UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2021

OR

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

For the transition period from __________ to __________

Commission File Number: 001-39030

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

Delaware **(State or other jurisdiction of incorporation or organization)**	**83-4177087** **(I.R.S. Employer Identification No.)**
15 Wayside Road **Burlington, Massachusetts** **(Address of principal executive offices)**	**01803** **(Zip Code)**

(857) 362-7300
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	CRNC	The Nasdaq Global Select Market

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

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

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

As of July 30, 2021, the registrant had 38,006,493 shares of common stock, $0.01 par value per share, outstanding.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Form 10-Q"), filed by Cerence Inc. together with its consolidated subsidiaries, "Cerence," the "Company," "we," "us" or "our" unless the context indicates otherwise, contains "forward-looking statements" that involve risks and uncertainties. These statements can be identified by the fact that they do not relate strictly to historical or current facts, but rather are based on current expectations, estimates, assumptions and projections about our industry and our business and financial results. Forward-looking statements often include words such as "anticipates," "estimates," "expects," "projects," "forecasts," "intends," "plans," "continues," "believes," "may," "will," "goals" and words and terms of similar substance in connection with discussions of future operating or financial performance. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Our actual results may vary materially from those expressed or implied in our forward-looking statements. Accordingly, undue reliance should not be placed on any forward-looking statement made by us or on our behalf. Although we believe that the forward-looking statements contained in this Form 10-Q are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in such forward-looking statements, including but not limited to:

- the duration and severity of the COVID-19 pandemic and its impact on our business and financial performance;
- adverse conditions in the automotive industry or the global economy more generally, including as a result of the COVID-19 pandemic;
- the continuation of the semiconductor shortage being experienced by the automotive industry;
- the highly competitive and rapidly changing market in which we operate;
- our employees are represented by workers councils or unions or are subject to local laws that are less favorable to employers than the laws of the U.S.;
- our strategy to increase cloud services and fluctuations in our operating results;
- escalating pricing pressures from our customers;
- our failure to win, renew or implement service contracts;
- the cancellation or postponement of service contracts after a design win;
- the loss of business from any of our largest customers;
- inability to recruit and retain qualified personnel;
- cybersecurity and data privacy incidents that damage client relations;
- interruptions or delays in our services or services from data center hosting facilities or public clouds;
- economic, political, regulatory, foreign exchange and other risks of international operations;
- unforeseen U.S. and foreign tax liabilities;
- impairment of our goodwill and other intangible assets;
- the failure to protect our intellectual property or allegations that we have infringed the intellectual property of others;
- defects in our software products that result in lost revenue, expensive corrections or claims against us;
- our inability to quickly respond to changes in technology and to develop our intellectual property into commercially viable products;
- our inability to successfully introduce new products, applications or services;
- a significant interruption in the supply or maintenance of our third-party hardware, software, services or data;
- restrictions on our current and future operations under the terms of our debt and the use of cash to service our debt; and
- certain factors discussed elsewhere in this Form 10-Q.

These and other factors are more fully discussed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2020 and elsewhere in this Form 10-Q, including Part II, "Item 1A, Risk Factors". These risks could cause actual results to differ materially from those implied by forward-looking statements in this Form 10-Q. Even if our results of operations, financial condition and liquidity and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Form 10-Q, those results or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements made by us in this Form 10-Q speak only as of the date on which they are made. We are under no obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements, whether as a result of new information, subsequent events or otherwise, except as required by law.

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

CERENCE INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Revenues:				
License	$ 49,980	$ 32,454	$ 150,765	$ 117,843
Connected services	30,283	25,383	83,949	72,109
Professional services	16,538	17,360	54,392	49,773
Total revenues	96,801	75,197	289,106	239,725
Cost of revenues:				
License	863	820	2,718	2,344
Connected services	6,108	7,191	19,960	24,742
Professional services	14,985	17,529	48,632	48,773
Amortization of intangible assets	1,879	2,063	5,637	6,408
Total cost of revenues	23,835	27,603	76,947	82,267
Gross profit	72,966	47,594	212,159	157,458
Operating expenses:				
Research and development	30,370	22,041	83,365	66,898
Sales and marketing	9,534	9,180	28,097	24,829
General and administrative	13,173	14,261	38,563	36,456
Amortization of intangible assets	3,180	3,120	9,521	9,376
Restructuring and other costs, net	1,760	3,301	2,777	13,725
Total operating expenses	58,017	51,903	162,323	151,284
Income (loss) from operations	14,949	(4,309)	49,836	6,174
Interest income	34	38	68	563
Interest expense	(3,294)	(5,546)	(10,569)	(19,043)
Other income (expense), net	173	(20,446)	1,432	(20,366)
Income (loss) before income taxes	11,862	(30,263)	40,767	(32,672)
Provision for (benefit from) income taxes	6,064	(2,211)	2,865	(6,149)
Net income (loss)	$ 5,798	$ (28,052)	$ 37,902	$ (26,523)
Net income (loss) per share:				
Basic	$ 0.15	$ (0.77)	$ 1.01	$ (0.73)
Diluted	$ 0.15	$ (0.77)	$ 0.97	$ (0.73)
Weighted-average common share outstanding:				
Basic	37,825	36,509	37,664	36,315
Diluted	39,296	36,509	39,135	36,315

Refer to accompanying Notes to the unaudited condensed consolidated financial statements.

CERENCE INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Net income (loss)	$ 5,798	$ (28,052)	$ 37,902	$ (26,523)
Other comprehensive income:				
Foreign currency translation adjustments	3,937	6,382	5,786	4,002
Pension adjustments, net	22	16	96	1,032
Net unrealized loss on available-for-sale securities	(14)	—	(14)	—
Total other comprehensive income	3,945	6,398	5,868	5,034
Comprehensive income (loss)	$ 9,743	$ (21,654)	$ 43,770	$ (21,489)

Refer to accompanying Notes to the unaudited condensed consolidated financial statements.

CERENCE INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	June 30, 2021 (Unaudited)	September 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 120,840	$ 136,067
Marketable securities	29,100	11,662
Accounts receivable, net of allowances of $404 and $1,394	53,141	50,900
Deferred costs	7,330	7,256
Prepaid expenses and other current assets	61,328	44,220
Total current assets	271,739	250,105
Long-term marketable securities	7,348	-
Property and equipment, net	30,723	29,529
Deferred costs	33,446	38,161
Operating lease right of use assets	16,837	20,096
Goodwill	1,132,897	1,128,198
Intangible assets, net	30,618	45,616
Deferred tax assets	165,077	160,974
Other assets	20,354	14,938
Total assets	$ 1,709,039	$ 1,687,617
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,187	$ 8,447
Deferred revenue	84,993	112,156
Short-term operating lease liabilities	5,497	5,700
Short-term debt	6,250	6,250
Accrued expenses and other current liabilities	60,955	66,078
Total current liabilities	168,882	198,631
Long-term debt	265,372	266,872
Deferred revenue, net of current portion	204,790	212,573
Long-term operating lease liabilities	13,157	17,821
Other liabilities	34,989	31,649
Total liabilities	687,190	727,546
Commitments and contingencies (Note 13)		
Stockholders' Equity:		
Common stock, $0.01 par value, 560,000 shares authorized; 37,828 shares issued and outstanding as of June 30, 2021; 36,842 shares issued and outstanding as of September 30, 2020.	379	369
Accumulated other comprehensive income	9,579	3,711
Additional paid-in capital	992,305	974,307
Retained earnings (accumulated deficit)	19,586	(18,316)
Total stockholders' equity	1,021,849	960,071
Total liabilities and stockholders' equity	$ 1,709,039	$ 1,687,617

Refer to accompanying Notes to the unaudited condensed consolidated financial statements.

CERENCE INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(unaudited)

Three Months Ended June 30, 2021	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Net Parent Investment	Accumulated Other Comprehensive Income	Total
Balance at March 31, 2021	37,780	$ 379	$ 983,640	$ 13,788	$ -	$ 5,634	$ 1,003,441
Net income	-	-	-	5,798	-	-	5,798
Other comprehensive income	-	-	-	-	-	3,945	3,945
Issuance of common stock	51	-	1,637	-	-	-	1,637
Stock withheld to cover tax withholdings requirements upon stock vesting	(3)	-	(1,889)	-	-	-	(1,889)
Stock-based compensation	-	-	8,917	-	-	-	8,917
Balance at June 30, 2021	37,828	$ 379	$ 992,305	$ 19,586	$ —	$ 9,579	$ 1,021,849

Three Months Ended June 30, 2020	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Net Parent Investment	Accumulated Other Comprehensive Loss	Total
Balance at March 31, 2020	36,458	$ 365	$ 949,916	$ 1,529	$ -	$ (14,635)	$ 937,175
Net loss	-	-	-	(28,052)	-	-	(28,052)
Other comprehensive income	-	-	-	-	-	6,398	6,398
Issuance of common stock	96	1	-	-	-	-	1
Stock withheld to cover tax withholdings requirements upon stock vesting	(34)	-	(696)	-	-	-	(696)
Convertible Senior Notes conversion feature (net of taxes of $4,678 and issuance costs of $629)			14,369				14,369
Stock-based compensation	-	-	10,423	-	-	-	10,423
Balance at June 30, 2020	36,520	$ 366	$ 974,012	$ (26,523)	$ -	$ (8,237)	$ 939,618

CERENCE INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Cont.)
(In thousands)
(unaudited)

Nine Months Ended June 30, 2021

	Common Stock						
	Shares	**Amount**	**Additional Paid-In Capital**	**(Accumulated Deficit) Retained Earnings**	**Net Parent Investment**	**Accumulated Other Comprehensive Income**	**Total**
Balance at September 30, 2020	36,842	$ 369	$ 974,307	$ (18,316)	$ —	$ 3,711	$ 960,071
Net income	-	-	-	37,902	-	-	37,902
Other comprehensive income	-	-	-	-	-	5,868	5,868
Issuance of common stock	1,441	14	6,668	-	-	-	6,682
Stock withheld to cover tax withholdings requirements upon stock vesting	(455)	(4)	(34,085)	-	-	-	(34,089)
Stock-based compensation	-	-	45,415	-	-	-	45,415
Balance at June 30, 2021	37,828	$ 379	$ 992,305	$ 19,586	$ —	$ 9,579	$ 1,021,849

Nine Months Ended June 30, 2020

	Common Stock						
	Shares	**Amount**	**Additional Paid-In Capital**	**(Accumulated Deficit)**	**Net Parent Investment**	**Accumulated Other Comprehensive Loss**	**Total**
Balance at September 30, 2019	-	$ -	$ -	$ -	$ 1,097,127	$ (28,999)	$ 1,068,128
Net loss	-	-	-	(26,523)	-	-	(26,523)
Other comprehensive income	-	-	-	-	-	5,034	5,034
Distribution to Parent	-	-	-	-	(152,978)	-	(152,978)
Net (decrease) increase in net parent investment	-	-	-	-	(4,275)	15,728	11,453
Reclassification of net parent investment in Cerence	-	-	939,874	-	(939,874)	-	—
Issuance of common stock at separation	36,391	364	(364)	-	-	-	—
Issuance of common stock	207	2	-	-	-	-	2
Stock withheld to cover tax withholdings requirements upon stock vesting	(78)	(0)	(1,615)	-	-	-	(1,615)
Convertible Senior Notes conversion feature (net of taxes of $4,678 and issuance costs of $629)			14,369				14,369
Stock-based compensation	-	-	21,748	-	-	-	21,748
Balance at June 30, 2020	36,520	$ 366	$ 974,012	$ (26,523)	$ —	$ (8,237)	$ 939,618

Refer to accompanying Notes to the unaudited condensed consolidated financial statements.

CERENCE INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended June 30, 2021	Nine Months Ended June 30, 2020
Cash flows from operating activities:		
Net income (loss)	$ 37,902	$ (26,523)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	22,276	22,704
(Benefit from) provision for credit loss reserve	(412)	525
Stock-based compensation	42,179	32,954
Non-cash interest expense	3,730	4,025
Loss on debt extinguishment	—	19,279
Deferred tax benefit	(3,812)	(12,535)
Other	(1,590)	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,698)	3,164
Prepaid expenses and other assets	(17,065)	(21,328)
Deferred costs	5,078	(749)
Accounts payable	2,906	(170)
Accrued expenses and other liabilities	(4,026)	19,283
Deferred revenue	(34,400)	(22,052)
Net cash provided by operating activities	51,068	18,577
Cash flows from investing activities:		
Capital expenditures	(8,055)	(16,075)
Purchases of marketable securities	(33,800)	—
Sale and maturities of marketable securities	9,000	—
Payments for equity investments	(2,563)	—
Other investing activities	702	—
Net cash used in investing activities	(34,716)	(16,075)
Cash flows from financing activities:		
Net transaction with Parent	—	12,964
Distribution to Parent	—	(152,978)
Proceeds from long-term debt, net of discount	—	547,719
Payments for long-term debt issuance costs	(520)	(5,765)
Principal payments of long-term debt	(4,689)	(270,000)
Common stock repurchases for tax withholdings for net settlement of equity awards	(34,089)	(1,613)
Principal payment of lease liabilities arising from a finance lease	(326)	(96)
Proceeds from the issuance of common stock	6,682	—
Net cash (used in) provided by financing activities	(32,942)	130,231
Effects of exchange rate changes on cash and cash equivalents	1,363	111
Net change in cash and cash equivalents	(15,227)	132,844
Cash and cash equivalents at beginning of period	136,067	—
Cash and cash equivalents at end of period	$ 120,840	$ 132,844
Supplemental information:		
Cash paid for income taxes	$ 1,946	$ 931
Cash paid for interest	$ 8,817	$ 14,344

Refer to accompanying Notes to the unaudited condensed consolidated financial statements.

Note 1. Business Overview

History

On October 1, 2019 (the "Distribution Date"), Nuance Communications, Inc. ("Nuance"), a leading provider of speech and language solutions for businesses and consumers around the world, completed the legal and structural separation and distribution to its stockholders of all of the outstanding shares of our common stock, and its consolidated subsidiaries, in a tax free spin-off (which we refer to as the "Spin-Off"). The distribution was made in the amount of one share of our common stock for every eight shares of Nuance common stock (which we refer to as the "Distribution") owned by Nuance's stockholders as of 5:00 p.m. Eastern Time on September 17, 2019, the record date of the Distribution.

In connection with the Distribution, on September 30, 2019, we filed an Amended and Restated Certificate of Incorporation (the "Charter") with the Secretary of State of the State of Delaware, which became effective on October 1, 2019. Our Amended and Restated By-laws also became effective on October 1, 2019. On October 2, 2019, our common stock began regular-way trading on the Nasdaq Global Select Market under the ticker symbol CRNC.

Business

Cerence Inc. (referred to in this Quarterly Report on Form 10-Q as "we," "our," "us," "ourselves," the "Company" or "Cerence") is a global, premier provider of AI-powered assistants and innovations for connected and autonomous vehicles. Our customers include all major automobile original equipment manufacturers ("OEMs"), or their tier 1 suppliers worldwide. We deliver our solutions on a white-label basis, enabling our customers to deliver customized virtual assistants with unique, branded personalities and ultimately strengthening the bond between automobile brands and end users. We generate revenue primarily by selling software licenses and cloud-connected services. In addition, we generate professional services revenue from our work with OEMs and suppliers during the design, development and deployment phases of the vehicle model lifecycle and through maintenance and enhancement projects.

