do so during the expected term.