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 December 31, 2023

OR

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

For the transition period from __________ to __________

Commission File Number: 001-39030

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.)**
25 Mall Road, Suite 416 **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 January 31, 2024, the registrant had 41,674,637 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, plans and projections about our business, operations, industry, financial results, financial condition, strategy, goals or prospects. 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 our business and 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:

- adverse conditions in the automotive industry or the global economy more generally, including as a result of the COVID-19 pandemic, the conflict between Russia and Ukraine and the ongoing conflict between Israel and Hamas, and inflation and rising interest rates;
- the continuation of the semiconductor shortage being experienced by the automotive industry;
- the duration and severity of the COVID-19 pandemic and its impact on our business and financial performance, including the impact of new variants;
- 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.;
- fluctuations in our financial and operating results;
- our inability to control and successfully manage our expense and cash positions;
- escalating pricing pressures from our customers;
- the impact on our business of the transition to a lower level of fixed contracts, including, but not limited to, the failure to achieve the expected predictability and growth in our reported revenue following a transition year of fiscal 2023;
- 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;
- interruption 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;
- increases or decreases to valuation allowances recorded against deferred tax assets;
- 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 strategy to increase cloud services and ability to successfully introduce new products, applications or services and deploy generative AI and large language models (LLMs);
- 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, 2023 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 December 31, 2023	Three Months Ended December 31, 2022
Revenues:		
License	$ 20,823	$ 45,417
Connected services	96,820	18,394
Professional services	20,692	19,847
Total revenues	138,335	83,658
Cost of revenues:		
License	1,604	1,614
Connected services	7,303	6,542
Professional services	17,325	17,924
Amortization of intangible assets	103	103
Total cost of revenues	26,335	26,183
Gross profit	112,000	57,475
Operating expenses:		
Research and development	33,306	29,494
Sales and marketing	6,071	9,162
General and administrative	12,793	14,257
Amortization of intangible assets	545	2,350
Restructuring and other costs, net	705	4,189
Total operating expenses	53,420	59,452
Income (loss) from operations	58,580	(1,977)
Interest income	1,432	870
Interest expense	(3,236)	(3,514)
Other income, net	1,422	3,713
Income (loss) before income taxes	58,198	(908)
Provision for income taxes	34,341	1,250
Net income (loss)	$ 23,857	$ (2,158)
Net income (loss) per share:		
Basic	$ 0.58	$ (0.05)
Diluted	$ 0.53	$ (0.05)
Weighted-average common share outstanding:		
Basic	41,186	39,962
Diluted	49,255	39,962

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

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

	Three Months Ended December 31,	
	2023	2022
Net income (loss)	$ 23,857	$ (2,158)
Other comprehensive income:		
Foreign currency translation adjustments	4,280	9,162
Pension adjustments, net	27	26
Net unrealized gains on available-for-sale securities	163	99
Total other comprehensive income	4,470	9,287
Comprehensive income	$ 28,327	$ 7,129

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

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

	December 31, 2023 (Unaudited)	September 30, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 98,736	$ 101,154
Marketable securities	9,784	9,211
Accounts receivable, net of allowances of $4,050 and $4,044	58,693	61,270
Deferred costs	5,568	6,935
Prepaid expenses and other current assets	55,580	47,157
Total current assets	228,361	225,727
Long-term marketable securities	7,755	10,607
Property and equipment, net	32,625	34,013
Deferred costs	19,849	20,299
Operating lease right of use assets	12,347	11,961
Goodwill	906,396	900,342
Intangible assets, net	3,374	3,875
Deferred tax assets	16,607	46,601
Other assets	37,594	44,165
Total assets	$ 1,264,908	$ 1,297,590
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 19,179	$ 16,873
Deferred revenue	43,392	77,068
Short-term operating lease liabilities	5,676	5,434
Accrued expenses and other current liabilities	51,732	48,718
Total current liabilities	119,979	148,093
Long-term debt	277,419	275,951
Deferred revenue, net of current portion	100,913	145,531
Long-term operating lease liabilities	8,066	7,947
Other liabilities	27,398	25,193
Total liabilities	533,775	602,715
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Common stock, $0.01 par value, 560,000 shares authorized; 41,237 and 40,423 shares issued and outstanding, respectively	412	404
Accumulated other comprehensive loss	(23,496)	(27,966)
Additional paid-in capital	1,064,022	1,056,099
Accumulated deficit	(309,805)	(333,662)
Total stockholders' equity	731,133	694,875
Total liabilities and stockholders' equity	$ 1,264,908	$ 1,297,590

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

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

Three Months Ended December 31, 2023	Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at September 30, 2023	40,423	$ 404	$ 1,056,099	$ (333,662)	$ (27,966)	$ 694,875
Net income	-	-	-	23,857	-	23,857
Other comprehensive income	-	-	-	-	4,470	4,470
Issuance of common stock	814	8	6,193	-	-	6,201
Stock withheld to cover tax withholdings requirements upon stock vesting	-	-	(6,209)	-	-	(6,209)
Stock-based compensation	-	-	7,939	-	-	7,939
Balance at December 31, 2023	41,237	$ 412	$ 1,064,022	$ (309,805)	$ (23,496)	$ 731,133

Three Months Ended December 31, 2022	Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at September 30, 2022	39,430	$ 394	$ 1,029,542	$ (283,249)	$ (33,737)	$ 712,950
Net loss	-	-	-	(2,158)	-	(2,158)
Cumulative effect adjustment due to adoption of ASU 2020-06	-	-	(14,371)	5,841	-	(8,530)
Other comprehensive income	-	-	-	-	9,287	9,287
Issuance of common stock	644	7	1,716	-	-	1,723
Stock withheld to cover tax withholdings requirements upon stock vesting	(57)	(1)	(2,642)	-	-	(2,643)
Stock-based compensation	-	-	9,222	-	-	9,222
Balance at December 31, 2022	40,017	$ 400	$ 1,023,467	$ (279,566)	$ (24,450)	$ 719,851

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

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

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022
Cash flows from operating activities:		
Net income (loss)	$ 23,857	$ (2,158)
Adjustments to reconcile net income (loss) to net cash used in operations:		
Depreciation and amortization	2,686	5,008
Stock-based compensation	8,380	12,472
Non-cash interest expense	1,468	444
Deferred tax provision (benefit)	30,298	(164)
Unrealized foreign currency transaction gains	(2,012)	(6,084)
Other	382	104
Changes in operating assets and liabilities:		
Accounts receivable	4,933	(16,651)
Prepaid expenses and other assets	1,170	3,261
Deferred costs	2,589	1,586
Accounts payable	2,382	7,820
Accrued expenses and other liabilities	3,712	(255)
Deferred revenue	(82,660)	(7,501)
Net cash used in operating activities	(2,815)	(2,118)
Cash flows from investing activities:		
Capital expenditures	(931)	(683)
Purchases of marketable securities	-	(7,081)
Sale and maturities of marketable securities	2,442	9,500
Other investing activities	(322)	(219)
Net cash provided by investing activities	1,189	1,517
Cash flows from financing activities:		
Payments for long-term debt issuance costs	-	(403)
Principal payments of long-term debt	-	(1,563)
Common stock repurchases for tax withholdings for net settlement of equity awards	(6,209)	(2,643)
Principal payment of lease liabilities arising from a finance lease	(122)	(165)
Proceeds from the issuance of common stock	6,201	1,723
Net cash used in financing activities	(130)	(3,051)
Effects of exchange rate changes on cash and cash equivalents	(662)	(538)
Net change in cash and cash equivalents	(2,418)	(4,190)
Cash and cash equivalents at beginning of period	101,154	94,847
Cash and cash equivalents at end of period	$ 98,736	$ 90,657
Supplemental information:		
Cash paid for income taxes	$ 3,104	$ 2,459
Cash paid for interest	$ 3,003	$ 4,341

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

CERENCE INC.
Notes to Condensed Consolidated Financial Statements

Note 1. Business Overview

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.

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 months ended December 31, 2023 are not necessarily indicative of the results to be expected for any other interim period or for the fiscal year ending September 30, 2024. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

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.

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. Two customers accounted for 11.8% and 10.7% of our Accounts receivable, net balance at December 31, 2023. Two customers accounted for 10.8% and 10.1% of our Accounts receivable, net balance at September 30, 2023.

Allowance for 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 three months ended December 31, 2023 is as follows (dollars in thousands):

		Allowance for Credit Losses
Balance as of September 30, 2023	$	4,131
Effect of foreign currency translation		9
Balance as of December 31, 2023	$	4,140

Inventory

Inventory, consisting primarily of finished goods related to our Cerence Link product, is accounted for using the first in, first out method, and is valued at the lower of cost and net realizable value. Inventory is included within Prepaid expenses and other current assets. As of December 31, 2023 and September 30, 2023, inventory was $0.9 million and $0.5 million, respectively.

Recently Adopted Accounting Standards

None.

Issued Accounting Standards Not Yet Adopted

In November 2023, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"), to expand reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in the ASU require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to an entity's chief operating decision maker ("CODM"), a description of other segment items by reportable segment, and any additional measures of a segment's profit or loss used by the CODM when deciding how to allocate resources. ASU 2023-07 applies to entities with a single reportable segment. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024. A public entity should apply ASU 2023-07 retrospectively to all prior periods presented in the financial statements, with early adoption permitted. We are currently in the process of evaluating the effects of this pronouncement on our condensed consolidated financial statements and disclosures.

In December 2023, the FASB issued ASU No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" ("ASU 2023-09"), which requires greater disaggregation of income tax disclosures related to the income tax rate reconciliation and income taxes paid and is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued. The amendments should be applied on a prospective basis although retrospective application is permitted. We are currently in the process of evaluating the effects of this pronouncement on our condensed consolidated financial statements and disclosures.

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.

