

PROSPECTUS SUPPLEMENT NO. 2
(to Prospectus dated March 31, 2023)

14,301,448 Shares of Class A Common Stock

SOUNDHOUND AI, INC.

This prospectus supplement updates, amends and supplements the prospectus dated March 31, 2023 (as supplemented by prospectus supplement no. 1, dated April 17, 2023, the “Prospectus”), which forms a part of our Post-Effective Amendment No. 1 to Registration Statement on Form S-1 (Registration No. 333-267501) filed on March 29, 2023 and declared effective on March 31, 2023. Capitalized terms used in this prospectus supplement and not otherwise defined herein have the meanings specified in the Prospectus.

This prospectus supplement is being filed to update, amend and supplement the information included in the Prospectus with information contained in our Quarterly Report on Form 10-Q for the period ended March 31, 2023, as filed with the SEC on May 12, 2023, which is set forth below.

This prospectus supplement is not complete without the Prospectus. This prospectus supplement should be read in conjunction with the Prospectus, which is to be delivered with this prospectus supplement, and is qualified by reference thereto, except to the extent that the information in this prospectus supplement updates or supersedes the information contained in the Prospectus. Please keep this prospectus supplement with your Prospectus for future reference.

Our Class A common stock, par value \$0.0001 per share (“Class A Common Stock”), is listed on The Nasdaq Capital Market (“Nasdaq”) under the symbol “SOUN.” The last reported closing price for our Class A Common Stock on Nasdaq on May 12, 2023 was \$2.48 per share.

Investing in our securities involves a high degree of risk. See “Risk Factors” beginning on page 15 of the Prospectus for a discussion of information that should be considered in connection with an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of the disclosures in the prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is May 19, 2023

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

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

For the transition period from _____ to _____

Commission File No. 001-40193

SOUNDHOUND AI, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

86-1286799

(I.R.S. Employer
Identification No.)

5400 Betsy Ross Drive, Santa Clara, CA 95054

(Address of principal executive offices) (Zip Code)

(408) 441-3200

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Class A Common stock, par value \$0.0001 per share | SOUN | The Nasdaq Stock Market LLC |
| Redeemable Warrants | SOUNW | The Nasdaq Stock Market LLC |

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of May 9, 2023, there were 177,215,906 shares of the Company's Class A common stock, \$0.0001 par value per share, issued and outstanding, and 39,735,408 shares of the Company's Class B common stock, \$0.0001 par value per share, issued and outstanding.

SOUNDHOUND AI, INC.
QUARTERLY REPORT ON FORM 10-Q
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “report”) of SoundHound AI, Inc. (“we,” “us,” “our,” “SoundHound,” or the “Company”) contains “forward-looking statements” (as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) that reflect our current expectations and views of future events. The forward-looking statements are contained principally in the section of this report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Readers are cautioned that significant known and unknown risks, uncertainties and other important factors (including those over which we may have no control and others listed in this report and in the “Risk Factors” section of our annual report on Form 10-K, which was filed with the Securities and Exchange Commission on March 28, 2023 (the “Form 10-K”)) may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to:

- execution of our business strategy, including launching new product offerings and expanding information and technology capabilities, particularly following our recent restructuring efforts;
- our market opportunity and our ability to acquire new customers and retain existing customers;
- the timing and impact of our growth initiatives on our future financial performance;
- our ability to protect intellectual property and trade secrets;
- the ability to obtain additional capital, including equity or debt financing, on terms that are acceptable to us, if at all, particularly in light of inflationary pressures and resulting increases in the cost of borrowing;
- changes in applicable laws or regulations and extensive and evolving government regulations that impact our operations and business;
- the ability to attract or maintain a qualified workforce, particularly following our recent restructuring efforts;
- level of product service failures that could lead our customers to use competitors’ services;
- investigations, claims, disputes, enforcement actions, litigation and/or other regulatory or legal proceedings, including with respect to our AI technology;
- the effects of the COVID-19 pandemic or any similar public health developments on our business;
- risks relating to uncertainty of our estimates of market opportunity and forecasts of market growth;
- the ability to maintain the listing of our Class A Common Stock on the Nasdaq Global Market;
- the possibility that we may be adversely affected by other economic, business, and/or competitive factors; and
- other risks and uncertainties described under the section titled “Risk Factors” of our Form 10-K.

These forward-looking statements involve numerous and significant risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results of operations or the results of other matters that we anticipate herein could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in the “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” section contain in this report and in the “Business,” “Risk Factors” and other sections of the Form 10-K. You should thoroughly read this report and the documents that we refer to with the understanding that our actual future results may be materially different from, and worse than, what we expect. We qualify all of our forward-looking statements by these cautionary statements.

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The forward-looking statements made in this report relate only to events or information as of the date of this report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this report completely and with the understanding that our actual future results may be materially different from what we expect.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

SOUNDHOUND AI, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

| | March 31, 2023 (Unaudited) | December 31, 2022 |
|---|----------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 46,331 | \$ 9,245 |
| Accounts receivable, net | 2,660 | 3,414 |
| Prepaid expenses | 1,651 | 2,514 |
| Contract assets | 1,546 | 1,671 |
| Other current assets | 1,069 | 859 |
| Total current assets | 53,257 | 17,703 |
| Restricted cash equivalents, non-current | 230 | 230 |
| Right-of-use assets | 7,393 | 8,119 |
| Property and equipment, net | 2,754 | 3,447 |
| Deferred tax asset | 55 | 55 |
| Contract assets, non-current | 7,040 | 7,041 |
| Other non-current assets | 2,074 | 1,656 |
| Total assets | \$ 72,803 | \$ 38,251 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,542 | \$ 2,798 |
| Accrued liabilities | 12,306 | 7,462 |
| Operating lease liabilities | 3,157 | 3,282 |
| Finance lease liabilities | 147 | 160 |
| Income tax liability | 1,213 | 1,314 |
| Deferred revenue | 5,319 | 5,812 |
| Notes payable | 16,828 | 16,668 |
| Total current liabilities | 41,512 | 37,496 |
| Operating lease liabilities, net of current portion | 5,045 | 5,715 |
| Finance lease liabilities, net of current portion | 102 | 128 |
| Deferred revenue, net of current portion | 5,433 | 7,543 |
| Notes payable, net of current portion | 14,035 | 18,299 |
| Other non-current liabilities | 4,294 | 4,295 |
| Total liabilities | 70,421 | 73,476 |
| Commitments and contingencies (Note 6) | | |
| Stockholders' equity (deficit): | | |
| Series A Preferred Stock, \$0.0001 par value; 1,000,000 shares authorized; 835,011 and 0 shares issued and outstanding, aggregate liquidation preference of \$25,050 and \$0 as of March 31, 2023 and December 31, 2022, respectively | 24,942 | — |
| Class A Common Stock, \$0.0001 par value; 455,000,000 shares authorized; 174,714,741 and 160,297,664 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively | 18 | 16 |
| Class B Common Stock, \$0.0001 par value; 44,000,000 shares authorized; 39,735,408 shares issued and outstanding as of March 31, 2023 and December 31, 2022 | 4 | 4 |
| Additional paid-in capital | 505,889 | 466,857 |
| Accumulated deficit | (528,471) | (502,102) |
| Total stockholders' equity (deficit) | 2,382 | (35,225) |
| Total liabilities and stockholders' equity (deficit) | \$ 72,803 | \$ 38,251 |

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

SOUNDHOUND AI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)
(Unaudited)

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2023 | 2022 |
| Revenues | \$ 6,707 | \$ 4,290 |
| Operating expenses: | | |
| Cost of revenues | 1,976 | 1,773 |
| Sales and marketing | 4,875 | 2,581 |
| Research and development | 14,184 | 16,650 |
| General and administrative | 7,125 | 4,003 |
| Restructuring | 3,585 | — |
| Total operating expenses | 31,745 | 25,007 |
| Loss from operations | (25,038) | (20,717) |
| Other expense, net: | | |
| Interest expense | (1,096) | (2,977) |
| Other income (expense), net | 94 | (1,057) |
| Total other expense, net | (1,002) | (4,034) |
| Loss before provision for income taxes | (26,040) | (24,751) |
| Provision for income taxes | 329 | 352 |
| Net loss | (26,369) | (25,103) |
| Net loss per share: | | |
| Basic and diluted | \$ (0.13) | \$ (0.36) |
| Weighted-average common shares outstanding: | | |
| Basic and diluted | 205,082,328 | 69,604,188 |

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

SOUNDHOUND AI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED
STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands, except share and per share data)
(Unaudited)

Three Months Ended March 31, 2023

| | Series A Preferred Stock | | Class A Common Stock | | Class B Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total |
|--|--------------------------|------------------|----------------------|--------------|----------------------|-------------|----------------------------|---------------------|-----------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balances as of December 31, 2022 | — | \$ — | 160,297,664 | \$ 16 | 39,735,408 | \$ 4 | \$ 466,857 | \$ (502,102) | \$ (35,225) |
| Issuance of Class A common shares upon exercise of stock options | — | — | 1,209,302 | — | — | — | 2,425 | — | 2,425 |
| Issuance of Class A common shares upon vesting of restricted stock units | — | — | 2,259,223 | — | — | — | — | — | — |
| Issuance of Class A common shares under the ELOC program | — | — | 10,948,552 | 2 | — | — | 28,358 | — | 28,360 |
| Issuance of Series A Preferred Stock | 835,011 | 24,942 | — | — | — | — | — | — | 24,942 |
| Stock-based compensation | — | — | — | — | — | — | 8,249 | — | 8,249 |
| Net loss | — | — | — | — | — | — | — | (26,369) | (26,369) |
| Balances as of March 31, 2023 | <u>835,011</u> | <u>\$ 24,942</u> | <u>174,714,741</u> | <u>\$ 18</u> | <u>39,735,408</u> | <u>\$ 4</u> | <u>\$ 505,889</u> | <u>\$ (528,471)</u> | <u>\$ 2,382</u> |

Three Months Ended March 31, 2022

| | Legacy SoundHound Redeemable Convertible Preferred Stock | | Legacy SoundHound Common Stock | | Class A Common Stock | | Class B Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total |
|--|--|-------------------|--------------------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------------|---------------------|---------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balances as of December 31, 2021 | 19,248,537 | \$ 279,503 | 12,280,051 | \$ 1 | — | \$ — | — | \$ — | \$ 43,491 | \$ (386,729) | \$ (343,237) |
| Retroactive application of Business Combination (Note 3) | 87,700,789 | — | 55,978,505 | — | — | — | — | — | — | — | — |
| Adjusted balances, beginning of period | 106,949,326 | 279,503 | 68,258,556 | 1 | — | — | — | — | 43,491 | (386,729) | (343,237) |
| Issuance of common stock upon exercise of stock options | — | — | 2,429,625 | — | — | — | — | — | 2,474 | — | 2,474 |
| Stock-based compensation | — | — | — | — | — | — | — | — | 2,464 | — | 2,464 |
| Net loss | — | — | — | — | — | — | — | — | — | (25,103) | (25,103) |
| Balances as of March 31, 2022 | <u>106,949,326</u> | <u>\$ 279,503</u> | <u>70,688,181</u> | <u>\$ 1</u> | <u>—</u> | <u>\$ —</u> | <u>—</u> | <u>\$ —</u> | <u>\$ 48,429</u> | <u>\$ (411,832)</u> | <u>\$ (363,402)</u> |

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

SOUNDHOUND AI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2023 | 2022 |
| Cash flows from operating activities: | | |
| Net loss | \$ (26,369) | \$ (25,103) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 708 | 1,292 |
| Stock-based compensation | 8,249 | 2,464 |
| Change in fair value of derivative and warrant liability | — | 592 |
| Amortization of debt issuance cost | 16 | 1,742 |
| Non-cash lease amortization | 894 | 846 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 754 | 728 |
| Prepaid expenses | 863 | (543) |
| Other current assets | (210) | 60 |
| Contract assets | 126 | — |
| Other non-current assets | 19 | (1,942) |
| Accounts payable | (256) | 3,178 |
| Accrued liabilities | 4,306 | 4,398 |
| Operating lease liabilities | (963) | (1,080) |
| Deferred revenue | (2,603) | (1,623) |
| Other non-current liabilities | (1) | 2 |
| Net cash used in operating activities | <u>(14,467)</u> | <u>(14,989)</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (15) | (611) |
| Net cash used in investing activities | <u>(15)</u> | <u>(611)</u> |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of Series A Preferred Stock, net of issuance costs | 24,942 | — |
| Proceeds from sales of common stock under the ELOC program, net of issuance costs | 28,360 | — |
| Proceeds from the issuance of common stock upon exercise of options | 2,425 | 2,474 |
| Payments on notes payable | (4,120) | — |
| Payments on finance leases | (39) | (519) |
| Net cash provided by financing activities | <u>51,568</u> | <u>1,955</u> |
| Net change in cash, cash equivalents, and restricted cash equivalents | 37,086 | (13,645) |
| Cash, cash equivalents, and restricted cash equivalents, beginning of period | 9,475 | 22,822 |
| Cash, cash equivalents, and restricted cash equivalents, end of period | <u>\$ 46,561</u> | <u>\$ 9,177</u> |
| Reconciliation to amounts on the condensed consolidated balance sheets: | | |
| Cash and cash equivalents | \$ 46,331 | \$ 8,211 |
| Current portion of restricted cash equivalents | — | 230 |
| Non-current portion of restricted cash equivalents | 230 | 736 |
| Total cash, cash equivalents, and restricted cash equivalents shown in the condensed consolidated statements of cash flows | <u>\$ 46,561</u> | <u>\$ 9,177</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 1,074 | \$ 1,013 |
| Cash paid for income taxes | \$ 550 | \$ 32 |
| Noncash investing and financing activities: | | |
| Unpaid issuance costs in connection with the ELOC program | \$ 437 | \$ — |
| Deferred offering costs reclassified to additional paid-in capital | \$ 323 | \$ — |
| Operating lease liabilities arising from obtaining right-of-use assets | \$ — | \$ 650 |

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

SOUNDHOUND AI, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION

Nature of Operations

SoundHound AI, Inc. (“we,” “us,” “our,” “SoundHound” or the “Company”) turns sound into understanding and actionable meaning. SoundHound’s technology applications enable humans to interact with the things around them in the same way they interact with each other: by speaking naturally to mobile phones, cars, televisions, music speakers, coffee machines, and every other part of the emerging “connected” world. SoundHound’s voice AI platform enables product creators to develop their own voice interfaces with their customers. The SoundHound Chat AI voice assistant allows businesses and brands to provide a next-generation voice experience for their users, seamlessly integrating Generative AI and a mix of real-time information domains. Houndify is an open-access platform that allows developers to leverage SoundHound’s Voice AI technology. We have developed a range of proprietary technologies on our voice AI platform, including Speech-to-Meaning, Deep Meaning Understanding, Collective AI, Dynamic Interaction and SoundHound Chat AI. The SoundHound music app allows customers to identify and play songs by singing or humming into the smartphone’s microphone, or by identifying the sound playing in the background from external sources. We also provide Edge+Cloud connectivity solutions that allow brands to optimize their voice-enabled products and devices with options ranging from fully-embedded to exclusively cloud-connected

On April 26, 2022 (the “Closing Date”), pursuant to a merger agreement dated as of November 15, 2021 by and among Archimedes Tech SPAC Partners Co. (“ATSP”), ATSPC Merger Sub, Inc. and SoundHound, Inc. (“Legacy SoundHound”), the parties consummated the merger of ATSPC Merger Sub, Inc. with and into Legacy SoundHound, with Legacy SoundHound continuing as the surviving corporation (the “Merger”), as well as the other transactions contemplated by the Merger Agreement (the Merger and such other transactions, the “Business Combination”). In connection with the closing (the “Closing”) of the Business Combination, Legacy SoundHound became a wholly owned subsidiary of ATSP and ATSP changed its name to SoundHound AI, Inc., and all of Legacy SoundHound common stock (“Legacy SoundHound Common Stock”) and Legacy SoundHound redeemable convertible preferred stock (“Legacy SoundHound Preferred Stock”) automatically converted into shares of the Company’s Class A common stock, par value of \$0.0001 per share (the “Class A Common Stock”), and the Company’s Class B common stock, par value of \$0.0001 per share (the “Class B Common Stock”, and collectively with the Class A Common Stock, the “common stock”). The Company’s Class A Common Stock and certain of the Company’s warrants commenced trading on the Nasdaq Global Market (“Nasdaq”) under the symbols “SOUN” and “SOUNW,” respectively, on April 28, 2022. Refer to Note 3 to these condensed consolidated financial statements for more information on the Business Combination.

