

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 March 31, 2024

OR

☐

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

For the transition period from _____ to _____

Commission File Number: 001-39030

CERENCE INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

25 Mall Road, Suite 416

Burlington, Massachusetts

(Address of principal executive offices)

83-4177087

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

01803

(Zip Code)

(857) 362-7300

(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

As of May 1, 2024, the registrant had 41,777,242 shares of common stock, \$0.01 par value per share, outstanding.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Form 10-Q”), filed by Cerence Inc. together with its consolidated subsidiaries, “Cerence,” the “Company,” “we,” “us” or “our” unless the context indicates otherwise, contains “forward-looking statements” that involve risks and uncertainties. These statements can be identified by the fact that they do not relate strictly to historical or current facts, but rather are based on current expectations, estimates, assumptions, plans and projections about our business, operations, industry, financial results, financial condition, strategy, goals or prospects. Forward-looking statements often include words such as “anticipates,” “estimates,” “expects,” “projects,” “forecasts,” “intends,” “plans,” “continues,” “believes,” “may,” “will,” “goals,” “objectives” 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 as of the date of this report, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in such forward-looking statements, including but not limited to:

- the highly competitive and rapidly changing market in which we operate;
- adverse conditions in the automotive industry or the global economy more generally, including the continuation of the semiconductor shortage being experienced by the automotive industry, consumer spending and preferences, changing in interest rate levels and credit availability, fuel costs and availability, governmental incentives and regulatory requirements, the conflict between Russia and Ukraine and the ongoing conflict between Israel and Hamas;
- automotive production delays, including, without limitation, delays due to the increasing complexity of software included in automotive vehicles;
- the continuing effects of the COVID-19 pandemic and its impact on our business and financial performance, including the impact of new variants;
- our strategy to increase cloud services and ability to successfully introduce new products, applications or services and deploy generative AI and large language models (LLMs);
- escalating pricing pressures from our customers;
- the cancellation or postponement of service contracts after a design win;
- the loss of business from any of our largest 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;
- fluctuations in our financial and operating results, which may be contributed to by the following factors, among others: the volume, timing and fulfillment of customer contracts; changes in customer forecasts; the timing of receipt and accuracy of royalty reports; fluctuating sales by our customers to their end-users; pricing; and the mix of revenue from customer contracts;
- our inability to control and successfully manage our expense and cash positions;
- our inability to recruit and retain qualified personnel;
- 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.;
- cybersecurity and data privacy incidents that damage client relations;
- interruption or delays in our services or services from data center hosting facilities or public clouds;
- economic, political, regulatory, foreign exchange and other risks of international operations;
- unforeseen U.S. and foreign tax liabilities;
- increases or decreases to valuation allowances recorded against deferred tax assets;
- impairment of our goodwill and other intangible assets;
- the failure to protect our intellectual property or allegations that we have infringed the intellectual property of others;

- defects in our software products that result in lost revenue, expensive corrections or claims against us;
- our inability to quickly respond to changes in technology and to develop our intellectual property into commercially viable products;
- our inability to expand into adjacent markets, including, without limitation, two-wheeled vehicles, trucks and AIoT, in the timeframes or levels expected;
- a significant interruption in the supply or maintenance of our third-party hardware, software, services or data;
- restrictions on our current and future operations under the terms of our debt and the use of cash to service our debt; and
- certain factors discussed elsewhere in this Form 10-Q.

These and other factors are more fully discussed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 and elsewhere in this Form 10-Q, including Part II, “Item 1A, Risk Factors.” These risks could cause actual results to differ materially from those implied by forward-looking statements in this Form 10-Q. Even if our results of operations, financial condition and liquidity and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Form 10-Q, those results or developments may not be indicative of results or developments in subsequent periods.