COVID-19 Update

In March 2020, the World Health Organization characterized COVID-19 as a pandemic. In an effort to contain COVID-19 or slow its spread, governments around the world have enacted various measures, some of which have been subsequently rescinded, modified or reinstated, including orders to close all businesses not deemed "essential," isolate residents to their homes or places of residence, and practice social distancing.

We have taken numerous steps in our approach to addressing the COVID-19 pandemic, as described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020. We continue to closely monitor ongoing developments in connection with the COVID-19 pandemic and its impact on our business.

The full extent to which the ongoing COVID-19 pandemic adversely affects our financial performance will depend on future developments, many of which are outside of our control, are highly uncertain and cannot be predicted, including, but not limited to, the duration and scope of the pandemic, its severity, the emergence of new variants of the virus, the development and availability of effective treatments and vaccines, the speed at which vaccines are administered, and how quickly and to what extent normal economic and operating conditions can resume. The COVID-19 pandemic could also result in additional governmental restrictions and regulations, which could adversely affect our business and financial results. In addition, a recession, depression or other sustained adverse market impact resulting from COVID-19 could materially and adversely affect our business, our access to needed capital and liquidity, and the value of our common stock. Even after the COVID-19 pandemic has lessened or subsided, we may continue to experience adverse impacts on our business and financial performance as a result of its global economic impact.

Note 2. Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, as well as those of our wholly owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnote disclosures required by GAAP for complete financial statements.

The condensed consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three and nine months ended June 30, 2021 are not necessarily indicative of the results to be expected for any other interim period or for the year ending September 30, 2021. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated and combined financial statements and notes contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020.

During the second quarter of fiscal 2021, we identified and corrected immaterial errors related to previously issued consolidated financial statements. In order to present the impact of the resulting adjustments, previously issued financial statements have been revised. See *Note 16 – Impact on Previously Issued Financial Statements for Immaterial Adjustments* for additional details, including a summary of the revisions to certain previously reported financial information presented herein for comparative purposes.

Use of Estimates

The financial statements are prepared in accordance with GAAP, which requires management to make estimates and assumptions. These estimates, judgments and assumptions can affect the reported amounts in the financial statements and the footnotes thereto. Actual results could differ materially from these estimates.

On an ongoing basis, we evaluate our estimates, assumptions and judgments. Significant estimates inherent to the preparation of financial statements include: revenue recognition; allowance for credit losses; accounting for deferred costs; accounting for internally developed software; the valuation of goodwill and intangible assets; accounting for business combinations; accounting for stock-based compensation; accounting for income taxes; accounting for leases; accounting for convertible debt; and loss contingencies. We base our estimates on historical experience, market participant fair value considerations, projected future cash flows, and various other factors that are believed to be reasonable under the circumstances. Actual amounts could differ significantly from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. As of June 30, 2021, the estimated fair value of our money-market funds was $56.2 million. We estimated the fair value of our money-market funds from quoted prices for identical assets in active markets on the last trading day of the reporting period (Level 1).

Concentration of Risk

Financial instruments that potentially subject us to significant concentrations of credit risk primarily consist of trade accounts receivable. We perform ongoing credit evaluations of our customers' financial condition and limit the amount of credit extended when deemed appropriate. Three customers accounted for 19.3%, 11.6%, and 10.3% of our Accounts receivable, net balance at June 30, 2021. Two customers accounted for 14.8% and 10.9% of our Accounts receivable, net balance at September 30, 2020.

Derivative Financial Instruments

We use derivative instruments, including forward contracts, to help manage foreign currency exposures. Derivative instruments are viewed as risk management tools by us and are not used for trading or speculative purposes. Derivatives that qualify for hedge accounting can be designated as either cash flow hedges, net investment hedges, or fair value hedges. We may enter into derivative contracts that economically hedge certain risks, even when hedge accounting does not apply, or we elect not to apply hedge accounting.

Derivatives are recognized in the Condensed Consolidated Balance Sheet at fair value on a gross basis as either assets or liabilities and classified as current or noncurrent based upon whether the maturity of the instrument is less than or greater than 12 months.

Changes in the fair value of derivatives not designated as hedges are reported in earnings primarily in Other income (expense), net. The cash flows associated with derivatives not designated as hedges are reported in cash flows from investing activities in the Condensed Consolidated Statement of Cash Flows.

Recently Adopted Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, ("ASU 2016-13"), which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost, including trade receivables. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model that requires the use of forward-looking information to calculate credit loss estimates. This standard is effective for interim and annual reporting periods beginning after December 15, 2019. This standard is required to be adopted using the modified retrospective basis, with a cumulative-effect adjustment to Accumulated deficit as of the beginning of the first reporting period in which the guidance of this standard is effective.

We adopted ASU 2016-13 using the modified retrospective approach as of October 1, 2020. The effects of applying ASU 2016-13 as a cumulative-effect adjustment to retained earnings was immaterial.

Recently Issued Accounting Pronouncements to be Adopted

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, ("ASU 2020-04"). This update provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) contract modifications on financial reporting, caused by reference rate reform. ASU 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

In August 2020, the FASB issued ASU No. 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, ("ASU 2020-06"). ASU 2020-06 simplifies the accounting for debt with conversion options, revises the criteria for applying the derivatives scope exception for contracts in an entity's own equity, and improves the consistency for the calculation of earnings per share. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2021, our fiscal year 2023. Early adoption is permitted for annual periods and interim periods within those annual periods beginning after December 15, 2020, our fiscal year 2022. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Note 3. Revenue Recognition

We primarily derive revenue from the following sources: (1) royalty-based software license arrangements, (2) connected services, and (3) professional services. Revenue is reported net of applicable sales and use tax, value-added tax and other transaction taxes imposed on the related transaction including mandatory government charges that are passed through to our customers. We account for a contract when both parties have approved and committed to the contract, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Our arrangements with customers may contain multiple products and services. We account for individual products and services separately if they are distinct—that is, if a product or service is separately identifiable from other items in the contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer.

We currently recognize revenue after applying the following five steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract, including whether they are distinct within the context of the contract;
- determination of the transaction price, including the constraint on variable consideration;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, performance obligations are satisfied.

We allocate the transaction price of the arrangement based on the relative estimated standalone selling price ("SSP") of each distinct performance obligation. In determining SSP, we maximize observable inputs and consider a number of data points, including:

- the pricing of standalone sales (when available);
- the pricing established by management when setting prices for deliverables that are intended to be sold on a standalone basis;

- contractually stated prices for deliverables that are intended to be sold on a standalone basis; and
- other pricing factors, such as the geographical region in which the products are sold and expected discounts based on the customer size and type.

We only include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. We reduce transaction prices for estimated returns and other allowances that represent variable consideration under Accounting Standards Codification ("ASC") 606, which we estimate based on historical return experience and other relevant factors, and record a corresponding refund liability as a component of accrued expenses and other current liabilities. Other forms of contingent revenue or variable consideration are infrequent.

Revenue is recognized when control of these products or services are transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those products or services.

We assess the timing of the transfer of products or services to the customer as compared to the timing of payments to determine whether a significant financing component exists. In accordance with the practical expedient in ASC 606-10-32-18, we do not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less. If the difference in timing arises for reasons other than the provision of finance to either the customer or us, no financing component is deemed to exist. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our services, not to receive or provide financing from or to customers. We do not consider set-up fees nor other upfront fees paid by our customers to represent a financing component.

Reimbursements for out-of-pocket costs generally include, but are not limited to, costs related to transportation, lodging and meals. Revenue from reimbursed out-of-pocket costs is accounted for as variable consideration.

(a) Performance Obligations

Licenses

Embedded software and technology licenses operate without access to the external networks and information. Embedded licenses sold with non-distinct professional services to customize and/or integrate the underlying software and technology are accounted for as a combined performance obligation. Revenue from the combined performance obligation is recognized over time based upon the progress towards completion of the project, which is measured based on the labor hours already incurred to date as compared to the total estimated labor hours.

Revenue from distinct embedded software and technology licenses, which do not require professional services to customize and/or integrate the software license, is recognized at the point in time when the software and technology is made available to the customer and control is transferred. For income statement presentation purposes, we separate distinct embedded license revenue from professional services revenue based on their relative SSPs.

Revenue from embedded software and technology licenses sold on a royalty basis, where the license of non-exclusive intellectual property is the predominant item to which the royalty relates, is recognized in the period the usage occurs in accordance with ASC 606-10-55-65(A).

Connected Services

Connected services, which allow our customers to use the hosted software over the contract period without taking possession of the software, are provided on a usage basis as consumed or on a fixed fee subscription basis. Subscription basis revenue represents a single promise to stand-ready to provide access to our connected services. Our connected services contract terms generally range from one to five years.

As each day of providing services is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided, we have determined that our connected services arrangements are a single performance obligation comprised of a series of distinct services. These services include variable consideration, typically a function of usage. We recognize revenue as each distinct service period is performed (i.e., recognized as incurred).

Our connected service arrangements generally include services to develop, customize, and stand-up applications for each customer. In determining whether these services are distinct, we consider dependence of the cloud service on the up-front development and stand-up, as well as availability of the services from other vendors. We have concluded that the up-front development, stand-up and customization services are not distinct performance obligations, and as such, revenue for these activities is recognized over the period during which the cloud-connected services are provided, and is included within connected services revenue. There can be instances where the customer purchases a software license that allows them to take possession of the software to enable hosting by the customer or a third-party. For such arrangements, the performance obligation of the license is completed at a point in time once the customer takes possession of the software.

Professional Services

Revenue from distinct professional services, including training, is recognized over time based upon the progress towards completion of the project, which is measured based on the labor hours already incurred to date as compared to the total estimated labor hours.

(b) Significant Judgments

Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Our license contracts often include professional services to customize and/or integrate the licenses into the customer's environment. Judgment is required to determine whether the license is considered distinct and accounted for separately, or not distinct and accounted for together with professional services. Furthermore, hybrid contracts that contain both embedded and connected license and professional services are analyzed to determine if the products and services are distinct or have stand-alone functionality to determine the revenue treatment.

Judgments are required to determine the SSP for each distinct performance obligation. When the SSP is directly observable, we estimate the SSP based upon the historical transaction prices, adjusted for geographic considerations, customer classes, and customer relationship profiles. In instances where the SSP is not directly observable, we determine the SSP using information that may include market conditions and other observable inputs. We may have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we may use information such as the size of the customer and geographic region in determining the SSP. Determining the SSP for performance obligations which we never sell separately also requires significant judgment. In estimating the SSP, we consider the likely price that would have resulted from established pricing practices had the deliverable been offered separately and the prices a customer would likely be willing to pay. For contracts that contain future royalties, the allocation of SSP is determined using any fixed payments as well as the forecasted volume usage associated with royalties.

(c) Disaggregated Revenue

Revenues, classified by the major geographic region in which our customers are located, for the three and nine months ended June 30, 2021 and 2020 (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Revenues:				
United States	$ 31,632	$ 27,969	$ 100,507	$ 99,907
Other Americas	37	8	105	16
Germany	24,519	21,082	81,230	61,401
Other Europe, Middle East and Africa	10,574	6,868	27,239	20,093
Japan	19,032	11,727	45,484	38,656
Other Asia-Pacific	11,007	7,543	34,541	19,652
Total net revenues	$ 96,801	$ 75,197	$ 289,106	$ 239,725

Revenues within the United States, Germany, and Japan accounted for more than 10% of revenue, respectively, for all periods presented.

Revenues relating to two customers accounted for $19.3 million, or 20.0%, and $12.7 million, or 13.1%, of revenues for the three months ended June 30, 2021. Revenues relating to two customers accounted for $54.5 million, or 18.8%, and $37.4 million, or 12.9%, of revenues for the nine months ended June 30, 2021. Revenues relating to three customers accounted for $19.2 million, or 25.6%, $8.0 million, or 10.6%, and $7.8 million, or 10.4%, of revenues for the three months ended June 30, 2020. Revenues relating to one customer accounted for $56.4 million, or 23.5%, of revenues for the nine months ended June 30, 2020.

(d) Contract Acquisition Costs

In conjunction with the adoption of ASC 606, we are required to capitalize certain contract acquisition costs. The capitalized costs primarily relate to paid commissions. In accordance with the practical expedient in ASC 606-10-10-4, we apply a portfolio approach to estimate contract acquisition costs for groups of customer contracts. We elect to apply the practical expedient in ASC 340-40-25-4 and will expense contract acquisition costs as incurred where the expected period of benefit is one year or less. Contract acquisition costs are deferred and amortized on a straight-line basis over the period of benefit, which we have estimated to be, on average, between one and eight years. The period of benefit was determined based on an average customer contract term, expected contract renewals, changes in technology and our ability to retain customers, including canceled contracts. We assess the amortization term for all major transactions based on specific facts and circumstances. Contract acquisition costs are classified as current or noncurrent assets based on when the expense will be recognized. The current and noncurrent portions of contract acquisition costs are included in prepaid expenses and other current assets, and in other assets, respectively. As of June 30, 2021, we had $6.1 million of contract acquisition costs. We had amortization expense of $0.6 million and $0.3 million related to these costs during the three months ended June 30, 2021 and 2020, respectively, and $1.5 million and $0.9 million for the nine months ended June 30, 2021 and 2020, respectively. There was no impairment related to contract acquisition costs.

(e) Capitalized Contract Costs

We capitalize incremental costs incurred to fulfill our contracts that (i) relate directly to the contract, (ii) are expected to generate resources that will be used to satisfy our performance obligation under the contract, and (iii) are expected to be recovered through revenue generated under the contract. Our capitalized costs consist primarily of setup costs, such as costs to standup, customize and develop applications for each customer, which are incurred to satisfy our stand-ready obligation to provide access to our connected offerings. These contract costs are expensed to cost of revenue as we satisfy our stand-ready obligation over the contract term which we estimate to be between one and eight years, on average. The contract term was determined based on an average customer contract term, expected contract renewals, changes in technology, and our ability to retain customers, including canceled contracts. We classify these costs as current or noncurrent based on the timing of when we expect to recognize the expense. The current and noncurrent portions of capitalized contract fulfillment costs are presented as deferred costs. As of June 30, 2021, we had $40.8 million of capitalized contract costs.

We had amortization expense of $3.0 million and $4.0 million related to these costs during the three months ended June 30, 2021 and 2020, respectively, and $10.5 million and $9.3 million for the nine months ended June 30, 2021 and 2020, respectively. There was no impairment related to contract costs capitalized.

(f) Trade Accounts Receivable and Contract Balances

We classify our right to consideration in exchange for deliverables as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional (i.e., only the passage of time is required before payment is due). We present such receivables in accounts receivable, net at their net estimated realizable value. We maintain an allowance for credit losses to provide for the estimated amount of receivables and contract assets that may not be collected.

Our contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period.