Legacy SoundHound determined that it was the accounting acquirer in the Business Combination based on an analysis of the criteria outlined in Accounting Standards Codification 805, *Business Combinations*. The determination was primarily based on the following facts:

- Former Legacy SoundHound stockholders have a controlling voting interest in the Company;
- The Company’s board of directors immediately after the closing of the Business Combination was comprised of five board members, primarily from the board of directors of Legacy SoundHound; and
- Legacy SoundHound’s management continues to hold executive management roles for the Company following the Business Combination and are responsible for the day-to-day operations.

Accordingly, for accounting purposes, the Business Combination was treated as the equivalent of Legacy SoundHound issuing stock for the net assets of ATSP, accompanied by a reverse recapitalization. The primary asset acquired from ATSP was related to the cash amounts that were assumed. Separately, the Company also assumed certain warrants that were deemed to be equity upon Closing of the Business Combination. No goodwill or other intangible assets were recorded as a result of the Business Combination.

While ATSP was the legal acquirer in the Business Combination, because Legacy SoundHound was deemed the accounting acquirer, the historical financial statements of Legacy SoundHound became the historical financial statements

SOUNDHOUND AI, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

of the combined company upon the consummation of the Business Combination. As a result, the financial statements included in this report reflect (i) the historical operating results of Legacy SoundHound prior to the Business Combination; (ii) the combined results of the Company and Legacy SoundHound following the Closing of the Business Combination; (iii) the assets and liabilities of Legacy SoundHound at their historical cost; and (iv) the Company's equity structure for all periods presented.

In accordance with guidance applicable to these circumstances, the equity structure has been retroactively restated in all comparative periods up to the Closing Date, to reflect the number of shares of the Company's Class A Common Stock and Class B Common Stock issued to Legacy SoundHound Common Stockholders and Legacy SoundHound Preferred Stockholders in connection with the Business Combination. As such, the shares and corresponding capital amounts and earnings per share related to Legacy SoundHound Preferred Stock and Legacy SoundHound Common Stock prior to the Business Combination have been retroactively restated as shares reflecting the conversion ratio established in the Business Combination.

Going Concern

Since inception, the Company has generated recurring losses as well as negative operating cash flows and reported a net loss of \$26.4 million for the three months ended March 31, 2023. As of March 31, 2023, the Company had an accumulated deficit of \$528.5 million. Management expects to continue to incur additional substantial losses in the foreseeable future primarily as a result of research and development activities. The Company has historically funded its operations primarily through equity or debt financings.

Total cash and cash equivalents on hand as of March 31, 2023 was \$46.3 million. Although the Company has incurred recurring losses each year since its inception, the Company expects it will be able to fund its operations for at least the next twelve months. The Company may seek funding through additional debt or equity financing arrangements, implement incremental expense reduction measures or a combination thereof to continue financing its operations. The Company's condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business.

Other Risk and Uncertainties

The COVID-19 outbreak in the United States caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the CARES Act, which includes significant provisions to provide relief and assistance to affected organizations. There is considerable uncertainty around potential future closings, shelter in place orders, containment of the recent COVID-19 variants and the ultimate impact of the CARES Act and other government initiatives. The duration and extent to which the COVID-19 pandemic will impact our future results remains uncertain.

Further, inflation has risen significantly worldwide and the United States has recently experienced historically high levels of inflation. This inflation and government efforts to combat inflation, such as recent and future significant increases to benchmark interest rates and other related monetary policies, have and could continue to increase market volatility and have an adverse effect on the domestic and international financial markets and general economic conditions.

Additionally, U.S. and global markets are experiencing volatility and disruption following the escalation of geopolitical tensions and the start of the military conflict between Russia and Ukraine. On February 24, 2022, a full-scale military invasion of Ukraine by Russian troops was reported. Although the length and impact of the ongoing military conflict is highly unpredictable, the conflict in Ukraine could lead to market disruptions, including significant volatility in commodity prices, credit and capital markets, as well as supply chain interruptions. We are continuing to monitor the situation in Ukraine and globally and assessing its potential impact on our business. The recent military conflict in Ukraine has led to sanctions and other penalties being levied by the United States, European Union and other countries against Russia. Additional potential sanctions and penalties have also been proposed and/or threatened. Russian military actions and the resulting sanctions could adversely affect the global economy and financial markets and lead to instability and lack of liquidity in capital markets, potentially making it more difficult for us to obtain additional funds. Although our business has

SOUNDHOUND AI, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

not been materially impacted by the ongoing military conflict between Russian and Ukraine to date, it is impossible to predict the extent to which our operations, or those of our customers' suppliers and manufacturers, will be impacted in the short and long-term, or the ways in which the conflict may impact our business. The extent and duration of the military action, sanctions and resulting market disruptions are impossible to predict but could be substantial.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Significant Accounting Policies

The (a) condensed consolidated balance sheet as of December 31, 2022, which has been derived from audited financial statements as filed in the Company's Form 10-K, which was originally filed with the Securities and Exchange Commission ("SEC") on March 28, 2023 and (b) the unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and applicable rules and regulations of the SEC regarding annual financial reporting. Any reference in these notes to applicable accounting guidance is meant to refer to the authoritative U.S. GAAP included in the Accounting Standards Codification ("ASC"), and Accounting Standards Update ("ASU") issued by the Financial Accounting Standards Board ("FASB"). The condensed consolidated financial statements have been prepared on a basis consistent with the audited consolidated financial statements and in the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the financial statements have been included. The results of operations for the three months ended March 31, 2023 are not necessarily indicative of the results for the fiscal year ending December 31, 2023 or any future interim period.

Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the company believes that the disclosures made are adequate to make the information not misleading.

Principles of Consolidation

The Company's condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

We consolidate any variable interest entity ("VIE") where we have determined we are the primary beneficiary. The primary beneficiary is the entity which has both: (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; and (ii) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE.

Reclassification

Certain prior period balances have been reclassified to conform to the current year presentation. Such changes include reclassifications or combinations of certain accounts on the condensed consolidated balance sheets.

These reclassifications had no impact on total assets, total liabilities, net loss or accumulated deficit in the previously reported consolidated financial statements for the year ended December 31, 2022.

Foreign Currency

The functional currency of the Company and its subsidiaries is the U.S. dollar. Foreign currency denominated transactions are converted into U.S. dollars at the average rates of exchange prevailing during the period. Assets and liabilities denominated in foreign currency are remeasured into U.S. dollars at current exchange rates at the balance sheet date for monetary assets and liabilities and at historical exchange rates for non-monetary assets and liabilities. During the three months ended March 31, 2023 and 2022, the Company recognized net losses related to foreign currency transactions and remeasurements of \$0.1 million and \$0.5 million, respectively, in the condensed consolidated statements of operations and comprehensive loss as other income (expense), net.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the amounts reported and disclosures in the condensed consolidated financial statements and accompanying notes. Such estimates include revenue recognition, allowance for doubtful accounts, accrued liabilities, derivative and warrant liabilities, calculation of the incremental borrowing rate, financial instruments recorded at fair value on a recurring basis, valuation of deferred tax assets and uncertain tax positions and the fair value of common stock and other assumptions used to measure stock-based compensation expense. The Company bases its estimates on historical experience, the current economic environment and on assumptions it believes are reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Changes in those estimates resulting from changes in the economic environment will be reflected in the financial statements in future periods. Actual results could differ materially from those estimates.

Segment Information

The Company has determined that the Chief Executive Officer is its chief operating decision maker. The Company's Chief Executive Officer reviews financial information on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, the Company has determined that it operates as a single reportable segment.

Emerging Growth Company Status

The Company is an emerging growth company ("EGC") as defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act") and may take advantage of reduced reporting requirements that are otherwise applicable to public companies. Section 107 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 those standards. This means that when a standard is issued or revised and it has different application dates for public and nonpublic companies, the Company has the option to adopt the new or revised standard at the time nonpublic companies adopt the new or revised standard and can do so until such time that the Company either (i) irrevocably elects to "opt out" of such extended transition period or (ii) no longer qualifies as an emerging growth company. The Company has elected to use the extended transition period for complying with new or revised accounting standards unless the Company otherwise early adopts select standards.

Concentrations of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company regularly monitors its credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

As of March 31, 2023, accounts receivable balances due from four customers collectively totaled 71% of the Company's condensed consolidated accounts receivable balance. As of December 31, 2022, accounts receivable balances due from two customers collectively totaled 75% of the Company's condensed consolidated accounts receivable balance.

For the three months ended March 31, 2023, the Company had four customers that accounted for 77% of revenue, and for the three months ended March 31, 2022, the Company had four customers that accounted for 59% of revenue.

Equity Issuance Costs

The Company capitalizes certain legal, professional, accounting and other third-party fees that are directly associated with in-process equity financings as deferred offering costs until such financings are consummated. After consummation of the financing, these costs are recorded as a reduction of the proceeds received from the equity financing. If a planned equity financing is abandoned, the deferred offering costs are expensed immediately as a charge to operating expenses in the condensed consolidated statements of operations.

SOUNDHOUND AI, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Revenue Recognition

The Company recognizes revenue under Accounting Standards Codification Topic 606 (“ASC 606”), Revenue from Contracts with Customers, when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the Company performs the following five steps:

- (i) Identification of the contract(s) with a customer;
- (ii) Identification of the performance obligations in the contract;
- (iii) Determination of the transaction price, including the constraint on variable consideration;
- (iv) Allocation of the transaction price to the performance obligations in the contract; and
- (v) Recognition of revenue when, or as, performance obligations are satisfied.

Contracts are accounted for when both parties have approved and committed to the contract, the rights of the parties and payment terms are identifiable, the contract has commercial substance and collectability of consideration is probable. Any payments received from customers that do not meet criteria for having a contract are recorded as deposit liabilities on the condensed consolidated balance sheet.

Under ASC 606, assuming all other revenue recognition criteria have been met, the Company recognizes revenue for arrangements upon the transfer of control of the Company’s performance obligations to its customers. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer and is the unit of account in ASC 606. Revenues are recognized when control of the promised goods or services are transferred to a customer in an amount that reflects the consideration that the Company expects to receive in exchange for those services. The Company currently generates its revenues through the following performance obligations: (1) hosted services, (2) professional services, (3) monetization and (4) licensing.

Research and Development

The Company’s research and development costs are expensed as incurred. These costs include salaries and other personnel related expenses, contractor fees, facility costs, supplies and depreciation of equipment associated with the design and development of new products prior to the establishment of their technological feasibility.

Warrants

The Company determines whether to classify contracts, such as warrants, that may be settled in its own stock as equity of the entity or as a liability. An equity-linked financial instrument must be considered indexed to the Company’s own stock to qualify for equity classification. The Company classifies warrants as liabilities for any contracts that may require a transfer of assets. Warrants classified as liabilities are accounted for at fair value and remeasured at each reporting date until exercise, expiration or modification that results in equity classification. Any change in the fair value of the warrants is recognized as other income (expense), net in the condensed consolidated statements of operations.

Income Taxes

The Company accounts for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. A valuation allowance is established when, in management’s estimate, it is more-likely-than-not that the deferred tax asset will not be realized. The Company adopted a more-likely-than-not threshold for financial statement recognition and measurement of tax positions

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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taken or expected to be taken in a tax return. The Company records a liability for the difference between the benefit recognized and measured and the tax position taken or expected to be taken on the Company's tax return.

The Company classifies interest and penalties related to uncertain tax positions in income tax expense, if applicable. There has been no interest expense or penalties related to unrecognized tax benefits recorded through March 31, 2023.

Stock-Based Compensation

The Company measures and records the expense related to stock-based payment awards based on the fair value of those awards as determined on the date of grant. The Company recognizes stock-based compensation expense over the requisite service period of the individual grant, generally equal to the vesting period, and uses the straight-line method to recognize stock-based compensation. The Company accounts for forfeitures as they occur. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options and employee stock purchase plan ("ESPP") shares. The Black-Scholes option-pricing model requires the use of highly subjective and complex assumptions to determine the fair value of the awards, including the expected term of the award and the price volatility of the underlying stock. The Company calculates the fair value of the awards granted by using the Black-Scholes option-pricing model with the following assumptions:

Expected Volatility — The Company estimates volatility for the awards by evaluating the average historical volatility of a peer group of companies for the period immediately preceding the award grant for a term that is approximately equal to the awards' expected term.