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

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Revenues:				
License	\$ 35,527	\$ 30,800	\$ 56,350	\$ 76,217
Connected services	13,597	18,926	110,417	37,320
Professional services	18,701	18,667	39,393	38,514
Total revenues	67,825	68,393	206,160	152,051
Cost of revenues:				
License	1,404	2,209	3,008	3,823
Connected services	5,359	6,114	12,662	12,656
Professional services	14,119	16,587	31,444	34,511
Amortization of intangible assets	—	104	103	207
Total cost of revenues	20,882	25,014	47,217	51,197
Gross profit	46,943	43,379	158,943	100,854
Operating expenses:				
Research and development	31,846	28,494	65,152	57,988
Sales and marketing	5,619	8,217	11,690	17,379
General and administrative	16,659	19,177	29,452	33,434
Amortization of intangible assets	555	2,394	1,100	4,744
Restructuring and other costs, net	4,551	5,714	5,256	9,903
Goodwill impairment	252,096	—	252,096	—
Total operating expenses	311,326	63,996	364,746	123,448
Loss from operations	(264,383)	(20,617)	(205,803)	(22,594)
Interest income	1,190	1,163	2,622	2,033
Interest expense	(3,111)	(4,003)	(6,347)	(7,517)
Other (expense) income, net	(25)	1,074	1,397	4,787
Loss before income taxes	(266,329)	(22,383)	(208,131)	(23,291)
Provision for income taxes	11,647	3,706	45,988	4,956
Net loss	\$ (277,976)	\$ (26,089)	\$ (254,119)	\$ (28,247)
Net loss per share:				
Basic	\$ (6.66)	\$ (0.65)	\$ (6.13)	\$ (0.70)
Diluted	\$ (6.66)	\$ (0.65)	\$ (6.13)	\$ (0.70)
Weighted-average common share outstanding:				
Basic	41,724	40,219	41,452	40,088
Diluted	41,724	40,219	41,452	40,088

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Net loss	\$ (277,976)	\$ (26,089)	\$ (254,119)	\$ (28,247)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(3,225)	939	1,055	10,101
Pension adjustments, net	(39)	(55)	(12)	(29)
Net unrealized (losses) gains on available-for-sale securities	(3)	193	160	292
Total other comprehensive (loss) income	(3,267)	1,077	1,203	10,364
Comprehensive loss	<u>\$ (281,243)</u>	<u>\$ (25,012)</u>	<u>\$ (252,916)</u>	<u>\$ (17,883)</u>

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

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

	<u>March 31, 2024</u>	<u>September 30, 2023</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 99,176	\$ 101,154
Marketable securities	9,356	9,211
Accounts receivable, net of allowances of \$4,101 and \$4,044	66,787	61,270
Deferred costs	5,296	6,935
Prepaid expenses and other current assets	52,121	47,157
Total current assets	<u>232,736</u>	<u>225,727</u>
Long-term marketable securities	6,711	10,607
Property and equipment, net	32,242	34,013
Deferred costs	18,857	20,299
Operating lease right of use assets	10,941	11,961
Goodwill	650,623	900,342
Intangible assets, net	2,750	3,875
Deferred tax assets	7,059	46,601
Other assets	25,173	44,165
Total assets	<u>\$ 987,092</u>	<u>\$ 1,297,590</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 16,429	\$ 16,873
Deferred revenue	45,483	77,068
Short-term operating lease liabilities	5,188	5,434
Accrued expenses and other current liabilities	39,552	48,718
Total current liabilities	<u>106,652</u>	<u>148,093</u>
Long-term debt	278,890	275,951
Deferred revenue, net of current portion	103,468	145,531
Long-term operating lease liabilities	7,010	7,947
Other liabilities	27,672	25,193
Total liabilities	<u>523,692</u>	<u>602,715</u>
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Common stock, \$0.01 par value, 560,000 shares authorized; 41,777 and 40,423 shares issued and outstanding, respectively	417	404
Accumulated other comprehensive loss	(26,763)	(27,966)
Additional paid-in capital	1,077,527	1,056,099
Accumulated deficit	(587,781)	(333,662)
Total stockholders' equity	<u>463,400</u>	<u>694,875</u>
Total liabilities and stockholders' equity	<u>\$ 987,092</u>	<u>\$ 1,297,590</u>