(a) Disaggregated Revenue

Revenues, classified by the major geographic region in which our customers are located, for the three months ended December 31, 2023 and 2022 (dollars in thousands):

	Three Months Ended December 31,	
	2023	2022
Revenues:		
United States	$ 99,469	$ 21,356
Other Americas	84	26
Germany	19,133	18,164
Other Europe, Middle East and Africa	4,775	3,672
Japan	5,623	25,841
Other Asia-Pacific	9,251	14,599
Total net revenues	$ 138,335	$ 83,658

For the three months ended December 31, 2022, revenues within China were $9.6 million, which were over 10% of revenues.

Revenues relating to one customer accounted for $78.4 million, or 56.7% of revenues for the three months ended December 31, 2023. On October 31, 2023, we entered into an early termination agreement relating to a legacy contract acquired by Nuance Communications Inc. (“Nuance”) through a 2013 acquisition. Previously the term of the contract ended on December 31, 2025, whereas the agreement signed on October 31, 2023, updated the termination date to December 31, 2023. There is no cash flow associated with this legacy contract. The effect of this change is to accelerate $67.8 million of deferred revenue into the first quarter of fiscal year 2024.

Revenues relating to two customers accounted for $21.4 million, or 25.6%, and $10.0 million, or 12.0%, of revenues for the three months ended December 31, 2022.

(b) Contract Acquisition Costs

We are required to capitalize certain contract acquisition costs. The capitalized costs primarily relate to paid commissions. 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 December 31, 2023 and September 30, 2023, we had $8.0 million of contract acquisition costs. We had amortization expense of $0.7 million and $0.8 million related to these costs during the three months ended December 31, 2023 and 2022, respectively. There was no impairment related to contract acquisition costs.

(c) 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. The current and noncurrent portions of capitalized contract fulfillment costs are presented as Deferred costs.

We had amortization expense of $4.1 million and $2.7 million related to these costs during the three months ended December 31, 2023 and 2022, respectively. There was no impairment related to contract costs capitalized.

(d) 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. Accounts receivable, net as of September 30, 2023 and 2022 was $61.3 million and $45.1 million, respectively. 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. The current and noncurrent portions of contract assets are included in Prepaid expenses and other current assets and Other assets, respectively. The table below shows significant changes in contract assets (dollars in thousands):

	Contract assets
Balance as of September 30, 2023	$ 56,708
Revenues recognized but not billed	8,865
Amounts reclassified to Accounts receivable, net	(11,987)
Effect of foreign currency translation	2,531
Balance as of December 31, 2023	$ 56,117

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, 2023	$ 222,599
Amounts billed but not recognized	23,525
Revenue recognized	(105,634)
Effect of foreign currency translation	3,815
Balance as of December 31, 2023	$ 144,305

(e) 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 December 31, 2023 (dollars in thousands):

	Within One Year	Two to Five Years	Greater than Five Years	Total
Total revenue	$ 102,682	$ 81,132	$ 22,034	$ 205,848

The table above includes fixed remaining performance obligations and does not include contingent usage-based activities, such as royalties and usage-based connected services. On October 31, 2023, we entered into an early termination agreement relating to a legacy contract acquired by Nuance through a 2013 acquisition. Previously the term of the contract ended on December 31, 2025, whereas the agreement signed on October 31, 2023, updated the termination date to December 31, 2023. There is no cash flow associated with this legacy contract. The effect of this change is to accelerate $67.8 million of deferred revenue into the first quarter of fiscal year 2024. We provided services to a separate customer, who in turn provided services to our legacy customer. Our customer terminated services on October 31, 2023. There is no cash flow associated with this contract. The effect of this termination is to accelerate $9.9 million of deferred revenue into the first quarter of fiscal year 2024.

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 (loss) 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 (loss) per share by applying the treasury stock method.

The dilutive effect of the Notes (as defined in Note 14) is reflected in net income (loss) 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 (loss) per share, we would assume conversion of the Notes at the respective conversion ratio as further described in Note 14. Assumed converted shares of our common stock are weighted for the period the Notes were outstanding.

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

in thousands, except per share data	Three Months Ended December 31, 2023	2022
Numerator:		
Net income (loss) - basic	$ 23,857	$ (2,158)
Interest on the Notes, net of tax	2,250	-
Net income (loss) - diluted	$ 26,107	$ (2,158)
Denominator:		
Weighted average common shares outstanding - basic	41,186	39,962
Dilutive effect of contingently issuable stock awards	574	-
Dilutive effect of the Notes	7,495	-
Weighted average common shares outstanding - diluted	49,255	39,962
Net income (loss) per common share:		
Basic	$ 0.58	$ (0.05)
Diluted	$ 0.53	$ (0.05)

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 months ended December 31, 2023 and 2022.

in thousands	Three Months Ended December 31, 2023	2022
Contingently issuable stock awards	-	103
Conversion option of our Notes	-	4,677

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:

	December 31, 2023		
	Fair Value	Cash and Cash Equivalents	Marketable Securities
Level 1:			
Money market funds $65,753 at cost [(a)]	$ 65,753	$ 65,753	$ -
Government securities $2,897 at cost [(b)]	2,879	-	2,879
Level 2:			
Government securities $5,065 at cost [(b)]	5,058	-	5,058
Time deposits, $8,295 at cost [(a)]	8,295	8,295	-
Corporate bonds, $9,633 at cost [(b)]	9,602	-	9,602
Debt securities, $2,000 at cost [(c)]	2,909	-	-
Total assets	$ 94,496	$ 74,048	$ 17,539

	September 30, 2023		
	Fair Value	Cash and Cash Equivalents	Marketable Securities
Level 1:			
Money market funds $66,349 at cost [(a)]	$ 66,349	$ 66,349	$ -
Government securities $4,421 at cost [(b)]	4,375	-	4,375
Level 2:			
Government securities $5,046 at cost [(b)]	5,000	-	5,000
Time deposits, $8,536 at cost [(a)]	8,536	8,536	-
Commercial paper, $496 at cost [(b)]	496	-	496
Corporate bonds, $10,073 at cost [(b)]	9,947	-	9,947
Debt securities, $2,000 at cost [(c)]	2,847	-	-
Total assets	$ 97,550	$ 74,885	$ 19,818

(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) Government securities, 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.

(c) Debt securities within the Condensed Consolidated Balance Sheets are 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 months ended December 31, 2023 and 2022, we recorded unrealized gains related to our marketable securities of $0.2 million and $0.1 million, respectively, within Accumulated other comprehensive loss.

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 using quoted forward rates and prices and 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 December 31, 2023 and September 30, 2023, the estimated fair value of our Notes was $233.1 million and $257.4 million, respectively. The Notes are recorded at face value less transaction costs on our Condensed Consolidated Balance Sheets.

Equity securities

We have equity securities in a privately held company obtained as part of a non-cash transaction. These equity securities are recognized at fair value and are classified within Level 2 of the fair value hierarchy.

We have non-controlling equity investments in privately held companies. We evaluated the equity investments under the voting model and concluded consolidation was not applicable. We accounted for the investments 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.

Investments without readily determinable fair values were $2.6 million as of December 31, 2023 and September 30, 2023. The investments are included within Other assets on the Condensed Consolidated Balance Sheets. No impairment was recorded for the three months ended December 31, 2023 and 2022.

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. As of December 31, 2023 and September 30, 2023, the total notional amount of forward contracts was $98.3 million and $98.0 million, respectively. As of December 31, 2023 and September 30, 2023, the weighted-average remaining maturity of these instruments was approximately 11.5 and 11.6 months, respectively.

The following table summarizes the fair value and presentation in the Condensed Consolidated Balance Sheet for derivative instruments as of December 31, 2023 and September 30, 2023 (dollars in thousands):

		Fair Value	
Derivatives not designated as hedges	**Classification**	**December 31, 2023**	**September 30, 2023**
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 358	$ 477
Foreign currency forward contracts	Other assets	113	256
Foreign currency forward contracts	Accrued expenses and other current liabilities	1,430	1,613
Foreign currency forward contracts	Other liabilities	478	460

The following tables display a summary of the loss related to foreign currency forward contracts for the three months ended December 31, 2023 and 2022 (dollars in thousand):

		Loss recognized in earnings	
		Three Months Ended December 31,	
Derivatives not designated as hedges	**Classification**	**2023**	**2022**
Foreign currency forward contracts	Other income, net	$ (329)	$ (1,453)

Note 7. Goodwill and Other Intangible Assets

(a) Goodwill

We believe our Chief Executive Officer ("CEO") is our 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 December 31, 2023, we concluded that no goodwill impairment indicators were present.

The changes in the carrying amount of goodwill for the three months ended December 31, 2023 are as follows (dollars in thousands):

	Total
Balance as of September 30, 2023	$ 900,342
Effect of foreign currency translation	6,054
Balance as of December 31, 2023	$ 906,396

(b) Intangible Assets, Net

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

	December 31, 2023			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	$ 108,285	$ (104,911)	$ 3,374	1.2
Technology and patents	90,000	(90,000)	-	-
Total	$ 198,285	$ (194,911)	$ 3,374	

	September 30, 2023			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	$ 106,713	$ (102,942)	$ 3,771	1.5
Technology and patents	89,431	(89,327)	104	0.2
Total	$ 196,144	$ (192,269)	$ 3,875	

Amortization expense related to intangible assets in the aggregate was $0.6 million and $2.5 million for the three months ended December 31, 2023 and 2022, respectively. We expect amortization of intangible assets to be approximately $1.6 million for the remainder of fiscal year 2024.

Note 8. 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.

