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, 2022

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	**83-4177087**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1 Burlington Woods Drive, Suite 301A Burlington, Massachusetts	**01803**
(Address of principal executive offices)	**(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 February 1, 2023, the registrant had 40,226,474 shares of common stock, $0.01 par value per share, outstanding.

Table of Contents

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 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 such as Omicron;
- 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.;
- the transition in our senior management positions;
- 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;
- interruptions or delays in our services or services from data center hosting facilities or public clouds;
- economic, political, regulatory, foreign exchange and other risks of international operations;
- unforeseen U.S. and foreign tax liabilities;
- 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;
- 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, 2022 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, 2022	Three Months Ended December 31, 2021
Revenues:		
License	$ 45,417	$ 46,850
Connected services	18,394	28,159
Professional services	19,847	19,417
Total revenues	83,658	94,426
Cost of revenues:		
License	1,614	721
Connected services	6,542	5,724
Professional services	17,924	15,903
Amortization of intangible assets	103	1,879
Total cost of revenues	26,183	24,227
Gross profit	57,475	70,199
Operating expenses:		
Research and development	29,494	25,792
Sales and marketing	9,162	5,879
General and administrative	14,257	7,527
Amortization of intangible assets	2,350	3,154
Restructuring and other costs, net	4,189	4,915
Total operating expenses	59,452	47,267
(Loss) income from operations	(1,977)	22,932
Interest income	870	90
Interest expense	(3,514)	(3,427)
Other income (expense), net	3,713	(252)
(Loss) income before income taxes	(908)	19,343
Provision for income taxes	1,250	299
Net (loss) income	$ (2,158)	$ 19,044
Net (loss) income per share:		
Basic	$ (0.05)	$ 0.49
Diluted	$ (0.05)	$ 0.47
Weighted-average common share outstanding:		
Basic	39,962	38,839
Diluted	39,962	44,370

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, 2022	Three Months Ended December 31, 2021
Net (loss) income	$ (2,158)	$ 19,044
Other comprehensive income (loss):		
Foreign currency translation adjustments	9,162	(5,389)
Pension adjustments, net	26	73
Net unrealized gains (loss) on available-for-sale securities	99	(35)
Total other comprehensive income (loss)	9,287	(5,351)
Comprehensive income	$ 7,129	$ 13,693

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, 2022 (Unaudited)	September 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 90,657	$ 94,847
Marketable securities	16,515	20,317
Accounts receivable, net of allowances of $171 and $157	66,438	45,073
Deferred costs	7,784	7,098
Prepaid expenses and other current assets	60,884	60,184
Total current assets	242,278	227,519
Long-term marketable securities	13,066	11,584
Property and equipment, net	36,947	37,707
Deferred costs	21,818	22,451
Operating lease right of use assets	16,184	14,702
Goodwill	901,963	890,802
Intangible assets, net	7,713	9,700
Deferred tax assets	53,939	51,989
Other assets	54,380	52,039
Total assets	$ 1,348,288	$ 1,318,493
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 19,103	$ 10,372
Deferred revenue	75,822	72,662
Short-term operating lease liabilities	5,759	5,071
Short-term debt	12,500	10,938
Accrued expenses and other current liabilities	52,156	47,990
Total current liabilities	165,340	147,033
Long-term debt	267,346	259,436
Deferred revenue, net of current portion	162,293	165,972
Long-term operating lease liabilities	12,067	11,375
Other liabilities	21,391	21,727
Total liabilities	628,437	605,543
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Common stock, $0.01 par value, 560,000 shares authorized; 40,017 and 39,430 shares issued and outstanding, respectively	400	394
Accumulated other comprehensive loss	(24,450)	(33,737)
Additional paid-in capital	1,023,467	1,029,542
Accumulated deficit	(279,566)	(283,249)
Total stockholders' equity	719,851	712,950
Total liabilities and stockholders' equity	$ 1,348,288	$ 1,318,493

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, 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 the 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

Three Months Ended December 31, 2021	Common Stock					
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at September 30, 2021	38,025	$ 381	$ 1,002,353	$ 27,577	$ 1,634	$ 1,031,945
Net income	-	-	-	19,044	-	19,044
Other comprehensive loss	-	-	-	-	(5,351)	(5,351)
Issuance of common stock	1,281	12	32,127	-	-	32,139
Stock withheld to cover tax withholdings requirements upon stock vesting	(144)	(1)	(46,287)	-	-	(46,288)
Stock-based compensation	-	-	18,012	-	-	18,012
Balance at December 31, 2021	39,162	$ 392	$ 1,006,205	$ 46,621	$ (3,717)	$ 1,049,501

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, 2022	Three Months Ended December 31, 2021
Cash flows from operating activities:		
Net (loss) income	$ (2,158)	$ 19,044
Adjustments to reconcile net (loss) income to net cash (used in) provided by operations:		
Depreciation and amortization	5,008	7,210
Benefit from credit loss reserve	—	(418)
Stock-based compensation	12,472	5,841
Non-cash interest expense	444	1,301
Deferred tax benefit	(164)	(1,455)
Other	(5,980)	551
Changes in operating assets and liabilities:		
Accounts receivable	(16,651)	7,555
Prepaid expenses and other assets	3,261	(19,707)
Deferred costs	1,586	1,509
Accounts payable	7,820	(3,153)
Accrued expenses and other liabilities	(255)	(2,797)
Deferred revenue	(7,501)	(10,336)
Net cash (used in) provided by operating activities	(2,118)	5,145
Cash flows from investing activities:		
Capital expenditures	(683)	(4,410)
Purchases of marketable securities	(7,081)	(3,593)
Sale and maturities of marketable securities	9,500	5,706
Other investing activities	(219)	559
Net cash provided by (used in) investing activities	1,517	(1,738)
Cash flows from financing activities:		
Payments for long-term debt issuance costs	(403)	—
Principal payments of long-term debt	(1,563)	(1,563)
Common stock repurchases for tax withholdings for net settlement of equity awards	(2,643)	(44,573)
Principal payment of lease liabilities arising from a finance lease	(165)	(155)
Proceeds from the issuance of common stock	1,723	32,139
Net cash used in financing activities	(3,051)	(14,152)
Effects of exchange rate changes on cash and cash equivalents	(538)	(447)
Net change in cash and cash equivalents	(4,190)	(11,192)
Cash and cash equivalents at beginning of period	94,847	128,428
Cash and cash equivalents at end of period	$ 90,657	$ 117,236
Supplemental information:		
Cash paid for income taxes	$ 2,459	$ 2,455
Cash paid for interest	$ 4,341	$ 3,392

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.

COVID-19 Update

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

We have taken numerous steps in our approach to addressing the COVID-19 pandemic, as described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2022. We continue to closely monitor ongoing developments in connection with the COVID-19 pandemic and its impact on our business.

The full extent to which the ongoing COVID-19 pandemic adversely affects our financial performance will depend on future developments, many of which are outside of our control, are highly uncertain and cannot be predicted, including, but not limited to: the duration and scope of the pandemic; its severity; the emergence of new variants of the virus, such as Omicron; the development and availability of effective treatments and vaccines; the speed at which vaccines are administered; and how quickly and to what extent normal economic and operating conditions can resume.

The COVID-19 pandemic has resulted in, and may continue to result in, additional governmental restrictions and regulations, which has adversely affected, and may continue to adversely affect our business and financial results. We have seen, and anticipate that we will continue to see, supply chain challenges in the automotive industry related to semiconductor devices that are used in automobiles. The current macroeconomic conditions have also increased competition for qualified employees in our industry, particularly for members of our professional service teams, and we, along with automotive OEMs, face significant competition in hiring and retaining them. In addition, a recession, depression or other sustained adverse market impact resulting from COVID-19 or other market factors could materially and adversely affect our business, our access to needed capital and liquidity, and the value of our common stock. Even after the COVID-19 pandemic has lessened or subsided, we may continue to experience adverse impacts on our business and financial performance as a result of its global economic impact.

Note 2. Significant Accounting Policies

Principles of Consolidation

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

Basis of Presentation

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

The condensed consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three months ended December 31, 2022 are not necessarily indicative of the results to be expected for any other interim period or for the fiscal year ending September 30, 2023. 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, 2022.