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

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

Three Months Ended March 31, 2024						
Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2023	41,237	\$ 412	\$ 1,064,022	\$ (309,805)	\$ (23,496)	\$ 731,133
Net loss	-	-	-	(277,976)	-	(277,976)
Other comprehensive loss	-	-	-	-	(3,267)	(3,267)
Issuance of common stock	541	5	4,317	-	-	4,322
Stock withheld to cover tax withholdings requirements upon stock vesting	(1)	-	(3,535)	-	-	(3,535)
Stock-based compensation	-	-	12,723	-	-	12,723
Balance at March 31, 2024	<u>41,777</u>	<u>\$ 417</u>	<u>\$ 1,077,527</u>	<u>\$ (587,781)</u>	<u>\$ (26,763)</u>	<u>\$ 463,400</u>

Three Months Ended March 31, 2023						
Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2022	40,017	\$ 400	\$ 1,023,467	\$ (279,566)	\$ (24,450)	\$ 719,851
Net loss	-	-	-	(26,089)	-	(26,089)
Other comprehensive income	-	-	-	-	1,077	1,077
Issuance of common stock	276	3	2,668	-	-	2,671
Stock withheld to cover tax withholdings requirements upon stock vesting	(1)	-	(1,787)	-	-	(1,787)
Stock-based compensation	-	-	13,700	-	-	13,700
Balance at March 31, 2023	<u>40,292</u>	<u>\$ 403</u>	<u>\$ 1,038,048</u>	<u>\$ (305,655)</u>	<u>\$ (23,373)</u>	<u>\$ 709,423</u>

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

Six Months Ended March 31, 2024						
Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at September 30, 2023	40,423	\$ 404	\$ 1,056,099	\$ (333,662)	\$ (27,966)	\$ 694,875
Net loss	-	-	-	(254,119)	-	(254,119)
Other comprehensive income	-	-	-	-	1,203	1,203
Issuance of common stock	1,355	13	10,510	-	-	10,523
Stock withheld to cover tax withholdings requirements upon stock vesting	(1)	-	(9,744)	-	-	(9,744)
Stock-based compensation	-	-	20,662	-	-	20,662
Balance at March 31, 2024	<u>41,777</u>	<u>\$ 417</u>	<u>\$ 1,077,527</u>	<u>\$ (587,781)</u>	<u>\$ (26,763)</u>	<u>\$ 463,400</u>
Six Months Ended March 31, 2023						
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	-	-	-	(28,247)	-	(28,247)
Cumulative effect adjustment due to the adoption of ASU 2020-06	-	-	(14,371)	5,841	-	(8,530)
Other comprehensive income	-	-	-	-	10,364	10,364
Issuance of common stock	920	10	4,384	-	-	4,394
Stock withheld to cover tax withholdings requirements upon stock vesting	(58)	(1)	(4,429)	-	-	(4,430)
Stock-based compensation	-	-	22,922	-	-	22,922
Balance at March 31, 2023	<u>40,292</u>	<u>\$ 403</u>	<u>\$ 1,038,048</u>	<u>\$ (305,655)</u>	<u>\$ (23,373)</u>	<u>\$ 709,423</u>