The following table presents certain information related to lease term and incremental borrowing rates for leases as of December 31, 2023 and September 30, 2023:

	December 31, 2023	September 30, 2023
Weighted-average remaining lease term (in months):		
Operating leases	39.6	37.2
Finance leases	21.8	24.5
Weighted-average discount rate:		
Operating leases	5.6%	5.3%
Finance leases	4.4%	4.4%

The following table presents lease expense for the three months ended December 31, 2023 and 2022 (dollars in thousands):

	Three Months Ended December 31,	
	2023	2022
Finance lease costs:		
Amortization of right of use asset	$ 108	$ 108
Interest on lease liability	7	10
Operating lease cost	1,628	1,686
Variable lease cost	764	691
Sublease income	(60)	(45)
Total lease cost	$ 2,447	$ 2,450

For the three months ended December 31, 2023 and 2022, cash payments related to operating leases were $1.7 million and $1.8 million, respectively. For the three months ended December 31, 2023 and 2022, cash payments related to financing leases were $0.1 million, of which an immaterial amount related to the interest portion of the lease liability. For the three months ended December 31, 2023 and 2022, right of use assets obtained in exchange for lease obligations were $1.5 million and $2.5 million, respectively.

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 December 31, 2023 (dollars in thousands):

Year Ending September 30,	Operating Leases	Financing Leases	Total
2024	$ 4,854	$ 312	$ 5,166
2025	4,498	362	4,860
2026	2,320	53	2,373
2027	1,836	—	1,836
2028	946	—	946
Thereafter	746	—	746
Total future minimum lease payments	$ 15,200	$ 727	$ 15,927
Less effects of discounting	(1,458)	(22)	(1,480)
Total lease liabilities	$ 13,742	$ 705	$ 14,447
Reported as of December 31, 2023			
Short-term lease liabilities	$ 5,676	$ 398	$ 6,074
Long-term lease liabilities	8,066	307	8,373
Total lease liabilities	$ 13,742	$ 705	$ 14,447

Note 9. Accrued Expenses and Other Liabilities

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

	December 31, 2023	September 30, 2023
Compensation	$ 25,601	$ 24,997
Sales and other taxes payable	7,871	7,384
Cost of revenue related liabilities	4,189	4,326
Professional fees	3,931	3,386
Interest payable	295	1,781
Other	9,845	6,844
Total	$ 51,732	$ 48,718

Note 10. 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 three months ended December 31, 2023 (dollars in thousands):

	Personnel	Facilities	Restructuring Subtotal	Other	Total
Balance as of September 30, 2023	$ 549	$ 1,033	$ 1,582	$ —	$ 1,582
Restructuring and other costs, net	115	145	260	445	705
Non-cash adjustments	—	(174)	(174)	(300)	(474)
Cash payments	(201)	(127)	(328)	—	(328)
Effect of foreign currency translation	—	13	13	—	13
Balance at December 31, 2023	$ 463	$ 890	$ 1,353	$ 145	$ 1,498

The following table sets forth restructuring and other costs, net recognized for the three months ended December 31, 2023 and 2022 (dollars in thousands):

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022
Personnel	$ 115	$ 3,049
Facilities	145	193
Restructuring subtotal	260	3,242
Other	445	947
Restructuring and other costs, net	$ 705	$ 4,189

Fiscal Year 2024

For the three months ended December 31, 2023, we recorded restructuring and other costs, net of $0.7 million which included a $0.1 million severance charge related to the elimination of personnel, a $0.1 million charge resulting from the closure of facilities that will no longer be utilized, and $0.4 million related to other one-time charges.

Fiscal Year 2023

For the three months ended December 31, 2022, we recorded restructuring and other costs, net of $4.2 million, which included a $3.0 million severance charge related to the elimination of personnel, a $0.2 million charge resulting from the closure of facilities that will no longer be utilized, and $0.9 million related to other one-time charges.

Note 11. Stockholders' Equity

On October 2, 2019, we registered the issuance of 6,350,000 shares of Common Stock, par value $0.01 per share ("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. 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. The shares available for issuance will automatically increase on January 1st of each year, by the lesser of (A) 3% of the number of shares of Common Stock outstanding as of the close of business on the immediately preceding December 31st; and (B) the number of shares of Common Stock determined by the Board on or prior to such date for such year.

Restricted Units

Information with respect to our non-vested restricted stock units for the three months ended December 31, 2023 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, 2023	2,372,145	1,145,550	3,517,695	$ 32.52		
Granted	1,698,206	297,167	1,995,373	$ 17.82		
Vested	(750,776)	(63,998)	(814,774)	$ 40.39		
Forfeited	(61,594)	(118,979)	(180,573)	$ 42.36		
Non-vested at December 31, 2023	3,257,981	1,259,740	4,517,721	$ 24.31		
Expected to vest			4,517,721	$ 24.31	1.41	$ 88,773

Stock-based Compensation

Stock-based compensation was included in the following captions in our Condensed Consolidated Statements of Operations for the three months ended December 31, 2023 and 2022 (in thousands):

	Three Months Ended December 31,	
	2023	2022
Cost of connected services	$ 81	$ 196
Cost of professional services	560	1,153
Research and development	3,831	4,454
Sales and marketing	718	1,660
General and administrative	3,190	5,009
	$ 8,380	$ 12,472

Note 12. 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 December 31, 2023, 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.

City of Miami Fire Fighters' and Police Officers' Retirement Trust Action

On February 25, 2022, a purported shareholder class action captioned as City Of Miami Fire Fighters' And Police Officers' Retirement Trust v. Cerence Inc. et al. (the "Securities Action") was filed in the United States District Court for the District of Massachusetts, naming the Company and two of its former officers as defendants. Following the court's selection of a lead plaintiff and lead counsel, an amended complaint was filed on July 26, 2022. The plaintiff claims to be suing on behalf of anyone who purchased the Company's common stock between November 16, 2020 and February 4, 2022. The lawsuit alleges that material misrepresentations and/or omissions of material fact regarding the Company's operations, financial performance and prospects were made in the Company's public disclosures during the period from November 16, 2020 to February 4, 2022, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The plaintiff seeks unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including attorney's fees. On September 9, 2022, the defendants in the Securities Action moved to dismiss the action in its entirety. That motion is now fully briefed but it has not yet been resolved. We intend to defend the claims vigorously. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

Derivative Actions

On May 10 and 12, 2022, respectively, plaintiffs William Shafer and Peter Morse filed shareholder derivative complaints in the United States District Court for the District of Massachusetts on behalf of Cerence Inc. against defendants (and former officers) Sanjay Dwahan and Mark J. Gallenberger as well as board members Arun Sarin, Thomas Beaudoin, Marianne Budnik, Sanjay Jha, Kristi Ann Matus, Alfred Nietzel and current CEO and board member Stefan Ortmanns. These actions are premised on factual contentions substantially similar to those made in the Securities Action and contain substantially similar legal contentions. As such, on June 13, 2022, at the parties' request, the court consolidated these derivative actions into a single action and appointed co-lead counsel for plaintiffs in that consolidated action. The parties agreed to stay the consolidated action pending a ruling on the forthcoming motion to dismiss in the Securities Action, and the court has ordered that stay.

Two shareholder derivative complaints making factual and legal contentions substantially similar to those raised in the consolidated action have been also filed in the Delaware Court of Chancery: one filed on October 19, 2022 by plaintiff Melinda Hipp against the defendants named in the consolidated action and board member Douglas Davis and one filed on August 17, 2023 by plaintiff Catherine Fleming against the defendants named in the consolidated action. The parties have respectively agreed to stay those actions pending a ruling on the motion to dismiss in the Securities Action and the courts hearing those actions have ordered those stays.

Given the uncertainty of litigation, the preliminary stage of the cases, and the legal standards that must be met for, among other things, derivative standing and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from these derivative actions.

A.P., a minor, by and through her guardian, Carlos Pena and Carlos Pena Action

On March 24, 2023, plaintiffs A.P., a minor, by and through her guardian, Carlos Pena, and Carlos Pena, each individually and on behalf of similarly situated individuals filed a purported class action lawsuit in the Circuit Court of Cook County, Illinois, Chancery Division (Case. No. 2023CH02866 (Cir. Ct. Cook Cnty. 2023)). The case was removed to Federal Court (Case No. 1:23CV2667 (N.D. Ill.)), and then severed and remanded back in part, so there are two pending cases. Plaintiffs subsequently amended the federal complaint twice, with the latest second amended complaint, filed on July 13, 2023, adding plaintiffs Randolph Freshour and Vincenzo Allan, each also filing individually and on behalf of similarly situated individuals. Plaintiffs allege that Cerence violated the Illinois Biometric Information Privacy Act ("BIPA"), 740 ILCS 14/1 et seq. through Cerence's Drive Platform technology, which is integrated in various automobiles. The named plaintiffs allegedly drove or rode in a vehicle with Cerence's Drive Platform technology. Across both cases, plaintiffs allege that Cerence violated: (1) BIPA Section 15(a) by possessing biometrics without any public written policy for their retention or destruction; (2) BIPA Section 15(b) by collecting, capturing, or obtaining biometrics without written notice or consent; (3) BIPA Section 15(c) by profiting from biometrics obtained from Plaintiffs and putative class members; and (4) BIPA Section 15(d) by disclosing biometrics to third party companies without consent. Cerence has filed motions to dismiss both cases. Plaintiffs are seeking statutory damages of $5,000 for each willful and/or reckless violation of BIPA and, alternatively, damages of $1,000 for each negligent violation of BIPA. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

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 December 31, 2023, we have a $0.9 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 2024 and beyond, while some of the letters of credit may automatically renew based on the terms of the underlying agreements.

Note 13. Income Taxes

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

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022
Domestic	$ 65,636	$ 6,053
Foreign	(7,438)	(6,961)
Income (loss) before income taxes	$ 58,198	$ (908)

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

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022
Domestic	$ 29,078	$ (249)
Foreign	5,263	1,499
Provision for income taxes	$ 34,341	$ 1,250
Effective income tax rate	59.0%	(137.7)%

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 and our mix of jurisdictional earnings and related differences in foreign statutory tax rates.