Contract assets include unbilled amounts from long-term contracts when revenue recognized exceeds the amount billed to the customer, and right to payment is not solely subject to the passage of time. Contract assets are included in prepaid expenses and other current assets. The table below shows significant changes in contract assets (dollars in thousands):

	Contract assets
Balance as of September 30, 2020	$ 30,277
Revenues recognized but not billed	58,161
Amounts reclassified to accounts receivable, net	(39,794)
Balance as of June 30, 2021	$ 48,644
Less: allowance for credit losses	(496)
Balance as of June 30, 2021, net	$ 48,148

Our contract liabilities, which we present as deferred revenue, consist of advance payments and billings in excess of revenues recognized. We classify deferred revenue as current or noncurrent based on when we expect to recognize the revenues. The table below shows significant changes in deferred revenue (dollars in thousands):

	Deferred revenue
Balance as of September 30, 2020	$ 324,729
Amounts billed but not recognized	80,683
Revenue recognized	(115,629)
Balance as of June 30, 2021	$ 289,783

(g) Remaining Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at June 30, 2021 (dollars in thousands):

	Within One Year	Two to Five Years	Greater than Five Years	Total
Total revenue	$ 138,003	$ 175,677	$ 21,959	$ 335,639

The table above includes fixed backlogs and does not include variable backlogs derived from contingent usage-based activities, such as royalties and usage-based connected services.

Note 4. Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period, increased to include the number of shares of common stock that would have been outstanding had potential dilutive shares of common stock been issued. The dilutive effect of restricted stock units is reflected in diluted net income per share by applying the treasury stock method.

The dilutive effect of the Notes (as defined in Note 15) is reflected in net income per share by application of the “if-converted” method. The “if-converted” method is only assumed in periods where such application would be dilutive. In applying the “if-converted” method for diluted net income per share, we would assume conversion of the Notes at a ratio of 26.7271 shares of our common stock per $1,000 principal amount of the Notes. Assumed converted shares of our common stock are weighted for the period the Notes were outstanding. The shares of common stock underlying the conversion option of our Notes were not included in the calculation of diluted income per share for the three and nine months ended June 30, 2021.

The following table presents the reconciliation of the numerator and denominator for calculating net income (loss) per share:

	Three Months Ended June 30,		Nine Months Ended June 30,	
in thousands, except per share data	2021	2020	2021	2020
Numerator:				
Net income (loss) - basic and diluted	$ 5,798	$ (28,052)	$ 37,902	$ (26,523)
Denominator:				
Weighted average common shares outstanding - basic	37,825	36,509	37,664	36,315
Dilutive effect of restricted stock awards	1,471	-	1,471	-
Weighted average common shares outstanding - diluted	39,296	36,509	39,135	36,315
Net income (loss) per common share:				
Basic	$ 0.15	$ (0.77)	$ 1.01	$ (0.73)
Diluted	$ 0.15	$ (0.77)	$ 0.97	$ (0.73)

We exclude weighted-average potential shares from the calculations of diluted net income (loss) per share during the applicable periods when their inclusion is anti-dilutive. The following table sets forth potential shares that were considered anti-dilutive during the three and nine months ended June 30, 2021 and 2020.

	Three Months Ended June 30,		Nine Months Ended June 30,	
in thousands	2021	2020	2021	2020
Restricted stock unit awards	-	1,531	-	828
Contingently issuable stock awards	-	77	-	26
Conversion option of our Notes	4,677	1,439	4,677	480

Note 5. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques must maximize the use of observable inputs and minimize the use of unobservable inputs. When determining fair value measurements for assets and liabilities recorded at fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use in pricing the asset or liability.

The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement as of the measurement date as follows:

- Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity.

The following table presents information about our financial assets that are measured at fair value and indicates the fair value hierarchy of the valuation inputs used (dollars in thousands) as of:

	June 30, 2021		
	Fair Value	Cash and Cash Equivalents	Marketable Securities
Level 1:			
Money market funds (a)	$ 56,229	$ 56,229	$ -
Level 2:			
Commercial paper, $23,730 at cost (a) (b)	23,730	7,999	15,731
Corporate bonds, $25,734 at cost (a) (b)	25,719	5,002	20,717
Total assets	$ 105,678	$ 69,230	$ 36,448

	September 30, 2020		
	Fair Value	Cash and Cash Equivalents	Marketable Securities
Level 1:			
Money market funds (a)	$ 101,437	$ 101,437	$ -
Level 2:			
Commercial paper, $9,883 at cost (a) (b)	9,883	-	9,883
Corporate bonds, $1,780 at cost (a) (b)	1,779	-	1,779
Total assets	$ 113,099	$ 101,437	$ 11,662

(a) Money market funds and other highly liquid investments with original maturities of 90 days or less are included within Cash and cash equivalents in the Condensed Consolidated Balance Sheets.

(b) Commercial paper and corporate bonds with original maturities greater than 90 days are included within Marketable securities in the Condensed Consolidated Balance Sheets and classified as current or noncurrent based upon whether the maturity of the financial asset is less than or greater than 12 months.

During the three and nine months ended June 30, 2021, we recorded an immaterial amount of unrealized losses related to our marketable securities within Accumulated other comprehensive income. During the three and nine months ended June 30, 2020, we did not possess any marketable securities.

The carrying amounts of certain financial instruments, including cash held in banks, accounts receivable, and accounts payable, approximate fair value due to their short-term maturities and are excluded from the fair value tables above.

Derivative financial instruments are recognized at fair value and are classified within Level 2 of the fair value hierarchy. See *Note 6 – Derivative Financial Instruments* for additional details.

Long-term debt

The estimated fair value of our Long-term debt is determined by Level 2 inputs and is based on observable market data including prices for similar instruments. As of June 30, 2021 and September 30, 2020, the estimated fair value of our Notes was $521.5 million and $271.0 million, respectively. The Notes are recorded at face value less unamortized debt discount and transaction costs on our Condensed Consolidated Balance Sheets. The carrying amount of the Senior Credit Facilities (as defined in Note 15) approximates fair value given the underlying interest rate applied to such amounts outstanding is currently set to the prevailing market rate.

Equity securities

During the second quarter of fiscal 2021, we made a non-controlling equity investment in a privately held company. We evaluated the equity investment under the voting model and concluded consolidation was not applicable. We accounted for the investment by electing the measurement alternative for investments without readily determinable fair values and for which we do not have the ability to exercise significant influence. The non-marketable equity securities are carried at cost less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, which is recorded within the Condensed Consolidated Statements of Operations. We hold $2.6 million of investments without readily determinable fair values as of June 30, 2021. The investment is included within Other assets on the Condensed Consolidated Balance Sheets. There have been no adjustments to the carrying value of the investment resulting from impairments or observable price changes.

Note 6. Derivative Financial Instruments

We operate internationally and, in the normal course of business, are exposed to fluctuations in foreign currency exchange rates related to third-party vendor and intercompany payments for goods and services within our non-U.S. subsidiaries. We use foreign exchange forward contracts that are not designated as hedges to manage currency risk. The contracts can have maturities up to three years. At June 30, 2021, the total notional amount of forward contracts was $61.8 million. At June 30, 2021, the weighted-average remaining maturity of these instruments was approximately 11.9 months.

The following table summarizes the fair value and presentation in the Condensed Consolidated Balance Sheet for derivative instruments as of June 30, 2021 and September 30, 2020 (dollars in thousands):

		Fair Value	
Derivatives not designated as hedges	**Classification**	**June 30, 2021**	**September 30, 2020**
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 1,300	$ -
Foreign currency forward contracts	Other assets	428	-
Foreign currency forward contracts	Accrued expenses and other current liabilities	32	-
Foreign currency forward contracts	Other liabilities	$ 56	$ -

The following tables display a summary of the income (loss) related to foreign currency forward contracts for the three and nine months ended June 30, 2021 and 2020 (dollars in thousand):

		Gain recognized in earnings			
		Three Months Ended		Nine Months Ended	
Derivatives not designated as hedges	**Classification**	**June 30, 2021**	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
Foreign currency forward contracts	Other income (expense), net	$ 649	$ -	$ 2,419	$ -

Note 7. Credit Losses

We are exposed to credit losses primarily through our sales of software licenses and services to customers. We determine credit ratings for each customer in our portfolio based upon public information and information obtained directly from our customers. A credit limit for each customer is established and in certain cases we may require collateral or prepayment to mitigate credit risk. Our expected loss methodology is developed using historical collection experience, current customer credit information, current and future economic and market conditions and a review of the current status of the customer's account balances. We monitor our ongoing credit exposure through reviews of customer balances against contract terms and due dates, current economic conditions, and dispute resolution. Estimated credit losses are written off in the period in which the financial asset is no longer collectible.

The change in the allowance for credit losses for the nine months ended June 30, 2021 is as follows (dollars in thousands):

	Allowance for Credit Losses
Balance as of September 30, 2020	$ (1,394)
Current period recovery for expected credit losses	521
Write-offs charged against the allowance for expected credit losses	(109)
Foreign exchange impact on ending balance	82
Balance as of June 30, 2021	$ (900)

Note 8. Goodwill and Other Intangible Assets

(a) Goodwill

We believe our Chief Executive Officer ("CEO") is our chief operating decision maker ("CODM"). Our CEO approves all major decisions, including reorganizations and new business initiatives. Our CODM reviews routine consolidated operating information and makes decisions on the allocation of resources at this level, as such, we have concluded that we have one operating segment.

All goodwill is assigned to one or more reporting units. A reporting unit represents an operating segment or a component within an operating segment for which discrete financial information is available and is regularly reviewed by segment management for performance assessment and resource allocation. Upon consideration of our components, we have concluded that our goodwill is associated with one reporting unit.

On June 30, 2021, we concluded that no goodwill impairment indicators were present. We will continue to monitor the impacts of the COVID-19 pandemic on our reporting unit fair value. The full extent to which the ongoing COVID-19 pandemic could adversely affect our financial performance will depend on future developments, many of which are outside of our control.

The changes in the carrying amount of goodwill for the nine months ended June 30, 2021 are as follows (dollars in thousands):

	Total
Balance as of September 30, 2020	$ 1,128,198
Effect of foreign currency translation	4,699
Balance as of June 30, 2021	$ 1,132,897

(b) Intangible Assets, Net

As of June 30, 2021, there were no indicators of impairment present related to our long-lived asset group.

The following tables summarizes the gross carrying amounts and accumulated amortization of intangible assets by major class (dollars in thousands):

	June 30, 2021			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	$ 111,403	$ (86,165)	$ 25,238	2.4
Technology and patents	91,142	(85,762)	5,380	1.0
Total	$ 202,545	$ (171,927)	$ 30,618	

	September 30, 2020			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	$ 110,512	$ (75,915)	$ 34,597	3.0
Technology and patents	90,658	(79,639)	11,019	1.6
Total	$ 201,170	$ (155,554)	$ 45,616	

Amortization expense related to intangible assets in the aggregate was $5.1 million and $5.2 million for the three months ended June 30, 2021 and 2020, respectively, and $15.2 million and $15.8 million for the nine months ended June 30, 2021 and 2020, respectively. We expect amortization of intangible assets to be approximately $5.0 million for the remainder of fiscal year 2021.

Note 9. Leases

We have entered into a number of facility and equipment leases which qualify as operating leases under GAAP. We also have a limited number of equipment leases that qualify as finance leases. We determine if contracts with vendors represent a lease or have a lease component under GAAP at contract inception. Our leases have remaining terms ranging from less than one year to seven years. Some of our leases include options to extend or terminate the lease prior to the end of the agreed upon lease term. For purposes of calculating lease liabilities, lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise such options.

Operating lease right of use assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the lease commencement date. As our leases generally do not provide an implicit rate, we use an estimated incremental borrowing rate in determining the present value of future payments. The incremental borrowing rate represents an estimate of the interest rate we would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease within a particular location and currency environment.

The following table presents certain information related to lease term and incremental borrowing rates for leases as of June 30, 2021 and September 30, 2020:

	June 30, 2021	September 30, 2020
Weighted-average remaining lease term (in months):		
Operating leases	50.5	55.9
Finance leases	50.1	55.8
Weighted-average discount rate:		
Operating leases	6.8%	7.4%
Finance leases	4.4%	4.4%

Lease costs for minimum lease payments is recognized on a straight-line basis over the lease term. For operating leases, costs are included within Cost of revenues, Research and development, Sales and marketing, and General and administrative lines on the Condensed Consolidated Statements of Operations. For financing leases, amortization of the finance right-of-use assets is included within Research and development, Sales and marketing, and General and administrative lines on the Condensed Consolidated Statements of Operations, and interest expense is included within Interest expense.

The following table presents lease expense for the three and nine months ended June 30, 2021 and 2020 (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Finance lease costs:				
Amortization of right of use asset	$ 87	$ 33	$ 301	$ 102
Interest on lease liability	16	1	48	3
Operating lease cost	1,885	2,209	5,825	6,059
Variable lease cost	801	347	1,271	1,021
Sublease income	(53)	(47)	(157)	(157)
Total lease cost	$ 2,736	$ 2,543	$ 7,288	$ 7,028

For operating leases, the related cash payments are included in the operating cash flows on the Condensed Consolidated Statements of Cash Flows. For the three months ended June 30, 2021 and 2020, cash payments related to operating leases were $1.8 million and $2.1 million, respectively, and $5.9 million and $5.7 million for the nine months ended June 30, 2021 and 2020, respectively. For financing leases, the related cash payments for the principal portion of the lease liability are included in the financing cash flows on the Condensed Consolidated Statement of Cash Flows and the related cash payments for the interest portion of the lease liability are included within the operating section of the Condensed Consolidated Statement of Cash Flows. For the three and nine months ended June 30, 2021, cash payments related to financing leases were $0.1 million and $0.3 million, of which an immaterial amount related to the interest portion of the lease liability. For the three months ended June 30, 2020, cash payments related to financing leases were immaterial. For the nine months ended June 30, 2020, cash payments related to financing leases were $0.1 million, of which an immaterial amount was related to the interest portion of the lease liability.