Expected Term — The expected term of the Company's awards represents the period that the stock-based awards are expected to be outstanding. The Company has elected to use the midpoint between the stock options' vesting term and contractual expiration period to compute the expected term, as the Company does not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior. For the valuation of ESPP shares, the Company, uses the period of time from the valuation date to the purchase date.

Risk-Free Interest Rate — The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a term that is equal to the awards' expected term at the grant date.

Expected Dividend Yield — The Company has not declared or paid dividends to date and does not anticipate declaring dividends. As such, expected dividend yield is zero.

Restricted Stock Units

The Company issues restricted stock unit awards ("RSUs") to grantees as compensation for services. The fair value of the RSUs is determined at the grant date based on the fair value of the Company's Class A Common Stock and for RSUs with service conditions only, is recognized straight-line over the service period.

The Company issues RSUs with vesting conditions tied to certain performance criteria ("Performance-Based RSUs"). Stock-based compensation related to Performance-Based RSUs is recognized to the extent it is determined that performance is probable of being achieved.

The Company issues RSUs with vesting conditions tied to certain market conditions ("Market-Based RSUs"). To derive the fair value of Market-Based RSUs, the Company applies a Monte Carlo simulation to determine the grant date fair value. Stock-based compensation related to Market-Based RSUs is recognized over the derived service period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Fair Value Measurements

The Company defines fair value as the exchange price that would be received from an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The Company follows a three-level valuation hierarchy for disclosure of fair value measurements as follows:

- Level 1 — Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 — Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.
- Level 3 — Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The Company’s derivative liabilities and warrants are measured at fair value on a recurring basis and are classified as Level 3 liabilities. The Company records subsequent adjustments to reflect the increase or decrease in estimated fair value at each reporting date on the condensed consolidated statements of operations and comprehensive loss.

Preferred Stock

Legacy SoundHound Preferred Stock did not have a mandatory redemption date and were assessed at issuance for classification and redemption features requiring bifurcation. The Company presents as temporary equity any stock which (i) the Company undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates; (ii) is redeemable at the option of the holders, or (iii) has conditions for redemption which are not solely within the control of the Company. Legacy SoundHound Preferred Stock was redeemable upon a deemed liquidation event which the Company determined was not solely within its control and thus has classified shares of Legacy SoundHound Preferred Stock as temporary equity. Since the occurrence of a deemed liquidation event was not probable, the carrying values of the shares of Legacy SoundHound Preferred Stock were not being accreted to their redemption values.

As a result of the Business Combination, the shares of Legacy SoundHound Preferred Stock outstanding immediately prior to the effective time of the Business Combination (the “Effective Time”) were converted into 106,949,326 shares of the Company’s Class A Common Stock.

On or around January 20, 2023, the Company entered into Preferred Stock Purchase Agreements (the “Purchase Agreements”) with certain investors (the “Investors”) pursuant to which the Company issued and sold to the Investors an aggregate of 835,011 shares of its newly designated Series A Convertible Preferred Stock, par value \$0.0001 per share (the “Series A Preferred Stock”) for an aggregate issue price of approximately \$25.0 million. The Series A Preferred Stock were assessed at issuance for classification and redemption features requiring bifurcation. The Series A Preferred Stock do not contain any of the three conditions described above to be classified as temporary equity and thus have been classified as permanent equity. See Note 10 for additional information.

Convertible Notes and Derivative Liabilities

The Company evaluates its convertible notes, and other contracts, if any, to determine if those contracts or embedded components of those contracts qualify as derivatives requiring bifurcation. The Company accounts for conversion features that meet the criteria for bifurcation as liabilities at fair value and adjusts the derivative instruments to fair value at each reporting period. The conversion features qualified as derivatives, as they continuously reset as the underlying stock price increases or decreases to provide a fixed value of equity to the holders at any conversion date. The conversion features were subject to remeasurement at each balance sheet date until exercised, and any change in fair value was recognized as a component of other income (expense), net in the condensed consolidated statements of operations and comprehensive loss.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The fair value of the conversion features was estimated using a probability-weighted discount model with and without the conversion feature until extinguished on April 26, 2022 in connection with the Business Combination.

The Company held its convertible notes at amortized cost and amortized the associated debt discount created from bifurcated derivatives and issuance costs under the effective interest or straight-line method until maturity or early conversion pursuant to the contractual terms of the arrangement.

Net Loss Per Share

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, without consideration for potentially dilutive securities.

Diluted net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common stock and potentially dilutive securities outstanding for the period. For purposes of the diluted net loss per share calculation, Series A Preferred Stock, stock options, ESPP shares, RSUs and warrants are considered to be potentially dilutive securities. See Note 13 for further information.

Accordingly, in periods in which the Company reports a net loss, diluted net loss per share is the same as basic net loss per share, since dilutive common stock is not assumed to have been issued if their effect is anti-dilutive.

3. BUSINESS COMBINATION

As discussed in Note 1, on April 26, 2022, the Business Combination was consummated. Pursuant to the Company's Second Amended and Restated Certificate of Incorporation (the "certificate of incorporation"), the Company is authorized to issue 500,000,000 shares of capital stock consisting of 455,000,000 shares of Class A Common Stock, 44,000,000 shares of Class B Common Stock, and 1,000,000 shares of preferred stock. All stock has a par value of \$0.0001 per share. The holders of Class A Common Stock are entitled to one vote for each share of Class A Common Stock held and the holders of Class B Common Stock are entitled to ten votes per share on all matters submitted to stockholders for their vote or approval. The holders of Class A Common Stock and Class B Common Stock vote together as one class, other than on certain specific matters described in the Company's certificate of incorporation.

The Business Combination was approved by ATSP's stockholders at a special meeting thereof (the "Special Meeting"), held in lieu of the 2022 annual meeting of the Company's stockholders. The Business Combination fulfilled the definition of an "initial business combination" as required by the ATSP's Amended and Restated Certificate of Incorporation. This fulfillment resulted in ATSP ceasing to be a shell company upon the Closing.

An aggregate of 12,767,950 shares of Class A Common Stock sold in ATSP's initial public offering (the "public shares") exercised their rights to redemption. The redemption right provided holders the right to have their public shares redeemed for a pro rata portion of the trust account holding the proceeds from ATSP's initial public offering. The value of the shares is calculated as of two (2) business days prior to the date of the Special Meeting, which was \$10.00 per share, or \$127.7 million in the aggregate.

As a result of the Business Combination, among other things (1) all outstanding shares of Legacy SoundHound Common Stock as of immediately prior to the Closing (including Legacy SoundHound Common Stock resulting from the Legacy SoundHound Preferred Stock Conversion), were exchanged at a conversion ratio of 5.5562 (the "Conversion Ratio") for an aggregate of 140,114,060 shares of Class A Common Stock and 40,396,600 Class B Common Stock; (2) each outstanding warrant to purchase shares of Legacy SoundHound Common Stock automatically converted into a warrant to purchase, subject to substantially the same terms and conditions as were applicable under these warrants prior to the Effective Time, shares of Class A Common Stock, proportionately adjusted for the Conversion Ratio, with the per share exercise price equal to the exercise price prior to the Effective Time divided by the Conversion Ratio and were net exercised upon the Closing; (3) each outstanding option to purchase shares of Legacy SoundHound Common Stock converted into an option to purchase, subject to substantially the same terms and conditions as were applicable under these options prior to the Effective Time, shares of Class A Common Stock equal to the number of shares subject to such option

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prior to the Effective Time multiplied by the Conversion Ratio, with the per share exercise price equal to the exercise price prior to the Effective Time divided by the Conversion Ratio; (4) each Legacy SoundHound RSU converted into a restricted stock unit of SoundHound, subject to substantially the same terms and conditions as were applicable under the SoundHound RSU prior to the Closing. SoundHound RSU holders received the same consideration holders would have received if the SoundHound RSU was converted into Legacy SoundHound Common Stock immediately prior to the Effective Time.

In connection with the Merger Agreement, ATSP entered into subscription agreements (collectively, the “Subscription Agreements”) with certain accredited investors (the “Subscribers”). Pursuant to the Subscription Agreements, the Subscribers agreed to purchase, and ATSP agreed to sell to the Subscribers, an aggregate of 11,300,000 shares of Class A Common Stock (“PIPE Shares”), for a purchase price of \$10.00 per share and an aggregate purchase price of \$113.0 million (the “PIPE Investment”). The PIPE shares are identical to the shares of Class A Common Stock that were held by the ATSP’s public stockholders at the time of the Closing, except that the PIPE Shares were not entitled to any redemption rights. The sale of PIPE Shares was consummated concurrently with the Closing.

The Business Combination is accounted for as a reverse recapitalization in accordance with U.S. GAAP. Under this method of accounting, ATSP was treated as the “acquired” company for financial reporting purposes. The net assets of Legacy SoundHound were stated at historical cost, with no goodwill or other intangible assets recorded.

In accounting for the Business Combination and after redemptions, net proceeds received by the Company totaled \$90.7 million. The table below shows the total net proceeds from the Business Combination and the PIPE Investment (in thousands):

| | |
|--|------------------|
| Cash - ATSP trust and cash (net of redemption) | \$ 5,357 |
| Cash - PIPE Investment | 113,000 |
| Less: transaction costs | <u>(27,668)</u> |
| Net proceeds from Business Combination and PIPE Investment | <u>\$ 90,689</u> |

Relating to the consummation of the Business Combination, the Company incurred \$27.7 million in total transaction costs consisting of direct legal, accounting and other fees. \$4.1 million of Legacy SoundHound transaction costs specific and directly attributable to the Business Combination were initially capitalized as deferred offering costs and included in other non-current assets on the condensed consolidated balance sheets. Total transaction expenses were recorded as an offset against proceeds received on the closing of the Business Combination, accounted for as additional paid-in capital.

The amount recorded to additional paid-in-capital was comprised of \$86.6 million net proceeds from the PIPE investment and \$4.1 million after net redemptions of ATSP shareholders.

The number of shares of common stock issued immediately following the consummation of the Business Combination was as follows:

| | |
|---|--------------------|
| Class A Common Stock - conversion of Legacy SoundHound Common Stock and Legacy SoundHound Preferred Stock outstanding prior to Business Combination | 140,114,060 |
| Class B Common Stock - conversion of Legacy SoundHound Common Stock and Legacy SoundHound Preferred Stock outstanding prior to Business Combination | 40,396,600 |
| Class A Common Stock - PIPE Investment | 11,300,000 |
| Class A Common Stock - issuance to ATSP shareholders | 532,050 |
| Class A Common Stock - issuance to Legacy SoundHound founders and representatives | <u>4,161,000</u> |
| Total shares of common stock immediately after Business Combination | <u>196,503,710</u> |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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4. REVENUE RECOGNITION

Revenue Recognition

The Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenues are generally recognized upon the transfer of control of promised products or services provided to customers, reflecting the amount of consideration the Company expects to receive for those products or services. The Company enters into contracts that can include various products or services, which are generally capable of being distinct and accounted for as separate performance obligations.

The Company derives its revenue primarily from the following performance obligations: (1) hosted services, (2) professional services, (3) monetization, and (4) licensing. Revenue is reported net of applicable sales and use taxes that are passed through to customers.

The Company's arrangements with customers may contain multiple obligations. Individual services are accounted for separately if they are distinct — that is, if a service is separately identifiable from other items in the contract and a customer can benefit from it in its own or with other resources that are readily available to the customer.

The Company has the following performance obligations in contracts with customers:

Hosted Services

Hosted services, along with non-distinct customization, integration, maintenance and support professional services, allow customers to access the Houndify platform over the contract period without taking possession of the software. The contract terms of hosted services range from one year to twenty years.

The Company has determined that the hosted services arrangements are a single performance obligation comprised of a series of distinct services, since each day of providing access to hosted services is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided. These services are provided either on a usage basis (i.e., variable consideration) or on a fixed fee subscription basis. The Company recognizes revenue as each distinct service period is performed (i.e., recognized as incurred).

Hosted services generally include up-front services to develop and/or customize the Houndify application to each customer's specification. Judgement is required to determine whether these professional services are distinct from the hosted services. In making this determination, factors such as the degree of integration, the customers' ability to start using the software prior to customization, and the availability of these services from other independent vendors are considered.

In instances where the Company concluded that the up-front services are not distinct performance obligations, revenue for these activities is recognized over the period which the hosted services are provided and is included within hosted services revenue.

Professional Services

Revenue from distinct professional services, such as non-integrated development services, is either recognized over time based upon the progress towards completion of the project, or at a point in time at project completion. The Company assesses distinct professional services to determine whether the transfer of control is over-time or at a point in time. The Company considers three criteria in making their assessment, including (1) the customer simultaneously receives and consumes the benefits; (2) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (3) the Company's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. If none of the criteria are met, revenue is determined to be recognized at a point in time.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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For distinct professional services determined to be recognized over-time, measuring the stage of completion of a project requires significant judgement and estimates, including actual efforts spent in relation to estimated total costs and percentage of completion based on input and output measures. During the three months ended March 31, 2023, \$0.7 million of professional service revenue was recognized over time, with the remaining \$0.9 million recognized at a point in time when the performance obligation was fulfilled and control of the service was transferred to the customer. During the three months ended March 31, 2022, all \$0.6 million of professional service revenue was recognized over time.

Monetization

Monetization revenues are primarily derived from advertising payments associated with ad impressions placed on the SoundHound music identification application. The Company derives an immaterial amount of revenue from sales commissions earned from song purchases facilitated by the SoundHound app and App store fees paid for ads-free downloads of the SoundHound music identification app. The amount of revenue is based on actual monetization generated or usage, which represent a variable consideration with constrained estimates. Therefore, the Company recognizes the related revenues at a point in time when advertisements are placed, when commissions are paid or when the SoundHound application is downloaded. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as a principal or an agent in the transaction. The Company has determined that it does not act as the principal in monetization arrangements because it does not control the transfer of the service and it does not set the price. Based on these factors, the Company reports revenue on a net basis.

Licensing

The Company licenses voice solutions that are embedded in customer products. Licensing revenue is a distinct performance obligation that is recognized when control is transferred to the customer, which is at a point in time for non-customized solutions. Revenues generated from licensing is based on royalty models with a combination of minimum guarantees and per unit pricing. Royalty periods are generally subsequent to when control of the license passes to the customer. The Company records licensing revenue as a usage-based royalty from customers' usage of intellectual property in the same period in which the underlying sale occurs. The Company provides assurance-type warranty services and to date, post-contract support has been an immaterial performance obligation within the context of the contract.