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. Three customers accounted for 17.6%, 12.6% and 11.8%, respectively, of our Accounts receivable, net balance at December 31, 2022. One customer accounted for 17.4% of our Accounts receivable, net balance at September 30, 2022.

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, 2022 is as follows (dollars in thousands):

	Allowance for Credit Losses
Balance as of September 30, 2022	$ 371
Effect of foreign currency translation	34
Balance as of December 31, 2022	$ 405

Recently Adopted Accounting Standards

In August 2020, the FASB issued ASU No. 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, ("ASU 2020-06"). ASU 2020-06 simplifies the accounting for debt with conversion options, revises the criteria for applying the derivatives scope exception for contracts in an entity's own equity, and improves the consistency for the calculation of earnings per share. We adopted ASU 2020-06 on October 1, 2022 using the modified retrospective approach. As a result, the 3.00% Convertible Senior Notes due 2025 (the "Notes") are no longer bifurcated into separate liability and equity components. The adoption does not have a material impact on our Condensed Consolidated Statements of Operations and Cash Flows.

The following tables summarize the impact of adopting ASU 2020-06 on the Condensed Consolidated Balance Sheet as of October 1, 2022 (dollars in thousands):

	As of October 1, 2022		
	As Previously Reported	**Impact of Adoption of ASU 2020-06**	**As Adjusted**
Assets:			
Deferred tax assets	$ 51,989	$ 2,463	$ 54,452
Liabilities:			
Long-term debt, net of discounts and issuance costs	$ 259,436	$ 10,994	$ 270,430
Equity:			
Additional paid-in capital	$ 1,029,542	$ (14,371)	$ 1,015,171
Accumulated deficit	$ (283,249)	$ 5,841	$ (277,408)

Note 3. Revenue Recognition

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

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

We currently recognize revenue after applying the following five steps:

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

We allocate the transaction price of the arrangement based on the relative estimated standalone selling price ("SSP") of each distinct performance obligation. In determining SSP, we maximize observable inputs, when possible. Since prices vary from customer to customer based on customer relationship, volume discount and contract type, in instances where the SSP is not directly observable, we estimate SSP by considering a number of data points, including cost of developing and supplying each performance obligation; types of offerings; and gross margin objectives and pricing practices, such as contractually stated prices, discounts offered, and applicable price lists.

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

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

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

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

(a) Performance Obligations

Licenses

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

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

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

For royalty arrangements that include fixed consideration related to minimum purchase commitment deals, the fixed consideration is recognized when the software is made available to the customer.

Connected Services

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

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

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

Professional Services

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

(***b) Significant Judgments***

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

We allocate the transaction price of the arrangement based on the relative estimated SSP of each distinct performance obligation. Judgment is required to determine the SSP for each distinct performance obligation. In determining SSP, we maximize observable inputs, when possible. Since our prices vary from customer to customer based on customer relationship, volume discount and contract type, there are instances where the SSP is not directly observable. In such instances, we estimate SSP by considering a number of data points, including cost of developing and supplying each performance obligation; types of offerings; and gross margin objectives and pricing practices, such as contractually stated prices, discounts offered, and applicable price lists. These factors may vary over time, depending upon the unique facts and circumstances related to each deliverable. We review the SSP for each distinct performance obligation on a periodic basis, or when the underlying factors are deemed to have changed, and make updates when appropriate.

(c) Disaggregated Revenue

Revenues, classified by the major geographic region in which our customers are located, for the three months ended December 31, 2022 and 2021 (dollars in thousands):

	Three Months Ended December 31,	
	2022	2021
Revenues:		
United States	$ 21,356	$ 35,129
Other Americas	26	2
Germany	18,164	19,509
Other Europe, Middle East and Africa	3,672	3,963
Japan	25,841	26,076
Other Asia-Pacific	14,599	9,747
Total net revenues	$ 83,658	$ 94,426

Revenues within the United States, Germany, and Japan accounted for more than 10% of revenue, respectively, for all periods presented. For the three months ended December 31, 2022, revenues within China were $9.6 million, which were over 10% of revenues.

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.

Revenues relating to two customers accounted for $24.2 million, or 25.7%, and $17.9 million, or 19.0%, of revenues for the three months ended December 31, 2021. During the three months ended December 31, 2021, certain existing variable long-term contracts with our largest customer were converted into minimum purchase commitment deals. The estimated future revenues related to these long-term contracts were previously included in our variable backlog, which includes estimated future revenues from variable forecasted revenues related to our embedded and connected business. These minimum purchase commitment deals accounted for $20.1 million of revenues during the three months ended December 31, 2021. The cash associated with these deals is expected to be collected over the distribution period, which could be up to five years.

(d) Contract Acquisition Costs

In conjunction with the adoption of ASC 606, we are required to capitalize certain contract acquisition costs. The capitalized costs primarily relate to paid commissions. In accordance with the practical expedient in ASC 606-10-10-4, we apply a portfolio approach to estimate contract acquisition costs for groups of customer contracts. We elect to apply the practical expedient in ASC 340-40-25-4 and will expense contract acquisition costs as incurred where the expected period of benefit is one year or less. Contract acquisition costs are deferred and amortized on a straight-line basis over the period of benefit, which we have estimated to be, on average, between one and eight years. The period of benefit was determined based on an average customer contract term, expected contract renewals, changes in technology and our ability to retain customers, including canceled contracts. We assess the amortization term for all major transactions based on specific facts and circumstances. Contract acquisition costs are classified as current or noncurrent assets based on when the expense will be recognized. The current and noncurrent portions of contract acquisition costs are included in Prepaid expenses and other current assets and Other assets, respectively. As of December 31, 2022 and September 30, 2022, we had $8.8 million and $8.3 million of contract acquisition costs, respectively. We had amortization expense of $0.8 million and $0.6 million related to these costs during the three months ended December 31, 2022 and 2021, respectively. There was no impairment related to contract acquisition costs.

(e) Capitalized Contract Costs

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

We had amortization expense of $2.7 million and $2.8 million related to these costs during the three months ended December 31, 2022 and 2021, respectively. There was no impairment related to contract costs capitalized.

(f) Trade Accounts Receivable and Contract Balances

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

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

Contract assets include unbilled amounts from long-term contracts when revenue recognized exceeds the amount billed to the customer, and right to payment is not solely subject to the passage of time. 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, 2022	$ 76,292
Revenues recognized but not billed	11,470
Amounts reclassified to Accounts receivable, net	(14,857)
Effect of foreign currency translation	6,581
Balance as of December 31, 2022	$ 79,486

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, 2022	$ 238,634
Amounts billed but not recognized	19,865
Revenue recognized	(26,989)
Effect of foreign currency translation	6,605
Balance as of December 31, 2022	$ 238,115

(g) Remaining Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at December 31, 2022 (dollars in thousands):

	Within One Year	Two to Five Years	Greater than Five Years	Total
Total revenue	$ 156,727	$ 142,539	$ 20,546	$ 319,812

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

Note 4. Earnings Per Share

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

The dilutive effect of the Notes (as defined in Note 14) is reflected in net (loss) income per share by application of the “if-converted” method. The “if-converted” method is only assumed in periods where such application would be dilutive. In applying the “if-converted” method for diluted net (loss) income per share, we would assume conversion of the Notes at a ratio of 26.7271 shares of our common stock per $1,000 principal amount of the Notes. Assumed converted shares of our common stock are weighted for the period the Notes were outstanding.

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

	Three Months Ended December 31,	
in thousands, except per share data	2022	2021
Numerator:		
Net (loss) income - basic and diluted	$ (2,158)	$ 19,044
Interest on Convertible Senior Notes, net of tax	-	1,911
Net (loss) income - diluted	$ (2,158)	$ 20,955
Denominator:		
Weighted average common shares outstanding - basic	39,962	38,839
Dilutive effect of restricted stock awards	-	854
Dilutive effect of the Convertible Senior Notes	-	4,677
Weighted average common shares outstanding - diluted	39,962	44,370
Net (loss) income per common share:		
Basic	$ (0.05)	$ 0.49
Diluted	$ (0.05)	$ 0.47

We exclude weighted-average potential shares from the calculations of diluted net (loss) income 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, 2022 and 2021.