The table below reconciles the undiscounted future minimum lease payments under non-cancelable leases to the total lease liabilities recognized on the Condensed Consolidated Balance Sheet as of June 30, 2021 (dollars in thousands):

Year Ending September 30,	Operating Leases	Financing Leases	Total
2021 (excluding nine months ended June 30, 2021)	$ 1,830	$ 118	$ 1,948
2022	6,250	469	6,719
2023	4,145	469	4,614
2024	3,800	417	4,217
2025	2,351	362	2,713
Thereafter	3,125	53	3,178
Total future minimum lease payments	$ 21,501	$ 1,888	$ 23,389
Less effects of discounting	(2,847)	(131)	(2,978)
Total lease liabilities	$ 18,654	$ 1,757	$ 20,411
Reported as of June 30, 2021			
Short-term lease liabilities	$ 5,497	$ 429	$ 5,926
Long-term lease liabilities	13,157	1,328	14,485
Total lease liabilities	$ 18,654	$ 1,757	$ 20,411

Note 10. Accrued Expenses and Other Liabilities

Accrued expenses and other current liabilities consisted of the following (dollars in thousands):

	June 30, 2021	September 30, 2020
Compensation	$ 37,121	$ 37,960
Sales and other taxes payable	11,621	14,688
Professional fees	3,974	2,458
Cost of revenue related liabilities	3,946	3,683
Interest payable	622	2,703
Other	3,671	4,586
Total	$ 60,955	$ 66,078

Note 11. Restructuring and Other Costs, Net

Restructuring and other costs, net includes restructuring expenses as well as other charges that are unusual in nature, are the result of unplanned events, and arise outside of the ordinary course of our business. The following table sets forth accrual activity relating to restructuring reserves for the nine months ended June 30, 2021 (dollars in thousands):

	Personnel	Facilities	Restructuring Subtotal	Other	Total
Balance at September 30, 2020	$ 764	$ 10	$ 774	$ 1,928	$ 2,702
Restructuring and other costs, net	381	1,012	1,393	1,384	2,777
Non-cash adjustments	—	2,749	2,749	—	2,749
Cash payments	(719)	(852)	(1,571)	(1,985)	(3,556)
Foreign exchange impact on ending balance	6	(45)	(39)	—	(39)
Balance at June 30, 2021	$ 432	$ 2,874	$ 3,306	$ 1,327	$ 4,633

The following table sets forth restructuring and other costs, net recognized for the three and nine months ended June 30, 2021 and 2020 (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Personnel	$ —	$ 2,452	$ 381	$ 3,133
Facilities	447	—	1,012	—
Restructuring subtotal	447	2,452	1,393	3,133
Other	1,313	849	1,384	10,592
Restructuring and other costs, net	$ 1,760	$ 3,301	$ 2,777	$ 13,725

Fiscal Year 2021

For the three months ended June 30, 2021, we recorded restructuring charges of $1.8 million, which resulted from a $0.4 million charge resulting from the closure of facilities that will no longer be utilized and $1.3 million related to other one-time charges.

For the nine months ended June 30, 2021, we recorded restructuring charges of $2.8 million, which included a $0.4 million severance charge related to the elimination of personnel, $1.0 million charge resulting from the closure of facilities that will no longer be utilized, and $1.4 million related to other one-time charges.

Fiscal Year 2020

For the three months ended June 30, 2020, we recorded restructuring charges of $3.3 million, which included a $2.5 million severance charge related to the elimination of personnel, and $0.8 million related to costs incurred to establish the Cerence business as a standalone public company.

For the nine months ended June 30, 2020, we recorded restructuring charges of $13.7 million, which included a $3.1 million severance charge related to the elimination of personnel, and $10.6 million related to costs incurred to establish the Cerence business as a standalone public company.

Note 12. Stockholder's Equity

Per the Amended and Restated Certificate of Incorporation, which was adopted on October 1, 2019, 600,000,000 shares of capital stock have been authorized, consisting of 40,000,000 shares of Preferred Stock, par value $0.01 per share, or Preferred Stock, and 560,000,000 shares of Common Stock, par value $0.01 per share ("Common Stock").

On October 2, 2019, we registered the issuance of 6,350,000 shares of Common Stock, consisting of 5,300,000 shares of Common Stock reserved for issuance upon the exercise of options granted, or in respect of awards granted, under the Cerence 2019 Equity Incentive Plan, ("Equity Incentive Plan"), and 1,050,000 shares of Common Stock that are reserved for issuance under the Cerence 2019 Employee Stock Purchase Plan. On January 1, 2021, in accordance with the automatic annual increase provisions of the Equity Incentive Plan, an aggregate of 1,130,547 shares of our Common Stock were added to the shares available for issuance under the Equity Incentive Plan.

The Equity Incentive Plan provides for the grant of incentive stock options, stock awards, stock units, stock appreciation rights, and certain other stock-based awards.

Awards issued under the Plan may not have a term greater than ten years from the date of grant.

Restricted Units

Information with respect to our non-vested restricted stock units for the nine months ended June 30, 2021 was as follows:

	Non-Vested Restricted Stock Units					
	Time-Based Shares	Performance-Based Shares	Total Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Non-vested at September 30, 2020	2,042,918	771,387	2,814,305	$ 18.63		
Granted	676,883	290,035	966,918	$ 61.32		
Vested	(1,006,553)	(403,502)	(1,410,055)	$ 37.85		
Forfeited	(22,844)	(2,287)	(25,131)	$ 45.21		
Non-vested at June 30, 2021	1,690,404	655,633	2,346,037	$ 42.34	1.24	$ 250,322
Expected to vest			2,346,037	$ 42.34	1.24	$ 250,322

Stock-based Compensation

Stock-based compensation was included in the following captions in our Condensed Consolidated Statements of Operations for the three and nine months ended June 30, 2021 and 2020 (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Cost of connected services	$ 165	$ 423	$ 937	$ 963
Cost of professional services	1,543	1,718	4,008	3,022
Research and development	4,774	5,001	13,377	9,924
Sales and marketing	2,774	3,223	8,351	6,589
General and administrative	5,454	7,060	15,506	12,456
	$ 14,710	$ 17,425	$ 42,179	$ 32,954

Note 13. Commitments and Contingencies

Litigation and Other Claims

Similar to many companies in the software industry, we are involved in a variety of claims, demands, suits, investigations and proceedings that arise from time to time relating to matters incidental to the ordinary course of our business, including at times actions with respect to contracts, intellectual property, employment, benefits and securities matters. At each balance sheet date, we evaluate contingent liabilities associated with these matters in accordance with ASC 450 "*Contingencies*." If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgments are required for the determination of probability and the range of the outcomes, and estimates are based only on the best information available at the time. Due to the inherent uncertainties involved in claims and legal proceedings and in estimating losses that may arise, actual outcomes may differ from our estimates. Contingencies deemed not probable or for which losses were not estimable in one period may become probable, or losses may become estimable in later periods, which may have a material impact on our results of operations and financial position. As of June 30, 2021, accrued losses were not material to our condensed consolidated financial statements, and we do not expect any pending matter to have a material impact on our condensed consolidated financial statements.

Guarantees and Other

We include indemnification provisions in the contracts we enter with customers and business partners. Generally, these provisions require us to defend claims arising out of our products' infringement of third-party intellectual property rights, breach of contractual obligations and/or unlawful or otherwise culpable conduct. The indemnity obligations generally cover damages, costs and attorneys' fees arising out of such claims. In most, but not all cases, our total liability under such provisions is limited to either the value of the contract or a specified, agreed-upon amount. In some cases, our total liability under such provisions is unlimited. In many, but not all cases, the term of the indemnity provision is perpetual. While the maximum potential amount of future payments we could be required to make under all the indemnification provisions is unlimited, we believe the estimated fair value of these provisions is minimal due to the low frequency with which these provisions have been triggered.

We indemnify our directors and officers to the fullest extent permitted by Delaware law, which provides among other things, indemnification to directors and officers for expenses, judgments, fines, penalties and settlement amounts incurred by such persons in their capacity as a director or officer of the Company, regardless of whether the individual is serving in any such capacity at the time the liability or expense is incurred. Additionally, in connection with certain acquisitions, we agreed to indemnify the former officers and members of the boards of directors of those companies, on similar terms as described above, for a period of six years from the acquisition date. In certain cases, we purchase director and officer insurance policies related to these obligations, which fully cover the six-year period. To the extent that we do not purchase a director and officer insurance policy for the full period of any contractual indemnification, and such directors and officers do not have coverage under separate insurance policies, we would be required to pay for costs incurred, if any, as described above.

As of June 30, 2021, we have a $1.7 million letter of credit that is used as a security deposit in connection with our leased Bellevue, Washington office space. In the event of default on the underlying lease, the landlord would be eligible to draw against the letter of credit. The letter of credit is subject to aggregate reductions, provided that we are not in default under the underlying lease. We also have letters of credit in connection with security deposits for other facility leases totaling $0.6 million in the aggregate. These letters of credit have various terms and expire during fiscal year 2021 and beyond, while some of the letters of credit may automatically renew based on the terms of the underlying agreements.

Note 14. Income Taxes

The components of income (loss) before income taxes are as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Domestic	$ 4,895	$ (37,511)	$ 19,139	$ (42,187)
Foreign	6,967	7,248	21,628	9,515
Income (loss) before income taxes	$ 11,862	$ (30,263)	$ 40,767	$ (32,672)

The components of the provision for (benefit from) income taxes are as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Domestic	$ 2,661	$ (5,899)	$ 6,414	$ (6,841)
Foreign	3,403	3,688	(3,549)	692
Provision for (benefit from) income taxes	$ 6,064	$ (2,211)	$ 2,865	$ (6,149)
Effective income tax rate	51.1%	7.3%	7.0%	18.8%

The effective tax rates for the periods presented are based upon estimated income for the fiscal year and the statutory tax rates enacted in the jurisdictions in which we operate. For all periods presented, the effective tax rate differs from the 21.0% statutory U.S. tax rate due to the impact of the nondeductible stock-based compensation, U.S. inclusions of global intangible low-taxed income (GILTI), and our mix of jurisdictional earnings and related differences in foreign statutory tax rates.

Our effective tax rate for the three months ended June 30, 2021 was 51.1% compared to 7.3% for the three months ended June 30, 2020. Consequently, our provision for income taxes for the three months ended June 30, 2021 was $6.1 million, a net change of $8.3 million from a benefit from income taxes of $2.2 million for the three months ended June 30, 2020. This difference was attributable to our composition of jurisdiction earnings, U.S. inclusions of foreign taxable income as a result of 2017 tax law changes, non-deductible compensation expenses.

Our effective tax rate for the nine months ended June 30, 2021 was 7.0% compared to 18.8% for the nine months ended June 30, 2020. Consequently, our provision for income taxes for the nine months ended June 30, 2021 was $2.9 million, a net change of $9.0 million from a benefit from income taxes of $6.1 million for the nine months ended June 30, 2020. This difference was attributable to a $15.8 million tax benefit recorded as a result of an increase to the enacted Netherlands tax rate in the first quarter of fiscal 2021 and the realization of a $3.9 million tax benefit related to stock-based compensation in the period. This compares to a $5.0 million tax benefit realized during the nine months ended June 30, 2020, which was the result of a previous change to the Netherlands enacted tax rate.

Deferred tax assets and liabilities are measured using the statutory tax rates and laws expected to apply to taxable income in the years in which the temporary differences are expected to reverse. Valuation allowances are provided against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the timing of the temporary differences becoming deductible. Management considers, among other available information, scheduled reversals of deferred tax liabilities, projected future taxable income, limitations of availability of net operating loss carryforwards, and other matters in making this assessment.

Note 15. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	June 30, 2021	September 30, 2020
3.00% Convertible Senior Notes due 2025, net of unamortized discount of $15,929 and deferred issuance costs of $4,005 at June 30, 2021. Effective interest rate 6.29%.	$ 155,066	$ 151,791
Senior Credit Facilities, net of unamortized discount of $1,958 and deferred issuance costs of $236 at June 30, 2021. Effective interest rate 2.91%.	116,556	121,331
Total debt	$ 271,622	$ 273,122
Less: current portion	(6,250)	(6,250)
Total long-term debt	$ 265,372	$ 266,872

The following table summarizes the maturities of our borrowing obligations as of June 30, 2021 (in thousands):

Fiscal Year	Convertible Senior Notes	Senior Facilities	Total
2021	$ —	$ 1,562	$ 1,562
2022	—	6,250	6,250
2023	—	10,938	10,938
2024	—	12,500	12,500
2025	175,000	87,500	262,500
Thereafter	—	—	—
Total before unamortized discount and issuance costs and current portion	$ 175,000	$ 118,750	$ 293,750
Less: unamortized discount and issuance costs	(19,934)	(2,194)	(22,128)
Less: current portion of long-term debt	—	(6,250)	(6,250)
Total long-term debt	$ 155,066	$ 110,306	$ 265,372

3.00% Senior Convertible Notes due 2025

On June 2, 2020, in an effort to refinance our debt structure, we issued $175.0 million in aggregate principal amount of 3.00% Convertible Senior Notes due 2025 (the "Notes"), including the initial purchasers' exercise in full of their option to purchase an additional $25.0 million principal amount of the Notes, between the Company and U.S. Bank National Association, as trustee (the "Trustee"), in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from the issuance of the Notes were $169.8 million after deducting transaction costs. We used net proceeds from the issuance of the Notes to repay a portion of our indebtedness under the Credit Agreement, dated October 1, 2019, by and among the Company, the lenders and issuing banks party thereto and Barclays Bank PLC, as administrative agent (the "Existing Facility").

The Notes are senior, unsecured obligations and will accrue interest payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020, at a rate of 3.00% per year. The Notes will mature on June 1, 2025, unless earlier converted, redeemed, or repurchased. The Notes are convertible into cash, shares of Common Stock or a combination of cash and shares of Common Stock, at the Company's election.

The conversion rate will initially be 26.7271 shares of our Common Stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $37.42 per share of our Common Stock).

As of June 30, 2021, the carrying amount of the equity component, net of taxes and transaction costs was $14.4 million.

The interest expense recognized related to the Notes for the three and nine months ended June 30, 2021 was as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Contractual interest expense	$ 1,308	$ 431	$ 3,924	$ 431
Amortization of debt discount	886	276	2,617	276
Amortization of issuance costs	223	70	658	70
Total interest expense related to the Notes	$ 2,417	$ 777	$ 7,199	$ 777

The conditional conversion feature of the Notes was triggered during the nine months ended June 30, 2021, and the Notes were convertible during the fiscal quarter ended June 30, 2021, with no Notes being converted. Whether any of the Notes will be convertible in future quarters will depend on the satisfaction of one or more of the conversion conditions in the future. If one or more holders elect to convert their Notes at a time when any such Notes are convertible, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

Senior Credit Facilities

On June 12, 2020 (the "Financing Closing Date"), in connection with our effort to refinance our existing indebtedness, we entered into a Credit Agreement, by and among the Borrower, the lenders and issuing banks party thereto and Wells Fargo Bank, N.A., as administrative agent (the "Credit Agreement"), consisting of a four-year senior secured term loan facility in the aggregate principal amount of $125.0 million (the "Term Loan Facility"). The net proceeds from the issuance of the Term Loan Facility were $123.0 million, which together with proceeds from the Convertible Senior Notes was intended to pay in full all indebtedness under the Existing Facility, and paid fees and expenses in connection with the Senior Credit Facilities. We also entered into a senior secured first-lien revolving credit facility in an aggregate principal amount of $50.0 million (the "Revolving Facility" and, together with the Term Loan Facility, the "Senior Credit Facilities"), which shall be drawn on in the event that our working capital and other cash needs are not supported by our operating cash flow. As of June 30, 2021, there were no amounts outstanding under the Revolving Facility.

On December 17, 2020 (the "Amendment No. 1 Effective Date"), we entered into Amendment No. 1 to the Credit Agreement (the "Amendment"). The Amendment extended the scheduled maturity date of the revolving credit and term facilities from June 12, 2024 to April 1, 2025. The Amendment was accounted for as a debt modification, and therefore, $0.5 million of the refinancing fees paid directly to lender were recorded as deferred debt issuance costs, and $0.1 million of the refinancing fees paid to third parties were expensed in the period.