Our effective tax rate for the three months ended December 31, 2023 was 59.0% compared to negative 137.7% for the three months ended December 31, 2022. Consequently, our provision for income taxes for the three months ended December 31, 2023 was $34.3 million, a net change of $33.0 million from a provision for income taxes of $1.3 million for the three months ended December 31, 2022. This difference was attributable to the change in income tax expense related to foreign valuation allowance.

Starting with fiscal year 2023, the Tax Cuts and Jobs Act of 2017 eliminated the option to deduct research and development expenditures in the current year. It requires us to amortize U.S. R&D expenses over five years and foreign R&D expenses over 15 years. The change in deductibility of the foreign research and development expenditures increases our tested income included in the Global Intangible Low Tax Income (“GILTI”). This led to an increase in our overall effective tax rate for the three months ended December 31, 2023 and 2022.

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 all 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 14. Long-Term Debt

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

			December 31, 2023				
Description	Maturity Date	Convertible Debt Coupon Rate	Effective Interest Rate	Principal	Unamortized Discount	Deferred Issuance Costs	Carrying Value
2025 Modified Notes	6/1/2025	3.00%	3.70%	$ 87,500	$ -	$ (846)	$ 86,654
2025 Modified Notes	7/1/2028	1.50%	8.70%	87,500	(3,545)	(13,534)	70,421
2028 Notes	7/1/2028	1.50%	1.91%	122,500	-	(2,156)	120,344
Total debt				$ 297,500	$ (3,545)	$ (16,536)	277,419
Less: current portion of long-term debt							—
Total long-term debt							$ 277,419

September 30, 2023							
Description	Maturity Date	Convertible Debt Coupon Rate	Effective Interest Rate	Principal	Unamortized Discount	Deferred Issuance Costs	Carrying Value
2025 Modified Notes	6/1/2025	3.00%	3.70%	$ 87,500	$ -	$ (992)	$ 86,508
2025 Modified Notes	7/1/2028	1.50%	8.75%	87,500	(3,796)	(14,490)	69,214
2028 Notes	7/1/2028	1.50%	1.91%	122,500	-	(2,271)	120,229
Total debt				$ 297,500	$ (3,796)	$ (17,753)	275,951
Less: current portion of long-term debt							—
Total long-term debt							$ 275,951

The following table summarizes the maturities of our borrowing obligations as of December 31, 2023 (in thousands):

Fiscal Year	2028 Notes	2025 Modified Notes	Total
2024	$ —	$ —	$ —
2025	—	87,500	87,500
2026	—	—	—
2027	—	—	—
2028	122,500	87,500	210,000
Thereafter	—	—	—
Total before unamortized discount and issuance costs and current portion	$ 122,500	$ 175,000	$ 297,500
Less: unamortized discount and issuance costs	(2,156)	(17,925)	(20,081)
Less: current portion of long-term debt	—	—	—
Total long-term debt	$ 120,344	$ 157,075	$ 277,419

1.50% Senior Convertible Notes due 2028

On June 26, 2023, we issued $190.0 million in aggregate principal amount of 1.50% Convertible Senior Notes due 2028 (the “2028 Notes”), which are governed by an indenture (the “2028 Indenture”), between us and U.S. Bank Trust Company, 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 “Securities Act”). On July 3, 2023, we issued an additional $20.0 million in aggregate principal amount of 2028 Notes. The initial net proceeds from the issuance of the 2028 Notes were $193.2 million after deducting transaction costs.

The 2028 Notes are senior, unsecured obligations and accrue interest payable semiannually in arrears on January 1 and July 1 of each year at a rate of 1.50% per year. The 2028 Notes will mature on July 1, 2028, unless earlier converted, redeemed, or repurchased. The 2028 Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

A holder of 2028 Notes may convert all or any portion of its 2028 Notes at its option at any time prior to the close of business on the business day immediately preceding April 3, 2028 only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on September 30, 2023 (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the “measurement period”) in which the “trading price” (as defined in the 2028 Indenture) per $1,000 principal amount of 2028 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (3) if we call such 2028 Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after April 3, 2028 until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2028 Notes at any time, regardless of the foregoing circumstances.

The conversion rate is 24.5586 shares of our common stock per $1,000 principal amount of 2028 Notes (equivalent to an initial conversion price of approximately $40.72 per share of our common stock). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date or if we deliver a notice of redemption, we will, in certain circumstances, increase the conversion rate for a holder who elects to convert its 2028 Notes in connection with such a corporate event or convert its 2028 Notes called for redemption in connection with such notice of redemption, as the case may be.

We may not redeem the 2028 Notes prior to July 6, 2026. We may redeem for cash all or any portion of the 2028 Notes (subject to certain limitations), at our option, on a redemption date occurring on or after July 6, 2026 and on or before the 31st scheduled trading day immediately before the maturity date, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which we provide notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 2028 Notes.

If we undergo a "fundamental change", subject to certain conditions, holders may require us to repurchase for cash all or any portion of their 2028 Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 2028 Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The 2028 Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the 2028 Notes then outstanding may declare the entire principal amount of all the 2028 Notes plus accrued special interest, if any, to be immediately due and payable.

In connection with the offering of the 2028 Notes, we repurchased $87.5 million in aggregate principal amount of the 2025 Notes in a privately negotiated transaction. We specifically negotiated the repurchase of the 2025 Notes with investors who concurrently purchased the 2028 Notes. We evaluated the transaction to determine whether the exchange should be accounted for as a modification or extinguishment under the provisions of ASC 470-50, which allows for an exchange of debt instruments between the same debtor and creditor to be accounted for as a modification so long as the instruments do not have substantially different terms. Because the concurrent redemption of the 2025 Notes and a portion of issuance of the 2028 Notes were executed with the same investors, we evaluated the transaction as a debt modification, on a creditor by creditor basis. The repurchase of the 2025 Notes and issuance of the 2028 Notes were deemed to not have substantially different terms on the basis that (1) the present value of the cash flows under the terms of the new debt instrument were less than 10% different from the present value of the remaining cash flows under the terms of the original instrument and (2) the fair value of the conversion feature did not change by more than 10% of the carrying value of the 2025 Notes, and therefore, the repurchase of the 2025 Notes was accounted for as a debt modification.

As a result, $87.5 million of the 2028 Notes are considered a modification of the 2025 Notes and are included in the balances of the 2025 Notes along with the remaining $87.5 million of the 2025 Notes (together the "2025 Modified Notes" and together with the 2028 Notes, the "Notes") that were not repurchased as part of the transaction. We recorded $14.3 million of fees paid directly to the lenders as deferred debt issuance costs, and $3.8 million of fees paid to third-parties were expensed in the period. As of December 31, 2023, the carrying amount of the 2025 Modified Notes was $157.1 million, net of unamortized costs of $17.9 million.

If a convertible debt instrument is modified or exchanged in a transaction that is not accounted for as an extinguishment, an increase in the fair value of the embedded conversion option shall reduce the carrying amount of the debt instrument with a corresponding increase in Additional paid-in capital. We recognized the increase in the fair value of the embedded conversion feature of $4.1 million as Additional paid-in capital and an equivalent discount that reduced the carrying value of the 2025 Modified Notes.

We accounted for $122.5 million of the 2028 Notes, that were not negotiated with the investors of the 2025 Notes, as a single liability. We incurred transaction costs of $2.4 million relating to the issuance of the 2028 Notes, which were recorded as a direct deduction from the face amount of the 2028 Notes and are being amortized as interest expense over the term of the 2028 Notes using the interest method. As of December 31, 2023, the carrying amount of the 2028 Notes was $120.3 million and unamortized issuance costs of $2.2 million. As of December 31, 2023, the 2028 Notes were not convertible. As of December 31, 2023 and September 30, 2023, the if-converted value of the 2028 Notes was $63.4 million and $61.2 million, respectively, less than its principal amount.

3.00% Senior Convertible Notes due 2025

On June 2, 2020, we issued $175.0 million in aggregate principal amount of 3.00% Convertible Senior Notes due 2025 (the "2025 Notes"), including the initial purchasers' exercise in full of their option to purchase $25.0 million principal amount of the 2025 Notes, which are governed by an indenture (the "2025 Indenture"), between us and the Trustee, in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The net proceeds from the issuance of the 2025 Notes were $169.8 million after deducting transaction costs.

The 2025 Notes are senior, unsecured obligations and accrue interest payable semiannually in arrears on June 1 and December 1 of each year at a rate of 3.00% per year. The 2025 Notes will mature on June 1, 2025, unless earlier converted, redeemed, or repurchased. The 2025 Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. As of December 31, 2023 and September 30, 2023, the if-converted value of the 2025 Modified Notes was $86.8 million and $83.6 million, respectively, less than its principal amount.

A holder of 2025 Notes may convert all or any portion of its 2025 Notes at its option at any time prior to the close of business on the business day immediately preceding March 1, 2025 only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on September 30, 2020 (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the "measurement period") in which the "trading price" (as defined in the 2025 Indenture) per $1,000 principal amount of 2025 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (3) if we call such 2025 Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after March 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2025 Notes at any time, regardless of the foregoing circumstances.

The conversion rate is 26.7271 shares of our common stock per $1,000 principal amount of 2025 Notes (equivalent to an initial conversion price of approximately $37.42 per share of our common stock). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date or if we deliver a notice of redemption, we will, in certain circumstances, increase the conversion rate for a holder who elects to convert its 2025 Notes in connection with such a corporate event or convert its 2025 Notes called for redemption in connection with such notice of redemption, as the case may be.

We may not redeem the 2025 Notes prior to June 5, 2023. We may redeem for cash all or any portion of the 2025 Notes, at our option, on a redemption date occurring on or after June 5, 2023 and on or before the 31st scheduled trading day immediately before the maturity date, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which we provide notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 2025 Notes.

See "1.50% Senior Convertible Notes due 2028" section above for discussion on modification of the 2025 Notes as part of the offering of the 2028 Notes.