	Three Months Ended December 31,	
in thousands	2022	2021
Contingently issuable stock awards	103	-
Conversion option of our Convertible Senior 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, 2022		
	Fair Value	Cash and Cash Equivalents	Marketable Securities
Level 1:			
Money market funds $46,278 at cost [a]	$ 46,275	$ 46,275	$ -
Government securities $5,458 at cost [b]	5,372	-	5,372
Level 2:			
Government securities $4,049 at cost [b]	4,025	-	4,025
Time deposits, $1,934 at cost [a]	1,934	1,934	-
Commercial paper, $2,467 at cost [b]	2,467	-	2,467
Corporate bonds, $17,940 at cost [b]	17,717	-	17,717
Debt securities, $2,100 at cost [c]	2,100	-	-
Total assets	$ 79,890	$ 48,209	$ 29,581

	September 30, 2022		
	Fair Value	Cash and Cash Equivalents	Marketable Securities
Level 1:			
Money market funds $59,146 at cost [a]	$ 59,138	$ 59,138	$ -
Government securities $4,976 at cost [b]	4,892	-	4,892
Level 2:			
Government securities $2,377 at cost [b]	2,361	-	2,361
Time deposits, $1,472 at cost [a]	1,472	1,472	-
Commercial paper, $7,648 at cost [b]	7,647	-	7,647
Corporate bonds, $17,328 at cost [b]	17,001	-	17,001
Debt securities, $2,000 at cost [c]	2,000	-	-
Total assets	$ 94,511	$ 60,610	$ 31,901

(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 are included within Prepaid and other current assets in the Condensed Consolidated Balance Sheets and classified as current given the maturity of the financial asset is less than 12 months.

During the three months ended December 31, 2022, we recorded unrealized gains related to our marketable securities of $0.1 million within Accumulated other comprehensive loss. During the three months ended December 31, 2021, we recorded an immaterial amount of unrealized losses related to our marketable securities 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 and are classified within Level 2 of the fair value hierarchy. See *Note 6 – Derivative Financial Instruments* for additional details.

Long-term debt

The estimated fair value of our Long-term debt is determined by Level 2 inputs and is based on observable market data including prices for similar instruments. As of December 31, 2022 and September 30, 2022, the estimated fair value of our Notes was $159.5 million and $155.3 million, respectively. The Notes are recorded at face value less transaction costs on our Condensed Consolidated Balance Sheets. The carrying amount of the Senior Credit Facilities (as defined in Note 14) approximates fair value given the underlying interest rate applied to such amounts outstanding is currently set to the prevailing market rate.

Equity securities

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 $3.1 million as of December 31, 2022 and September 30, 2022, respectively. The investments are included within Other assets on the Condensed Consolidated Balance Sheets. There have been no adjustments to the carrying value of the investments resulting from impairments or observable price changes.

Note 6. Derivative Financial Instruments

We operate internationally and, in the normal course of business, are exposed to fluctuations in foreign currency exchange rates related to third-party vendor and intercompany payments for goods and services within our non-U.S. subsidiaries. We use foreign exchange forward contracts that are not designated as hedges to manage currency risk. The contracts can have maturities up to three years. As of December 31, 2022 and September 30, 2022, the total notional amount of forward contracts was $69.7 million and $63.3 million, respectively. As of December 31, 2022 and September 30, 2022, the weighted-average remaining maturity of these instruments was approximately 12.3 and 10.5 months, respectively.

The following table summarizes the fair value and presentation in the Condensed Consolidated Balance Sheet for derivative instruments as of December 31, 2022 and September 30, 2022 (dollars in thousands):

		Fair Value	
Derivatives not designated as hedges	**Classification**	**December 31, 2022**	**September 30, 2022**
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 706	$ 1,627
Foreign currency forward contracts	Other assets	131	660
Foreign currency forward contracts	Accrued expenses and other current liabilities	1,547	1,812
Foreign currency forward contracts	Other liabilities	701	711

The following tables display a summary of the (loss) income related to foreign currency forward contracts for the three months ended December 31, 2022 and 2021 (dollars in thousand):

		(Loss) income recognized in earnings	
		Three months ended December 31,	
Derivatives not designated as hedges	**Classification**	**2022**	**2021**
Foreign currency forward contracts	Other income (expense), net	$ (1,453)	$ 1,117

Note 7. Goodwill and Other Intangible Assets

(a) Goodwill

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

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

On December 31, 2022, we concluded that no goodwill impairment indicators were present. We will continue to monitor the impacts of the COVID-19 pandemic on our reporting unit fair value. The full extent to which the ongoing COVID-19 pandemic could adversely affect our financial performance will depend on future developments, many of which are outside of our control.

The changes in the carrying amount of goodwill for the three months ended December 31, 2022 are as follows (dollars in thousands):

	Total
Balance as of September 30, 2022	$ 890,802
Effect of foreign currency translation	11,161
Balance as of December 31, 2022	$ 901,963

(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, 2022			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	$ 107,373	$ (100,073)	$ 7,300	1.7
Technology and patents	89,571	(89,158)	413	1.0
Total	$ 196,944	$ (189,231)	$ 7,713	

	September 30, 2022			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	$ 104,498	$ (95,315)	$ 9,183	1.7
Technology and patents	88,600	(88,083)	517	1.2
Total	$ 193,098	$ (183,398)	$ 9,700	

Amortization expense related to intangible assets in the aggregate was $2.5 million and $5.0 million for the three months ended December 31, 2022 and 2021. We expect amortization of intangible assets to be approximately $3.7 million for the remainder of fiscal year 2023.

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. We determine if contracts with vendors represent a lease or have a lease component under GAAP at contract inception. Our leases have remaining terms ranging from less than one year to six years. Some of our leases include options to extend or terminate the lease prior to the end of the agreed upon lease term. For purposes of calculating lease liabilities, lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise such options.

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

The following table presents certain information related to lease term and incremental borrowing rates for leases as of December 31, 2022 and September 30, 2022:

	December 31, 2022	September 30, 2022
Weighted-average remaining lease term (in months):		
Operating leases	42.9	46.5
Finance leases	33.4	35.6
Weighted-average discount rate:		
Operating leases	4.0%	3.7%
Finance leases	4.4%	4.4%

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

The following table presents lease expense for the three months ended December 31, 2022 and 2021 (dollars in thousands):

	Three Months Ended December 31,	
	2022	2021
Finance lease costs:		
Amortization of right of use asset	$ 108	$ 109
Interest on lease liability	10	14
Operating lease cost	1,686	1,558
Variable lease cost	691	877
Sublease income	(45)	(48)
Total lease cost	$ 2,450	$ 2,510

For operating leases, the related cash payments are included in the operating cash flows on the Condensed Consolidated Statements of Cash Flows. For the three months ended December 31, 2022 and 2021, cash payments related to operating leases were $1.8 million and $1.6 million, respectively. For financing leases, the related cash payments for the principal portion of the lease liability are included in the financing cash flows on the Condensed Consolidated Statement of Cash Flows and the related cash payments for the interest portion of the lease liability are included within the operating section of the Condensed Consolidated Statement of Cash Flows. For the three months ended December 31, 2022 and 2021, cash payments related to financing leases were $0.1 million and $0.2 million, respectively, of which an immaterial amount related to the interest portion of the lease liability. For the three months ended December 31, 2022 and 2021, right of use assets obtained in exchange for lease obligations were $2.5 million and $3.1 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, 2022 (dollars in thousands):

Year Ending September 30,	Operating Leases	Financing Leases	Total
2023	$ 4,802	$ 311	$ 5,113
2024	5,932	417	6,349
2025	4,133	362	4,495
2026	1,882	53	1,935
2027	1,460	—	1,460
Thereafter	807	—	807
Total future minimum lease payments	$ 19,016	$ 1,143	$ 20,159
Less effects of discounting	(1,190)	(55)	(1,245)
Total lease liabilities	$ 17,826	$ 1,088	$ 18,914
Reported as of December 31, 2022			
Short-term lease liabilities	$ 5,759	$ 383	$ 6,142
Long-term lease liabilities	12,067	705	12,772
Total lease liabilities	$ 17,826	$ 1,088	$ 18,914

Note 9. Accrued Expenses and Other Liabilities

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

	December 31, 2022	September 30, 2022
Compensation	$ 22,785	$ 19,710
Sales and other taxes payable	5,988	4,598
Cost of revenue related liabilities	4,204	4,257
Professional fees	4,203	3,866
Interest payable	534	1,828
Other	14,442	13,731
Total	$ 52,156	$ 47,990

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, 2022 (dollars in thousands):

	Personnel	Facilities	Restructuring Subtotal	Other	Total
Balance at September 30, 2022	$ 1,277	$ 1,600	$ 2,877	$ 2,277	$ 5,154
Restructuring and other costs, net	3,049	193	3,242	947	4,189
Non-cash adjustments	—	(162)	(162)	—	(162)
Cash payments	(2,176)	(135)	(2,311)	(1,845)	(4,156)
Effect of foreign currency translation	1	10	11	—	11
Balance at December 31, 2022	$ 2,151	$ 1,506	$ 3,657	$ 1,379	$ 5,036

The following table sets forth restructuring and other costs, net recognized for the three months ended December 31, 2022 and 2021 (dollars in thousands):

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021
Personnel	$ 3,049	$ 237
Facilities	193	197
Restructuring subtotal	3,242	434
Other	947	4,481
Restructuring and other costs, net	$ 4,189	$ 4,915

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.