When a contract has multiple performance obligations, the transaction price is allocated to each performance obligation based on its relative estimated standalone selling price ("SSP"). Judgments are required to determine the SSP for each distinct performance obligation. SSP is determined by maximizing observable inputs from pricing of standalone sales, when possible. Since prices vary from customer to customer based on customer relationship, volume discount and contract type, in instances where the SSP is not directly observable, the Company estimates SSP by considering the following factors:

- Costs of developing and supplying each performance obligation;
- Industry standards;
- Major product groupings; and
- Gross margin objectives and pricing practices, such as contractually stated prices, discounts offered, and applicable price lists.

These factors may vary over time, depending upon the unique facts and circumstances related to each deliverable. If the facts and circumstances underlying the factors considered change or should future facts and circumstances lead the Company to consider additional factors, the Company's best estimate of SSP may also change.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

For the three months ended March 31, 2023 and 2022, revenue under each performance obligation was as follows (in thousands):

| | Three Months Ended March 31, | |
|-----------------------|---|-----------------|
| | 2023 | 2022 |
| Hosted services | \$ 4,745 | \$ 3,344 |
| Professional services | 1,643 | 567 |
| Monetization | 140 | 208 |
| Licensing | 179 | 171 |
| Total | <u>\$ 6,707</u> | <u>\$ 4,290</u> |

For the three months ended March 31, 2023 and 2022, the disaggregated revenue by geographic location was as follows (in thousands):

| | Three Months Ended March 31, | |
|---------------|---|-----------------|
| | 2023 | 2022 |
| United States | \$ 786 | \$ 852 |
| Japan | 937 | 927 |
| Germany | 1,788 | 683 |
| France | 730 | 459 |
| Korea | 2,259 | 949 |
| Other | 207 | 420 |
| Total | <u>\$ 6,707</u> | <u>\$ 4,290</u> |

For the three months ended March 31, 2023 and 2022, the disaggregated revenue by recognition pattern was as follows (in thousands):

| | Three Months Ended March 31, | |
|-------------------|---|-----------------|
| | 2023 | 2022 |
| Over time revenue | \$ 5,505 | \$ 3,911 |
| Point-in-time | 1,202 | 379 |
| Total | <u>\$ 6,707</u> | <u>\$ 4,290</u> |

The Company also disaggregates revenue by service type. This disaggregation consists of Product Royalties, Service Subscriptions and Monetization. Product Royalties revenue is derived from Houndified Products, which are voice-enabled tangible products across the automotive and consumer electronics industries. Revenue from Product Royalties is based on volume, usage, or life of the products, which are driven by number of devices, users, or unit of time. Service Subscription revenue is generated through Houndified Services, which include customer services, food ordering, content, appointments, and voice commerce. Subscription revenue is derived from monthly fees based on usage-based revenue, revenue per query or revenue per user. Both Houndified Products and Houndified Services may include professional services that develop and customize the Houndify platform to fit customers' specific needs. Revenue from Monetization is generated from the

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SoundHound music identification app and is primarily attributable to user ad impression revenue. For the three months ended March 31, 2023 and 2022, the disaggregated revenue by service type was as follows (in thousands):

| | Three Months Ended March 31, | |
|-----------------------|---|-----------------|
| | 2023 | 2022 |
| Product royalties | \$ 6,176 | \$ 3,709 |
| Service subscriptions | 391 | 373 |
| Monetization | 140 | 208 |
| Total | <u>\$ 6,707</u> | <u>\$ 4,290</u> |

Contract Balances

The Company performs its obligations under a contract with a customer by licensing access to software or providing services in exchange for consideration from the customer. The timing of the Company's performance often differs from the timing of the customer's payment, which results in the recognition of a receivable, a contract asset, or a contract liability. The Company has not recorded any asset impairment charges related to contract assets during the periods presented in the condensed consolidated financial statements.

Revenue recognized included in the balances of the deferred revenue at the beginning of the reporting period was \$1.8 million for the three months ended March 31, 2023 as compared to \$2.2 million for the three months ended March 31, 2022.

As of March 31, 2023, the aggregate amount of the transaction price allocated to the remaining performance obligations related to customer contracts that were unsatisfied or partially unsatisfied was \$18.4 million. Given the applicable contract terms, \$7.3 million is expected to be recognized as revenue within one year, \$7.9 million is expected to be recognized between two to five years and the remainder of \$3.2 million is expected to be recognized after five years. This amount does not include contracts to which the customer is not committed, contracts for which the Company recognizes revenue equal to the amount the Company has the right to invoice for services performed or future sales-based or usage-based royalty payments in exchange for access to the Company's hosted services. This amount is subject to change due to future revaluations of variable consideration, terminations, other contract modifications or currency adjustments. The estimated timing of the recognition of remaining unsatisfied performance obligations is subject to change and is affected by changes to scope, changes in timing of delivery of products and services or contract modifications.

The Company's long-term contracts do not have significant financing components, as there is generally payment and performance in each year of the contract. If there is a period of one year or longer between the transfer of promised services and payment, it is generally for reasons other than financing and, thus, the Company does not adjust the transaction price for financing components.

The Company elected the practical expedient to not adjust promised amounts of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

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5. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

| | March 31, 2023 | December 31, 2022 |
|-------------------------------|-------------------|----------------------|
| Accrued compensation expenses | \$ 11,046 | \$ 6,134 |
| Accrued interest | 210 | 236 |
| Accrued vendor payables | 535 | 1,002 |
| Accrued professional services | 386 | 89 |
| Other accrued liabilities | 129 | 1 |
| | <u>\$ 12,306</u> | <u>\$ 7,462</u> |

6. COMMITMENTS AND CONTINGENCIES**Contracts**

In August 2021, the Company entered into an exclusive agreement with a cloud service provider to host its voice artificial intelligence platform pursuant to which the Company committed to pay a minimum of \$98.0 million in cloud costs over a seven-year period subject to variable increases based on usage.

Aggregate non-cancelable future minimum payments were as follows as of March 31, 2023 (in thousands):

| | |
|-------------------|------------------|
| Remainder of 2023 | \$ 5,250 |
| 2024 | 11,000 |
| 2025 | 14,000 |
| 2026 | 16,000 |
| 2027 | 24,000 |
| Thereafter | 24,000 |
| Total | <u>\$ 94,250</u> |

Legal Proceedings

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues contingent liabilities when it is probable that future expenditures will be made, and such expenditures can be reasonably estimated. In the opinion of management, there are no pending claims for which the outcome is expected to result in a material adverse effect on the financial position, results of operations or cash flows of the Company.

Other Matters

The Company has not historically collected U.S. state or local sales and use tax, or other similar taxes, in any jurisdiction. On June 21, 2018, the U.S. Supreme Court decided, in *South Dakota v. Wayfair, Inc.*, that state and local jurisdiction may, in certain circumstances, enforce sales and use tax collection obligations on remote vendors that have no physical presence in such jurisdiction. A number of states have already begun, or have positioned themselves to begin, requiring sales and use tax collection from remote vendors. The details and effective dates of these collection requirements vary from state to state. The Company continues to analyze potential sales tax exposure using a state-by-state assessment. In accordance with ASC 450, Contingencies, the Company estimated and recorded a liability of \$1.1 million as of March 31, 2023 and December 31, 2022.

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7. WARRANTS

As a result of the Business Combination, the Company has retroactively adjusted the Legacy SoundHound warrants outstanding and corresponding strike price prior to April 26, 2022 to give effect to the Conversion Ratio used to determine the number of shares of common stock into which they were converted.

Warrants Related to Convertible Notes and Note Payable

In connection with the issuance of the Company's 2021 note payable ("SVB March 2021 Note") and 2021 convertible note ("SCI June 2021 Note"), the Company issued detachable warrants to purchase 708,808 and 354,404 shares of Legacy SoundHound common stock, respectively, with an exercise price of \$3.67 per share to the lenders, which were immediately exercisable.

The Company recorded the warrants initially at fair value as paid-in-capital on the condensed consolidated balance sheets based on the allocation of its relative fair value of the debt proceeds. The fair value in relation to the SVB March 2021 Note was allocated to the notes as a discount. The fair value in relation to the SCI June 2021 Note was capitalized as an asset, as the underlying debt bears similarity to a revolving commitment. As the warrants were classified as equity, they are not subject to remeasurement at the end of each reporting period. The initial allocated fair value of the warrants as of March 31, 2021 and June 14, 2021 was \$2.3 million and \$1.5 million, respectively. The warrants had a ten-year expiration date from the applicable closing date of March 2031 and June 2031, respectively.

On the Closing Date, all outstanding warrants issued in connection to the SVB March 2021 Note and the SCI June 2021 Note were fully net exercised by their respective lenders, leading to a net issuance of 673,416 shares of Class A Common Stock.

Warrants Related to the Business Combination

Public Warrants

Prior to the Business Combination, ATSP issued public warrants ("Public Warrants"). Each Public Warrant entitles the holder to the right to purchase one share of common stock at an exercise price of \$11.50 per share. No fractional shares were issued upon exercise of the Public Warrants. The Company may redeem the outstanding warrants, for \$0.01 per warrant, upon not less than 30 days' prior written notice of redemption given after the warrants become exercisable, if the reported last sale price of the common stock equals or exceeds \$18.00 per share (as adjusted for stock dividends, sub-divisions, reorganizations, recapitalizations and the like) for any 20 trading days within a 30-trading day period commencing after the warrants become exercisable and ending on the third trading day before the Company sends the notice of redemption to the warrant holders. Upon issuance of a redemption notice by the Company, the warrant holders may, at any time after the redemption notice, exercise the Public Warrants for cash, or on a cashless basis.

Subsequent to the closing of the Business Combination, the Company's Public Warrants continue to be classified as equity instruments, as they are indexed to the Company's stock. As of March 31, 2023, there were 3,457,996 Public Warrants issued and outstanding.

Private Warrants

Prior to the Business Combination, ATSP issued private warrants ("Private Warrants"). The Private Warrants were initially issued in the same form as the Public Warrants with the exception that the Private Warrants: (i) would not be redeemable by the Company and (ii) may be exercised for cash or on a cashless basis, so long as they are held by the initial purchasers or any of their permitted transferees. If the Private Warrants are held by holders other than the initial purchasers or any of their permitted transferees, the Private Warrants will be redeemable by the Company and exercisable by the holders on the same basis as the Public Warrants.

Pursuant to ASC 815, the Private Warrants were initially considered a liability instrument as they met the definition of a derivative. Upon the Closing of the Business Combination, the Company modified its Private Warrants to be identical to its

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Public Warrants. Therefore, the Private Warrants met requirements for classification as equity instruments, as they are indexed to the Company's stock. As of March 31, 2023, there were 208,000 Private Warrants issued and outstanding.

8. CONVERTIBLE NOTES AND NOTES PAYABLE

SNAP June 2020 Note

In June 2020, the Company issued a promissory note (the "SNAP June 2020 Note"), to a Lender in exchange for \$15.0 million in cash proceeds. The note had an annual interest rate of 5% and a maturity date of June 26, 2022, if not converted earlier pursuant to applicable conversion terms and change in control events.

As a result of the Business Combination, on the Closing Date, the SNAP June 2020 Note conversion feature was triggered. As a result, on the Closing Date, all outstanding principal of \$15.0 million and accrued interest of \$1.4 million were converted into 2,046,827 shares of Class A Common Stock. In addition, the remaining debt discount of \$0.2 million and related derivative liability with fair value of \$4.1 million as of the Closing Date were extinguished.

SVB March 2021 Note

In March 2021, the Company entered into a loan and security agreement with a commercial bank to borrow \$30.0 million along with the issuance of warrants to purchase shares of Legacy SoundHound's common stock. The SVB March 2021 Note also contains a final payment provision of \$1.1 million. The Company recorded the final payment as an increase to the principal balance and debt discount for the entire payment amount. The Company was amortizing the discounts on an effective interest basis over the period from issuance through the Early Maturity Date (as defined below).

The loan bears interest at an annual rate equal to the greater of 9.00% or 5.75% above the Prime Rate (as defined in the SVB March 2021 Note). As of March 31, 2023, the interest rate was 13.50%. Payments were interest-only for the first twelve months and are now principal and interest through maturity. The Company recorded stated interest expense in the condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2023 of \$0.6 million, of which \$0.2 million remained unpaid as accrued interest at March 31, 2023. During the three months ended March 31, 2022, the Company recorded interest expense of \$0.7 million, of which \$0.2 million remained unpaid as accrued interest at March 31, 2022. The total amount of debt discount at issuance was \$3.5 million. During the three months ended March 31, 2023, the Company recorded a nominal amount in interest expense related to the debt discounts. During the three months ended March 31, 2022, the Company recorded \$1.0 million in interest expense related to the debt discounts.

The original term loan amortization date was April 1, 2022, with an opportunity for a six-month extension if certain performance milestones are met. The original maturity date of the loan was April 26, 2022 ("Early Maturity Date"), with an opportunity for extension to September 2024 or March 2025 if certain performance milestones are met, including the conversion of the SNAP June 2020 Note. In April 2022, the Company entered into a loan modification agreement with Silicon Valley Bank, which extended the note's Early Maturity Date to May 26, 2022 which also extended the period of amortization of the discount. As a result of the Business Combination, the SNAP June 2020 Note converted on the Closing Date and the performance milestone was met, satisfying the requirements to extend the maturity date to September 1, 2024.

SCI June 2021 Note

In June 2021, the Company entered into a loan and security agreement with a lender to obtain credit extensions to the Company. Extensions were available in \$5.0 million increments up to a total commitment amount of \$15.0 million. The Company drew an initial \$5.0 million on June 14, 2021 and the remaining \$10.0 million on December 1, 2021. The SCI June 2021 Note also contains a final payment provision of 3.5% on each draw or \$0.5 million in total. Additionally, warrants were issued with the convertible note to purchase 63,785 shares of Legacy SoundHound's common stock. The warrant's allocated fair value was \$1.5 million at issuance. The Company recorded the final payment as an increase to the principal balance and debt discount for the entire payment amount upon each draw.

The loan bears interest at an annual rate equal to the greater of 9% or 5.75% above the Prime Rate (as defined in the SCI June 2021 Note). As of March 31, 2023, the interest rate was 13.5%. Payments were interest-only for the first twelve

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months and are now principal and interest through maturity. The Company incurred and paid \$0.4 million and \$0.3 million in stated interest in the condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2023 and 2022, respectively.