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

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

	Six Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (254,119)	\$ (28,247)
Adjustments to reconcile net loss to net cash (used in) provided by operations:		
Depreciation and amortization	5,384	10,033
Provision for credit loss reserve	6,065	3,626
Stock-based compensation	13,125	24,827
Non-cash interest expense	2,939	910
Deferred tax provision (benefit)	40,949	(422)
Goodwill impairment	252,096	—
Unrealized foreign currency transaction gains	(262)	(6,461)
Other	474	(608)
Changes in operating assets and liabilities:		
Accounts receivable	(75)	(14,836)
Prepaid expenses and other assets	5,854	13,014
Deferred costs	3,423	2,559
Accounts payable	(292)	7,864
Accrued expenses and other liabilities	(1,673)	2,930
Deferred revenue	(75,659)	(10,752)
Net cash (used in) provided by operating activities	(1,771)	4,437
Cash flows from investing activities:		
Capital expenditures	(2,776)	(2,077)
Purchases of marketable securities	—	(11,045)
Sale and maturities of marketable securities	3,912	15,900
Other investing activities	(891)	(552)
Net cash provided by investing activities	245	2,226
Cash flows from financing activities:		
Payments for long-term debt issuance costs	—	(403)
Principal payments of long-term debt	—	(4,688)
Common stock repurchases for tax withholdings for net settlement of equity awards	(9,744)	(4,430)
Principal payment of lease liabilities arising from a finance lease	(202)	(316)
Proceeds from the issuance of common stock	10,461	4,394
Net cash provided by (used in) financing activities	515	(5,443)
Effects of exchange rate changes on cash and cash equivalents	(967)	(690)
Net change in cash and cash equivalents	(1,978)	530
Cash and cash equivalents at beginning of period	101,154	94,847
Cash and cash equivalents at end of period	\$ 99,176	\$ 95,377
Supplemental information:		
Cash paid for income taxes	\$ 6,256	\$ 4,053
Cash paid for interest	\$ 3,076	\$ 6,492

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

CERENCE INC.
Notes to Condensed Consolidated Financial Statements

Note 1. Business Overview

Business

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

Note 2. Significant Accounting Policies

Principles of Consolidation

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

Basis of Presentation

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

The condensed consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three and six months ended March 31, 2024 are not necessarily indicative of the results to be expected for any other interim period or for the fiscal year ending September 30, 2024. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

Use of Estimates

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

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

Concentration of Risk

Financial instruments that potentially subject us to significant concentrations of credit risk primarily consist of trade accounts receivable. We perform ongoing credit evaluations of our customers’ financial condition and limit the amount of credit extended when deemed appropriate. One customer accounted for 12.5% of our Accounts receivable, net balance at March 31, 2024. Two customers accounted for 10.8% and 10.1% of our Accounts receivable, net balance at September 30, 2023.

Allowance for Credit Losses

We are exposed to credit losses primarily through our sales of software licenses and services to customers. We determine credit ratings for each customer in our portfolio based upon public information and information obtained directly from our customers. A credit limit for each customer is established and in certain cases we may require collateral or prepayment to mitigate credit risk. Our expected loss methodology is developed using historical collection experience, current customer credit information, current and future economic and market conditions and a review of the current status of the customer’s account balances. We monitor our ongoing credit

exposure through reviews of customer balances against contract terms and due dates, current economic conditions, and dispute resolution. Estimated credit losses are written off in the period in which the financial asset is no longer collectible.

The change in the allowance for credit losses for the six months ended March 31, 2024 is as follows (dollars in thousands):

	Allowance for Credit Losses	
Balance as of September 30, 2023	\$	4,131
Credit loss provision		6,065
Write-offs, net of recoveries		(6,065)
Effect of foreign currency translation		4
Balance as of March 31, 2024	\$	4,135

During the three months ended March 31, 2024, we recorded a \$6.1 million provision relating to the bankruptcy of one fitness equipment manufacturer, of which \$6.0 million relates to a contract asset and \$0.1 million relates to a trade receivable.

Inventory

Inventory, consisting primarily of finished goods related to our Cerence Link product, is accounted for using the first in, first out method, and is valued at the lower of cost and net realizable value. Inventory is included within Prepaid expenses and other current assets. As of March 31, 2024 and September 30, 2023, inventory was \$1.1 million and \$0.5 million, respectively.

Recently Adopted Accounting Standards

None.