Fiscal Year 2022

For the three months ended December 31, 2021, we recorded restructuring and other costs, net of $4.9 million, which included $4.0 million, net of $5.0 million in forfeitures, in stock-based compensation due to the resignation of our former CEO and the resulting modification of certain stock-based awards, a $0.2 million severance charge related to the elimination of personnel, and a $0.2 million charge resulting from the closure of facilities that will no longer be utilized.

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, 2022 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, 2022	996,016	434,995	1,431,011	$ 62.49		
Granted	2,132,191	1,233,050	3,365,241	$ 19.19		
Vested	(563,692)	(79,986)	(643,678)	$ 62.96		
Forfeited	(29,441)	(214,463)	(243,904)	$ 53.06		
Non-vested at December 31, 2022	2,535,074	1,373,596	3,908,670	$ 34.37		
Expected to vest			3,908,670	$ 34.37	1.89	$ 72,389

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, 2022 and 2021 (in thousands):

	Three Months Ended December 31,	
	2022	2021
Cost of connected services	$ 196	$ 146
Cost of professional services	1,153	946
Research and development	4,454	1,995
Sales and marketing	1,660	(578)
General and administrative	5,009	(668)
Restructuring and other costs, net	—	4,000
	$ 12,472	$ 5,841

During the three months ended December 31, 2021, we recorded $4.0 million, net of $5.0 million in forfeitures, in stock-based compensation due to the resignation of our former CEO and the resulting modification of certain stock-based awards in Restructuring and other costs, net.

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, 2022, 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. We intend to defend the claims vigorously. Cerence has filed a motion to dismiss, which is fully briefed. 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 contain substantially similar factual and legal contentions and, as such, on June 13, 2022, at the parties' request, the court consolidated these derivative actions into a single action (the "Consolidated Derivative Action") and appointed Co-Lead Counsel for plaintiffs. In addition, the parties agreed to stay the Consolidated Derivative Action pending a ruling on the motion to dismiss in the Securities Action, and the court has ordered that stay.

On October 19, 2022, plaintiff Melinda Hipp filed a shareholder derivative complaint in the Delaware Court of Chancery on behalf of Cerence Inc. against the defendants named in the Consolidated Derivative Action and board member Douglas Davis. This complaint makes factual and legal contentions substantially similar to those made in the Consolidated Derivative Actions. This case has been stayed pending a ruling on the motion to dismiss in the Securities Action.

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 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, 2022, 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 $0.5 million in the aggregate. These letters of credit have various terms and expire during fiscal year 2023 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 (loss) income before income taxes are as follows (dollars in thousands):

	Three Months Ended December 31,	
	2022	**2021**
Domestic	$ 6,053	$ 17,208
Foreign	(6,961)	2,135
(Loss) income before income taxes	$ (908)	$ 19,343

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

	Three Months Ended December 31,	
	2022	**2021**
Domestic	$ (249)	$ 1,437
Foreign	1,499	(1,138)
Provision for income taxes	$ 1,250	$ 299
Effective income tax rate	(137.7)%	1.5%

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, 2022 was negative 137.7% compared to 1.5% for the three months ended December 31, 2021. Consequently, our provision for income taxes for the three months ended December 31, 2022 was $1.3 million, a net change of $1.0 million from a provision for income taxes of $0.3 million for the three months ended December 31, 2021. This difference was attributable to our composition of jurisdiction earnings, U.S. inclusions of foreign taxable income, and a tax benefit recorded as a result of an increase to the enacted Netherlands income tax rate in the first quarter of fiscal year 2022.

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. expenses over five years and foreign 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 first quarter of fiscal year 2023.

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, 2022	September 30, 2022
3.00% Convertible Senior Notes due 2025, net of unamortized discount of $0 and $11,264, respectively, and deferred issuance costs of $2,823 and $2,832, respectively. Effective interest rate 3.70% and 6.29%, respectively.	$ 172,177	$ 160,904
Senior Credit Facilities, net of unamortized discount of $1,564 and $1,310, respectively, and deferred issuance costs of $142 and $158, respectively. Effective interest rate 6.67% and 5.37%, respectively.	107,669	109,470
Total debt	$ 279,846	$ 270,374
Less: current portion	(12,500)	(10,938)
Total long-term debt	$ 267,346	$ 259,436

The following table summarizes the maturities of our borrowing obligations as of December 31, 2022 (in thousands):

Fiscal Year	Convertible Senior Notes	Senior Facilities	Total
2023	$ —	$ 9,375	$ 9,375
2024	—	12,500	12,500
2025	175,000	87,500	262,500
Total before unamortized discount and issuance costs and current portion	$ 175,000	$ 109,375	$ 284,375
Less: unamortized discount and issuance costs	(2,823)	(1,706)	(4,529)
Less: current portion of long-term debt	—	(12,500)	(12,500)
Total long-term debt	$ 172,177	$ 95,169	$ 267,346

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 “Notes”), including the initial purchasers’ exercise in full of their option to purchase an additional $25.0 million principal amount of the Notes, between us and U.S. Bank National Association, as trustee (the “Trustee”), in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from the issuance of the Notes were $169.8 million after deducting transaction costs.

The Notes are senior, unsecured obligations and will accrue interest payable semiannually in arrears on June 1 and December 1 of each year at a rate of 3.00% per year. The Notes will mature on June 1, 2025, unless earlier converted, redeemed, or repurchased. The Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. As of December 31, 2022, the if-converted value of the Notes was $88.3 million less than its principal amount.

A holder of Notes may convert all or any portion of its 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” per $1,000 principal amount of 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 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 Notes at any time, regardless of the foregoing.

The conversion rate will initially be 26.7271 shares of our common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $37.42 per share of our common stock). The 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 Notes in connection with such a corporate event or convert its Notes called for redemption in connection with such notice of redemption, as the case may be.

We may not redeem the Notes prior to June 5, 2023. We may redeem for cash all or any portion of the 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 Notes.

On October 1, 2022, we adopted ASU 2020-06 based on a modified retrospective transition method. No prior-period information has been retrospectively adjusted. After the adoption of ASU 2020-06, the Notes are no longer bifurcated into a separate liability and equity component. The Notes are accounted for as a single liability. As of December 31, 2022, the carrying amount of the Notes was $172.2 million, net of unamortized issuance costs of $2.8 million. The issuance costs related to the Notes are being amortized to interest expense over the contractual term. Refer to *Note 2 - Significant Accounting Policies* for the impact of our adoption.

As of December 31, 2022 and September 30, 2022, the carrying amount of the equity component, net of taxes and transaction costs, was $0 and $14.4 million, respectively.

The interest expense recognized related to the Notes for the three months ended December 31, 2022 and 2021 was as follows (dollars in thousands):

	Three Months Ended December 31,	
	2022	2021
Contractual interest expense	$ 1,322	$ 1,322
Amortization of debt discount	-	924
Amortization of issuance costs	280	232
Total interest expense related to the Notes	$ 1,602	$ 2,478

The conditional conversion feature of the Notes was not triggered during the three months ended December 31, 2022. As of December 31, 2022, 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 convertible in future quarters will depend on the satisfaction of one or more of the conversion conditions in the future. If one or more holders elect to convert their Notes at a time when any such Notes are convertible, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

Senior Credit Facilities

On June 12, 2020 (the “Financing Closing Date”), 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. As of December 31, 2022, there were no amounts outstanding under the Revolving Facility.