The Amendment, among other things, revised certain interest rates in the Credit Agreement. Following delivery of a compliance certificate for the first full fiscal quarter after the Amendment No. 1 Effective Date, the applicable margins for the revolving credit and term facilities is subject to a pricing grid based upon the net total leverage ratio as follows (i) if the net total leverage ratio is greater than 3.00 to 1.00, the applicable margin is LIBOR plus 3.00% or ABR plus 2.00%; (ii) if the net total leverage ratio is less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00, the applicable margin is LIBOR plus 2.75% or ABR plus 1.75%; (iii) if the net total leverage ratio is less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00, the applicable margin is LIBOR plus 2.50% or ABR plus 1.50%; (iv) if the net total leverage ratio is less than or equal to 2.00 to 1.00 but greater than 1.50 to 1.00, the applicable margin is LIBOR plus 2.25% or ABR plus 1.25%; and (v) if the net total leverage ratio is less than or equal to 1.50 to 1.00, the applicable margin is LIBOR plus 2.20% or ABR plus 1.00%. As a result of the Amendment, the applicable LIBOR floor was reduced from 0.50% to 0.00%. From the Amendment No. 1 Effective Date until the fiscal quarter ended December 31, 2020, the interest rate was LIBOR plus 2.50%. For the three months ended March 31, 2021, the interest rate was LIBOR plus 2.25%. For the three months ended June 30, 2021, the interest rate was LIBOR plus 2.25%. Total interest expense relating to the Senior Credit Facilities for the three months ended June 30, 2021 and 2020 was $0.8 million and $0.3 million, respectively, and $3.2 million and $0.3 million for the nine months ended June 30, 2021 and 2020, respectively, reflecting the coupon and accretion of the discount.

In addition, the quarterly commitment fee required to be paid based on the unused portion of the revolving facility is subject to a pricing grid based upon the net total leverage ratio as follows (i) if the net total leverage ratio is greater than 3.00 to 1.00, the unused line fee is 0.500%; (ii) if the net total leverage ratio is less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00, the unused line fee is 0.450%; (iii) if the net total leverage ratio is less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00, the unused line fee is 0.400%; (iv) if the net total leverage ratio is less than or equal to 2.00 to 1.00 but greater than 1.50 to 1.00, the unused line fee is 0.350%; and (v) if the net total leverage ratio is less than or equal to 1.50 to 1.00, the unused line fee is 0.300%.

The Amendment also revised the amount by which we are obligated to make quarterly principal payments. Through the fiscal quarter ending December 31, 2022, we are obligated to make quarterly principal payments in an aggregate amount equal to 1.25% of the original principal amount of the Term Loan Facility. From the fiscal quarter ending March 31, 2023 and for each fiscal quarter thereafter, we are obligated to make quarterly principal payments in an aggregate amount equal to 2.50% of the original principal amount of the Term Loan Facility, with the balance payable at the maturity date thereof.

The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type that, among other things, limit our and our subsidiaries' ability to incur additional indebtedness or liens, to dispose of assets, to make certain fundamental changes, to designate subsidiaries as unrestricted, to make certain investments, to prepay certain indebtedness and to pay dividends, or to make other distributions or redemptions/repurchases, in respect of our and our subsidiaries' equity interests. In addition, the Credit Agreement contains financial covenants, each tested quarterly, (1) a net secured leveraged ratio of not greater than 3.25 to 1.00; (2) a net total leverage ratio of not greater than 4.25 to 1.00; and (3) minimum liquidity of at least $75 million. The Credit Agreement also contains events of default customary for financings of this type, including certain customary change of control events. As of June 30, 2021, we were in compliance with all Credit Agreement covenants.

Note 16. Impact on Previously Issued Financial Statements for Immaterial Adjustments

During the quarter ended March 31, 2021, we identified three immaterial errors and made adjustments to correct those errors that affected previously issued consolidated financial statements.

- During the first quarter of fiscal 2021, we recognized an immaterial amount of connected services revenue which related to fiscal year 2020.
- During the first quarter of fiscal 2021, the estimated achievement percentage relating to our long-term incentive plan increased. We did not originally record the corresponding cumulative adjustment to stock-based compensation during the three months ended December 31, 2020.
- During the fourth quarter of fiscal 2020, we recorded a restructuring accrual relating to the closure of a facility under *ASC 420 Exit or Disposal Cost Obligation* when *ASC 842 Leases* should have been applied. During the three months ended December 31, 2020, a partial true up was recorded to the restructuring accrual.

We also recorded certain adjustments to income taxes reflecting the tax effect of the aforementioned adjustments.

We assessed the materiality, both quantitatively and qualitatively, in accordance with the SEC's Staff Accounting Bulletin ("SAB") No. 99 and SAB No. 108, and concluded that these identified errors were not material to any of the previously issued financial statements. In order to present the impact of these resulting adjustments, previously issued financial statements have been revised and are presented as "As Revised" in the tables presented below.

	Three Months Ended December 31, 2019		
Revised Consolidated Statement of Operations Amounts:	**As Reported**	**Adjustment**	**As Revised**
Total revenues	77,459	246	77,705
Gross profit	51,525	246	51,771
Loss from operations	(2,097)	246	(1,851)
Loss before income taxes	(8,760)	246	(8,514)
Provision for income taxes	3,002	(233)	2,769
Net loss	$ (11,762)	$ 479	$ (11,283)
Net loss per share:			
Basic	$ (0.33)		$ (0.31)
Diluted	$ (0.33)		$ (0.31)

	Three Months Ended March 31, 2020		
Revised Consolidated Statement of Operations Amounts:	**As Reported**	**Adjustment**	**As Revised**
Total revenues	86,495	328	86,823
Gross profit	57,765	328	58,093
Income from operations	12,006	328	12,334
Income before income taxes	5,777	328	6,105
Benefit from income taxes	(6,718)	11	(6,707)
Net income	$ 12,495	$ 317	$ 12,812

	As Reported	Adjustment	As Revised
Net income per share:			
Basic	$ 0.34		$ 0.35
Diluted	$ 0.33		$ 0.34

Revised Consolidated Statement of Operations Amounts:	Three Months Ended June 30, 2020		
	As Reported	Adjustment	As Revised
Total revenues	74,810	387	75,197
Gross profit	47,207	387	47,594
Loss from operations	(4,696)	387	(4,309)
Loss before income taxes	(30,650)	387	(30,263)
Benefit from income taxes	(2,469)	258	(2,211)
Net loss	$ (28,181)	$ 129	$ (28,052)
Net loss per share:			
Basic	$ (0.77)		$ (0.77)
Diluted	$ (0.77)		$ (0.77)

Revised Consolidated Statement of Operations Amounts:	Year Ended September 30, 2020		
	As Reported	Adjustment	As Revised
Total revenues	329,646	1,321	330,967
Gross profit	221,795	1,321	223,116
Income from operations	19,331	3,100	22,431
Loss before income taxes	(26,140)	3,100	(23,040)
Benefit from income taxes	(5,509)	785	(4,724)
Net loss	$ (20,631)	$ 2,315	$ (18,316)
Net loss per share:			
Basic	$ (0.57)		$ (0.50)
Diluted	$ (0.57)		$ (0.50)

Revised Consolidated Balance Sheet Amounts:	September 30, 2020		
	As Reported	Adjustment	As Revised
	ASSETS		
Total current assets	249,148	957	250,105
Total assets	$ 1,687,445	$ 172	$ 1,687,617
LIABILITIES AND STOCKHOLDERS' EQUITY			
Total current liabilities	200,774	(2,143)	198,631
Total liabilities	729,689	(2,143)	727,546
Total stockholders' equity	957,756	2,315	960,071
Total liabilities and stockholders' equity	$ 1,687,445	$ 172	$ 1,687,617

Revised Condensed Consolidated Statement of Operations Amounts:	Three Months Ended December 31, 2020		
	As Reported	Adjustment	As Revised
Total revenues	94,964	(1,321)	93,643
Total cost of revenues	26,881	7	26,888
Gross profit	68,083	(1,328)	66,755
Total operating expenses	47,811	1,400	49,211
Income from operations	20,272	(2,728)	17,544
Income before income taxes	14,254	(2,728)	11,526
Benefit from income taxes	(7,384)	(2,031)	(9,415)
Net income	$ 21,638	$ (697)	$ 20,941

Net income per share:			
Basic	$ 0.58		$ 0.56
Diluted	$ 0.54		$ 0.53

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

You should read the following discussion and analysis of our financial condition and results of operations together with our Unaudited Condensed Consolidated Financial Statements, and the related notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q ("Form 10-Q"), and our consolidated and combined financial statements and the related notes and other financial information included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020, filed with the Securities and Exchange Commission ("SEC") on November 19, 2020. Some of the information contained in this discussion and analysis or elsewhere in this Quarterly Report, including information with respect to our plans and strategy for our business, our performance and future success, our liquidity and capital resources, the impact of the COVID-19 pandemic on our business, results of operations and financial condition, and trends in the global auto industry, includes forward-looking statements that involve risks and uncertainties. See "Cautionary Statement Concerning Forward-Looking Statements." You should review the "Risk Factors" section in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2020, as updated by Part II, Item 1A of this Quarterly Report, for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. Note that the results of operations for the three and nine months ended June 30, 2021 are not necessarily indicative of what our operating results for the full fiscal year will be. In this Item, "we," "us," "our," "Cerence" and the "Company" refer to Cerence Inc. and its consolidated subsidiaries, collectively.

Overview

We build automotive cognitive assistance solutions to power natural and intuitive interactions between automobiles, drivers and passengers, and the broader digital world. We possess one of the world's most popular software platforms for building automotive virtual assistants. Our customers include all major original equipment manufacturers ("OEMs") or their tier 1 suppliers worldwide. We deliver our solutions on a white-label basis, enabling our customers to deliver customized virtual assistants with unique, branded personalities and ultimately strengthening the bond between automobile brands and end users. Our vision is to enable a more enjoyable, safer journey for everyone.

Our principal offering is our software platform, which our customers use to build virtual assistants that can communicate, find information and take action across an expanding variety of categories. Our software platform has a hybrid architecture combining edge software components with cloud-connected components. Edge software components are installed on a vehicle's head unit and can operate without access to external networks and information. Cloud-connected components are comprised of certain speech and natural language understanding related technologies, AI-enabled personalization and context-based response frameworks, and content integration platform.

Impact of COVID-19 on our Business

As the full impact of the COVID-19 pandemic on our business continues to develop, we are closely monitoring the global situation. We are unable at this time to predict the full impact of COVID-19 on our operations, liquidity, and financial results, and, depending on the magnitude and duration of the COVID-19 pandemic, such impact may be material. Accordingly, current results and financial condition discussed herein may not be indicative of future operating results and trends. While we are unable to accurately predict the full impact that COVID-19 will have on our results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures, these measures have impacted, and may continue to impact, our business, as well as our customers and consumers. For further discussion of the business risks associated with COVID-19, see Item 1A, Risk Factors, within our Annual Report on Form 10-K for the fiscal year ended September 30, 2020, as updated by Part II, Item 1A of this Quarterly Report.

Basis of Presentation

The financial information presented in the accompanying unaudited condensed consolidated financial statements has been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and in accordance with rules and regulations of the SEC regarding interim financial reporting. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

The condensed consolidated balance sheet data as of September 30, 2020 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting primarily of normal recurring accruals, necessary for a fair presentation of our financial position and results of operations. The operating results for the three and nine months ended June 30, 2021 are not necessarily indicative of the results expected for the full year ending September 30, 2021.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, as well as those of its wholly owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

During the second quarter of fiscal 2021, we identified and corrected immaterial errors related to previously issued consolidated financial statements. In order to present the impact of the resulting adjustments, previously issued financial statements have been revised. See *Note 16 – Impact on Previously Issued Financial Statements for Immaterial Adjustments* for additional details, including a summary of the revisions to certain previously reported financial information presented herein for comparative purposes.

Key Metrics

In evaluating our financial condition and operating performance, we focus on revenue, operating margins, and cash flow from operations.

For the three months ended June 30, 2021 as compared to the three months ended June 30, 2020:

- Total revenue increased by $21.6 million, or 28.7%, to $96.8 million from $75.2 million.
- Operating margin increased 21.1 percentage points to 15.4% from negative 5.7%.
- Cash provided by operating activities was $24.1 million, an increase of $4.8 million from cash provided by operating activities of $19.3 million.

For the nine months ended June 30, 2021 as compared to the nine months ended June 30, 2020:

- Total revenue increased by $49.4 million, or 20.6%, to $289.1 million from $239.7 million.
- Operating margin increased 14.6 percentage points to 17.2% from 2.6%.
- Cash provided by operating activities was $51.1 million, an increase of $32.5 million from cash provided by operating activities of $18.6 million.

Operating Results

The following table shows the Condensed Consolidated Statement of Operations for the three and nine months ended June 30, 2021 and 2020 (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Revenue:				
License	$ 49,980	$ 32,454	$ 150,765	$ 117,843
Connected services	30,283	25,383	83,949	72,109
Professional services	16,538	17,360	54,392	49,773
Total revenues	96,801	75,197	289,106	239,725
Cost of revenue:				
License	863	820	2,718	2,344
Connected services	6,108	7,191	19,960	24,742
Professional services	14,985	17,529	48,632	48,773
Amortization of intangible assets	1,879	2,063	5,637	6,408
Total cost of revenues	23,835	27,603	76,947	82,267
Gross profit	72,966	47,594	212,159	157,458
Operating expenses:				
Research and development	30,370	22,041	83,365	66,898
Sales and marketing	9,534	9,180	28,097	24,829
General and administrative	13,173	14,261	38,563	36,456
Amortization of intangible assets	3,180	3,120	9,521	9,376
Restructuring and other costs, net	1,760	3,301	2,777	13,725
Total operating expenses	58,017	51,903	162,323	151,284
Income (loss) from operations	14,949	(4,309)	49,836	6,174
Interest income	34	38	68	563
Interest expense	(3,294)	(5,546)	(10,569)	(19,043)
Other income (expense), net	173	(20,446)	1,432	(20,366)
Income (loss) before income taxes	11,862	(30,263)	40,767	(32,672)
Provision for (benefit from) income taxes	6,064	(2,211)	2,865	(6,149)
Net income (loss)	$ 5,798	$ (28,052)	$ 37,902	$ (26,523)

Our revenue consists primarily of license revenue, connected services revenue and revenue from professional services. License revenue primarily consists of license royalties associated with our edge software components, with costs of license revenue primarily consisting of third-party royalty expenses for certain external technologies we leverage. Connected services revenue represents the subscription fee that provides access to our connected services components, including the customization and construction of our connected services solutions. Cost of connected service revenue primarily consists of labor costs of software delivery services, infrastructure, and communications fees that support our connected services solutions. Professional services revenue is primarily comprised of porting, integrating, and customizing our embedded solutions, with costs primarily consisting of compensation for services personnel, contractors and overhead.

Our operating expenses include R&D, sales and marketing and general and administrative expenses. R&D expenses primarily consist of salaries, benefits, and overhead relating to research and engineering staff. Sales and marketing expenses includes salaries, benefits, and commissions related to our sales, product marketing, product management, and business unit management teams. General and administrative expenses primarily consist of personnel costs for administration, finance, human resources, general management, fees for external professional advisers including accountants and attorneys, and provisions for credit losses.