The interest expense recognized related to the Notes for the three months ended December 31, 2023 and 2022 was as follows (dollars in thousands):

	Three Months Ended December 31,	
	2023	2022
Contractual interest expense	$ 1,442	$ 1,322
Amortization of debt discount	251	-
Amortization of issuance costs	1,217	280
Total interest expense related to the Notes	$ 2,910	$ 1,602

The conditional conversion feature of the Notes was not triggered during the three months ended December 31, 2023. As of December 31, 2023, the Notes were not convertible. As of this Quarterly Report, no Notes have been converted by the holders. Whether any of the Notes will be converted 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 shares), 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"), 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. 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 may be drawn on in the event that our working capital and other cash needs are not supported by our operating cash flow. In connection with the issuance of the 2028 Notes, in the third quarter of fiscal year 2023, we borrowed $24.7 million under our Revolving Facility and paid $106.3 million towards our Term Loan Facility. As a result, we recorded $104.9 million extinguishment of debt and $1.3 million loss on the extinguishment of debt. All principal and interest on the Term Loan Facility have been paid in full. As of December 31, 2023 and September 30, 2023, there were no amounts outstanding under the Revolver Facility.

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 leverage 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.

On November 22, 2022 (the "Amendment No. 2 Effective Date"), we entered into Amendment No. 2 to the Credit Agreement ("Amendment No. 2"). Amendment No. 2 modified certain financial covenants between the fiscal quarter ended March 31, 2023 to the fiscal quarter ended December 31, 2023 (the "covenant adjustment period"). During the covenant adjustment period, each tested quarterly, we are required to maintain (1) a net secured leveraged ratio of not greater than 4.25 to 1.00; (2) minimum liquidity of at least $125 million; and (3) aggregate capital expenditures less than $7.5 million. The net total leverage ratio will be waived during the covenant adjustment period. At the conclusion of the covenant adjustment period, the original financial covenants will resume. As of December 31, 2023 and September 30, 2023, we were in compliance with all Credit Agreement covenants.

Total interest expense relating to the Senior Credit Facilities for the three months ended December 31, 2023 and 2022 was $0.1 million and $1.9 million, respectively. Amounts reflect the coupon and accretion of the discount.

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 ("Quarterly Report"), and our consolidated 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, 2023, filed with the Securities and Exchange Commission ("SEC") on November 29, 2023. 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, macroeconomic conditions, the semiconductor shortage, trends in the global auto industry, including shipping and production issues and expected production improvements, and tax estimates and other tax matters, 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, 2023 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 months ended December 31, 2023 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

Cerence builds AI powered virtual assistants for the mobility/transportation market. Our primary target is the automobile market, but our solutions can apply to all forms of transportation, including, but not limited to, two-wheel vehicles, planes, tractors, cruise ships and elevators. Our solutions power natural conversational 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.

We generate revenue primarily by selling software licenses and cloud-connected services. Our edge software components are typically sold under a traditional per unit perpetual software license model, in which a per unit fee is charged on a variable basis for each software instance installed on an automotive head unit. We typically license cloud-connected software components in the form of a service to the vehicle end user, which is paid for in advance. In addition, we generate professional services revenue from our work with our customers during the design, development, and deployment phases of the vehicle model lifecycle and through maintenance and enhancement projects. We have existing relationships with all major OEMs or their tier 1 suppliers, and while our customer contracts vary, they generally represent multi-year engagements, giving us some level of visibility into future revenue.

Basis of Presentation

The financial information presented in the accompanying unaudited condensed consolidated financial statements has been prepared in accordance with 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, 2023 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 months ended December 31, 2023 are not necessarily indicative of the results expected for the full fiscal year ending September 30, 2024.

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.

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 December 31, 2023 as compared to the three months ended December 31, 2022:

- Total revenue increased by $54.6 million, or 65.4%, to $138.3 million from $83.7 million.
- Operating margin increased 44.7 percentage points to 42.3% from negative 2.4%.
- Cash used in operating activities was $2.8 million, a net change of $0.7 million from cash used in operating activities of $2.1 million.

Operating Results

The following table shows the Condensed Consolidated Statements of Operations for the three months ended December 31, 2023 and 2022 (dollars in thousands):

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022
Revenue:		
License	$ 20,823	$ 45,417
Connected services	96,820	18,394
Professional services	20,692	19,847
Total revenues	138,335	83,658
Cost of revenue:		
License	1,604	1,614
Connected services	7,303	6,542
Professional services	17,325	17,924
Amortization of intangible assets	103	103
Total cost of revenues	26,335	26,183
Gross profit	112,000	57,475
Operating expenses:		
Research and development	33,306	29,494
Sales and marketing	6,071	9,162
General and administrative	12,793	14,257
Amortization of intangible assets	545	2,350
Restructuring and other costs, net	705	4,189
Total operating expenses	53,420	59,452
Income (loss) from operations	58,580	(1,977)
Interest income	1,432	870
Interest expense	(3,236)	(3,514)
Other income, net	1,422	3,713
Income (loss) before income taxes	58,198	(908)
Provision for income taxes	34,341	1,250
Net income (loss)	$ 23,857	$ (2,158)

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. Our edge software components are typically sold under a traditional per unit perpetual software license model, in which a per unit fee is charged for each software instance installed on an automotive head unit. Our contracts contain variable, fixed prepaid or fixed minimum purchase commitment components. Revenue is recognized and cash is collected for variable contracts over the license distribution period. The fixed contracts typically provide the customer with a price discount and can include the conversion of a variable contract that is already in our variable backlog. Revenue for fixed contracts is recognized when the software is made available to the customer, which has typically occurred at the time the contract is signed. Cash is typically expected to be collected for a fixed prepaid deal at the inception of the contract. Cash is expected to be collected for a fixed minimum commitment deal over the license distribution period. Going forward, we will continue to assess the levels of fixed license contracts and make adjustments, as necessary. 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. Costs of license revenue primarily consists of third-party royalty expenses for certain external technologies we leverage and costs associated with our Cerence Link product.

Connected services revenue primarily represents the subscription fee that provides access to our connected services components, including the customization and construction of our connected services solutions. We also derive revenue within our connected services business from usage contracts and there can be instances where a customer purchases a software license that allows them to take possession of the software to enable hosting by the customer or a third-party. Subscription and usage contracts typically have a term of one to five years. Subscription revenue is recognized over the subscription period and cash is expected to be collected at the start of the subscription period. Usage based revenue is recognized and cash is collected as the service is used. If the customer takes possession of the software to have it hosted by the customer or a third-party, revenue is recognized, and cash is collected at the time the license is delivered. On October 31, 2023, we entered into an early termination agreement relating to a legacy contract acquired by Nuance through a 2013 acquisition. Previously the term of the contract ended on December 31, 2025, whereas the agreement signed on October 31, 2023, updated the termination date to December 31, 2023. The effect of this change was to accelerate $67.8 million of deferred revenue into the first quarter of fiscal year 2024. There is no cash flow associated with this legacy contract. We provided services to a separate customer, who in turn provided services to our legacy customer. Our customer terminated services on October 31, 2023. There is no cash flow associated with this contract. The effect of this termination is to accelerate $9.9 million of deferred revenue into the first quarter of fiscal year 2024. 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. 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) income, net consists primarily of foreign exchange gains (losses), interest income and interest expense related to the Notes and Senior Credit Facilities.

Three Months Ended December 31, 2023 Compared with Three Months Ended December 31, 2022

Total Revenues

The following table shows total revenues by product type, including the corresponding percentage change, for the three months ended December 31, 2023 and 2022 (dollars in thousands):

	Three Months Ended December 31,				% Change
	2023	% of Total	2022	% of Total	2023 vs. 2022
License	$ 20,823	15.1%	$ 45,417	54.3%	(54.2)%
Connected services	96,820	70.0%	18,394	22.0%	426.4 %
Professional services	20,692	14.9%	19,847	23.7%	4.3 %
Total revenues	$ 138,335		$ 83,658		65.4 %

Total revenues for the three months ended December 31, 2023 were $138.3 million, an increase of $54.6 million, or 65.4%, from $83.7 million for the three months ended December 31, 2022. The increase in revenues was driven by connected services revenue due to the early termination of a legacy contract acquired by Nuance through a 2013 acquisition and the termination of services provided to a separate customer, who in turn provided services to our legacy customer. The increase was partially offset by decreases in license revenue primarily related to minimum purchase commitments and prepaid deals and a one-time adjustment relating to a change in a customer's historically reported royalties based on new information provided by the customer in the first quarter of fiscal year 2024.

License Revenue

License revenue for the three months ended December 31, 2023 was $20.8 million, a decrease of $24.6 million, or 54.2%, from $45.4 million for the three months ended December 31, 2022. The decrease in license revenue was driven by a $19.1 million decrease in minimum purchase commitments and prepaid deals and the remaining $5.5 million decrease in variable license revenue mainly due to a one-time adjustment relating to a change in a customer's historically reported royalties based on new information provided by the customer in the first quarter of fiscal year 2024. As a percentage of total revenues, license revenue decreased 39.2 percentage points from 54.3% for the three months ended December 31, 2022 to 15.1% for the three months ended December 31, 2023.

Connected Services Revenue

Connected services revenue for the three months ended December 31, 2023 was $96.8 million, an increase of $78.4 million, or 426.4%, from $18.4 million for the three months ended December 31, 2022. This increase was primarily driven by the early termination of a legacy contract acquired by Nuance through a 2013 acquisition and the termination of services provided to a separate customer, who in turn provided services to our legacy customer. The effect of these changes was an acceleration of $67.8 million and $9.9 million of deferred revenue into the first quarter of fiscal year 2024. As a percentage of total revenues, connected services revenue increased by 48.0 percentage points from 22.0% for the three months ended December 31, 2022 to 70.0% for the three months ended December 31, 2023.