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

Amendment No. 1 revised certain interest rates in the Credit Agreement. Following delivery of a compliance certificate for the first full fiscal quarter after the Amendment No. 1 Effective Date, the applicable margins for the revolving credit and term facilities is subject to a pricing grid based upon the net total leverage ratio as follows (i) if the net total leverage ratio is greater than 3.00 to 1.00, the applicable margin is LIBOR plus 3.00% or ABR plus 2.00%; (ii) if the net total leverage ratio is less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00, the applicable margin is LIBOR plus 2.75% or ABR plus 1.75%; (iii) if the net total leverage ratio is less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00, the applicable margin is LIBOR plus 2.50% or ABR plus 1.50%; (iv) if the net total leverage ratio is less than or equal to 2.00 to 1.00 but greater than 1.50 to 1.00, the applicable margin is LIBOR plus 2.25% or ABR plus 1.25%; and (v) if the net total leverage ratio is less than or equal to 1.50 to 1.00, the applicable margin is LIBOR plus 2.20% or ABR plus 1.00%. As a result of Amendment No. 1, the applicable LIBOR floor was reduced from 0.50% to 0.00%.

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

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

The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type that, among other things, limit our and our subsidiaries' ability to incur additional indebtedness or liens, to dispose of assets, to make certain fundamental changes, to designate subsidiaries as unrestricted, to make certain investments, to prepay certain indebtedness and to pay dividends, or to make other distributions or redemptions/repurchases, in respect of our and our subsidiaries' equity interests. In addition, the Credit Agreement contains financial covenants, each tested quarterly, (1) a net secured 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. As of December 31, 2022, we were in compliance with all Credit Agreement covenants.

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.

Amendment No. 2 was accounted for a debt modification, and therefore, $0.4 million of the refinancing fees paid directly to the lender were recorded as deferred debt issuance costs, and $0.1 million of the refinance fees paid to third parties were expensed in the period.

Amendment No. 2 revised certain interest rates in the Credit Agreement. The applicable margins for the revolving credit and term facilities is subject to a pricing grid based upon the net total leverage ratio as follows (i) if the net total leverage ratio is greater than 3.00 to 1.00, the applicable margin is SOFR plus 10 basis point credit spread adjustment plus 3.00% or ABR plus 2.00%; (ii) if the net total leverage ratio is less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00, the applicable margin is SOFR plus 10 basis point credit spread adjustment plus 2.75% or ABR plus 1.75%; (iii) if the net total leverage ratio is less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00, the applicable margin is SOFR plus 10 basis point credit spread adjustment plus 2.50% or ABR plus 1.50%; (iv) if the net total leverage ratio is less than or equal to 2.00 to 1.00 but greater than 1.50 to 1.00, the applicable margin is SOFR plus 10 basis point credit spread adjustment plus 2.25% or ABR plus 1.25%; and (v) if the net total leverage ratio is less than or equal to 1.50 to 1.00, the applicable margin is SOFR plus 10 basis point credit spread adjustment plus 2.20% or ABR plus 1.00%. During the covenant adjustment period, and until the delivery of a compliance certificate for the first full fiscal quarter after the covenant adjustment period, the applicable margin will be SOFR plus 10 basis point credit spread adjustment plus 3.00% or ABR plus 2.00%.

For the three months ended December 31, 2021, the interest rate was LIBOR plus 2.25%. Prior to the Amendment No. 2 Effective Date, the interest rate was LIBOR plus 2.25%. From the Amendment No. 2 Effective Date until the quarter ended December 31, 2022, the interest rate was SOFR plus a credit spread adjustment of 10 basis points plus 2.25%. Total interest expense relating to the Senior Credit Facilities for the three months ended December 31, 2022 and 2021 was $1.9 million and $0.9 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, 2022, filed with the Securities and Exchange Commission ("SEC") on November 29, 2022. 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, 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, 2022, as updated by Part II, Item 1A of this Quarterly Report, for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. Note that the results of operations for the three months ended December 31, 2022 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.

Impact of COVID-19 on our Business

The COVID-19 pandemic has resulted in, and may continue to result in, additional governmental restrictions and regulations, which has adversely affected, and may continue to adversely affect our business and financial results. We have seen, and anticipate that we will continue to see, supply chain challenges in the automotive industry related to semiconductor devices that are used in automobiles. The current macroeconomic conditions have also increased competition for qualified employees in our industry, particularly for members of our professional service teams, and we, along with automotive OEMs, face significant competition in hiring and retaining them. In addition, a recession, depression or other sustained adverse market impact resulting from COVID-19 or other market factors could materially and adversely affect our business, our access to needed capital and liquidity, and the value of our common stock. Even after the COVID-19 pandemic has lessened or subsided, we may continue to experience adverse impacts on our business and financial performance as a result of its global economic impact.

As the full impact of the COVID-19 pandemic on our business continues to develop, we are closely monitoring the global situation. We are unable at this time to predict the full impact of COVID-19 on our operations, liquidity, and financial results, and, depending on the magnitude and duration of the COVID-19 pandemic, such impact may be material. Accordingly, current results and financial condition discussed herein may not be indicative of future operating results and trends. While we are unable to accurately predict the full impact that COVID-19 will have on our results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures, these measures have impacted, and may continue to impact, our business, as well as our customers and consumers. For further discussion of the business risks associated with COVID-19, see Item 1A, Risk Factors, within our Annual Report on Form 10-K for the fiscal year ended September 30, 2022, as updated by Part II, Item 1A of this Quarterly Report.

Basis of Presentation

The financial information presented in the accompanying unaudited condensed consolidated financial statements has been prepared in accordance with U.S. 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, 2022 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, 2022 are not necessarily indicative of the results expected for the full fiscal year ending September 30, 2023.

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, 2022 as compared to the three months ended December 31, 2021:

- Total revenue decreased by $10.7 million, or 11.4%, to $83.7 million from $94.4 million.
- Operating margin decreased 26.7 percentage points to negative 2.4% from 24.3%.
- Cash used in operating activities was $2.1 million, a net change of $7.2 million from cash provided by operating activities of $5.1 million.

Operating Results

The following table shows the Condensed Consolidated Statements of Operations for the three months ended December 31, 2022 and 2021 (dollars in thousands):

	Three Months Ended December 31,	
	2022	2021
Revenue:		
License	$ 45,417	$ 46,850
Connected services	18,394	28,159
Professional services	19,847	19,417
Total revenues	83,658	94,426
Cost of revenue:		
License	1,614	721
Connected services	6,542	5,724
Professional services	17,924	15,903
Amortization of intangible assets	103	1,879
Total cost of revenues	26,183	24,227
Gross profit	57,475	70,199
Operating expenses:		
Research and development	29,494	25,792
Sales and marketing	9,162	5,879
General and administrative	14,257	7,527
Amortization of intangible assets	2,350	3,154
Restructuring and other costs, net	4,189	4,915
Total operating expenses	59,452	47,267
(Loss) income from operations	(1,977)	22,932
Interest income	870	90
Interest expense	(3,514)	(3,427)
Other income (expense), net	3,713	(252)
(Loss) income before income taxes	(908)	19,343
Provision for income taxes	1,250	299
Net (loss) income	$ (2,158)	$ 19,044

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. During fiscal year 2023, we expect a reduction in contributions from our fixed license contracts due to our decision to limit the level of such contracts on a go-forward basis. As a result, we expect a negative impact on reported license revenue for fiscal year 2023. 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. 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 income (expense), net consists primarily of foreign exchange gains (losses), losses on the extinguishment of debt and interest expense related to the Existing Facility, Notes, and Senior Credit Facilities.

Three Months Ended December 31, 2022 Compared with Three Months Ended December 31, 2021

Total Revenues

The following table shows total revenues by product type, including the corresponding percentage change, for the three months ended December 31, 2022 and 2021 (dollars in thousands):

	Three Months Ended December 31,				% Change
	2022	% of Total	2021	% of Total	2022 vs. 2021
License	$ 45,417	54.3%	$ 46,850	49.6%	(3.1)%
Connected services	18,394	22.0%	28,159	29.8%	(34.7)%
Professional services	19,847	23.7%	19,417	20.6%	2.2%
Total revenues	$ 83,658		$ 94,426		(11.4)%

Total revenues for the three months ended December 31, 2022 were $83.7 million, a decrease of $10.7 million, or 11.4%, from $94.4 million for the three months ended December 31, 2021. The decrease in revenues was driven by decreases in licensing revenues and decreased demand for our connected services. Our license revenue is highly dependent on vehicle production. We expect our business in fiscal year 2023 to continue to be impacted by the ongoing semiconductor shortage, shipping and production issues, and inflation. However, we expect a slow, but gradual, improvement in auto production during fiscal year 2023.