Amortization of acquired patents and core technology are included within cost of revenues whereas the amortization of other intangible assets, such as acquired customer relationships, trade names and trademarks, are included within operating expenses. Customer relationships are amortized over their estimated economic lives based on the pattern of economic benefits expected to be generated from the use of the asset. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives.

Restructuring and other costs, net include restructuring expenses as well as other charges that are unusual in nature, are the result of unplanned events, and arise outside the ordinary course of our business.

Total other expense, net consists primarily of foreign exchange gains (losses), losses on the extinguishment of debt and interest expense related to the Existing Facilities, Notes, and Senior Credit Facilities.

Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020

Total Revenues

The following table shows total revenues by product type, including the corresponding percentage change, for the three months ended June 30, 2021 and 2020 (dollars in thousands):

	Three Months Ended June 30,				% Change
	2021	% of Total	2020	% of Total	2021 vs. 2020
License	$ 49,980	51.6%	$ 32,454	43.1%	54.0%
Connected services	30,283	31.3%	25,383	33.8%	19.3%
Professional services	16,538	17.1%	17,360	23.1%	(4.7)%
Total revenues	$ 96,801		$ 75,197		28.7%

Total revenues for the three months ended June 30, 2021 were $96.8 million, an increase of $21.6 million, or 28.7%, from $75.2 million for the three months ended June 30, 2020. The increase in revenues was driven by increases in licensing revenues and increased demand for our connected services.

License Revenue

License revenue for the three months ended June 30, 2021 was $50.0 million, an increase of $17.5 million, or 54.0%, from $32.5 million for the three months ended June 30, 2020. The increase in license revenue was primarily due to higher volume of licensing royalties as the global auto industry recovered from the COVID-19 pandemic and OEMs increased production. As a percentage of total revenues, license revenue increased by 8.5 percentage points from 43.1% for the three months ended June 30, 2020 to 51.6% for the three months ended June 30, 2021. Currently, the global automotive industry is experiencing a semiconductor shortage. As of the date of this Quarterly Report, we are unable to predict the full extent this will have on our business, including our license revenue.

Connected Services Revenue

Connected services revenue for the three months ended June 30, 2021 was $30.3 million, an increase of $4.9 million, or 19.3%, from $25.4 million for the three months ended June 30, 2020. This increase was primarily driven by greater demand for our connected services solutions as our customers increasingly deploy hybrid solutions. As a percentage of total revenues, connected services revenue decreased by 2.5 percentage point from 33.8% for the three months ended June 30, 2020 to 31.3% for the three months ended June 30, 2021.

Professional Services Revenue

Professional service revenue for the three months ended June 30, 2021 was $16.5 million, a decrease of $0.9 million, or 4.7%, from $17.4 million for the three months ended June 30, 2020. This decrease was primarily driven by the composition of our arrangements and the related timing of fulfilling performance obligations under the contracts. As a percentage of total revenues, professional services revenue decreased by 6.0 percentage points from 23.1% for the three months ended June 30, 2020 to 17.1% for the three months ended June 30, 2021.

Nine Months Ended June 30, 2021 Compared with Nine Months Ended June 30, 2020

Total Revenues

The following table shows total revenues by product type, including the corresponding percentage change, for the nine months ended June 30, 2021 and 2020 (dollars in thousands):

	Nine Months Ended June 30,				% Change
	2021	% of Total	2020	% of Total	2021 vs. 2020
License	$ 150,765	52.2%	$ 117,843	49.1%	27.9%
Connected services	83,949	29.0%	72,109	30.1%	16.4%
Professional services	54,392	18.8%	49,773	20.8%	9.3%
Total revenues	$ 289,106		$ 239,725		20.6%

Total revenues for the nine months ended June 30, 2021 were $289.1 million, an increase of $49.4 million, or 20.6%, from $239.7 million for the nine months ended June 30, 2020. The increase in revenues occurred across all product types.

License Revenue

License revenue for the nine months ended June 30, 2021 was $150.8 million, an increase of $33.0 million, or 27.9%, from $117.8 million for the nine months ended June 30, 2020. The increase in license revenue was primarily due to higher volume of licensing royalties as the global auto industry recovered from the COVID-19 pandemic and OEMs increased production. As a percentage of total revenues, license revenue increased by 3.1 percentage points from 49.1% for the nine months ended June 30, 2020 to 52.2% for the nine months ended June 30, 2021. Currently, the global automotive industry is experiencing a semiconductor shortage. As of the date of this Quarterly Report, we are unable to predict the full extent this will have on our business, including our license revenue.

Connected Services Revenue

Connected services revenue for the nine months ended June 30, 2021 was $83.9 million, an increase of $11.8 million, or 16.4%, from $72.1 million for the nine months ended June 30, 2020. This increase was primarily driven by greater demand for our connected services solutions as our customers increasingly deploy hybrid solutions. As a percentage of total revenues, connected services revenue decreased by 1.1 percentage point from 30.1% for the nine months ended June 30, 2020 to 29.0% for the nine months ended June 30, 2021.

Professional Services Revenue

Professional service revenue for the nine months ended June 30, 2021 was $54.4 million, an increase of $4.6 million, or 9.3%, from $49.8 million for the nine months ended June 30, 2020. This increase was primarily driven by our continued focus on integration and customization services related to our edge software and timing of services rendered. As a percentage of total revenues, professional services revenue decreased 2.0 percentage points from 20.8% for the nine months ended June 30, 2020 to 18.8% for the nine months ended June 30, 2021.

Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020

Total Cost of Revenues and Gross Profits

The following table shows total cost of revenues by product type and the corresponding percentage change (dollars in thousands):

	Three Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
License	$ 863	$ 820	5.2%
Connected services	6,108	7,191	(15.1)%
Professional services	14,985	17,529	(14.5)%
Amortization of intangibles	1,879	2,063	(8.9)%
Total cost of revenues	$ 23,835	$ 27,603	(13.7)%

The following table shows total gross profit by product type and the corresponding percentage change (dollars in thousands):

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	% Change 2021 vs. 2020
License	$ 49,117	$ 31,634	55.3%
Connected services	24,175	18,192	32.9%
Professional services	1,553	(169)	(1018.9)%
Amortization of intangibles	(1,879)	(2,063)	8.9%
Total gross profit	$ 72,966	$ 47,594	53.3%

Total cost of revenues for the three months ended June 30, 2021 were $23.8 million, a decrease of $3.8 million, or 13.7%, from $27.6 million for the three months ended June 30, 2020. The decrease in cost of revenues resulted primarily from our cost savings initiatives implemented in the second half of fiscal 2020.

We experienced an increase in total gross profit of $25.4 million, or 53.3%, from $47.6 million for the three months ended June 30, 2020 to $73.0 million for the three months ended June 30, 2021. The increase was primarily driven by our license and connected services solutions.

Cost of License Revenue

Cost of license revenue for the three months ended June 30, 2021 was $0.9 million, an increase of $0.1 million, or 5.2%, from $0.8 million for the three months ended June 30, 2020. Cost of license revenue increased due to increases in third-party royalty costs. As a percentage of total cost of revenues, cost of license revenue increased by 0.6 percentage points from 3.0% for the three months ended June 30, 2020 to 3.6% for the three months ended June 30, 2021.

License gross profit increased by $17.5 million, or 55.3%, for the three months ended June 30, 2021 when compared to the three months ended June 30, 2020, primarily due to increases in license revenues on relatively flat costs.

Cost of Connected Services Revenue

Cost of connected services revenue for the three months ended June 30, 2021 was $6.1 million, a decrease of $1.1 million, or 15.1%, from $7.2 million for the three months ended June 30, 2020. Cost of connected services revenue decreased primarily due to a $0.5 million decrease in depreciation costs, $0.3 million decrease in salary-related expenditures, and $0.1 million decrease in third-party contractor costs. As a percentage of total cost of revenues, cost of connected service revenue decreased by 0.5 percentage points from 26.1% for the three months ended June 30, 2020 to 25.6% for the three months ended June 30, 2021.

Connected services gross profit increased $6.0 million, or 32.9%, from $18.2 million for the three months ended June 30, 2020 to $24.2 million for the three months ended June 30, 2021, driven by continued revenue growth and cost savings initiatives.

Cost of Professional Services Revenue

Cost of professional services revenue for the three months ended June 30, 2021 was $15.0 million, a decrease of $2.5 million, or 14.5%, from $17.5 million for the three months ended June 30, 2020. Cost of professional services revenue decreased primarily due to a $2.1 million decrease in project labor costs, $1.5 million decrease in third-party contractor costs. The decrease was partly offset by a $1.0 million increase in salary-related expenditures. As a percentage of total cost of revenues, cost of professional services revenue decreased by 0.6 percentage points from 63.5% for the three months ended June 30, 2020 to 62.9% for the three months ended June 30, 2021.

Professional services gross profit increased $1.8 million, or 1018.9%, from negative $0.2 million for the three months ended June 30, 2020 to $1.6 million for the three months ended June 30, 2021, which was due to cost savings initiatives.

Nine Months Ended June 30, 2021 Compared with Nine Months Ended June 30, 2020

Total Cost of Revenues and Gross Profits

The following table shows total cost of revenues by product type and the corresponding percentage change (dollars in thousands):

	Nine Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
License	$ 2,718	$ 2,344	16.0%
Connected services	19,960	24,742	(19.3)%
Professional services	48,632	48,773	(0.3)%
Amortization of intangibles	5,637	6,408	(12.0)%
Total cost of revenues	$ 76,947	$ 82,267	(6.5)%

The following table shows total gross profit by product type and the corresponding percentage change (dollars in thousands):

	Nine Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
License	$ 148,047	$ 115,499	28.2%
Connected services	63,989	47,367	35.1%
Professional services	5,760	1,000	476.0%
Amortization of intangibles	(5,637)	(6,408)	12.0%
Total gross profit	$ 212,159	$ 157,458	34.7%

Total cost of revenues for the nine months ended June 30, 2021 were $76.9 million, a decrease of $5.4 million, or 6.5%, from $82.3 million for the nine months ended June 30, 2020. The decrease in cost of revenues resulted primarily from our cost savings initiatives implemented in the second half of fiscal 2020.

We experienced an increase in total gross profit of $54.7 million, or 34.7%, from $157.5 million for the nine months ended June 30, 2020 to $212.2 million for the nine months ended June 30, 2021. The increase was primarily driven by our license and connected service solutions.

Cost of License Revenue

Cost of license revenue for the nine months ended June 30, 2021 was $2.7 million, an increase of $0.4 million, or 16.0%, from $2.3 million for the nine months ended June 30, 2020. Cost of license revenue increased due to increases in third-party royalty costs. As a percentage of total cost of revenues, cost of license revenue increased by 0.7 percentage points from 2.8% for the nine months ended June 30, 2020 to 3.5% for the nine months ended June 30, 2021.

License gross profit increased by $32.5 million, or 28.2%, for the nine months ended June 30, 2021 when compared to the nine months ended June 30, 2020, primarily due to increases in license revenue on relatively flat costs.

Cost of Connected Services Revenue

Cost of connected services revenue for the nine months ended June 30, 2021 was $20.0 million, a decrease of $4.7 million, or 19.3%, from $24.7 million for the nine months ended June 30, 2020. Cost of connected services revenue decreased primarily due to a $1.6 million decrease in third-party contractor costs, $1.6 million decrease in salary-related expenditures, $1.4 million in depreciation costs, $0.4 million decrease in cloud infrastructure costs and $0.1 million decrease in travel-related expenditures. As a percentage of total cost of revenues, cost of connected service revenue decreased by 4.2 percentage points from 30.1% for the nine months ended June 30, 2020 to 25.9% for the nine months ended June 30, 2021.

Connected services gross profit increased $16.6 million, or 35.1%, from $47.4 million for the nine months ended June 30, 2020 to $64.0 million for the nine months ended June 30, 2021, driven by continued revenue growth and cost savings initiatives.

Cost of Professional Services Revenue

Cost of professional services revenue for the nine months ended June 30, 2021 was $48.6 million, a decrease of $0.2 million, or 0.3%, from $48.8 million for the nine months ended June 30, 2020. Cost of professional services revenue decreased primarily due to a $2.5 million decrease in third-party contractor costs. The decrease was partly offset by a $1.0 million increase in stock-based compensation, $0.9 million increase in salary-related expenditures and $0.1 million increase in project labor. As a percentage of total cost of revenues, cost of professional services revenue increased by 3.9 percentage points from 59.3% for the nine months ended June 30, 2020 to 63.2% for the nine months ended June 30, 2021.

Professional services gross profit increased $4.8 million, or 476.0%, from $1.0 million for the nine months ended June 30, 2020 to $5.8 million for the nine months ended June 30, 2021, due to the growth in professional services revenues in relation to decreasing costs.

Operating Expenses

The tables below show each component of operating expense. Total other income (expense), net and provision for (benefit from) income taxes are non-operating expenses and presented in a similar format (dollars in thousands).

R&D Expenses

Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020

	Three Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Research and development	$ 30,370	$ 22,041	37.8%

Historically, R&D expenses are our largest operating expense as we continue to build on our existing software platforms and develop new technologies. R&D expenses for the three months ended June 30, 2021 were $30.4 million, an increase of $8.4 million, or 37.8%, from $22.0 million for the three months ended June 30, 2020. The increase in R&D expenses was primarily attributable to a $4.4 million increase in salary-related expenditures driven by headcount growth, as well as $3.2 million reduction in labor allocated to support our customer projects and $1.7 million increase in third party contractor costs partially offset by a $1.4 million increase in capitalized cost associated with internally developed software. As a percentage of total operating expenses, R&D expenses increased by 9.8 percentage points from 42.5% for the three months ended June 30, 2020 to 52.3% for the three months ended June 30, 2021.

Nine Months Ended June 30, 2021 Compared with Nine Months Ended June 30, 2020

	Nine Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Research and development	$ 83,365	$ 66,898	24.6%

Historically, R&D expenses are our largest operating expense as we continue to build on our existing software platforms and develop new technologies. R&D expenses for the nine months ended June 30, 2021 were $83.4 million, an increase of $16.5 million, or 24.6%, from $66.9 million for the nine months ended June 30, 2020. The increase in R&D expenses was primarily attributable to a $7.9 million increase in salary-related expenditures driven by headcount growth, as well as a $4.6 million increase in third-party contractor costs, a $3.5 million increase in stock-based compensation and a $3.3 million reduction in labor allocated to support our customer projects partially offset by a $4.0 million increase of capitalized cost associated with internally developed software. As a percentage of total operating expenses, R&D expenses increased by 7.2 percentage points from 44.2% for the nine months ended June 30, 2020 to 51.4% for the nine months ended June 30, 2021.

Sales & Marketing Expenses

Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020

	Three Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Sales and marketing	$ 9,534	$ 9,180	3.9%

Sales and marketing expenses for the three months ended June 30, 2021 were $9.5 million, an increase of $0.3 million, or 3.9%, from $9.2 million for the three months ended June 30, 2020. The increase in sales and marketing expenses was primarily attributable to a $0.8 million increase in salary-related expenses partially offset by a reduction of $0.5 million in stock-based compensation. As a percentage of total operating expenses, sales and marketing expenses decreased by 1.3 percentage points from 17.7% for the three months ended June 30, 2020 to 16.4% for the three months ended June 30, 2021.