Professional Services Revenue

Professional service revenue for the three months ended December 31, 2023 was $20.7 million, an increase of $0.9 million, or 4.3%, from $19.8 million for the three months ended December 31, 2022. This increase was primarily driven by our arrangements and the related timing of fulfilling performance obligations under the contracts. As a percentage of total revenues, professional services revenue decreased by 8.8 percentage points from 23.7% for the three months ended December 31, 2022 to 14.9% for the three months ended December 31, 2023.

Three Months Ended December 31, 2023 Compared with Three Months Ended December 31, 2022

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 December 31,		% Change
	2023	2022	2023 vs. 2022
License	$ 1,604	$ 1,614	(0.6)%
Connected services	7,303	6,542	11.6%
Professional services	17,325	17,924	(3.3)%
Amortization of intangibles	103	103	—
Total cost of revenues	$ 26,335	$ 26,183	0.6%

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

	Three Months Ended December 31,		% Change
	2023	2022	2023 vs. 2022
License	$ 19,219	$ 43,803	(56.1)%
Connected services	89,517	11,852	655.3%
Professional services	3,367	1,923	75.1%
Amortization of intangibles	(103)	(103)	—
Total gross profit	$ 112,000	$ 57,475	94.9%

Total cost of revenues for the three months ended December 31, 2023 were $26.3 million, an increase of $0.1 million, or 0.6%, from $26.2 million for the three months ended December 31, 2022.

We experienced an increase in total gross profit of $54.5 million, or 94.9%, from $57.5 million for the three months ended December 31, 2022 to $112.0 million for the three months ended December 31, 2023. The increase was primarily driven by the increase in connected service revenue due to the early termination of a legacy contract acquired by Nuance through a 2013 acquisition and the termination of services provided to a separate customer, who in turn provided services to our legacy customer.

Cost of License Revenue

Cost of license revenue for the three months ended December 31, 2023 and 2022 remained flat at $1.6 million. Cost of license revenues are primarily due to costs associated with our Cerence Link product. As a percentage of total cost of revenues, cost of license revenue decreased by 0.1 percentage points from 6.2% for the three months ended December 31, 2022 to 6.1% for the three months ended December 31, 2023.

License gross profit decreased by $24.6 million, or 56.1%, for the three months ended December 31, 2023 when compared to the three months ended December 31, 2022, primarily due to declines in license revenue.

Cost of Connected Services Revenue

Cost of connected services revenue for the three months ended December 31, 2023 was $7.3 million, an increase of $0.8 million, or 11.6%, from $6.5 million for the three months ended December 31, 2022. Cost of connected services revenue increased primarily due to a $0.9 million increase in amortization of costs previously deferred and a $0.2 million increase in our cloud infrastructure costs. The increase was partially offset by a $0.3 million decrease in salary-related expenditures. During the first quarter of fiscal year 2024, we had an acceleration of $2.0 million of expenses associated with the termination of the legacy contract acquired by Nuance through a 2013 acquisition. As a percentage of total cost of revenues, cost of connected service revenue increased by 2.7 percentage points from 25.0% for the three months ended December 31, 2022 to 27.7% for the three months ended December 31, 2023.

Connected services gross profit increased $77.6 million, or 655.3%, from $11.9 million for the three months ended December 31, 2022 to $89.5 million for the three months ended December 31, 2023, primarily due to the increase in connected service revenue due to the early termination of a legacy contract acquired by Nuance through a 2013 acquisition and the termination of services provided to a separate customer, who in turn provided services to our legacy customer.

Cost of Professional Services Revenue

Cost of professional services revenue for the three months ended December 31, 2023 was $17.3 million, a decrease of $0.6 million, or 3.3%, from $17.9 million for the three months ended December 31, 2022. Cost of professional services revenue decreased primarily due to a $1.6 million decrease in salary-related expenditures and a $0.6 million decrease in stock-based compensation. The decrease was partially offset by a $1.2 million increase in third-party contractor costs. As a percentage of total cost of revenues, cost of professional services revenue decreased by 2.7 percentage points from 68.5% for the three months ended December 31, 2022 to 65.8% for the three months ended December 31, 2023.

Professional services gross profit increased $1.5 million, or 75.1%, from $1.9 million for the three months ended December 31, 2022 to $3.4 million for the three months ended December 31, 2023, which was primarily due to the composition of our professional service arrangements.

Operating Expenses

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

R&D Expenses

Three Months Ended December 31, 2023 Compared with Three Months Ended December 31, 2022

	Three Months Ended December 31,		% Change
	2023	2022	2023 vs. 2022
Research and development	$ 33,306	$ 29,494	12.9 %

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 December 31, 2023 were $33.3 million, an increase of $3.8 million, or 12.9%, from $29.5 million for the three months ended December 31, 2022. The increase was primarily attributable to a $4.4 million increase in salary-related expenditures and a $1.6 million increase in third-party contractor costs. The increase was partially offset by a $1.7 million decrease in internally allocated labor and a $0.6 million decrease in stock-based compensation costs. As a percentage of total operating expenses, R&D expenses increased by 12.7 percentage points from 49.6% for the three months ended December 31, 2022 to 62.3% for the three months ended December 31, 2023.

Sales & Marketing Expenses

Three Months Ended December 31, 2023 Compared with Three Months Ended December 31, 2022

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	% Change 2023 vs. 2022
Sales and marketing	$ 6,071	$ 9,162	(33.7)%

Sales and marketing expenses for the three months ended December 31, 2023 were $6.1 million, a decrease of $3.1 million, or 33.7%, from $9.2 million for the three months ended December 31, 2022. The decrease in sales and marketing expenses was primarily attributable to a $1.4 million decrease in salary-related expenditures, a $0.9 million decrease in stock-based compensation costs, a $0.3 million decrease in professional services, and a $0.2 million decrease in travel expenditures. As a percentage of total operating expenses, sales and marketing expenses decreased by 4.0 percentage points from 15.4% for the three months ended December 31, 2022 to 11.4% for the three months ended December 31, 2023.

General & Administrative Expenses

Three Months Ended December 31, 2023 Compared with Three Months Ended December 31, 2022

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	% Change 2023 vs. 2022
General and administrative	$ 12,793	$ 14,257	(10.3)%

General and administrative expenses for the three months ended December 31, 2023 were $12.8 million, a decrease of $1.5 million, or 10.3%, from $14.3 million for the three months ended December 31, 2022. The decrease in general and administrative expenses was primarily attributable to a $1.8 million decrease in stock-based compensation costs. The decrease was partially offset by a $0.6 million increase in salary-related expenditures. As a percentage of total operating expenses, general and administrative expenses decreased by 0.1 percentage points from 24.0% for the three months ended December 31, 2022 to 23.9% for the three months ended December 31, 2023.

Amortization of Intangible Assets

Three Months Ended December 31, 2023 Compared with Three Months Ended December 31, 2022

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	% Change 2023 vs. 2022
Cost of revenues	$ 103	$ 103	—
Operating expense	545	2,350	(76.8)%
Total amortization	$ 648	$ 2,453	(73.6)%

Intangible asset amortization for the three months ended December 31, 2023 was $0.6 million, a decrease of $1.9 million, or 73.6%, from $2.5 million for the three months ended December 31, 2022. The decrease in amortization relates to certain intangible assets having been fully amortized during fiscal year 2023. 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.

As a percentage of total cost of revenues, intangible asset amortization within cost of revenues remained flat at 0.4% for the three months ended December 31, 2023 and 2022. As a percentage of total operating expenses, intangible asset amortization expenses within operating expenses decreased by 3.0 percentage points from 4.0% for the three months ended December 31, 2022 as compared to 1.0% for the three months ended December 31, 2023.

Restructuring and Other Costs, Net

Three Months Ended December 31, 2023 Compared with Three Months Ended December 31, 2022

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	% Change 2023 vs. 2022
Restructuring and other costs, net	$ 705	$ 4,189	(83.2)%

Fiscal Year 2024

For the three months ended December 31, 2023, we recorded restructuring and other costs, net of $0.7 million which included a $0.1 million severance charge related to the elimination of personnel, a $0.1 million charge resulting from the closure of facilities that will no longer be utilized, and $0.4 million related to other one-time charges. For the remainder of fiscal year 2024, we expect approximately $6.5 million of personnel-related restructuring costs.

Fiscal Year 2023

For the three months ended December 31, 2022, we recorded restructuring and other costs, net of $4.2 million, which included a $3.0 million severance charge related to the elimination of personnel, a $0.2 million charge resulting from the closure of facilities that will no longer be utilized, and $0.9 million related to other one-time charges.

As a percentage of total operating expenses, restructuring and other costs, net decreased by 5.7 percentage points from 7.0% for the three months ended December 31, 2022 to 1.3% for the three months ended December 31, 2023.

Total Other (Expense) Income, Net

Three Months Ended December 31, 2023 Compared with Three Months Ended December 31, 2022

	Three Months Ended December 31,		% Change
	2023	2022	2023 vs. 2022
Interest income	$ 1,432	$ 870	64.6 %
Interest expense	(3,236)	(3,514)	(7.9)%
Other income, net	1,422	3,713	(61.7)%
Total other (expense) income, net	$ (382)	$ 1,069	(135.7)%

Total other (expense) income, net for the three months ended December 31, 2023 was expense of $0.4 million, a change of $1.5 million from $1.1 million of income for the three months ended December 31, 2022. The increase in interest income was primarily attributable to returns on investments. The decrease in interest expense was primarily attributable to lower applicable interest rate on our Notes. The change in other income, net was primarily driven by foreign exchange gains. For further information, see “Liquidity and Capital Resources” below.