As the warrants and discounts of \$2.2 million are directly attributable to the total commitment of \$15.0 million, the Company has presented its unamortized debt issuance cost associated with this note as a current asset, recorded as debt issuance cost on the condensed consolidated balance sheets. The Company is amortizing the cost on a straight-line basis from the issuance date through the maturity date of May 31, 2025. The Company recorded a nominal amount and \$0.6 million in interest expense related to the debt discounts during the three months ended March 31, 2023 and 2022, respectively.

The loan amortization date was June 1, 2022, with an opportunity for a six-month extension if certain performance milestones are met. As a result of the Business Combination and the conversion of the SNAP June 2020 Note into the Company's securities on the Closing Date, the maturity date of the SCI June 2021 Note was extended to May 31, 2025.

The following tables summarize the Company's debt balances as of March 31, 2023 and December 31, 2022 (in thousands):

| | March 31, 2023 | | |
|---|-----------------------|----------------------|--------------|
| | SVB | SCI June 2021 | Total |
| | March 2021 | Note | Note |
| Notes payable | \$ 12,000 | \$ 4,869 | \$ 16,869 |
| Notes payable, net of current portion | 7,050 | 6,990 | 14,040 |
| Unamortized loan discount | (46) | — | (46) |
| Total | \$ 19,004 | \$ 11,859 | \$ 30,863 |
| Unamortized debt issuance cost recorded as an asset | \$ — | \$ 265 | \$ 265 |

| | December 31, 2022 | | |
|--|--------------------------|----------------------|--------------|
| | SVB March 2021 | SCI June 2021 | Total |
| | Note | Note | Note |
| Notes payable, current portion | \$ 12,000 | \$ 4,718 | \$ 16,718 |
| Notes payable, net of current portion | 10,050 | 8,261 | 18,311 |
| Unamortized loan discount | (62) | — | (62) |
| Total | \$ 21,988 | \$ 12,979 | \$ 34,967 |
| Unamortized debt issuance costs recorded as an asset | \$ — | \$ 295 | \$ 295 |

9. RESTRUCTURING

In January 2023, the Company announced a restructuring plan (the "Restructuring Plan") intended to reduce operating costs, improve operating margins, improve cash flows and accelerate the Company's path to profitability. The Restructuring Plan included a reduction of the Company's then-current workforce by approximately 40% or 180 positions globally.

Costs associated with the Restructuring Plan consist of employee severance payments, employee benefits and share-based compensation. The total estimated restructuring costs associated with the Restructuring Plan are approximately \$3.8 million and are being recorded to the restructuring expense line item within our condensed consolidated statements of operations as they are incurred. We recorded \$3.6 million of restructuring expenses in connection with the Restructuring Plan during the three months ended March 31, 2023, of which \$1.3 million were cash payments. We expect to incur the estimated

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remaining \$0.2 million through the end of 2023. Any changes to the estimates or timing of executing the Restructuring Plan will be reflected in our future results of operations.

10. PREFERRED STOCK

Legacy SoundHound Preferred Stock

A summary of the Legacy SoundHound Preferred Stock authorized, issued and outstanding as of the date of the Business Combination is as follows:

| | Shares Authorized | Shares Issued | Liquidation Preference | Carrying Value |
|-------------|----------------------|------------------|---------------------------|-------------------|
| Series A | 19,106,048 | 19,106,048 | \$ 28,239 | \$ 4,967 |
| Series B | 33,702,134 | 33,702,134 | 66,360 | 11,038 |
| Series C | 5,687,525 | 5,687,525 | 38,163 | 11,837 |
| Series C-1 | 4,436,090 | 4,436,090 | 89,298 | 16,061 |
| Series D | 20,258,299 | 20,258,299 | 527,992 | 85,648 |
| Series D-1 | 8,418,535 | 8,418,535 | 277,812 | 49,957 |
| Series D-2 | 8,418,530 | 8,418,530 | 277,811 | 49,949 |
| Series D-3 | 6,922,165 | 6,922,165 | 276,887 | 50,046 |
| Series D-3A | 20,835,869 | — | — | — |
| | 127,785,195 | 106,949,326 | \$ 1,582,562 | \$ 279,503 |

Upon the closing of the Business Combination, the outstanding shares of Series A, B, C, C-1, D, D-1, D-2, and D-3 preferred stock were converted into 106,949,326 shares of SoundHound AI Class A Common Stock at the exchange ratio of 5.5562. Shares Authorized and Shares Issued above have been retroactively adjusted to reflect the exchange. As a result of the conversion of the Legacy SoundHound redeemable convertible preferred stock, the Company reclassified the amount of redeemable convertible preferred stock to additional paid in capital.

Upon the consummation of the Business Combination, the Company is authorized to issue 1,000,000 shares of preferred stock with a par value of \$0.0001 per share. The number of authorized shares of preferred stock may also be increased or decreased by the affirmative vote of the holders of a majority of the voting power of all the then-outstanding shares of capital stock of the Company entitled to vote thereon, without a separate vote of the holders of preferred stock. Any new series of preferred stock may be designated, fixed and determined as provided by the Board without approval of the holders of common stock or preferred stock and the preferred stock holders may be granted such rights, powers (including voting powers) and preferences as determined by the Board in its sole discretion, including the right to elect one or more directors.

Series A Preferred Stock

On or around January 20, 2023, the Company entered into the Purchase Agreements with the Investors, pursuant to which the Company issued and sold to the Investors an aggregate of 835,011 shares of its newly designated Series A Convertible Preferred Stock for an aggregate issue price of approximately \$25.0 million. On January 20, 2023, the Company filed a Certificate of Designations of Preferences, Rights and Limitations of the Series A Preferred Stock with the Secretary of State of the State of Delaware (the "Certificate of Designations"), designating 1,000,000 shares of Series A Preferred Stock with an original issue price of \$30.00 per share, which became effective with the Secretary of State of the State of Delaware upon filing. Pursuant to the Certificate of Designations, the Series A Preferred Stock is entitled to dividends payable as an increase in the Liquidation Preference (as defined in the Certificate of Designations) for such share at the rate of 14% per annum, accreting semi-annually to Liquidation Preference on January 1 and July 1 of each year, beginning on July 1, 2023. The Liquidation Preference per share of Preferred Stock is initially equal to \$30.00, the original issue price per share.

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Each share of Series A Preferred Stock is convertible, at the option of the holder, at any time on or after May 2, 2023 into such number of shares of Class A Common Stock equal to the Liquidation Preference per share at the time of conversion divided by \$1.00 (the "Conversion Price"). In addition, each share of Series A Preferred Stock will automatically convert into shares of Class A Common Stock at the Conversion Price on or after January 20, 2024 if and when the daily volume-weighted average closing price per share of Class A Common Stock is at least 2.5 times the Conversion Price for each of any 90 trading days during any 120 consecutive trading day period, which 120-trading day period may commence (but may not end) prior to January 20, 2024. The Conversion Price is not subject to any anti-dilution adjustments. The Company may also elect to pay any dividend in cash in lieu of accretion to Liquidation Preference if permitted under the agreements and instruments governing its outstanding indebtedness at such time.

The Series A Preferred Stock is not entitled to any preemptive rights or registration rights. The Purchase Agreements contain customary representations, warranties and covenants. The shares of Series A Preferred Stock were issued and sold in a private placement exempt from the registration requirements of the Securities Act. The Company does not intend to register the shares of Series A Preferred Stock or the underlying common stock for resale under the Securities Act.

11. COMMON STOCK

The Company had 250,030,433 shares of Legacy SoundHound common stock authorized for issuance prior to the closing of the Business Combination.

On April 26, 2022, following the Business Combination and pursuant to the Company's second amended and restated certificate of incorporation, the Company is authorized to issue 500,000,000 shares of capital stock, consisting of (a) 455,000,000 shares of Class A Common Stock with a par value of \$0.0001 per share, (b) 44,000,000 shares of Class B Common Stock with a par value of \$0.0001 per share, and (c) 1,000,000 shares of preferred stock with a par value of \$0.0001 per share. The outstanding shares of the Company's common stock are fully paid and non-assessable.

As a result of the Business Combination, 73,561,334 shares of Legacy SoundHound common stock, along with 106,949,326 shares of Legacy SoundHound preferred stock, were converted into 180,510,660 shares of the Company's common stock, consisting of 140,114,060 shares of Class A Common Stock and 40,396,600 shares of the Company's Class B Common Stock. On all matters to be voted upon, subject to the rights of any holders of any series of preferred stock, holders of shares of Class A Common Stock and Class B Common Stock will vote together as a single class on all matters submitted to the stockholders for their vote or approval. Holders of Class A Common Stock are entitled to one vote per share on all matters submitted to the stockholders for their vote or approval. Holders of Class B Common Stock are entitled to ten votes per share on all matters submitted to stockholders for their vote or approval.

Each share of Class B Common Stock shall automatically convert into one fully paid and nonassessable share of Class A Common Stock. Shares of Class B Common Stock will be convertible into shares of Class A Common Stock and will be automatically convert into shares of Class A Common Stock upon the occurrence of certain future events, generally including transfers, subject to limited exceptions set forth in the amended charter. The conversion of Class B Common Stock to Class A Common Stock will have the effect, over time, of increasing the relative voting power of those holders of Class B Common Stock who retain their shares in the long term. As a result, it is possible that one or more of the persons or entities holding our Class B Common Stock could gain significant voting control as other holders of Class B Common Stock sell or otherwise convert their shares into Class A Common Stock.

Equity Line of Credit ("ELOC")

On August 16, 2022, the Company entered into a common stock purchase agreement (the "Common Stock Purchase Agreement") and related registration rights agreement (the "CFPI Registration Rights Agreement") with CF Principal Investments LLC ("CFPI"). Pursuant to the Common Stock Purchase Agreement, the Company, has the right to sell to CFPI up to the lesser of (i) 25,000,000 shares of Class A Common Stock and (ii) the Exchange Cap (as defined in the Common Stock Purchase Agreement), subject to certain limitations and conditions set forth in the Common Stock Purchase Agreement (the "ELOC Shares"). On February 14, 2023, the Company's Registration Statement on Form S-1 registering the resale of the ELOC Shares (the "ELOC Registration Statement") was declared effective. On March 31, 2023, a post-effective amendment to the ELOC Registration Statement was declared effective. The Company has utilized and expects to

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continue to utilize proceeds from the ELOC for working capital and other general corporate purposes. Through March 31, 2023, the Company had sold approximately 10.7 million shares under the ELOC program for aggregate proceeds of approximately \$28.7 million.

The purchase price of the shares that the Company elects to sell to CFPI pursuant to the Common Stock Purchase Agreement will be the volume weighted average price of the Class A Common Stock during the applicable purchase date on which the Company has timely delivered written notice to CFPI directing it to purchase the shares under the Common Stock Purchase Agreement. The Company will receive 97% of the volume weighted average price of the Class A Common Stock so sold.

In connection with the execution of the Common Stock Purchase Agreement, the Company issued CFPI 250,000 shares as consideration for its irrevocable commitment to purchase the ELOC Shares upon the terms and subject to the satisfaction of the conditions set forth in the Common Stock Purchase Agreement. The Company incurred a total of \$0.8 million in costs related to the execution of the Common Stock Purchase Agreement and the issuance of the initial commitment shares and such amount was initially recorded as deferred stock issuance costs. Such deferred stock issuance costs are being charged proportionally against the gross proceeds from shares issued and sold to CFPI based upon the total number of shares which the Company has the right to sell under the Common Stock Purchase Agreement.

12. OTHER INCOME (EXPENSE), NET

Other income (expense), net on the condensed consolidated statements of operations and comprehensive loss is comprised of the following for the three months ended March 31, 2023 and 2022 (in thousands):

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2023 | 2022 |
| Other income (expense), net | | |
| Interest income | \$ 157 | \$ 2 |
| Change in fair value of derivative liability | — | (592) |
| Other expense, net | (63) | (467) |
| Total other income (expense), net | \$ 94 | \$ (1,057) |

13. NET LOSS PER SHARE

The following table presents the calculation of basic and diluted net loss per share attributable to common stockholders for the three months ended March 31, 2023 and 2022:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2023 | 2022 |
| Numerator: | | |
| Net loss (in thousands) | \$ (26,369) | \$ (25,103) |
| Denominator: | | |
| Weighted average shares outstanding – basic and dilutive | 205,082,328 | 69,604,188 |
| Basic and diluted net loss per share | \$ (0.13) | \$ (0.36) |

For the three months ended March 31, 2023 and 2022, the diluted earnings per share is equal to the basic earnings per share as the effect of potentially dilutive securities would have been antidilutive.

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The following table summarizes the outstanding shares of potentially dilutive securities that were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive for the three months ended March 31, 2023 and 2022:

| | As of March 31, | |
|--|------------------------|--------------------|
| | 2023 | 2022 |
| Stock options | 21,669,941 | 28,000,691 |
| Restricted stock units | 12,589,404 | 2,014,979 |
| Issuance of common stock upon conversion of Series A Preferred Stock | 25,050,330 | — |
| Common stock warrants | 3,665,996 | 1,063,213 |
| Estimated ESPP stock units | 476,636 | — |
| Redeemable convertible preferred stock | — | 106,949,326 |
| Total | 63,452,307 | 138,028,209 |

14. INCOME TAXES

The tax expense and the effective tax rate were as follows (in thousands):

| | Three Months Ended March 31, | |
|--------------------------|---|-------------|
| | 2023 | 2022 |
| Loss before income taxes | \$ (26,040) | \$ (24,751) |
| Income tax expense | 329 | 352 |
| Effective tax rate | (1.26)% | (1.42)% |

The Company's recorded effective tax rate differs from the U.S. statutory rate primarily due to an increase in the domestic valuation allowance caused by tax losses, foreign withholding taxes and foreign tax rate differentials from the U.S. domestic statutory tax rate.

15. RELATED PARTY TRANSACTIONS

The Company entered into revenue contracts to perform professional services for certain companies who are also investors in the Company. These companies are holders of the Company's Class A Common Stock. As a result of the Business Combination during the second quarter of 2022, each company's ownership interest in the Company was reduced to less than 5%. Consequently, considering all aspects of our relationships with the companies, as of June 30, 2022, the Company no longer considers the companies related parties. During the three months ended March 31, 2022, the Company recognized revenue from the companies of \$2.2 million.

On January 20, 2023, our Chief Financial Officer and one of our directors each entered into Purchase Agreements, purchasing 3,334 shares of Series A Preferred Stock each for a total purchase price of \$100,000 each.