Nine Months Ended June 30, 2021 Compared with Nine Months Ended June 30, 2020

	Nine Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Sales and marketing	$ 28,097	$ 24,829	13.2%

Sales and marketing expenses for the nine months ended June 30, 2021 were $28.1 million, an increase of $3.3 million, or 13.2%, from $24.8 million for the nine months ended June 30, 2020. The increase in sales and marketing expenses was primarily attributable to $2.7 million increase in salary related expenses, $1.8 million increase related to stock-based compensation, and $0.4 million related to commission expenses. The increase was partly offset by a reduction of $1.0 million in marketing spending and $0.5 million in travel-related expenditures as a result of COVID-19. As a percentage of total operating expenses, sales and marketing expenses increased by 0.9 percentage points from 16.4% for the nine months ended June 30, 2020 to 17.3% for the nine months ended June 30, 2021.

General & Administrative Expenses

Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020

	Three Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
General and administrative	$ 13,173	$ 14,261	(7.6)%

General and administrative expenses for the three months ended June 30, 2021 were $13.2 million, a decrease of $1.1 million, or 7.6%, from $14.3 million for the three months ended June 30, 2020. The decrease in general and administrative expenses was primarily attributable to $1.6 million decrease in stock-based compensation. The decrease was partly offset by a $0.8 million increase in salary-related expenses driven by headcount growth. As a percentage of total operating expenses, general and administrative expenses decreased by 4.8 percentage points from 27.5% for the three months ended June 30, 2020 to 22.7% for the three months ended June 30, 2021.

Nine Months Ended June 30, 2021 Compared with Nine Months Ended June 30, 2020

	Nine Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
General and administrative	$ 38,563	$ 36,456	5.8%

General and administrative expenses for the nine months ended June 30, 2021 were $38.6 million, an increase of $2.1 million, or 5.8%, from $36.5 million for the nine months ended June 30, 2020. The increase in general and administrative expenses was primarily attributable to $3.0 million increase in stock-based compensation and a $0.5 million increase in professional service fees. The increase was partly offset by a $1.3 million decrease in third-party contractor costs and $0.6 million decrease in travel-related expenditures as a result of COVID-19. As a percentage of total operating expenses, general and administrative expenses decreased by 0.3 percentage points from 24.1% for the nine months ended June 30, 2020 to 23.8% for the nine months ended June 30, 2021.

Amortization of Intangible Assets

Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020

	Three Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Cost of revenues	$ 1,879	$ 2,063	(8.9)%
Operating expense	3,180	3,120	1.9%
Total amortization	$ 5,059	$ 5,183	(2.4)%

Intangible asset amortization for the three months ended June 30, 2021 was $5.1 million, a decrease of $0.1 million, or 2.4%, from $5.2 million for the three months ended June 30, 2020. Amortization expense for acquired technology and patents is included in the cost of revenues in the accompanying Condensed Consolidated Statements of Operations. Amortization expense for customer relationships is included in operating expenses in the accompanying Condensed Consolidated Statements of Operations. The decrease primarily relates to certain intangible assets having been fully amortized during fiscal year 2020.

As a percentage of total cost of revenues, intangible asset amortization within cost of revenues increased by 0.4 percentage point from 7.5% for the three months ended June 30, 2020 to 7.9% for the three months ended June 30, 2021. As a percentage of total operating expenses, intangible asset amortization expenses within operating expenses decreased by 0.5 percentage points from 6.0% for the three months ended June 30, 2020 as compared to 5.5% for the three months ended June 30, 2021.

Nine Months Ended June 30, 2021 Compared with Nine Months Ended June 30, 2020

	Nine Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Cost of revenues	$ 5,637	$ 6,408	(12.0)%
Operating expense	9,521	9,376	1.5%
Total amortization	$ 15,158	$ 15,784	(4.0)%

Intangible asset amortization for the nine months ended June 30, 2021 was $15.2 million, a decrease of $0.6 million, or 4.0%, from $15.8 million for the nine months ended June 30, 2020. Amortization expense for acquired technology and patents is included in the cost of revenues in the accompanying Condensed Consolidated Statements of Operations. Amortization expense for customer relationships is included in operating expenses in the accompanying Condensed Consolidated Statements of Operations. The decrease primarily relates to certain intangible assets having been fully amortized during fiscal year 2020.

As a percentage of total cost of revenues, intangible asset amortization within cost of revenues decreased by 0.5 percentage point from 7.8% for the nine months ended June 30, 2020 to 7.3% for the nine months ended June 30, 2021. As a percentage of total operating expenses, intangible asset amortization expenses within operating expenses decreased by 0.3 percentage points from 6.2% for the nine months ended June 30, 2020 as compared to 5.9% for the nine months ended June 30, 2021.

Restructuring and Other Costs, Net

Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020

	Three Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Restructuring and other costs, net	$ 1,760	$ 3,301	(46.7)%

Restructuring and other costs, net for the three months ended June 30, 2021 were $1.8 million, a decrease of $1.5 million, or 46.7%, from $3.3 million for the three months ended June 30, 2020. The decrease in restructuring and other costs, net was primarily driven by a decrease of $2.4 million in severance charges related to our cost efficiency program implemented in response to the COVID-19 pandemic. As a percentage of total operating expenses, restructuring and other costs, net decreased by 3.4 percentage points from 6.4% for the three months ended June 30, 2020 to 3.0% for the three months ended June 30, 2021.

Nine Months Ended June 30, 2021 Compared with Nine Months Ended June 30, 2020

	Nine Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Restructuring and other costs, net	$ 2,777	$ 13,725	(79.8)%

Restructuring and other costs, net for the nine months ended June 30, 2021 were $2.8 million, a decrease of $10.9 million, or 79.8%, from $13.7 million for the nine months ended June 30, 2020. The decrease in restructuring and other costs, net was primarily driven by a $10.0 million decrease in expenditures to establish the Cerence business as a standalone public company. As a percentage of total operating expenses, restructuring and other costs, net decreased by 7.4 percentage points from 9.1% for the nine months ended June 30, 2020 to 1.7% for the nine months ended June 30, 2021.

Total Other Expense, Net

Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020

	Three Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Interest income	$ 34	$ 38	(10.5)%
Interest expense	(3,294)	(5,546)	(40.6)%
Other income (expense), net	173	(20,446)	(100.8)%
Total other expense, net	$ (3,087)	$ (25,954)	(88.1)%

Total other expense, net for the three months ended June 30, 2021 was expense of $3.1 million, a decrease of $22.9 million from $26.0 million of expense for the three months ended June 30, 2020. The decrease in interest expense and other income (expense), net is primarily attributed to our debt refinancing in June 2020. During the three months ended June 30, 2020, we recognized a $19.3 million loss on the extinguishment of debt. For further information, see “Liquidity and Capital Resources” below.

Nine Months Ended June 30, 2021 Compared with Nine Months Ended June 30, 2020

	Nine Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Interest income	$ 68	$ 563	(87.9)%
Interest expense	(10,569)	(19,043)	(44.5)%
Other income (expense), net	1,432	(20,366)	(107.0)%
Total other expense, net	$ (9,069)	$ (38,846)	(76.7)%

Total other expense, net for the nine months ended June 30, 2021 was expense of $9.1 million, a decrease of $29.7 million from $38.8 million of expense for the nine months ended June 30, 2020. The decrease in interest expense and other income (expense), net is primarily attributed to our debt refinancing in June 2020. During the nine months ended June 30, 2020, we recognized a $19.3 million loss on the extinguishment of debt. For further information, see “Liquidity and Capital Resources” below.

Provision for (benefit from) Income Taxes

Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	% Change 2021 vs. 2020
Provision for (benefit from) income taxes	$ 6,064	$ (2,211)	(374.3)%
Effective income tax rate%	51.1%	7.3%	

Our effective income tax rate for the three months ended June 30, 2021 was 51.1%, compared to 7.3% for the three months ended June 30, 2020. Consequently, our provision for income taxes for the three months ended June 30, 2021 was $6.1 million, a net change of $8.3 million from a benefit from income taxes of $2.2 million for the three months ended June 30, 2020. This difference was attributable to our composition of jurisdiction earnings, U.S. inclusions of foreign taxable income as a result of 2017 tax law changes, non-deductible compensation expenses.

Nine Months Ended June 30, 2021 Compared with Nine Months Ended June 30, 2020

	Nine Months Ended June 30, 2021	Nine Months Ended June 30, 2020	% Change 2021 vs. 2020
Provision for (benefit from) income taxes	$ 2,865	$ (6,149)	(146.6)%
Effective income tax rate%	7.0%	18.8%	

Our effective income tax rate for the nine months ended June 30, 2021 was 7.0%, compared to 18.8% for the nine months ended June 30, 2020. Consequently, our provision for income taxes for the nine months ended June 30, 2021 was $2.9 million, a net change of $9.0 million from a benefit from income taxes of $6.1 million for the nine months ended June 30, 2020. This difference was attributable to a $15.8 million tax benefit recorded as a result of an increase to the enacted Netherlands tax rate in the first quarter of fiscal 2021 and the realization of a $3.9 million tax benefit related to stock-based compensation in that period. This compares to a $5.0 million tax benefit realized during the nine months ended June 30, 2020, which was the result of a previous change to the Netherlands enacted tax rate.

Liquidity and Capital Resources

Our ability to fund future operating needs will depend on our ability to generate positive cash flows from operations and finance additional funding in the capital markets as needed. As of June 30, 2021, net working capital of our business, excluding current deferred revenue and deferred cost, was $180.5 million. This balance is representative of the short-term net cash inflows based on the working capital at that date. Based on the history of the Cerence business generating positive cash flows and the $120.8 million of cash and cash equivalents as of June 30, 2021, we believe that we will be able to meet our liquidity needs over the next 12 months. We believe that we will meet longer-term expected future cash requirements and obligations, through a combination of cash flows from operating activities, available cash balances, and available credit via our Revolving Facility. Specifically, we anticipate our cost of revenues, funding our R&D activities, and debt obligations to be our primary uses of cash during the year ending September 30, 2021.

However, as the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. As a result of the pandemic and related economic uncertainty, we took actions to improve our liquidity position, including reducing working capital, reducing operating costs by delaying research and development programs, conducting a workforce reduction, and substantially reducing discretionary spending. Should we need to secure additional sources of liquidity, we believe that we could finance our needs through the issuance of equity securities or debt offerings. However, we cannot guarantee that we will be able to obtain financing through the issuance of equity securities or debt offerings on reasonable terms in the future. The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption of financial markets. An extended period of economic disruption could materially affect our business, results of operations, ability to meet debt covenants, access to sources of liquidity and financial condition.

3.00% Senior Convertible Notes due 2025

On June 2, 2020, in an effort to refinance our debt structure, we issued $175.0 million in aggregate principal amount of Notes, including the initial purchasers' exercise in full of their option to purchase an additional $25.0 million principal amount of the Notes, between the Company and the Trustee, in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from the issuance of the Notes were $169.8 million after deducting transaction costs. We used net proceeds from the issuance of the Notes to repay a portion of our indebtedness related to the Existing Facility.

The Notes are senior, unsecured obligations and will accrue interest payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020, at a rate of 3.00% per year. The Notes will mature on June 1, 2025, unless earlier converted, redeemed, or repurchased. The Notes are convertible into cash, shares of the Company's Common Stock or a combination of cash and shares of the Company's Common Stock, at the Company's election.

The conversion rate will initially be 26.7271 shares of our Common Stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $37.42 per share of our Common Stock).

The interest expense recognized related to the Notes for the three and nine months ended June 30, 2021 was as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Contractual interest expense	$ 1,308	$ 431	$ 3,924	$ 431
Amortization of debt discount	886	276	2,617	276
Amortization of issuance costs	223	70	658	70
Total interest expense related to the Notes	$ 2,417	$ 777	$ 7,199	$ 777

The conditional conversion feature of the Notes was triggered in the nine months ended June 30, 2021, and the Notes were convertible during the fiscal quarter ended June 30, 2021, with no Notes being converted. Whether any of the Notes will be convertible in future quarters will depend on the satisfaction of one or more of the conversion conditions in the future. If one or more holders elect to convert their Notes at a time when any such Notes are convertible, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

Senior Credit Facilities

On June 12, 2020, in connection with our effort to refinance our existing indebtedness, we entered into a Term Loan Facility. The net proceeds from the issuance of the Term Loan Facility were $123.0 million, which together with proceeds from the Notes was intended to pay in full all indebtedness under the Existing Facility, and paid fees and expenses in connection with the Senior Credit Facilities. We also entered the Revolving Facility, which shall be drawn on in the event that our working capital and other cash needs are not supported by our operating cash flow. As of June 30, 2021, there were no amounts outstanding under the Revolving Facility.

On December 17, 2020 (the "Amendment No. 1 Effective Date"), we entered into Amendment No. 1 to the Credit Agreement (the "Amendment"). The Amendment extended the scheduled maturity date of the revolving credit and term facilities from June 12, 2024 to April 1, 2025.

The Amendment revised certain interest rates in the Credit Agreement. Following delivery of a compliance certificate for the first full fiscal quarter after the Amendment No. 1 Effective Date, the applicable margins for the revolving credit and term facilities is subject to a pricing grid based upon the net total leverage ratio as follows (i) if the net total leverage ratio is greater than 3.00 to 1.00, the applicable margin is LIBOR plus 3.00% or ABR plus 2.00%; (ii) if the net total leverage ratio is less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00, the applicable margin is LIBOR plus 2.75% or ABR plus 1.75%; (iii) if the net total leverage ratio is less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00, the applicable margin is LIBOR plus 2.50% or ABR plus 1.50%; (iv) if the net total leverage ratio is less than or equal to 2.00 to 1.00 but greater than 1.50 to 1.00, the applicable margin is LIBOR plus 2.25% or ABR plus 1.25%; and (v) if the net total leverage ratio is less than or equal to 1.50 to 1.00, the applicable margin is LIBOR plus 2.20% or ABR plus 1.00%. As a result of the Amendment, the applicable LIBOR floor was reduced from 0.50% to 0.00%. From the Amendment No. 1 Effective Date until the fiscal quarter ended December 31, 2020, the interest rate was LIBOR plus 2.50%. For the three months ended March 31, 2021, the interest rate was LIBOR plus 2.25%. For the three months ended June 30, 2021, the interest rate was LIBOR plus 2.25%. Total interest expense relating to the Senior Credit Facilities for the three months ended June 30, 2021 and 2020 was $0.8 million and $0.3 million, respectively, and $3.2 million and $0.3 million for the nine months ended June 30, 2021 and 2020, respectively, respectively, reflecting the coupon and accretion of the discount.