Issued Accounting Standards Not Yet Adopted

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

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

Note 3. Revenue Recognition

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

(a) Disaggregated Revenue

Revenues, classified by the major geographic region in which our customers are located, for the three and six months ended March 31, 2024 and 2023 (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Revenues:				
United States	\$ 16,018	\$ 21,742	\$ 115,487	\$ 43,098
Other Americas	52	28	136	54
Germany	35,424	24,627	54,557	42,791
Other Europe, Middle East and Africa	3,457	3,512	8,232	7,184
Japan	4,548	5,738	10,171	31,579
Other Asia-Pacific	8,326	12,746	17,577	27,345
Total net revenues	<u>\$ 67,825</u>	<u>\$ 68,393</u>	<u>\$ 206,160</u>	<u>\$ 152,051</u>

For the three and six months ended March 31, 2023, revenues within China were \$7.0 million and \$16.7 million, respectively, which were over 10% of revenues.

Revenues relating to two customers accounted for \$9.1 million, or 13.4%, and \$7.4 million, or 10.9%, of revenues for the three months ended March 31, 2024. Revenues relating to one customer accounted for \$79.9 million, or 38.8%, of revenues for the six months ended March 31, 2024. On October 31, 2023, we entered into an early termination agreement relating to a legacy contract acquired by Nuance Communications Inc. ("Nuance") through a 2013 acquisition. Previously, the term of the contract ended on December 31, 2025, whereas the agreement signed on October 31, 2023 updated the termination date to December 31, 2023. There is no cash flow associated with this legacy contract. The effect of this change was to accelerate \$67.8 million of deferred revenue into the first quarter of fiscal year 2024.

Revenues relating to two customers accounted for \$10.8 million, or 15.8%, and \$7.2 million, or 10.5%, of revenues for the three months ended March 31, 2023. Revenues relating to two customers accounted for \$22.4 million, or 14.7%, and \$20.8 million, or 13.7%, of revenues for the six months ended March 31, 2023.

(b) Contract Acquisition Costs

We are required to capitalize certain contract acquisition costs. The capitalized costs primarily relate to paid commissions. The current and noncurrent portions of contract acquisition costs are included in Prepaid expenses and other current assets and in Other assets, respectively. As of March 31, 2024 and September 30, 2023, we had \$7.4 million and \$8.0 million of contract acquisition costs, respectively. We had amortization expense of \$1.0 million and \$0.8 million related to these costs during the three months ended March 31, 2024 and 2023, respectively, and \$1.7 million and \$1.6 million for the six months ended March 31, 2024 and 2023, respectively. There was no impairment related to contract acquisition costs.

(c) Capitalized Contract Costs

We capitalize incremental costs incurred to fulfill our contracts that (i) relate directly to the contract, (ii) are expected to generate resources that will be used to satisfy our performance obligation under the contract, and (iii) are expected to be recovered through revenue generated under the contract. The current and noncurrent portions of capitalized contract fulfillment costs are presented as Deferred costs.

We had amortization expense of \$1.7 million and \$2.5 million related to these costs during the three months ended March 31, 2024 and 2023, respectively, and \$5.8 million and \$5.2 million for the six months ended March 31, 2024 and 2023, respectively. There was no impairment related to contract costs capitalized.

(d) Trade Accounts Receivable and Contract Balances

We classify our right to consideration in exchange for deliverables as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional (i.e., only the passage of time is required before payment is due). We present such receivables in Accounts receivable, net at their net estimated realizable value. Accounts receivable, net as of September 30, 2023 and 2022 was \$61.3 million and \$45.1 million, respectively. We maintain an allowance for credit losses to provide for the estimated amount of receivables and contract assets that may not be collected.