16. SUBSEQUENT EVENT

Term Loan

On April 14, 2023 (the "Term Loan Closing Date"), the Company entered into a Senior Secured Term Loan Credit Agreement (the "Credit Agreement") with ACP Post Oak Credit II LLC, as Administrative Agent and Collateral Agent for the Lenders (the "Agent"), and the lenders from time to time party thereto (the "Lenders"). The Credit Agreement provides for a term loan facility in an aggregate principal amount of up to \$100.0 million (the "Term Loan"), the entirety of which was funded on the Term Loan Closing Date. The Credit Agreement also permits the Company to request additional

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commitments of up to \$25.0 million in the aggregate, with funding of such commitments in the sole discretion of the Lenders, under certain circumstances and under the same terms as the Term Loan. On the Term Loan Closing Date, the Company also entered into that certain Guarantee and Collateral Agreement, dated as of April 14, 2023, by and among the Company, the other grantors named therein and the Agent (the “Guarantee and Collateral Agreement”). In addition, on the Term Loan Closing Date, a collateral protection insurance policy was issued to the Lenders and a cash premium was paid on the Term Loan Closing Date to the insurance provider thereunder (the “Cash Premium”). Pursuant to the Credit Agreement, the Company is required to make certain additional specified cash premium payments, based on single-digit percentages of the loans then outstanding, over a period of three years from the Term Loan Closing Date.

The Company used the proceeds from the Term Loan to (i) repay outstanding amounts equal to approximately \$30.0 million under the Company’s existing loan facilities, (ii) fund an escrow account on the Term Loan Closing Date in the name of the Agent for an amount equal to the first four interest payments, (iii) pay certain fees and expenses incurred in connection with entering into the Credit Agreement, and (iv) fund the Cash Premium, together with related taxes, with the remaining proceeds to be used to fund growth investments and for general corporate purposes as permitted under the Credit Agreement.

The outstanding principal balance of the Term Loan bears interest at the applicable margin plus, at the Company’s election, either (i) the secured overnight financing rate (“SOFR”) plus 0.15% or (ii) the alternate base rate (“ABR”), which is a per annum rate equal to the greatest of (a) the Prime Rate (as defined in the Credit Agreement), (b) the NYFRB Rate (as defined in the Credit Agreement) plus 0.50% and (c) the Adjustable Rate (as defined in the Credit Agreement) plus 1.00%. The applicable margin under the Credit Agreement is 8.50% per annum with respect to SOFR loans, and 7.50% per annum with respect to ABR loans.

Subject to certain exceptions as set forth in the Credit Agreement, interest on the Term Loan is payable quarterly in arrears on the last business day of each fiscal quarter. The Term Loan is set to mature on April 14, 2027 (the “Maturity Date”). The Credit Agreement provides for no scheduled principal amortization prior to the Maturity Date.

The Term Loan is secured by substantially all of the assets of the Company and its subsidiaries other than the assets of Excluded Subsidiaries (as defined in the Credit Agreement) and is guaranteed by the Company’s subsidiaries other than Excluded Subsidiaries. As set forth in more detail in the Credit Agreement, the Company is required to make mandatory prepayments on the Term Loan in the event of certain specified events, including in the event of certain capital raises by the Company and its subsidiaries. The Company may also prepay amounts under the Term Loan, subject to certain costs and conditions specified in the Credit Agreement.

The Credit Agreement also contains customary representations and warranties for a facility of this nature and affirmative and negative covenants. In particular, the Credit Agreement requires the Company to have liquidity at least equal to the Interest Escrow Required Amount (as defined in the Credit Agreement) as of the last day of each fiscal quarter. In addition, the Credit Agreement limits the Company’s and its subsidiaries’ ability to incur indebtedness, make restricted payments, including cash dividends on its common stock, make certain investments, loans and advances, enter into mergers and acquisitions, sell, assign transfer or otherwise dispose of its assets, enter into transactions with its affiliates and engage in sale and leaseback transactions, among other restrictions.

The Credit Agreement includes customary events of default, including, but not limited to, nonpayment of principal or interest, breaches of representations and warranties, failure to perform or observe covenants, cross-defaults with certain other indebtedness, final judgments or orders, certain change of control events, and certain bankruptcy-related events or proceedings. Upon the occurrence of an event of default (subject to notice and grace periods), obligations under the Credit Agreement could be accelerated.

In connection with the Credit Agreement, on the Term Loan Closing Date the Company also issued a warrant to purchase up to 3,301,536 shares of the Company’s Class A common stock to the Agent (the “Term Loan Warrant”). The Term Loan Warrant has a per share exercise price of \$2.59 and may be exercised, including on a cashless basis, by the holder at any time prior to the 10-year anniversary of the issue date. The Term Loan Warrant will be automatically cashless exercised immediately prior to a change in control of the Company.

SOUNDHOUND AI, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Concurrently with the Company's entry into the Credit Agreement, the Company used a portion of the proceeds to prepay in full all outstanding obligations under, and terminated, the SCI June 2021 Note and the SVB March 2021 Note. In connection with the SCI June 2021 Note prepayment, the Company paid a total of approximately \$11.7 million, which consisted of (i) the remaining principal amount outstanding of approximately \$11.0 million, (ii) a prepayment premium of approximately \$0.2 million, (iii) a final payment fee of approximately \$0.5 million, and (iv) the remainder for transaction expenses. In connection with the SVB March 2021 Note prepayment, the Company paid a total of approximately \$18.5 million, which consisted of (i) the remaining principal amount outstanding of \$17.0 million, (ii) a prepayment premium of \$0.3 million, (iii) a final payment fee of approximately \$1.1 million, (iv) approximately \$0.1 million of accrued and unpaid interest, and (v) the remainder for transaction expenses.

Equity Line of Credit (ELOC)

Through April 30, 2023, the Company had sold approximately 12.7 million shares under the ELOC program for aggregate proceeds of approximately \$34.4 million.

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

The following discussion and analysis of the financial condition and results of operations of SoundHound should be read together with our unaudited interim condensed consolidated financial statements as of March 31, 2023 and for the three month periods ended March 31, 2023 and 2022, together with related notes thereto, and our audited financial statements included in Form 10-K, which was filed with the SEC on March 28, 2023. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to SoundHound’s plans and strategy for its business and related financing, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the “Risk Factors” and “Cautionary Statement Regarding Forward Looking Statements” section of this report, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. Unless otherwise indicated or the context otherwise requires, references in this section to “SoundHound,” “we,” “us,” “our” and other similar terms refer to SoundHound AI, Inc.

Company Overview

We are a leading innovator of conversational intelligence, offering an independent Voice AI platform that enables businesses across industries to deliver high-quality conversational experiences to their customers. Built on proprietary Speech-to-Meaning, Deep Meaning Understanding, Collective AI, Dynamic Interaction and Chat AI breakthrough technologies developed over the past 17 years, our advanced Voice AI platform provides exceptional speed and accuracy and enables humans to interact with products and services like they interact with each other — by speaking naturally.

We believe voice-enabled conversational user interface is a more natural interface for nearly all use cases, and product creators should have the ability to design, customize, differentiate, innovate and monetize the interface to their own product, as opposed to outsourcing it to a third-party assistant. For example, using SoundHound, businesses can voice-enable their products so consumers can say things like, “Turn off the air conditioning and lower the windows,” while in their cars, “Find romantic comedies released in the last year,” while streaming on their TV and even place food orders before arriving at a restaurant by talking to their cars, TVs or other IoT devices. Additionally, SoundHound’s technology can address complex user queries such as, “Show me all restaurants within half a mile of the Space Needle that are open past 9pm on Wednesdays and have outdoor seating,” and follow-on qualifications such as “Okay, don’t show me anything with less than 3 stars or fast food.”

The SoundHound developer platform, Houndify, is an open-access platform that allows developers to leverage SoundHound’s Voice AI technology and a library of over 100 content domains, including commonly used domains for points of interest, weather, flight status, sports and more. SoundHound’s Collective AI is an architecture for connecting domain knowledge that encourages collaboration and contribution among developers. The architecture is based on proprietary software engineering technology, CaiLAN (Conversational AI Language), and machine learning technology, CaiNET (Conversational AI Network) to ensure fast, accurate and appropriate responses.

SoundHound’s technology is live in production and at scale with companies around the globe, including Hyundai, Mercedes-Benz, Pandora, Snap, VIZIO, Square, Toast, Oracle, KIA and Stellantis. We have seen significant inflection in customer adoption of our technology, as measured through activity on our platform, which surpassed 1 billion annual queries in 2021 and experienced over 85% growth during 2022.

Our current partners span multiple industries and geographies, and together have a combined reach of over 2 billion end users.

Our market position is strengthened by the technical barriers to entry in the Voice AI space, which tend to discourage new market participants. Furthermore, our technology is backed by significant investments in intellectual property, with over 120 patents granted and over 140 patents pending, spanning multiple fields including speech recognition, natural language understanding, machine learning, monetization and more. We have achieved this critical momentum in part thanks to a long-tenured leadership team with deep expertise and proven ability to attract and retain talent. We believe that SoundHound has extensive technical expertise and a proven track record of innovation and value creation for us to continue to attract customers in the growing market for Voice AI transactions, which is estimated to grow to \$160 billion per year by 2026.

We believe that SoundHound is well-positioned to fill the growing void and demand for an independent Voice AI platform. The Voice AI offerings from big tech companies are primarily an extension of their more core services and offerings. Rather than strengthening a customer’s product, it can take over the entire experience, thus disintermediating the

company's brand, users and data. As a result, brands relying on big tech mostly lose their ability to innovate, differentiate and customize. In some cases, these providers even compete with the products they support, making them increasingly less attractive as a choice for a voice interface.

The alternative options are generally legacy vendors tending to use dated technologies at a high price. Furthermore, many of these technologies still require significant effort by the product creators to turn them into solutions that can compete with the quality of the big tech offering, which in many cases is not practical. Due to the high barrier to entry in Voice AI, there are not many independent players.

This creates a great opportunity for SoundHound: we believe that we provide disruptive technologies that are superior to the alternatives, with better terms, allowing customers to maintain their brand, control the user experience, get access to the data and define their own privacy policies, while being able to customize, differentiate, innovate and monetize.

When it comes to criteria for adoption, our goal is to win on every dimension. The first two criteria customers typically consider are technology and brand control. We strive to provide our customers with the best technology, and we provide a white label solution giving our customers control of their brands. In some industries you may have to choose between technology and brand control. In our case, we offer our customers the best of both, we enable them to offer disruptive technologies to their users while maintaining control of their brand and user experience.

With our disruptive monetization strategy, we also provide an additional path to monetization for our customer base. By choosing our platform, product creators can generate additional revenue while making their product better using Voice AI, providing further incentive to choose our platform.

We believe that we offer a superior ecosystem, benefiting from our Collective AI product architecture along with offering customers definable privacy controls, which are becoming increasingly important in the industry of Voice AI. Additionally, there is no conflict of interest between us and our partners and customers as we do not compete with them (as some other Voice AI vendors do). We also offer edge and hybrid solutions. This means our technology can optionally run without a cloud connection for increased flexibility and privacy. Our focus is on delivering the most advanced Voice AI in the world and thus allowing our partners to differentiate and innovate their overall experiences for their brands.

We strongly believe that product creators know their product and users best. The idea of a single third-party assistant taking over their product is not reflective of our anticipated future. We envision that every product will have its own identity, and they will have Voice AI customized in different ways. They can each tap into a single Collective AI to access the ever-growing set of domains, but the product creators can innovate on top of Collective AI and create value for the end users in their own way. This is the future that we are focusing on enabling.

When a product is voice enabled, we see three stages of integration and value propositions. The first stage is to enable the core use cases of the product. For example, the product could be a TV, a coffee machine, a car, a wearable device, a robot, a smart speaker or an appliance, and with your voice you can control the functionality of the device and the product. On a TV, you can ask it to change the channel, increase the volume, rewind by 30 seconds, search for movies and even add personalization by adding a TV show to your favorites. Note that this is different from adding a third-party voice assistant to the product. Our view is that every product needs to have an interface, and voice-AI is a natural and compelling interface that unlocks new use cases and potential. Consider just the simple example of rewinding or fast forwarding by a specific duration. That is a command that can be done with voice within a few seconds, but it can take many steps to do using alternative interfaces such as a remote control or a companion app.

Once the core features of a product are voice-enabled, it can be further enhanced in the second stage of integration: the addition of third-party content and domains. SoundHound has extensive partnerships with content providers and, through these partnerships, can fulfill many needs of our customers. For example, your TV, car or even a coffee machine can answer questions about weather, sports scores, stock prices or flight status, and even search for local businesses. The addition of these public domains further enhances the value proposition of the product.

Finally, as the third step, you enter the world of monetization where you can add features that deliver value to the end user, and also generate revenues that we share with the product creators. To summarize with an example, imagine walking up to your coffee machine and asking for a triple shot extra hot latte. While you are waiting for your drink, you can ask for weather and sports scores, and if you desire, you can even order bagels from your favorite nearby bakery.

There are three pillars to our revenue model. The first pillar is Product Royalties, where we voice enable a product and the product creator pays us a royalty based on volume, usage or duration. SoundHound collects royalties when Houndify is placed in a car, smart speaker or an appliance, for example.

The second pillar is Service Subscription. This is when, for example, SoundHound enables customer service or food ordering for restaurants or content management, appointments and voice commerce. And, for that, we generate subscription revenue from the service providers. Pillars one and two can grow independently and they are proven, established business models.

The third pillar creates a monetization ecosystem that brings the services from pillar two to the products in pillar one. When the users of a voice-enabled product in pillar one access the voice-enabled services of pillar two, these services generate new leads and transactions. SoundHound generates monetization revenue from the services for generating these leads and transactions, and we will share the revenue with the product creators of pillar one. For example, when the driver of a voice-enabled car places an order to a restaurant that's also voice enabled, we will have unlocked a seamless transaction. Accordingly, the restaurant will pay us for that order, and we will share that revenue with the product creator or the car manufacturer. In this example, each party receives value in the ecosystem. The restaurant is happy because they generated a new lead and booked a sale. The user is happy because they have received value through a natural ordering process, simply by speaking to their car. And the car manufacturer is happy because they delivered value to the end user and generated additional revenue from the usage of their product. During the periods presented in the condensed consolidated financial statements, we have not generated revenue from leads and transactions on voice-enabled products from voice-enabled services other than from the SoundHound music identification app. Going forward, SoundHound expects monetization revenue to be generated through a combination of advertising revenue from the music identification app and from leads and transactions on voice-enabled products from voice-enabled services.