Provision For Income Taxes

Three Months Ended December 31, 2023 Compared with Three Months Ended December 31, 2022

	Three Months Ended December 31,		% Change
	2023	2022	2023 vs. 2022
Provision for income taxes	$ 34,341	$ 1,250	2647.3 %
Effective income tax rate %	59.0 %	(137.7)%	

Our effective income tax rate for the three months ended December 31, 2023 was 59.0%, compared to negative 137.7% for the three months ended December 31, 2022. Our provision for income taxes for the three months ended December 31, 2023 was $34.3 million, a net change of $33.0 million from a provision for income taxes of $1.3 million for the three months ended December 31, 2022. This difference was attributable to the change in income tax expense related to foreign valuation allowance.

Liquidity and Capital Resources

Financial Condition

As of December 31, 2023, we had $116.3 million in cash, cash equivalents, and marketable securities. Cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. Marketable securities include commercial paper, corporate bonds, and government securities. As of December 31, 2023, our net working capital, excluding deferred revenue and deferred costs, was $146.2 million. This balance is representative of the short-term net cash inflows based on the working capital at that date.

Sources and Material Cash Requirements

Our principal sources of liquidity are our cash, cash equivalents, and marketable securities, as well as the cash flows we generate from our operations. The primary uses of cash include costs of revenues, funding of R&D activities, capital expenditures and debt obligations.

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 and debt markets as needed. Based on our expectations to generate positive cash flows and the $116.3 million of cash, cash equivalents, and marketable securities as of December 31, 2023, 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 (as described below).

The following table presents our material cash requirements for future periods (dollars in thousands):

	Material Cash Requirements Due by Period				
	2024	2025-2026	2027-2028	Thereafter	Total
2028 Notes	$ -	$ -	$ 122,500	$ -	$ 122,500
Cash interest payable on the 2028 Notes [(a)]	1,378	3,672	3,220	-	8,270
2025 Modified Notes	-	87,500	87,500	-	175,000
Cash interest payable on the 2025 Modified Notes [(a)]	2,954	4,370	2,300	-	9,624
Operating leases	4,854	6,818	2,782	746	15,200
Operating leases under restructuring [(b)]	103	379	190	-	672
Financing leases	312	415	-	-	727
Total material cash requirements	$ 9,601	$ 103,154	$ 218,492	$ 746	$ 331,993

(a) Interest per annum is due and payable semiannually and is determined based on the outstanding principal as of December 31, 2023.

(b) Contractual lease commitments are shown net of sublease income related to certain facilities. As of December 31, 2023, we anticipate sublease income of $0.4 million through fiscal year 2024.

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 acceptable terms. Inflation and rising interest rates, and disruptions and instability in the banking industry have negatively impacted the global economy and created significant volatility and disruption of financial markets. An extended period of economic disruption, market volatility or recent bank failures, could materially affect our business, results of operations, ability to meet debt covenants, access to sources of liquidity and financial condition.

1.50% Senior Convertible Notes due 2028

On June 26, 2023, we issued $190.0 million in aggregate principal amount of 2028 Notes, which are governed by the 2028 Indenture, in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. On July 3, 2023, we issued an additional $20.0 million in aggregate principal amount of 2028 Notes. The initial net proceeds from the issuance of the 2028 Notes were $193.2 million after deducting transaction costs.

The 2028 Notes are senior, unsecured obligations and accrue interest payable semiannually in arrears on January 1 and July 1 of each year at a rate of 1.50% per year. The 2028 Notes will mature on July 1, 2028, unless earlier converted, redeemed, or repurchased. The 2028 Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

The conversion rate is 24.5586 shares of our common stock per $1,000 principal amount of 2028 Notes (equivalent to an initial conversion price of approximately $40.72 per share of our common stock). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest.

In connection with the offering of the 2028 Notes, we repurchased $87.5 million in aggregate principal amount of the 2025 Notes in a privately negotiated transaction. We specifically negotiated the repurchase of the 2025 Notes with investors who concurrently purchased the 2028 Notes. We evaluated the transaction to determine whether the exchange should be accounted for as a modification or extinguishment under the provisions of ASC 470-50, which allows for an exchange of debt instruments between the same debtor and creditor to be accounted for as a modification so long as the instruments do not have substantially different terms. Because the concurrent redemption of the 2025 Notes and a portion of issuance of the 2028 Notes were executed with the same investors, we evaluated the transaction as a debt modification, on a creditor by creditor basis. The repurchase of the 2025 Notes and issuance of the 2028 Notes were deemed to not have substantially different terms on the basis that (1) the present value of the cash flows under the terms of the new debt instrument were less than 10% different from the present value of the remaining cash flows under the terms of the original instrument and (2) the fair value of the conversion feature did not change by more than 10% of the carrying value of the 2025 Notes, and therefore, the repurchase of the 2025 Notes was accounted for as a debt modification.

As a result, $87.5 million of the 2028 Notes are considered a modification of the 2025 Notes and are included in the balances of the 2025 Notes along with the remaining $87.5 million of the 2025 Notes (together the "2025 Modified Notes") that were not repurchased as part of the transaction. We recorded $14.3 million of fees paid directly to the lenders as deferred debt issuance costs, and $3.8 million of fees paid to third-parties were expensed in the period. As of December 31, 2023, the carrying amount of the 2025 Modified Notes was $157.1 million, net of unamortized costs of $17.9 million.

If a convertible debt instrument is modified or exchanged in a transaction that is not accounted for as an extinguishment, an increase in the fair value of the embedded conversion option shall reduce the carrying amount of the debt instrument with a corresponding increase in Additional paid-in capital. We recognized the increase in the fair value of the embedded conversion feature of $4.1 million as Additional paid-in capital and an equivalent discount that reduced the carrying value of the 2025 Modified Notes.

We accounted for $122.5 million of the 2028 Notes, that were not negotiated with the investors of the 2025 Notes, as a single liability. We incurred transaction costs of $2.4 million relating to the issuance of the 2028 Notes, which were recorded as a direct deduction from the face amount of the 2028 Notes and are being amortized as interest expense over the term of the 2028 Notes using the interest method. As of December 31, 2023, the carrying amount of the 2028 Notes was $120.3 million and unamortized issuance costs of $2.2 million. As of December 31, 2023, the 2028 Notes were not convertible.

3.00% Senior Convertible Notes due 2025

On June 2, 2020, we issued $175.0 million in aggregate principal amount of 2025 Notes, including the initial purchasers' exercise in full of their option to purchase $25.0 million principal amount of the 2025 Notes, which are governed by the 2025 Indenture, in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The net proceeds from the issuance of the 2025 Notes were $169.8 million after deducting transaction costs.

The 2025 Notes are senior, unsecured obligations and accrue interest payable semiannually in arrears on June 1 and December 1 of each year at a rate of 3.00% per year. The 2025 Notes will mature on June 1, 2025, unless earlier converted, redeemed, or repurchased. The 2025 Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

The conversion rate is 26.7271 shares of our common stock per $1,000 principal amount of 2025 Notes (equivalent to an initial conversion price of approximately $37.42 per share of our common stock). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date or if we deliver a notice of redemption, we will, in certain circumstances, increase the conversion rate for a holder who elects to convert its 2025 Notes in connection with such a corporate event or convert its 2025 Notes called for redemption in connection with such notice of redemption, as the case may be.

See "1.50% Senior Convertible Notes due 2028" section above for discussion on modification of the 2025 Notes as part of the offering of the 2028 Notes.

The interest expense recognized related to the Notes for the three months ended December 31, 2023 and 2022 was as follows (dollars in thousands):

	Three Months Ended December 31,	
	2023	2022
Contractual interest expense	$ 1,442	$ 1,322
Amortization of debt discount	251	-
Amortization of issuance costs	1,217	280
Total interest expense related to the Notes	$ 2,910	$ 1,602

The conditional conversion feature of the Notes was not triggered during the three months ended December 31, 2023. As of December 31, 2023, the Notes were not convertible. As of this Quarterly Report, no Notes have been converted by the holders. Whether any of the Notes will be converted 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 shares), 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, we entered into a Term Loan Facility. The net proceeds from the issuance of the Term Loan Facility were $123.0 million. We also entered into the Revolving Facility, which would be drawn on in the event that our working capital and other cash needs are not supported by our operating cash flow. In connection with the issuance of the 2028 Notes, in the third quarter of fiscal year 2023, we borrowed $24.7 million under our Revolving Facility and paid $106.3 million towards our Term Loan Facility. As a result, we recorded $104.9 million extinguishment of debt and $1.3 million loss on the extinguishment of debt. All principal and interest on the Term Loan Facility have been paid in full. As of December 31, 2023 and September 30, 2023, there were no amounts outstanding under the Revolver Facility.

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 leverage 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.

On November 22, 2022, we entered into Amendment No. 2 to the Credit Agreement. Amendment No. 2 modified certain financial covenants between the fiscal quarter ended March 31, 2023 to the fiscal quarter ended December 31, 2023. During the covenant adjustment period, each tested quarterly, we are required to maintain (1) a net secured leveraged ratio of not greater than 4.25 to 1.00; (2) minimum liquidity of at least $125 million; and (3) aggregate capital expenditures less than $7.5 million. The net total leverage ratio will be waived during the covenant adjustment period. At the conclusion of the covenant adjustment period, the original financial covenants will resume. As of December 31, 2023, we were in compliance with all Credit Agreement covenants.

Total interest expense relating to the Senior Credit Facilities for the three months ended December 31, 2023 and 2022 was $0.1 million and $1.9 million, respectively. Amounts reflect the coupon and accretion of the discount.