License Revenue

License revenue for the three months ended December 31, 2022 was $45.4 million, a decrease of $1.5 million, or 3.1%, from $46.9 million for the three months ended December 31, 2021. The decrease in license revenue was driven by a $5.2 million decrease in revenue generated from non-automotive markets. This decrease was partially offset by an $4.8 million increase in variable license revenue due to higher volume of licensing royalties. As a percentage of total revenues, license revenue increased 4.7 percentage points from 49.6% for the three months ended December 31, 2021 to 54.3% for the three months ended December 31, 2022.

Connected Services Revenue

Connected services revenue for the three months ended December 31, 2022 was $18.4 million, a decrease of $9.8 million, or 34.7%, from $28.2 million for the three months ended December 31, 2021. This decrease was primarily driven by the winding down of a legacy contract acquired by Nuance Communications, Inc. ("Nuance") through a 2013 acquisition. As a percentage of total revenues, connected services revenue decreased by 7.8 percentage point from 29.8% for the three months ended December 31, 2021 to 22.0% for the three months ended December 31, 2022.

Professional Services Revenue

Professional service revenue for the three months ended December 31, 2022 was $19.8 million, an increase of $0.4 million, or 2.2%, from $19.4 million for the three months ended December 31, 2021. This increase was primarily driven by our continued focus on integration and customization services related to our edge software and timing of services rendered. As a percentage of total revenues, professional services revenue increased by 3.1 percentage points from 20.6% for the three months ended December 31, 2021 to 23.7% for the three months ended December 31, 2022.

Three Months Ended December 31, 2022 Compared with Three Months Ended December 31, 2021

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
	2022	2021	2022 vs. 2021
License	$ 1,614	$ 721	123.9 %
Connected services	6,542	5,724	14.3 %
Professional services	17,924	15,903	12.7 %
Amortization of intangibles	103	1,879	(94.5)%
Total cost of revenues	$ 26,183	$ 24,227	8.1 %

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

	Three Months Ended December 31,		% Change
	2022	2021	2022 vs. 2021
License	$ 43,803	$ 46,129	(5.0)%
Connected services	11,852	22,435	(47.2)%
Professional services	1,923	3,514	(45.3)%
Amortization of intangibles	(103)	(1,879)	94.5 %
Total gross profit	$ 57,475	$ 70,199	(18.1)%

Total cost of revenues for the three months ended December 31, 2022 were $26.2 million, an increase of $2.0 million, or 8.1%, from $24.2 million for the three months ended December 31, 2021.

We experienced a decrease in total gross profit of $12.7 million, or 18.1%, from $70.2 million for the three months ended December 31, 2021 to $57.5 million for the three months ended December 31, 2022. The decrease was primarily driven by a decline in license and connected services revenues.

Cost of License Revenue

Cost of license revenue for the three months ended December 31, 2022 was $1.6 million, an increase of $0.9 million, or 123.9%, from $0.7 million for the three months ended December 31, 2021. Cost of license revenues increased primarily due to costs associated with our Cerence Link product. As a percentage of total cost of revenues, cost of license revenue increased by 3.2 percentage points from 3.0% for the three months ended December 31, 2021 to 6.2% for the three months ended December 31, 2022.

License gross profit decreased by $2.3 million, or 5.0%, for the three months ended December 31, 2022 when compared to the three months ended December 31, 2021, primarily due to decreases in license revenues.

Cost of Connected Services Revenue

Cost of connected services revenue for the three months ended December 31, 2022 was $6.5 million, an increase of $0.8 million, or 14.3%, from $5.7 million for the three months ended December 31, 2021. Cost of connected services revenue increased primarily due to a $0.4 million increase in our cloud infrastructure costs and $0.2 million increase in amortization of costs previously deferred. As a percentage of total cost of revenues, cost of connected service revenue increased by 1.4 percentage points from 23.6% for the three months ended December 31, 2021 to 25.0% for the three months ended December 31, 2022.

Connected services gross profit decreased $10.5 million, or 47.2%, from $22.4 million for the three months ended December 31, 2021 to $11.9 million for the three months ended December 31, 2022, driven by decreases in connected services revenue due to the winding down of a legacy contract.

Cost of Professional Services Revenue

Cost of professional services revenue for the three months ended December 31, 2022 was $17.9 million, an increase of $2.0 million, or 12.7%, from $15.9 million for the three months ended December 31, 2021. Cost of professional services revenue increased primarily due to a $1.1 million increase in third-party contractor costs, $0.6 million increase in amortization of costs previously deferred, and $0.2 million increase in stock-based compensation. As a percentage of total cost of revenues, cost of professional services revenue increased by 2.9 percentage points from 65.6% for the three months ended December 31, 2021 to 68.5% for the three months ended December 31, 2022.

Professional services gross profit decreased $1.6 million, or 45.3%, from $3.5 million for the three months ended December 31, 2021 to $1.9 million for the three months ended December 31, 2022, which was due to increases in third-party contractor costs.

Operating Expenses

The tables below show each component of operating expense. Total other income (expense), 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, 2022 Compared with Three Months Ended December 31, 2021

	Three Months Ended December 31,		% Change
	2022	2021	2022 vs. 2021
Research and development	$ 29,494	$ 25,792	14.4%

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, 2022 were $29.5 million, an increase of $3.7 million, or 14.4%, from $25.8 million for the three months ended December 31, 2021. The increase was primarily attributable to a $2.5 million increase in stock-based compensation costs, a $2.0 million decrease in capitalized costs associated with internally developed software, a $0.6 million decrease in labor allocated to support our customer projects, and a $0.6 million increase in third-party contractor costs. The increase was partially offset by a $2.2 million decrease in salary-related expenditures. As a percentage of total operating expenses, R&D expenses decreased by 5.0 percentage points from 54.6% for the three months ended December 31, 2021 to 49.6% for the three months ended December 31, 2022.

Sales & Marketing Expenses

Three Months Ended December 31, 2022 Compared with Three Months Ended December 31, 2021

	Three Months Ended December 31,		% Change
	2022	2021	2022 vs. 2021
Sales and marketing	$ 9,162	$ 5,879	55.8 %

Sales and marketing expenses for the three months ended December 31, 2022 were $9.2 million, an increase of $3.3 million, or 55.8%, from $5.9 million for the three months ended December 31, 2021. The increase in sales and marketing expenses was primarily attributable to a $2.2 million increase in stock-based compensation, $0.3 million increase in travel-related expenditures, a $0.2 million increase in salary-related expenses, and a $0.2 million increase in commissions expenditures. As a percentage of total operating expenses, sales and marketing expenses increased by 3.0 percentage points from 12.4% for the three months ended December 31, 2021 to 15.4% for the three months ended December 31, 2022.

General & Administrative Expenses

Three Months Ended December 31, 2022 Compared with Three Months Ended December 31, 2021

	Three Months Ended December 31,		% Change
	2022	2021	2022 vs. 2021
General and administrative	$ 14,257	$ 7,527	89.4 %

General and administrative expenses for the three months ended December 31, 2022 were $14.3 million, an increase of $6.8 million, or 89.4%, from $7.5 million for the three months ended December 31, 2021. The increase in general and administrative expenses was primarily attributable to a $5.7 million increase in stock-based compensation costs, a $0.5 million increase in third-party professional services, a $0.3 million increase in hardware and software expenditures, and $0.2 million increase in third-party contractor costs. The increase was partially offset by a $0.5 million decrease in salary-related expenditures. As a percentage of total operating expenses, general and administrative expenses increased by 8.1 percentage points from 15.9% for the three months ended December 31, 2021 to 24.0% for the three months ended December 31, 2022.