We expect this disruptive, three-pillar business model will create a monetization flywheel; as more products integrate into our platform, more users will use it and more services will choose to integrate as well. This creates even more usage, and results in a flow of revenue share to product creators, which further encourages even greater adoption and integration with our platform and the cycle will perpetually continue and expand. This ecosystem increases adoption and increases our addressable market. All three pillars contribute to our revenues today in 2023. While the majority of the contribution is currently from our first pillar of royalties, over time, the subscription and monetization portions are expected to grow and make a bigger contribution to our overall revenue.

Known Trends, Demands, Commitments, Events or Uncertainties Impacting Our Business

SoundHound believes that its performance and future success depend on many factors that present significant opportunities for us but also pose risks and challenges, including the following:

- **Investments in Technology.** Our business model since inception has been to invest significantly in our Houndify platform technology in the form of dedicated research and development. We will continue to invest in the development of our software platform to deliver consumers with continually improving value and delight. Our investments include continuous enhancements to our ASR and NLU models, investments in data to help refine and improve our underlying algorithms, and other costs to attract and retain a world-class technical workforce.
- **Revenue Growth.** Our commercial success, including acceptance and use of our applications, will depend on a number of factors, some of which are beyond our control, such as size of the market opportunity, successful integration with original equipment manufacturers ("OEM"), competition and demand from the public and members of the conversational AI community. Our product offerings have disruptive effects in the ways human interact with computers and we are developing new, innovative economic models that we believe will enhance value to customers, partners and shareholders. For our revenue growth to continue, we will need to invest in sales and marketing to ensure our messaging, capabilities and offerings are well understood and valued by customers. With our primary focus on enterprise customers, we also need to align with enterprise sales cycles, which can be longer than consumer cycles. Additionally, as we build new customer relationships, we continually focus on maintaining and growing our existing relationships through long-term partnerships through significant upfront investment in customer specific engineering projects. Our revenue consists of subscription revenue, royalties, and monetization revenues, which we consider recurring if our customer contract does not terminate the relationship and we continue to provide the customer with same or other services in the subsequent year. For example, if we perform a one-time non-recurring engineering project for a customer and that same customer engages with us afterwards for a Product Royalty contract, the revenue in both years, regardless of the specific service, would

contribute towards our overall customer retention rate. By contrast, if SoundHound provides an annual subscription contract to a customer and that customer does not execute an agreement for services for the subsequent annual period, SoundHound would not consider that customer as retained. As determined on the foregoing basis, based on the number of customers to whom we provide services during one year compared to the prior year period, our customer retention rate as of December 31, 2022 was greater than 80%

- **Cost of Revenues.** The results of our business will depend in part on our ability to establish and increase our gross margins by scaling our business model and effectively managing our costs to produce our applications. Our revenue will be directly supported by data center investments in technology, both on premise and in the cloud. The associated workloads, along with supporting labor costs, will need to be managed effectively as we scale to improve our margins over time. Our Houndify platform is also powered by a library of over 100 content domains, including commonly used domains for points of interest, weather, flight status, sports and more.
- **Seasonality.** Our ability to accurately forecast demand for our technology could be negatively affected by many factors, including seasonal demand. We anticipate that we will experience fluctuations in customer and user demand based on seasonality. Given that we address markets across several different industry verticals, the associated overall seasonality impact to us may not be consistent year-to-year.
- **Development of International Markets.** We have rapidly expanded our capabilities and global reach. We have globalized our solution from 1 to 25 languages. We view opportunities for conversational Voice AI to be global in reach, and we expect our growth to be fueled across multiple geographies.
- **Industry Risks.** In addition to the COVID-19 pandemic as addressed herein, the military conflict between Russia and Ukraine, which began on February 24, 2022, has had an adverse impact on the global economy and financial markets. Although our business has not been materially impacted by this ongoing military conflict, it is impossible to predict the extent to which our operations, or those of our customers' suppliers and manufacturers, will be impacted in the short and long term, or the ways in which the conflict may impact our business. The extent and duration of the military action, sanctions and resulting market disruptions are impossible to predict but could be substantial. Further, inflation has risen significantly worldwide and the United States has recently experienced historically high levels of inflation. This inflation and government efforts to combat inflation, such as recent and future significant increases to benchmark interest rates and other related monetary policies, have and could continue to increase market volatility and have an adverse effect on the domestic and international financial markets and general economic conditions.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with U.S. GAAP for the three months ended March 31, 2023 and 2022.

Components of Our Results of Operations

Revenues

SoundHound generates revenues through: (1) "Product Royalties," meaning royalties from voice-enabled products which are driven by volume, usage or life of applicable products and are affected by number of devices, users and units of usage time, (2) "Service Subscriptions," meaning subscription revenues, derived from monthly fees based on usage-based revenue, revenue per query or revenue per user, and (3) "Monetization," meaning revenues generated from focused ad targeting to users of products and services that employ our technologies. Currently, our monetization revenue is derived from our music identification application primarily in the form of ad impression revenue — revenue generated when an ad is shown in our music identification app — and, to a lesser extent, affiliate revenue for referrals to music stores for content sales and downloads of our premium music application.

"Houndified Products," meaning products of our customers that employ SoundHound technology, and "Houndified Services," meaning services provided to customers related to SoundHound technology, provide our customers with access to our Houndify platform over a contractual period without taking possession of the software. This generally includes revenues derived from up-front services ("professional services") that develop and customize the Houndify platform to fit customers' specific needs. These professional services are included in both our Product Royalties and Service Subscriptions revenues. Non-distinct professional services are recognized over the contractual life of the contract, whereas

revenues from distinct professional services are recognized as the services are performed or when the services are complete depending on the arrangement.

We have and may continue to experience volatility for our remaining performance obligations and deferred revenue as a result of the timing for completing our performance obligations. We had remaining performance obligations in the amount of \$18.4 million as of March 31, 2023, consisting of both billed and unbilled consideration. Deferred revenue consists of billings or payments received in advance of revenue being recognized and can fluctuate with changes in billing frequency and other factors. As a result of these factors, as well as our mix of revenue streams and billing frequencies, we do not believe that changes in our remaining performance obligations and deferred revenue in a given period are directly correlated with our revenue growth in that period.

We anticipate that we will experience fluctuations in our revenues from quarter-to-quarter due to a variety of factors, including the supply and demand of end user products such as automobiles, the size and success of our sales force and the number of users who are aware of and use our applications. See Note 4 to our unaudited condensed consolidated financial statements included within this report for more information.

Operating Expenses

We classify our operating expenses into the following four categories, which are cost of revenues, sales and marketing, research and development, and general and administrative. Excluding cost of revenues, each expense category includes overhead, including rent and related occupancy costs, which is allocated based on headcount. Although we expect our operating expenses in these categories to moderate significantly as a result of the Restructuring Plan, we plan to continue investing to support our go-to-market strategies and customer engagement, develop our current and future applications and support our operations as a public company.

Cost of Revenues

SoundHound's cost of revenues are comprised of direct costs associated directly with SoundHound's revenue streams as described above. This primarily includes costs and depreciation related to hosting for cloud-based services, such as data centers, electricity charges, content fees and certain personnel-related expenses that are directly related to these revenue streams.

Sales and Marketing

Sales and marketing expenses consist of personnel-related expenses related costs of the sales and marketing team, promotional campaigns, advertising fees and other marketing related costs. Advertising costs are expensed to sales and marketing when incurred.

Research and Development

Our research and development expenses are our largest operating expense as we continue to develop our software platforms and produce new technological capabilities.

The costs of these activities consist primarily of personnel-related expenses, third-party consultants and costs associated with technological supplies and materials, along with other direct and allocated expenses such as facility costs, depreciation and other shared expenses. We expense research and development costs in the periods in which they are incurred.

General and Administrative

General and administrative expenses consist of personnel-related costs, accounting and legal expenses, third-party consulting costs, insurance and allocated overhead including rent, depreciation and utilities.

Interest Expense

Interest expense consists of stated interest incurred on our outstanding convertible notes and debt during the relevant periods, as well as the amortization of debt discounts and issuance costs over the life of the instruments or a shorter period if a lender can demand payment in the event certain events occur that are outside of the control of the Company.

The issuance of debt instruments with direct transaction costs and the bifurcation of embedded derivatives and warrant instruments has resulted in debt discounts. Direct transaction costs consist of various transaction fees, such as bank and legal fees, that are incurred upon issuance. Overall, the discounts from debt issuance costs result in an increased amount of interest expense over the amortization period.

As a result of entering into the Term Loan on April 14, 2023, we expect our interest expense to increase substantially beginning during the second quarter of 2023 due to an increase in stated interest as well as the amortization of any related debt issuance costs and discounts.

Other Income (Expense), Net

Other income (expense), net consists of the change in fair value related to our derivative liability, interest income and other expense, net.

Provision for Income Taxes

Income tax expense includes federal, state and foreign taxes and is based on reported income before income taxes. We are in a cumulative loss position for tax purposes based on historical earnings. As of December 31, 2022, the Company had net operating loss carry forwards of approximately \$344.6 million and \$106.9 million available to reduce future taxable income, if any, for both federal and state income tax purposes, respectively. The federal and state net operating loss carry forwards will start to expire in 2025 and 2028, respectively, with the exception of \$256.0 million in federal net operating loss carryforwards, which can be carried forward indefinitely.

The Company also had federal and state research and development credit carry forwards of approximately \$11.4 million and \$9.1 million, respectively, at December 31, 2022. The federal credits will expire starting in 2029 if not utilized. State research and development tax credits can be carried forward indefinitely.

Under Sections 382 and 383 of the Internal Revenue Code of 1986 and similar state tax laws, utilization of net operating loss carryforwards and tax credits may be subject to annual limitations due to certain ownership changes. The Company's net operating loss carryforwards and tax credits could expire before utilization if subject to annual limitations.

Results of Operations

The following table sets forth the significant components of our results of operations for the three months ended March 31, 2023 and 2022 (\$ in thousands):

| | Three Months Ended March 31, | | Change | |
|--|---------------------------------|-------------|------------|-------|
| | 2023 | 2022 | \$ | % |
| Revenues | \$ 6,707 | \$ 4,290 | \$ 2,417 | 56 % |
| Operating expenses: | | | | |
| Cost of revenues | 1,976 | 1,773 | 203 | 11 % |
| Sales and marketing | 4,875 | 2,581 | 2,294 | 89 % |
| Research and development | 14,184 | 16,650 | (2,466) | (15)% |
| General and administrative | 7,125 | 4,003 | 3,122 | 78 % |
| Restructuring | 3,585 | — | 3,585 | * |
| Total operating expenses | 31,745 | 25,007 | 6,738 | 27 % |
| Loss from operations | (25,038) | (20,717) | (4,321) | 21 % |
| Other expense, net: | | | | |
| Interest expense | (1,096) | (2,977) | 1,881 | (63)% |
| Other income (expense), net | 94 | (1,057) | 1,151 | * |
| Total other expense, net | (1,002) | (4,034) | 3,032 | (75)% |
| Loss before provision for income taxes | (26,040) | (24,751) | (1,289) | 5 % |
| Provision for income taxes | 329 | 352 | (23) | (7)% |
| Net loss | \$ (26,369) | \$ (25,103) | \$ (1,266) | 5 % |

* Not meaningful

Revenues

The following tables summarize our revenues by type and geographic regions for the three months ended March 31, 2023 and 2022 (\$ in thousands):

| | Three Months Ended March 31, | | Change | |
|-----------------------|---------------------------------|----------|----------|-------|
| | 2023 | 2022 | \$ | % |
| Product royalties | \$ 6,176 | \$ 3,709 | \$ 2,467 | 67 % |
| Service subscriptions | 391 | 373 | 18 | 5 % |
| Monetization | 140 | 208 | (68) | (33)% |
| Total | \$ 6,707 | \$ 4,290 | \$ 2,417 | 56 % |

| | Three Months Ended March 31, | | Change | |
|---------------|---------------------------------|----------|----------|-------|
| | 2023 | 2022 | \$ | % |
| United States | \$ 786 | \$ 852 | \$ (66) | (8)% |
| Japan | 937 | 927 | 10 | 1 % |
| Germany | 1,788 | 683 | 1,105 | 162 % |
| France | 730 | 459 | 271 | 59 % |
| Korea | 2,259 | 949 | 1,310 | 138 % |
| Other | 207 | 420 | (213) | (51)% |
| Total | \$ 6,707 | \$ 4,290 | \$ 2,417 | 56 % |

Total revenues increased by \$2.4 million, or 56%, in the three months ended March 31, 2023 compared to the same period in 2022. The increase was primarily attributable to an increase in royalty revenue from Houndified Products in automotive vehicles of \$1.8 million. The increase in automotive royalty revenue is reflected in the revenue increases in the geographic regions of Korea, Germany and France.

Cost of Revenues

Cost of revenues increased by \$0.2 million, or 11%, in the three months ended March 31, 2023, compared to the same period in 2022. The increase was primarily related to incurring additional data center and hosting costs in order to support our revenue growth. Gross margin increased to 71% during the three months ended March 31, 2023 compared to 59% during the same period in 2022 as our revenue continues to scale and we begin to benefit from efficiencies related to our data center and hosting migrations. While our gross margin may continue to fluctuate in the near-term due to revenue contributions from varying product mixes, we expect it will stabilize as we expand our revenue from subscriptions and monetization.

Sales and Marketing

Sales and marketing expenses increased by \$2.3 million, or 89%, in the three months ended March 31, 2023, compared to the same period in 2022. The increase was primarily due to increased compensation and other benefits expense of approximately \$1.5 million, and increased program spend to support a greater investment in go-to-market strategies and customer engagement and drive growth in our revenue from subscriptions and monetization during the three months ended March 31, 2023. Our sales and marketing headcount increased by approximately 33% during the three months ended March 31, 2023, when compared to the same period in 2022, despite the impacts from the Restructuring Plan.

Research and Development

Research and development expenses decreased by \$2.5 million, or 15%, in the three months ended March 31, 2023, compared to the same period in 2022. The decrease in research and development expenses was primarily due to our restructuring efforts as we reduced research and development headcount by approximately 45%, which was accompanied by reduced compensation and other benefits expense of approximately \$2.2 million, and reduced consulting fees by approximately \$1.0 million in the three months ended March 31, 2023, compared to the same period in 2022.

General and Administrative

General and administrative expenses increased by \$3.1 million, or 78%, in the three months ended March 31, 2023, compared to the same period in 2022. The increase in general and administrative expenses was primarily due to increased compensation and other benefits expense of approximately \$1.9 million in the three months ended March 31, 2023, compared to the same period in 2022. Additionally, legal and other professional fees and directors and officers insurance expense each increased by approximately \$0.7 million during the three months ended March 31, 2023, compared to the same period in 2022.