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

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

	Contract assets
Balance as of September 30, 2023	\$ 56,708
Revenues recognized but not billed	20,768
Amounts reclassified to Accounts receivable, net	(31,481)
Write-off of contract assets	(5,995)
Effect of foreign currency translation	501
Balance as of March 31, 2024	\$ 40,501

During the three months ended March 31, 2024, we recorded a \$6.1 million provision relating to the bankruptcy of one fitness equipment manufacturer, of which \$6.0 million relates to a contract asset and \$0.1 million relates to a trade receivable.

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

	Deferred revenue
Balance as of September 30, 2023	\$ 222,599
Amounts billed but not recognized	48,776
Revenue recognized	(124,016)
Effect of foreign currency translation	1,592
Balance as of March 31, 2024	\$ 148,951

(e) Remaining Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at March 31, 2024 (dollars in thousands):

	Within One Year	Two to Five Years	Greater than Five Years	Total
Total revenue	\$ 93,633	\$ 88,400	\$ 30,805	\$ 212,838

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

Note 4. Earnings Per Share

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

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

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

<i>in thousands, except per share data</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Numerator:				
Net loss - basic and diluted	\$ (277,976)	\$ (26,089)	\$ (254,119)	\$ (28,247)
Denominator:				
Weighted average common shares outstanding - basic and diluted	41,724	40,219	41,452	40,088
Net loss per common share:				
Basic	\$ (6.66)	\$ (0.65)	\$ (6.13)	\$ (0.70)
Diluted	\$ (6.66)	\$ (0.65)	\$ (6.13)	\$ (0.70)

We exclude weighted-average potential shares from the calculations of diluted net loss per share during the applicable periods when their inclusion is anti-dilutive. The following table sets forth potential shares that were considered anti-dilutive during the three and six months ended March 31, 2024 and 2023.

<i>in thousands</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Restricted stock unit awards	-	382	-	-
Contingently issuable stock awards	218	103	396	90
Conversion option of our Notes	7,495	4,677	7,495	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:

	March 31, 2024		
	Fair Value	Cash and Cash Equivalents	Marketable Securities
Level 1:			
Money market funds \$43,623 at cost ^(a)	\$ 43,623	\$ 43,623	\$ -
Government securities \$2,417 at cost ^(b)	2,406	-	2,406
Level 2:			
Government securities \$4,042 at cost ^(b)	4,028	-	4,028
Time deposits, \$8,040 at cost ^(a)	8,040	8,040	-
Corporate bonds, \$9,666 at cost ^(b)	9,632	-	9,632
Debt securities, \$2,000 at cost ^(c)	2,971	-	-
Total assets	<u>\$ 70,700</u>	<u>\$ 51,663</u>	<u>\$ 16,066</u>

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

- (a) Money market funds and other highly liquid investments with original maturities of 90 days or less are included within Cash and cash equivalents in the Condensed Consolidated Balance Sheets.
- (b) Government securities, commercial paper and corporate bonds with original maturities greater than 90 days are included within Marketable securities in the Condensed Consolidated Balance Sheets and classified as current or noncurrent based upon whether the maturity of the financial asset is less than or greater than 12 months.
- (c) Debt securities within the Condensed Consolidated Balance Sheets are classified as current or noncurrent based upon whether the maturity of the financial asset is less than or greater than 12 months.

During the three and six months ended March 31, 2024, unrealized (losses) gains related to our marketable securities were immaterial and \$0.2 million, respectively, within Accumulated other comprehensive loss. During the three and six months ended March 31, 2023, unrealized gains related to our marketable securities were \$0.2 million and \$0.3 million, respectively, within Accumulated other comprehensive loss.

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

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

Long-term debt

The estimated fair value of our Long-term debt is determined by Level 2 inputs and is based on observable market data including prices for similar instruments. As of March 31, 2024 and September 30, 2023, the estimated fair value of our Notes was \$251.9 million and \$257.4 million, respectively. The Notes are recorded at face value less transaction costs on our Condensed Consolidated Balance Sheets.