Amortization of Intangible Assets

Three Months Ended December 31, 2022 Compared with Three Months Ended December 31, 2021

	Three Months Ended December 31,		% Change
	2022	2021	2022 vs. 2021
Cost of revenues	$ 103	$ 1,879	(94.5)%
Operating expense	2,350	3,154	(25.5)%
Total amortization	$ 2,453	$ 5,033	(51.3)%

Intangible asset amortization for the three months ended December 31, 2022 was $2.5 million, a decrease of $2.5 million, or 51.3%, from $5.0 million for the three months ended December 31, 2021. The decrease in amortization relates to certain intangible assets having been fully amortized during fiscal year 2022. 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 decreased by 7.4 percentage points from 7.8% for the three months ended December 31, 2021 to 0.4% for the three months ended December 31, 2022. As a percentage of total operating expenses, intangible asset amortization expenses within operating expenses decreased by 2.7 percentage points from 6.7% for the three months ended December 31, 2021 as compared to 4.0% for the three months ended December 31, 2022.

Restructuring and Other Costs, Net

Three Months Ended December 31, 2022 Compared with Three Months Ended December 31, 2021

	Three Months Ended December 31,		% Change
	2022	2021	2022 vs. 2021
Restructuring and other costs, net	$ 4,189	$ 4,915	(14.8)%

Fiscal Year 2023

For the three months ended December 31, 2022, we recorded restructuring and other charges, 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. For the remainder of fiscal year 2023, we expect approximately $6.0 million of personnel-related restructuring costs.

Fiscal Year 2022

For the three months ended December 31, 2021, we recorded restructuring and other charges, net of $4.9 million, which included $4.0 million, net of $5.0 million in forfeitures, in stock-based compensation due to the resignation of our former CEO and the resulting modification of certain stock-based awards, a $0.2 million severance charge related to the elimination of personnel, and a $0.2 million charge resulting from the closure of facilities that will no longer be utilized.

As a percentage of total operating expenses, restructuring and other costs, net decreased by 3.4 percentage points from 10.4% for the three months ended December 31, 2021 to 7.0% for the three months ended December 31, 2022.

Total Other Income (Expense), Net

Three Months Ended December 31, 2022 Compared with Three Months Ended December 31, 2021

	Three Months Ended December 31,		% Change
	2022	2021	2022 vs. 2021
Interest income	$ 870	$ 90	866.7%
Interest expense	(3,514)	(3,427)	2.5%
Other income (expense), net	3,713	(252)	(1573.4)%
Total other income (expense), net	$ 1,069	$ (3,589)	(129.8)%

Total other income (expense), net for the three months ended December 31, 2022 was income of $1.1 million, a change of $4.7 million from $3.6 million of expense for the three months ended December 31, 2021. The increase in interest income was primarily attributable to returns on investments. The increase in interest expense was primarily attributable to a higher applicable interest rate on our Term Loan Facility. The change in other income (expense), 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, 2022 Compared with Three Months Ended December 31, 2021

	Three Months Ended December 31,		% Change
	2022	2021	2022 vs. 2021
Provision for income taxes	$ 1,250	$ 299	318.1 %
Effective income tax rate %	(137.7)%	1.5 %	

Our effective income tax rate for the three months ended December 31, 2022 was negative 137.7%, compared to 1.5% for the three months ended December 31, 2021. Our provision for income taxes for the three months ended December 31, 2022 was $1.3 million, a net change of $1.0 million from a provision for income taxes of $0.3 million for the three months ended December 31, 2021. This difference was attributable to our composition of jurisdiction earnings, U.S. inclusions of foreign taxable income, and a tax benefit recorded as a result of an increase to the enacted Netherlands income tax rate in the first quarter of fiscal year 2022.

Liquidity and Capital Resources

Financial Condition

As of December 31, 2022, we had $120.2 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, 2022, our net working capital, excluding deferred revenue and deferred costs, was $145.0 million. This balance is representative of the short-term net cash inflows based on the working capital at that date.

During the three months ended December 31, 2021, certain existing variable long-term contracts with our largest customer were converted into minimum purchase commitment deals. The estimated future revenues related to these long-term contracts was previously included in our variable backlog, which includes estimated future revenues from variable forecasted revenues related to our embedded and connected business. These minimum purchase commitment deals accounted for $20.1 million of revenues during the three months ended December 31, 2021. The cash associated with these deals is expected to be collected over the distribution period, which could be up to five years.

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 $120.2 million of cash, cash equivalents, and marketable securities as of December 31, 2022, 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				
	2023	2024 - 2025	2026 - 2027	Thereafter	Total
Notes	$ -	$ 175,000	$ -	$ -	$ 175,000
Interest payable on the Notes (a)	3,924	8,768	-	-	12,692
Senior Credit Facilities	9,375	100,000	-	-	109,375
Interest payable on Senior Credit Facilities (b)	5,134	8,964	-	-	14,098
Operating leases	4,802	10,065	3,342	807	19,016
Operating leases under restructuring (c)	152	268	371	-	791
Financing leases	311	779	53	-	1,143
Total material cash requirements	$ 23,698	$ 303,844	$ 3,766	$ 807	$ 332,115

(a) Interest per annum is due and payable semiannually and is determined based on the outstanding principal as of December 31, 2022.
(b) Interest per annum is due and payable monthly and is determined based on the outstanding principal as of December 31, 2022.
(c) Contractual lease commitments are shown net of sublease income related to certain facilities. As of December 31, 2022, we anticipate sublease income of $1.3 million through fiscal year 2024.

As the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. 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. The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption of financial markets. An extended period of economic disruption could materially affect our business, results of operations, ability to meet debt covenants, access to sources of liquidity and financial condition.

3.00% Senior Convertible Notes due 2025

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

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

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

On October 1, 2022, we adopted ASU 2020-06 based on a modified retrospective transition method. No prior-period information has been retrospectively adjusted. After the adoption of ASU 2020-06, the Notes are no longer bifurcated into a separate liability and equity component. The Notes are accounted for as a single liability. As of December 31, 2022, the carrying amount of the Notes was $172.2 million, net of unamortized issuance costs of $2.8 million. The issuance costs related to the Notes are being amortized to interest expense over the contractual term.

The interest expense recognized related to the Notes for the three months ended December 31, 2022 and 2021 was as follows (dollars in thousands):

	Three Months Ended December 31,	
	2022	2021
Contractual interest expense	$ 1,322	$ 1,322
Amortization of debt discount	-	924
Amortization of issuance costs	280	232
Total interest expense related to the Notes	$ 1,602	$ 2,478

The conditional conversion feature of the Notes was not triggered during the three months ended December 31, 2022. As of December 31, 2022, 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 convertible in future quarters will depend on the satisfaction of one or more of the conversion conditions in the future. If one or more holders elect to convert their Notes at a time when any such Notes are convertible, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

Senior Credit Facilities

On June 12, 2020, 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. As of December 31, 2022, there were no amounts outstanding under the Revolving Facility.

On December 17, 2020, we entered into Amendment No. 1, which extended the scheduled maturity date of the revolving credit and term facilities from June 12, 2024 to April 1, 2025.

Amendment No. 1 revised certain interest rates in the Credit Agreement. Following delivery of a compliance certificate for the first full fiscal quarter after the Amendment No. 1 Effective Date, the applicable margins for the revolving credit and term facilities is subject to a pricing grid based upon the net total leverage ratio as follows: (i) if the net total leverage ratio is greater than 3.00 to 1.00, the applicable margin is LIBOR plus 3.00% or ABR plus 2.00%; (ii) if the net total leverage ratio is less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00, the applicable margin is LIBOR plus 2.75% or ABR plus 1.75%; (iii) if the net total leverage ratio is less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00, the applicable margin is LIBOR plus 2.50% or ABR plus 1.50%; (iv) if the net total leverage ratio is less than or equal to 2.00 to 1.00 but greater than 1.50 to 1.00, the applicable margin is LIBOR plus 2.25% or ABR plus 1.25%; and (v) if the net total leverage ratio is less than or equal to 1.50 to 1.00, the applicable margin is LIBOR plus 2.20% or ABR plus 1.00%. As a result of Amendment No. 1, the applicable LIBOR floor was reduced from 0.50% to 0.00%.

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

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

The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type that, among other things, limit our and our subsidiaries' ability to incur additional indebtedness or liens, to dispose of assets, to make certain fundamental changes, to designate subsidiaries as unrestricted, to make certain investments, to prepay certain indebtedness and to pay dividends, or to make other distributions or redemptions/repurchases, in respect of our and our subsidiaries' equity interests. In addition, the Credit Agreement contains financial covenants, each tested quarterly, (1) a net secured leveraged ratio of not greater than 3.25 to 1.00; (2) a net total leverage ratio of not greater than 4.25 to 1.00; and (3) minimum liquidity of at least $75 million. The Credit Agreement also contains events of default customary for financings of this type, including certain customary change of control events. As of December 31, 2022, we were in compliance with all Credit Agreement covenants.