In addition, the quarterly commitment fee required to be paid based on the unused portion of the Revolving Facility is subject to a pricing grid based upon the net total leverage ratio as follows (i) if the net total leverage ratio is greater than 3.00 to 1.00, the unused line fee is 0.500%; (ii) if the net total leverage ratio is less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00, the unused line fee is 0.450%; (iii) if the net total leverage ratio is less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00, the unused line fee is 0.400%; (iv) if the net total leverage ratio is less than or equal to 2.00 to 1.00 but greater than 1.50 to 1.00, the unused line fee is 0.350%; and (v) if the net total leverage ratio is less than or equal to 1.50 to 1.00, the unused line fee is 0.300%.

The Amendment revised the amount by which we are obligated to make quarterly principal payments. Through the fiscal quarter ending December 31, 2022, we are obligated to make quarterly principal payments in an aggregate amount equal to 1.25% of the original principal amount of the Term Loan Facility. From the fiscal quarter ending March 31, 2023 and for each fiscal quarter thereafter, we are obligated to make quarterly principal payments in an aggregate amount equal to 2.50% of the original principal amount of the Term Loan Facility, with the balance payable at the maturity date thereof.

The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type that, among other things, limit our and our subsidiaries' ability to incur additional indebtedness or liens, to dispose of assets, to make certain fundamental changes, to designate subsidiaries as unrestricted, to make certain investments, to prepay certain indebtedness and to pay dividends, or to make other distributions or redemptions/repurchases, in respect of our and our subsidiaries' equity interests. In addition, the Credit Agreement contains financial covenants, each tested quarterly, (1) a net secured leveraged ratio of not greater than 3.25 to 1.00; (2) a net total leverage ratio of not greater than 4.25 to 1.00; and (3) minimum liquidity of at least $75 million. The Credit Agreement also contains events of default customary for financings of this type, including certain customary change of control events. As of June 30, 2021, we were in compliance with all Credit Agreement covenants.

Cash Flows

Cash flows from operating, investing and financing activities for the nine months ended June 30, 2021 and 2020, as reflected in the unaudited Condensed Consolidated Statements of Cash Flows included in Item 1 of this Form 10-Q, are summarized in the following table (dollars in thousands):

	Nine Months Ended June 30,		% Change
	2021	2020	2021 vs. 2020
Net cash provided by operating activities	$ 51,068	$ 18,577	174.9%
Net cash used in investing activities	(34,716)	(16,075)	116.0%
Net cash (used in) provided by financing activities	(32,942)	130,231	(125.3)%
Effect of foreign currency exchange rates on cash and cash equivalents	1,363	111	1127.9%
Net changes in cash and cash equivalents	$ (15,227)	$ 132,844	(111.5)%

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the nine months ended June 30, 2021 was $51.1 million, a net increase of $32.5 million, or 174.9%, from net cash provided by operating activities of $18.6 million for the nine months ended June 30, 2020. The net increase in cash provided by operating activities was primarily due to:

- An increase of $79.1 million from income before non-cash charges;
- A decrease of $15.0 million due to unfavorable changes in working capital primarily related to cash outflows from accrued expenses and other liabilities; and
- A decrease of $12.3 million from changes in deferred revenue.

Deferred revenue represents a significant portion of our net cash provided by operating activities and, depending on the nature of our contracts with customers, this balance can fluctuate significantly from period to period. Fluctuations in deferred revenue are not a reliable indicator of future performance and the related revenue associated with these contractual commitments. We expect our deferred revenue balances to decrease in the future, including due to a wind-down of a legacy connected service relationship with a major OEM, since the majority of cash from the contract has been collected. We do not expect any changes in deferred revenue to affect our ability to meet our obligations.

Net Cash Used in Investing Activities

Net cash used in investing activities for the nine months ended June 30, 2021 was $34.7 million, an increase in cash used of $18.6 million, or 116.0%, from $16.1 million for the nine months ended June 30, 2020. The increase in cash outflows were driven by:

- $24.8 million net purchase of marketable securities for the nine months ended June 30, 2021;
- $2.6 million paid in connection with equity investments during the nine months ended June 30, 2021; and
- A decrease of $8.0 million in capital expenditures.

Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the nine months ended June 30, 2021 was $32.9 million, a net change of $163.1 million, from cash provided by financing activities of $130.2 million for the nine months ended June 30, 2020. The change in cashflows were primarily due to:

- $249.7 million proceeds from the issuance of the Existing Facilities during the first quarter of fiscal year 2020;
- $169.8 million proceeds from the issuance of the Notes during the quarter ended June 30, 2020;
- $123.0 million proceeds from the issuance of the Senior Credit Facilities during the quarter ended June 30, 2020;
- $270.0 million principal payments of long-term debt during the quarter ended June 30, 2020;
- $153.0 million distribution paid to Nuance related to our Spin-Off during the first quarter of fiscal year 2020; and
- $34.1 million payment of tax related withholdings due to the net settlement of equity awards during the nine months ended June 30, 2021.

Off-Balance Sheet Arrangements, Contractual Obligations

Contractual Obligations

The following table outlines our contractual payment obligations as of June 30, 2021 (dollars in thousands):

	Contractual Payments Due by Period				
Contractual Obligations	**2021**	**2022 - 2023**	**2024 - 2025**	**Thereafter**	**Total**
Notes	$ -	$ -	$ 175,000	$ -	$ 175,000
Interest payable on the Notes (a)	1,322	10,493	8,768	-	20,583
Senior Credit Facilities	1,562	17,188	100,000	-	118,750
Interest payable on Senior Credit Facilities (b)	711	5,263	3,274	-	9,248
Operating leases	1,830	10,395	6,151	3,125	21,501
Operating leases under restructuring (c)	184	39	302	406	931
Financing leases	118	938	779	53	1,888
Total contractual cash obligations	$ 5,727	$ 44,316	$ 294,274	$ 3,584	$ 347,901

(a) Interest per annum is due and payable semiannually and is determined based on the outstanding principal as of June 30, 2021.

(b) Interest per annum is due and payable monthly and is determined based on the outstanding principal as of June 30, 2021.

(c) Contractual lease commitments are shown net of sublease income related to certain facilities. As of June 30, 2021, we anticipate sublease income of $2.3 million through fiscal year 2024.

Off-Balance Sheet Arrangements

As of June 30, 2021, there were no off-balance sheet arrangements that may have a material impact on the condensed consolidated financial statements.

Critical Accounting Policies, Judgments and Estimates

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on historical experience and various other factors we believe to be reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses. Actual results may differ from these estimates.

We believe that our critical accounting policies and estimates are those related to revenue recognition; allowance for credit losses; accounting for deferred costs; accounting for internally developed software; the valuation of goodwill and intangible assets; accounting for business combinations; accounting for stock-based compensation; accounting for income taxes; accounting for leases; accounting for convertible debt; and loss contingencies. We believe these policies and estimates are critical because they most significantly affect the portrayal of our financial condition and results of operations and involve our most complex and subjective estimates and judgments. A discussion of our critical accounting policies and estimates may be found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020 in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Policies” and below.

Revenue Recognition

We primarily derive revenue from the following sources: (1) royalty-based software license arrangements, (2) connected services, and (3) professional services. Revenue is reported net of applicable sales and use tax, value-added tax and other transaction taxes imposed on the related transaction including mandatory government charges that are passed through to our customers. We account for a contract when both parties have approved and committed to the contract, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Our arrangements with customers may contain multiple products and services. We account for individual products and services separately if they are distinct—that is, if a product or service is separately identifiable from other items in the contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer.

See Note 3 to the accompanying unaudited condensed consolidated financial statements for further discussion of our revenue, deferred revenue performance obligations and the timing of revenue recognition.

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of net assets acquired. Goodwill has been allocated to Cerence based upon its relative fair value as of March 31, 2018, when Cerence became a reporting unit of Nuance. Goodwill is reported at the reporting unit level. Upon consideration of the discrete financial information reviewed by our CODM, we have concluded that our goodwill is associated with one reporting unit.

Goodwill is not amortized but tested annually for impairment or when interim indicators of impairment are present. Upon our adoption of ASU 2017-04, "*Simplifying the Test for Goodwill Impairment*”, the test for goodwill impairment involves an assessment of impairment indicators. If indicators are present, a quantitative test of impairment is performed. During the quantitative test, the fair value of the reporting unit is compared to its carrying value. If the fair value of the reporting unit is less than the carrying value, the difference represents an impairment. If the fair value of the reporting unit is greater than the carrying value, no impairment is recognized.

On June 30, 2021, we concluded that no goodwill impairment indicators were present.

See Note 8 to the accompanying unaudited condensed consolidated financial statements for further discussion of our goodwill.

Recently Adopted Accounting Pronouncements and Recent Accounting Pronouncements To Be Adopted

Refer to Note 2 to the accompanying unaudited condensed consolidated financial statements for a description of certain issued accounting standards that have been recently adopted and are expected to be adopted by us and may impact our results of operations in future reporting periods.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk from changes in foreign currency exchange rates and interest rates which could affect our operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities, and through the use of derivative financial instruments.

Exchange Rate Sensitivity

We are exposed to changes in foreign currency exchange rates. Any foreign currency transaction, defined as a transaction denominated in a currency other than the local functional currency, will be reported in the functional currency at the applicable exchange rate in effect at the time of the transaction. A change in the value of the functional currency compared to the foreign currency of the transaction will have either a positive or negative impact on our financial position and results of operations.

Assets and liabilities of our foreign entities are translated into U.S. dollars at exchange rates in effect at the balance sheet date and income and expense items are translated at average rates for the applicable period. Therefore, the change in the value of the U.S. dollar compared to foreign currencies will have either a positive or negative effect on our financial position and results of operations. Historically, our primary exposure has been related to transactions denominated in the Canadian dollar, Chinese yuan, Euro, and Japanese yen.

We use foreign currency forward contracts to hedge the foreign currency exchange risk associated with forecasted foreign denominated payments related to our ongoing business. The aggregate notional amount of our outstanding foreign currency forward contracts was $61.8 million at June 30, 2021. Foreign currency forward contracts are sensitive to changes in foreign currency exchange rates. A 10% unfavorable exchange rate movement in our portfolio of foreign currency contracts would have resulted in unrealized losses of $5.4 million at June 30, 2021. Such losses would be offset by corresponding gains in the remeasurement of the underlying transactions being hedged. We believe these foreign currency forward exchange contracts and the offsetting underlying commitments, when taken together, do not create material market risk.

Interest Rate Sensitivity

We are exposed to interest rate risk as a result of our cash and cash equivalents and indebtedness related to the Senior Credit Facilities.

At June 30, 2021, we held approximately $120.8 million of cash and cash equivalents consisting of cash and highly liquid investments, including money-market funds. Assuming a 1% increase in interest rates, our interest income on our money-market funds classified as cash and cash equivalents would increase by $0.6 million per annum, based on June 30, 2021 reported balances.

The borrowings under our Senior Credit Facilities are subject to interest rates based on LIBOR. As of June 30, 2021, assuming a 1% increase in interest rates and our Revolving Facility being fully drawn, our interest expense on our Senior Credit Facilities would increase by approximately $1.7 million per annum.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this quarterly report. Based on this evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2021 to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations of the effectiveness of internal control. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become a party to other legal proceedings, including, without limitation, product liability claims, employment matters, commercial disputes, governmental inquiries and investigations (which may in some cases involve our entering into settlement arrangements or consent decrees), and other matters arising out of the ordinary course of our business. While the results of any legal proceeding cannot be predicted with certainty, in our opinion none of our pending matters are currently anticipated to have a material adverse effect on our consolidated financial position, liquidity or results of operations.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020 are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There are no material changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020, other than as set forth below:

Pandemics or disease outbreaks, such as COVID-19, have disrupted, and may continue to disrupt, our business, which could adversely affect our financial performance.

Our business depends on, and is directly affected by, the output and sales of the global automotive industry and the use of automobiles by consumers. Pandemics or disease outbreaks, such as COVID-19, have disrupted, and may continue to disrupt, global automotive industry customer sales and production volumes. Vehicle production initially decreased significantly in China, which was first affected by COVID-19, then Europe and also the United States. Subsequent events resulted in the shutdown of manufacturing operations in China, Europe and the United States, and even though manufacturing operations has begun, in part, the capacity of such global manufacturing operations remains uncertain. More recently, we have seen, and anticipate that we will continue to see, supply chain challenges in the automotive industry related to semiconductor devices that are used in automobiles. As a result, we have experienced, and may continue to experience, difficulties in entering into new contracts with our customers, a decline in revenues resulting from the decrease in the production and sale of automobiles by our customers, the use of automobiles, increased difficulties in collecting payment obligations from our customers and the possibility customers will continue with existing projects. These all may be further exacerbated by the global economic downturn resulting from the pandemic which could further decrease consumer demand for vehicles or result in the financial distress of one or more of our customers.

As the COVID-19 pandemic continues, our business operations could be further disrupted or delayed. The pandemic has already resulted in, and may continue to result in, work stoppages, slowdowns and delays, travel restrictions, and other factors that cause a decrease in the production and sale of automobiles by our customers. The production of automobiles with our products has been and may continue to be adversely affected with production delays and our ability to provide engineering support and implement design changes for customers may be impacted by restrictions on travel and quarantine policies put in place by businesses and governments.

The full extent to which the ongoing COVID-19 pandemic adversely affects our financial performance will depend on future developments, many of which are outside of our control, are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the pandemic, its severity, the effectiveness of actions to contain the virus or treat its impact and how quickly and to what extent normal economic and operating conditions can resume. The COVID-19 pandemic could also result in additional governmental restrictions and regulations, which could adversely affect our business and financial results. In addition, a recession, depression or other sustained adverse market impact resulting from COVID-19 could materially and adversely affect our business, our access to needed capital and liquidity, and the value of our common stock. Even after the COVID-19 pandemic has lessened or subsided, we may continue to experience adverse impacts on our business and financial performance as a result of its global economic impact.

Item 6. Exhibits.

The exhibits listed on the Exhibit Index are filed as part of this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

			Incorporated by Reference			
Exhibit Index #	**Exhibit Description**	**Filed Herewith**	**Form**	**File No.**	**Exhibit**	**Filing Date**
3.1	Amended and Restated Certificate of Incorporation of Cerence Inc.		8-K	001-39030	3.1	October 2, 2019
3.2	Amended and Restated By-Laws of Cerence Inc.		8-K	001-39030	3.2	October 2, 2019
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
101.INS	Inline XBRL Instance Document	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*)	X				

SIGNATURES

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

Cerence Inc.

Date: August 9, 2021	By: /s/ Sanjay Dhawan Sanjay Dhawan Chief Executive Officer *(Principal Executive Officer)*
Date: August 9, 2021	By: /s/ Mark Gallenberger Mark Gallenberger Chief Financial Officer *(Principal Financial and Accounting Officer)*

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sanjay Dhawan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cerence Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2021

By: /s/ Sanjay Dhawan
Sanjay Dhawan
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark Gallenberger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cerence Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2021

By: /s/ Mark Gallenberger
Mark Gallenberger
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of Cerence Inc. (the "Company") on Form 10-Q for the period ending June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 9, 2021

By: /s/ Sanjay Dhawan
Sanjay Dhawan
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report of Cerence Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 9, 2021

By: /s/ Mark Gallenberger
Mark Gallenberger
Chief Financial Officer
(Principal Financial Officer)