Cash Flows

Cash flows from operating, investing and financing activities for the three months ended December 31, 2023 and 2022, 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):

	Three Months Ended December 31,		% Change
	2023	**2022**	**2023 vs. 2022**
Net cash used in operating activities	$ (2,815)	$ (2,118)	32.9%
Net cash provided by investing activities	1,189	1,517	(21.6)%
Net cash used in financing activities	(130)	(3,051)	(95.7)%
Effect of foreign currency exchange rates on cash and cash equivalents	(662)	(538)	23.0%
Net changes in cash and cash equivalents	$ (2,418)	$ (4,190)	(42.3)%

Net Cash Used in Operating Activities

Net cash used in operating activities for the three months ended December 31, 2023 was $2.8 million, a net change of $0.7 million, or 32.9%, from net cash used in operating activities of $2.1 million for the three months ended December 31, 2022. The change in cash flows were primarily due to:

- An increase of $55.4 million from income before non-cash charges;
- An increase of $19.0 million due to favorable changes in working capital primarily related to accounts receivable; and
- A decrease of $75.2 million from changes in deferred revenue.

Deferred revenue represents a significant portion of our net cash used in or provided by operating activities and, depending on the nature of our contracts with customers and foreign currency exchange rates, 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 do not expect any changes in deferred revenue to affect our ability to meet our obligations.

Net Cash Provided by Investing Activities

Net cash provided by investing activities for the three months ended December 31, 2023 was $1.2 million, a net change of $0.3 million, or 21.6%, from $1.5 million of cash provided by investing activities for the three months ended December 31, 2022. The change in cash flows were primarily due to an increase of $0.2 million in capital expenditures.

Net Cash Used in Financing Activities

Net cash used in financing activities for the three months ended December 31, 2023 was $0.1 million, a net change of $3.0 million, from cash used in financing activities of $3.1 million for the three months ended December 31, 2022. The change in cash flows were primarily due to:

- An increase of $4.5 million in proceeds from the issuance of our common stock;
- An increase of $3.6 million in payments of tax related withholdings due to the net settlement of equity awards;
- A decrease of $1.6 million in principal payments of long-term debt; and
- A decrease of $0.4 million in payments for long-term debt issuance costs.

Critical Accounting 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 have a material impact on 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 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 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 stock-based compensation; accounting for income taxes; accounting for convertible debt; and loss contingencies. We believe these 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 estimates may be found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Estimates.”

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 $98.3 million at December 31, 2023. 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 $7.4 million at December 31, 2023. 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 December 31, 2023, we held approximately $98.7 million of cash and cash equivalents consisting of cash and highly liquid investments, including money-market funds and time deposits. Assuming a 1% increase in interest rates, our interest income on our highly liquid investments would increase by $0.7 million per annum, based on December 31, 2023 reported balances.

The borrowings under our Senior Credit Facilities are subject to interest rates based on SOFR. As of December 31, 2023, 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 $0.5 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 December 31, 2023 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.

City of Miami Fire Fighters' and Police Officers' Retirement Trust Action

On February 25, 2022, a purported shareholder class action captioned as City Of Miami Fire Fighters' And Police Officers' Retirement Trust v. Cerence Inc. et al. (the "Securities Action") was filed in the United States District Court for the District of Massachusetts, naming the Company and two of its former officers as defendants. Following the court's selection of a lead plaintiff and lead counsel, an amended complaint was filed on July 26, 2022. The plaintiff claims to be suing on behalf of anyone who purchased the Company's common stock between November 16, 2020 and February 4, 2022. The lawsuit alleges that material misrepresentations and/or omissions of material fact regarding the Company's operations, financial performance and prospects were made in the Company's public disclosures during the period from November 16, 2020 to February 4, 2022, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The plaintiff seeks unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including attorney's fees. On September 9, 2022, the defendants in the Securities Action moved to dismiss the action in its entirety. That motion is now fully briefed but it has not yet been resolved. We intend to defend the claims vigorously. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

Derivative Actions

On May 10 and 12, 2022, respectively, plaintiffs William Shafer and Peter Morse filed shareholder derivative complaints in the United States District Court for the District of Massachusetts on behalf of Cerence Inc. against defendants (and former officers) Sanjay Dwahan and Mark J. Gallenberger as well as board members Arun Sarin, Thomas Beaudoin, Marianne Budnik, Sanjay Jha, Kristi Ann Matus, Alfred Nietzel and current CEO and board member Stefan Ortmanns. These actions are premised on factual contentions substantially similar to those made in the Securities Action and contain substantially similar legal contentions. As such, on June 13, 2022, at the parties' request, the court consolidated these derivative actions into a single action and appointed co-lead counsel for plaintiffs in that consolidated action. The parties agreed to stay the consolidated action pending a ruling on the forthcoming motion to dismiss in the Securities Action, and the court has ordered that stay.

Two shareholder derivative complaints making factual and legal contentions substantially similar to those raised in the consolidated action have been also filed in the Delaware Court of Chancery: one filed on October 19, 2022 by plaintiff Melinda Hipp against the defendants named in the consolidated action and board member Douglas Davis and one filed on August 17, 2023 by plaintiff Catherine Fleming against the defendants named in the consolidated action. The parties have respectively agreed to stay those actions pending a ruling on the motion to dismiss in the Securities Action and the courts hearing those actions have ordered those stays. On October 20, 2023, Ms. Hipp voluntarily dismissed her action with prejudice.

Given the uncertainty of litigation, the preliminary stage of the cases, and the legal standards that must be met for, among other things, derivative standing and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from these derivative actions.

A.P., a minor, by and through her guardian, Carlos Pena and Carlos Pena Action

On March 24, 2023, plaintiffs A.P., a minor, by and through her guardian, Carlos Pena, and Carlos Pena, each individually and on behalf of similarly situated individuals filed a purported class action lawsuit in the Circuit Court of Cook County, Illinois, Chancery Division (Case. No. 2023CH02866 (Cir. Ct. Cook Cnty. 2023)). The case was removed to Federal Court (Case No. 1:23CV2667 (N.D. Ill.)), and then severed and remanded back in part, so there are two pending cases. Plaintiffs subsequently amended the federal complaint twice, with the latest second amended complaint, filed on July 13, 2023, adding plaintiffs Randolph Freshour and Vincenzo Allan, each also filing individually and on behalf of similarly situated individuals. Plaintiffs allege that Cerence violated the Illinois Biometric Information Privacy Act ("BIPA"), 740 ILCS 14/1 et seq. through Cerence's Drive Platform technology, which is integrated in various automobiles. The named plaintiffs allegedly drove or rode in a vehicle with Cerence's Drive Platform technology. Across both cases, plaintiffs allege that Cerence violated: (1) BIPA Section 15(a) by possessing biometrics without any public written policy for their retention or destruction; (2) BIPA Section 15(b) by collecting, capturing, or obtaining biometrics without written notice or consent; (3) BIPA Section 15(c) by profiting from biometrics obtained from Plaintiffs and putative class members; and (4) BIPA Section 15(d) by disclosing biometrics to third party companies without consent. Cerence has filed motions to dismiss both cases. Plaintiffs are seeking statutory damages of $5,000 for each willful and/or reckless violation of BIPA and, alternatively, damages of $1,000 for each negligent violation of BIPA. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

Other 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, 2023, which could materially affect our business, financial condition or future results of operations. The risks described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 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, 2023.

Item 5. Other Information.

Our policy governing transactions in our securities by directors, officers and employees permits our officers, directors and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. Generally, under these trading plans, the individual relinquishes control over the transactions once the trading plan is put into place. Accordingly, sales under these plans may occur at any time, including possibly before, simultaneously with, or immediately after significant events involving our company.

During the three-month period ended December 31, 2023, Stefan Ortmanns, Chief Executive Officer and a director of the Company, and Thomas L. Beaudoin, Chief Financial Officer and a director of the Company, entered into trading plans on December 14, 2023 and December 21, 2023, respectively (each, a "Plan" and collectively, the "Plans") covering periods after the date of this Quarterly Report in accordance with our policy governing transactions in our securities. Each Plan is intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act. Dr. Ortmann's Plan provides for the sale of up to 179,693 shares of our common stock and will be terminated on the earlier of (a) November 1, 2024, (b) the first date on which all trades have been executed, and (c) the date notice to terminate is provided. Mr. Beaudoin's Plan provides for the sale of up to 60,000 shares of our common stock less any shares withheld to cover tax withholding obligations and will be terminated on the earlier of (a) February 7, 2025, (b) the first date on which all trades have been executed, and (c) the date notice to terminate is provided. Generally, under these trading plans, the individual relinquishes control over the transactions once the trading plan is put into place. Accordingly, sales under these Plans may occur at any time, including possibly before, simultaneously with, or immediately after significant events involving our company.

We anticipate that, as permitted by Rule 10b5-1 and our policy governing transactions in our securities, some or all of our officers, directors and employees may establish trading plans in the future. We intend to disclose the names of executive officers and directors who establish a trading plan in compliance with Rule 10b5-1 and Regulation S-K, Item 408(a) and the requirements of our policy governing transactions in our securities in our future quarterly and annual reports on Form 10-Q and 10-K filed with the SEC. However, we undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan, other than in such quarterly and annual reports.

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**
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.					
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					
101.INS	Inline XBRL Instance Document	X				
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents	X				
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*)	X				

* Furnished herewith

† Management contract or compensatory plan or arrangement

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: February 8, 2024	By:	/s/ Stefan Ortmanns
		Stefan Ortmanns
		Chief Executive Officer
		(Principal Executive Officer)
Date: February 8, 2024	By:	/s/ Thomas L. Beaudoin
		Thomas L. Beaudoin
		Executive Vice President and 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, Stefan Ortmanns, 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: February 8, 2024

By: /s/ Stefan Ortmanns

Stefan Ortmanns
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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, Thomas L. Beaudoin, 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: February 8, 2024

By: /s/ Thomas L. Beaudoin

Thomas L. Beaudoin
Executive Vice President and 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 December 31, 2023 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: February 8, 2024

By: /s/ Stefan Ortmanns

Stefan Ortmanns
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 December 31, 2023 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: February 8, 2024

By: /s/ Thomas L. Beaudoin
Thomas L. Beaudoin
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)