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.

Amendment No. 2 was accounted for a debt modification, and therefore, $0.4 million of the refinancing fees paid directly to the lender were recorded as deferred debt issuance costs, and $0.1 million of the refinance fees paid to third parties were expensed in the period.

Amendment No. 2 revised certain interest rates in the Credit Agreement. The applicable margins for the revolving credit and term facilities is subject to a pricing grid based upon the net total leverage ratio as follows (i) if the net total leverage ratio is greater than 3.00 to 1.00, the applicable margin is SOFR plus 10 basis point credit spread adjustment plus 3.00% or ABR plus 2.00%; (ii) if the net total leverage ratio is less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00, the applicable margin is SOFR plus 10 basis point credit spread adjustment plus 2.75% or ABR plus 1.75%; (iii) if the net total leverage ratio is less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00, the applicable margin is SOFR plus 10 basis point credit spread adjustment plus 2.50% or ABR plus 1.50%; (iv) if the net total leverage ratio is less than or equal to 2.00 to 1.00 but greater than 1.50 to 1.00, the applicable margin is SOFR plus 10 basis point credit spread adjustment plus 2.25% or ABR plus 1.25%; and (v) if the net total leverage ratio is less than or equal to 1.50 to 1.00, the applicable margin is SOFR plus 10 basis point credit spread adjustment plus 2.20% or ABR plus 1.00%. During the covenant adjustment period, and until the delivery of a compliance certificate for the first full fiscal quarter after the covenant adjustment period, the applicable margin will be SOFR plus 10 basis point credit spread adjustment plus 3.00% or ABR plus 2.00%.

For the three months ended December 31, 2021, the interest rate was LIBOR plus 2.25%. Prior to the Amendment No. 2 Effective Date, the interest rate was LIBOR plus 2.25%. From the Amendment No. 2 Effective Date until the quarter ended December 31, 2022, the interest rate was SOFR plus a credit spread adjustment of 10 basis points plus 2.25%. Total interest expense relating to the Senior Credit Facilities for the three months ended December 31, 2022 and 2021 was $1.9 million and $0.9 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, 2022 and 2021, 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
	2022	2021	2022 vs. 2021
Net cash (used in) provided by operating activities	$ (2,118)	$ 5,145	(141.2)%
Net cash provided by (used in) investing activities	1,517	(1,738)	(187.3)%
Net cash used in financing activities	(3,051)	(14,152)	(78.4)%
Effect of foreign currency exchange rates on cash and cash equivalents	(538)	(447)	20.4%
Net changes in cash and cash equivalents	$ (4,190)	$ (11,192)	(62.6)%

Net Cash (Used in) Provided by Operating Activities

Net cash used in operating activities for the three months ended December 31, 2022 was $2.1 million, a net change of $7.2 million, or 141.2%, from net cash provided by operating activities of $5.1 million for the three months ended December 31, 2021. The change in cash flows were primarily due to:

- A decrease of $22.5 million from income before non-cash charges;
- An increase of $12.4 million due to favorable changes in working capital primarily related to cash outflows from prepaid expenses and other assets and accounts payable; and
- An increase of $2.8 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 (Used in) Investing Activities

Net cash provided by investing activities for the three months ended December 31, 2022 was $1.5 million, a net change of $3.2 million, or 187.3%, from $1.7 million of cash used in investing activities for the three months ended December 31, 2021. The change in cash flows were primarily due to:

- A decrease of $3.7 million in capital expenditures; and
- An increase of $0.3 million net cash inflow related to marketable securities.

Net Cash Used in Financing Activities

Net cash used in financing activities for the three months ended December 31, 2022 was $3.1 million, a net change of $11.1 million, from cash used in financing activities of $14.2 million for the three months ended December 31, 2021. The change in cash flows were primarily due to:

- A decrease of $41.9 million in payments of tax related withholdings due to the net settlement of equity awards; and
- A decrease of $30.4 million in proceeds from the issuance of our common stock.

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 and judgments on historical experience and various other factors we believe to be reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses. Actual results may differ from these estimates.

We believe that our critical accounting policies and estimates are those related to revenue recognition; allowance for credit losses; accounting for deferred costs; accounting for internally developed software; the valuation of goodwill and intangible assets; accounting for business combinations; accounting for stock-based compensation; accounting for income taxes; accounting for leases; accounting for convertible debt; and loss contingencies. We believe these policies and estimates are critical because they most significantly affect the portrayal of our financial condition and results of operations and involve our most complex and subjective estimates and judgments. A discussion of our critical accounting policies and estimates may be found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2022 in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Policies, Judgments and Estimates” and below.

Revenue Recognition

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

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

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

Goodwill

Goodwill is reported at the reporting unit level. Upon consideration of the discrete financial information reviewed by our CODM, we have concluded that our goodwill is associated with one reporting unit.

Goodwill is not amortized but tested annually for impairment or when interim indicators of impairment are present. The test for goodwill impairment involves an assessment of impairment indicators. If indicators are present, a quantitative test of impairment is performed. During the quantitative test, the fair value of the reporting unit is compared to its carrying value. If the fair value of the reporting unit is less than the carrying value, the difference represents an impairment. If the fair value of the reporting unit is greater than the carrying value, no impairment is recognized.

On December 31, 2022, we concluded that no goodwill impairment indicators were present.

See Note 7 to the accompanying unaudited condensed consolidated financial statements for further discussion of our goodwill.

Recently Adopted Accounting Pronouncements and Recent Accounting Pronouncements To Be Adopted

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Exchange Rate Sensitivity

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

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

We use foreign currency forward contracts to hedge the foreign currency exchange risk associated with forecasted foreign denominated payments related to our ongoing business. The aggregate notional amount of our outstanding foreign currency forward contracts was $69.7 million at December 31, 2022. 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 $6.1 million at December 31, 2022. 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, 2022, we held approximately $90.7 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 money-market funds and time deposits would increase by $0.5 million per annum, based on December 31, 2022 reported balances.

The borrowings under our Senior Credit Facilities are subject to interest rates based on SOFR. As of December 31, 2022, assuming a 1% increase in interest rates and our Revolving Facility being fully drawn, our interest expense on our Senior Credit Facilities would increase by approximately $1.6 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, 2022 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. We intend to defend the claims vigorously. Cerence has filed a motion to dismiss, which is fully briefed. 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 contain substantially similar factual and legal contentions and, as such, on June 13, 2022, at the parties' request, the court consolidated these derivative actions into a single action (the "Consolidated Derivative Action") and appointed Co-Lead Counsel for plaintiffs. In addition, the parties agreed to stay the Consolidated Derivative Action pending a ruling on the motion to dismiss in the Securities Action, and the court has ordered that stay.

On October 19, 2022, plaintiff Melinda Hipp filed a shareholder derivative complaint in the Delaware Court of Chancery on behalf of Cerence Inc. against the defendants named in the Consolidated Derivative Action and board member Douglas Davis. This complaint makes factual and legal contentions substantially similar to those made in the Consolidated Derivative Actions. This case has been stayed pending a ruling on the motion to dismiss in the Securities Action.

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.

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, 2022, 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, 2022 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, 2022.

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**
10.1	Amendment No. 2 to Credit Agreement, dated as of June 12, 2020, by and among Cerence Inc., the lenders and issuing banks party thereto and Wells Fargo Bank, N.A., as administrative agent		10-K	001-39030	10.31	November 29, 2022
10.2†	Change of Control and Severance Agreement, effective as of January 6, 2023, by and between Cerence Inc. and Prateek Kathpal		8-K	001-39030	10.1	January 12, 2023
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					
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 Document	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*)	X				

* 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, 2023	By:	/s/ Stefan Ortmanns
		Stefan Ortmanns Chief Executive Officer *(Principal Executive Officer)*
Date: February 8, 2023	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, 2023

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, 2023

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, 2022 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, 2023

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, 2022 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, 2023

By: /s/ Thomas L. Beaudoin

Thomas L. Beaudoin
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)