Restructuring

Restructuring expenses were \$3.6 million in the three months ended March 31, 2023 as a result of the Restructuring Plan compared to no restructuring expenses in the same period in 2022. See "Liquidity and Capital Resources - Restructuring" for additional information.

Interest Expense

Interest expense decreased by \$1.9 million, or 63%, in the three months ended March 31, 2023 compared to the same period in 2022. The decrease in interest expense was primarily attributable to reduced interest expense of approximately \$0.8 million and \$0.5 million on the SVB March 2021 Note and SCI June 2021 Note, respectively, related to reduced amortization of debt discounts and debt issuance costs. Additionally, during the three months ended March 31, 2023, we recognized no interest expense on the SNAP June 2020 Note compared to \$0.5 million during the same period in 2022 due to the conversion of the note into Class A Common Stock on April 26, 2022 as a result of the Business Combination.

Other Income (Expense), Net

The following tables summarize our other income (expense), net, by type (in thousands):

| | Three Months Ended March 31, | | Change | |
|--|---------------------------------|------------|----------|--------|
| | 2023 | 2022 | \$ | % |
| Interest income | \$ 157 | \$ 2 | \$ 155 | 7750 % |
| Change in fair value of derivative liability | — | (592) | 592 | * |
| Other expense, net | (63) | (467) | 404 | (87)% |
| Other income (expense), net | \$ 94 | \$ (1,057) | \$ 1,151 | * |

* Not meaningful

Other income (expense), net was \$0.1 million in the three months ended March 31, 2023 compared to \$(1.1) million during the same period in 2022. The change was primarily attributable to the increase in fair value of the Snap June 2020 Note derivative liability of \$0.6 million during the three months ended March 31, 2022 compared to no change during the same period in 2023 as the derivative liability was extinguished as a result of the Business Combination.

Provision for Income Taxes

(in thousands)

| | Three Months Ended March 31, | | Change | |
|--------------------|---------------------------------|--------|---------|------|
| | 2023 | 2022 | \$ | % |
| Income tax expense | \$ 329 | \$ 352 | \$ (23) | (7)% |

The Company's recorded effective tax rate differs from the U.S. statutory rate primarily due to an increase in the domestic valuation allowance caused by tax losses, foreign withholding taxes and foreign tax rate differentials from the U.S. domestic statutory tax rate.

Liquidity and Capital Resources

Total cash and cash equivalents on hand as of March 31, 2023 was \$46.3 million. Although the Company has incurred recurring losses each year since its inception, the Company expects it will be able to fund its operations for at least the next twelve months. The Company may seek funding through additional debt or equity financing arrangements, implement incremental expense reduction measures or a combination thereof to continue financing its operations. The Company's condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business.

Term Loan

On April 14, 2023 (the “Term Loan Closing Date”), the Company entered into a Senior Secured Term Loan Credit Agreement (the “Credit Agreement”) with ACP Post Oak Credit II LLC, as Administrative Agent and Collateral Agent for the Lenders (the “Agent”), and the lenders from time to time party thereto (the “Lenders”). The Credit Agreement provides for a term loan facility in an aggregate principal amount of up to \$100.0 million (the “Term Loan”), the entirety of which was funded on the Term Loan Closing Date. The Credit Agreement also permits the Company to request additional commitments of up to \$25.0 million in the aggregate, with funding of such commitments in the sole discretion of the Lenders, under certain circumstances and under the same terms as the Term Loan. On the Term Loan Closing Date, the Company also entered into that certain Guarantee and Collateral Agreement, dated as of April 14, 2023, by and among the Company, the other grantors named therein and the Agent (the “Guarantee and Collateral Agreement”). In addition, on the Term Loan Closing Date, a collateral protection insurance policy was issued to the Lenders and a cash premium was paid on the Term Loan Closing Date to the insurance provider thereunder (the “Cash Premium”). Pursuant to the Credit Agreement, the Company is required to make certain additional specified cash premium payments, based on single-digit percentages of the loans then outstanding, over a period of three years from the Term Loan Closing Date.

The Company used the proceeds from the Term Loan to (i) repay outstanding amounts equal to approximately \$30.0 million under the Company’s existing loan facilities, (ii) fund an escrow account on the Term Loan Closing Date in the name of the Agent for an amount equal to the first four interest payments, (iii) pay certain fees and expenses incurred in connection with entering into the Credit Agreement, and (iv) fund the Cash Premium, together with related taxes, with the remaining proceeds to be used to fund growth investments and for general corporate purposes as permitted under the Credit Agreement.

The outstanding principal balance of the Term Loan bears interest at the applicable margin plus, at the Company’s election, either (i) the secured overnight financing rate (“SOFR”) plus 0.15% or (ii) the alternate base rate (“ABR”), which is a per annum rate equal to the greatest of (a) the Prime Rate (as defined in the Credit Agreement), (b) the NYFRB Rate (as defined in the Credit Agreement) plus 0.50% and (c) the Adjustable Rate (as defined in the Credit Agreement) plus 1.00%. The applicable margin under the Credit Agreement is 8.50% per annum with respect to SOFR loans, and 7.50% per annum with respect to ABR loans.

Subject to certain exceptions as set forth in the Credit Agreement, interest on the Term Loan is payable quarterly in arrears on the last business day of each fiscal quarter. The Term Loan is set to mature on April 14, 2027 (the “Maturity Date”). The Credit Agreement provides for no scheduled principal amortization prior to the Maturity Date.

Concurrently with the Company’s entry into the Credit Agreement, the Company used a portion of the proceeds to prepay in full all outstanding obligations under, and terminated, the SCI June 2021 Note and the SVB March 2021 Note. In connection with the SCI June 2021 Note prepayment, the Company paid a total of approximately \$11.7 million, which consisted of (i) the remaining principal amount outstanding of approximately \$11.0 million, (ii) a prepayment premium of approximately \$0.2 million, (iii) a final payment fee of approximately \$0.5 million, and (iv) the remainder for transaction expenses. In connection with the SVB March 2021 Note prepayment, the Company paid a total of approximately \$18.5 million, which consisted of (i) the remaining principal amount outstanding of \$17.0 million, (ii) a prepayment premium of \$0.3 million, (iii) a final payment fee of approximately \$1.1 million, (iv) approximately \$0.1 million of accrued and unpaid interest, and (v) the remainder for transaction expenses.

Equity Line of Credit (ELOC)

On August 16, 2022, the Company entered into a common stock purchase agreement (the “Common Stock Purchase Agreement”) and related registration rights agreement (the “CFPI Registration Rights Agreement”) with CF Principal Investments LLC (“CFPI”). Pursuant to the Common Stock Purchase Agreement, the Company, has the right to sell to CFPI up to the lesser of (i) 25,000,000 shares of Class A Common Stock and (ii) the Exchange Cap (as defined in the Common Stock Purchase Agreement), subject to certain limitations and conditions set forth in the Common Stock Purchase Agreement (the “ELOC Shares”). On February 14, 2023, the Company’s Registration Statement on Form S-1 registering the resale of the ELOC Shares (the “ELOC Registration Statement”) was declared effective. On March 31, 2023, a post-effective amendment to the ELOC Registration Statement was declared effective. The Company has utilized and expects to continue to utilize proceeds from the ELOC for working capital and other general corporate purposes. Through April 30, 2023, the Company had sold approximately 12.7 million shares under the ELOC program for aggregate proceeds of approximately \$34.4 million.

Series A Preferred Stock

On or around January 20, 2023, the Company entered into the Purchase Agreements with the Investors, pursuant to which the Company issued and sold to the Investors an aggregate of 835,011 shares of its newly designated Series A Convertible Preferred Stock for an aggregate issue price of approximately \$25.0 million.

Restructuring

In January 2023, we announced a restructuring plan (the “Restructuring Plan”) intended to reduce operating costs, improve operating margins, improve cash flows and accelerate the Company’s path to profitability. The Restructuring Plan included a reduction of the Company’s then-current workforce by approximately 40% or 180 positions globally.

Costs associated with the Restructuring Plan consist of employee severance payments, employee benefits and share-based compensation. The total estimated restructuring costs associated with the Restructuring Plan are approximately \$3.8 million and are being recorded to the restructuring expense line item within our condensed consolidated statements of operations as they are incurred. We recorded \$3.6 million of restructuring expenses in connection with the Restructuring Plan during the three months ended March 31, 2023, of which \$1.3 million were cash payments. We expect to incur the estimated remaining \$0.2 million through the end of 2023. Any changes to the estimates or timing of executing the Restructuring Plan will be reflected in our future results of operations.

Business Combination

As a result of the Business Combination in April 2022, we raised gross proceeds of \$118.4 million including a combination of \$5.4 million in cash held in trust by ATSP (following satisfaction of redemptions by public stockholders), and \$113.0 million in aggregate gross proceeds from PIPE investors. The combined company incurred \$27.7 million of expenses related to the transaction.

Contractual and Other Obligations

Because we expect to continue investing in software application and development, we enter into various contracts and agreements to increase our availability of capital. Cash that is received through these obligations is used to meet both short and long-term liquidity requirements as discussed above. These requirements generally include funding for the research and development of software, the development of applications that enable voice interaction, marketing programs and personnel-related costs. The primary types of obligations into which we enter include contractual obligations, operating and finance lease obligations and a diversified spread of debt instruments.

Debt Financing

Our material debt agreements as of March 31, 2023 were as follows:

- *SVB March 2021* — In March 2021, we entered into a loan and security agreement with a commercial bank to borrow \$30.0 million (“SVB March 2021 Note”). In April 2022, the Company entered into a loan modification agreement, which extended the SVB March 2021 Note’s early maturity date from April 26, 2022 to May 26, 2022. As the SNAP June 2020 Note converted on April 26, 2022 the performance milestone was met and the SVB March 2021 Note’s maturity date was extended to September 1, 2024. On April 14, 2023, in connection with the issuance of the Term Loan, we used a portion of the proceeds from the issuance of the Term Loan to repay in full the principal amount of indebtedness outstanding under the SVB March 2021 Note.
- *SCI June 2021 Note* — In June 2021, we issued a note pursuant to a loan and security agreement with a lender to borrow up to a commitment amount of \$15.0 million in \$5.0 million increments (“SCI June 2021 Note”). Through December 31, 2021, we had borrowed \$15.0 million. The maturity date of the loan was May 31, 2025. On April 14, 2023, in connection with the issuance of the Term Loan, we used a portion of the proceeds from the issuance of the Term Loan to repay in full the principal amount of indebtedness outstanding under the SCI June 2021 Note.

Cash Flows

The following table summarizes our cash flows (in thousands):

| | Three Months Ended March 31, | |
|---|---------------------------------|--------------------|
| | 2023 | 2022 |
| Net cash used in operating activities | \$ (14,467) | \$ (14,989) |
| Net cash used in investing activities | (15) | (611) |
| Net cash provided by financing activities | 51,568 | 1,955 |
| | <u>\$ 37,086</u> | <u>\$ (13,645)</u> |

Cash Flows Used in Operating Activities

Net cash used in operating activities was \$14.5 million during the three months ended March 31, 2023 compared to \$15.0 million during the three months ended March 31, 2022. The \$0.5 million decrease in cash used in operating activities was primarily due to our decreased net loss, adjusted for non-cash expenses, including stock-based compensation and depreciation and amortization and changes in operating assets and liabilities.

Cash Flows Used in Investing Activities

Net cash used in investing activities was nominal during the three months ended March 31, 2023 compared to \$0.6 million during the three months ended March 31, 2022. The \$0.6 million decrease in cash used in investing activities was driven by a reduction in purchases of property and equipment.

Cash Flows Provided by Financing Activities

Net cash provided by financing activities was \$51.6 million during the three months ended March 31, 2023 compared to \$2.0 million during the three months ended March 31, 2022. The \$49.6 million increase in cash provided by financing activities was primarily due to \$28.4 million in net proceeds from the sales of common stock under the ELOC program and \$24.9 million in net proceeds from the issuance of the Series A Preferred Stock and was partially offset by payments on our notes payable of \$4.1 million during the three months ended March 31, 2023.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Indemnification Agreements

We enter into standard indemnification arrangements in the ordinary course of business. Pursuant to these arrangements, we indemnify, hold harmless and agree to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with any trade secret, copyright, patent or other intellectual property infringement claim by any third party with respect to its technology. The term of these indemnification agreements is generally perpetual any time after the execution of the agreement. The maximum potential amount of future payments we could be required to make under these arrangements is not determinable. We have never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, we believe the fair value of these agreements is minimal.

Critical Accounting Policies and Significant Management Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our unaudited condensed consolidated financial statements included elsewhere in this report that have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported income (loss) generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the

circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions and any such differences may be material.

For a discussion of our critical accounting policies, see “Management’s discussion and analysis of financial condition and results of operations” and the notes to the consolidated financial statements included in our Form 10-K, which was filed with the SEC on March 28, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required for smaller reporting companies.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), our management carried out an evaluation, with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures as of March 31, 2023 are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, our management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that our management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on this evaluation, the CEO and CFO have concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were at the reasonable assurance level.

(b) Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended March 31, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material pending legal proceedings, nor are we aware of any pending litigation or legal proceeding against us that would have a material adverse effect upon our results of operations or financial condition.

Item 1A. Risk Factors.

Not required for smaller reporting companies. However, as of the date of this report, there have been no material changes to the risk factors disclosed in our Form 10-K, which was filed with the SEC on March 28, 2023. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations.

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

There were no sales of equity securities during the period covered by this Quarterly Report that were not either registered under the Securities Act or were not previously reported in a Quarterly Report on Form 10-Q or a Current Report on Form 8-K filed by the Company.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this report.

| No. | Description of Exhibit |
|------------|--|
| 4.1* | Form of Class A Common Stock Purchase Warrant |
| 10.1*† | Senior Secured Term Loan Credit Agreement |
| 31.1* | Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1** | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2** | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS* | Inline XBRL Instance Document. |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document. |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 104* | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

* Filed herewith.

** Furnished.

† The schedules to this Exhibit have been omitted in accordance with Regulation S-K Item 601(a)(5). The registrant agrees to furnish supplementally a copy of all omitted schedules to the Securities and Exchange Commission upon its request.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUNDHOUND AI, INC

Date: May 12, 2023

By: /s/ Dr. Keyvan Mohajer
Name: Dr. Keyvan Mohajer
Title: Chief Executive Officer
(Principal Executive Officer)

Date: May 12, 2023

By: /s/ Nitesh Sharan
Name: Nitesh Sharan
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)