Equity securities

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

We have non-controlling equity investments in privately held companies. We evaluated the equity investments under the voting model and concluded consolidation was not applicable. We accounted for the investments by electing the measurement alternative for investments without readily determinable fair values and for which we do not have the ability to exercise significant influence. The non-marketable equity securities are carried at cost less any impairment, plus or minus adjustments resulting from

observable price changes in orderly transactions for the identical or a similar investment of the same issuer, which is recorded within the Condensed Consolidated Statements of Operations.

Investments without readily determinable fair values were \$2.6 million as of March 31, 2024 and September 30, 2023. The investments are included within Other assets on the Condensed Consolidated Balance Sheets. No impairment was recorded for the three and six months ended March 31, 2024 and 2023.

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 March 31, 2024 and September 30, 2023, the total notional amount of forward contracts was \$91.0 million and \$98.0 million, respectively. As of March 31, 2024 and September 30, 2023, the weighted-average remaining maturity of these instruments was approximately 11.7 and 11.6 months, respectively.

The following table summarizes the fair value and presentation in the Condensed Consolidated Balance Sheet for derivative instruments as of March 31, 2024 and September 30, 2023 (dollars in thousands):

Derivatives not designated as hedges	Classification	Fair Value	
		March 31, 2024	September 30, 2023
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 376	\$ 477
Foreign currency forward contracts	Other assets	206	256
Foreign currency forward contracts	Accrued expenses and other current liabilities	1,247	1,613
Foreign currency forward contracts	Other liabilities	318	460

The following tables display a summary of the loss related to foreign currency forward contracts for the three and six months ended March 31, 2024 and 2023 (dollars in thousands):

Derivatives not designated as hedges	Classification	Loss recognized in earnings			
		Three Months Ended March 31,		Six Months Ended March 31,	
		2024	2023	2024	2023
Foreign currency forward contracts	Other (expense) income, net	\$ (171)	\$ (313)	\$ (500)	\$ (1,766)

Note 7. Goodwill and Other Intangible Assets

(a) Goodwill

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

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

At March 31, 2024, we performed a quantitative impairment test. We concluded indicators of impairment were present due to the current macroeconomic conditions, including declines in our stock price. The fair value of our reporting unit was determined using a combination of the income approach and the market approach. For the income approach, fair value was determined based on the present value of estimated future after-tax cash flows estimates of projected future revenues, operating margins, and growth rates, discounted at an appropriate risk-adjusted rate. For the market approach, we used a valuation technique in which values were derived based on valuation multiples of comparable publicly traded companies.

We weighted the methodologies appropriately to estimate a fair value of approximately \$463.4 million as of March 31, 2024. The carrying value of our reporting unit exceeded the estimated fair value. Based upon the results of the impairment test, we recorded a goodwill impairment charge of \$252.1 million within the Condensed Consolidated Statement of Operations.

The changes in the carrying amount of goodwill for the six months ended March 31, 2024 are as follows (dollars in thousands):

	Total
Balance as of September 30, 2023	\$ 900,342
Goodwill impairment	(252,096)
Effect of foreign currency translation	2,377
Balance as of March 31, 2024	\$ 650,623

(b) Intangible Assets, Net

On March 31, 2024, we concluded that indicators of impairment were present and performed a test for recoverability of our long-lived asset group as of March 31, 2024. Based upon the results of the recoverability test, we determined that the carrying amounts of the long-lived asset group were considered recoverable, concluding the test and resulting in no impairment of our long-lived asset group as of March 31, 2024.

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

	March 31, 2024			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	\$ 107,417	\$ (104,667)	\$ 2,750	1.0
Technology and patents	89,663	(89,663)	-	-
Total	\$ 197,080	\$ (194,330)	\$ 2,750	

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

Amortization expense related to intangible assets in the aggregate was \$0.6 million and \$2.5 million for the three months ended March 31, 2024 and 2023, respectively, and \$1.2 million and 5.0 million for the six months ended March 31, 2024 and 2023, respectively. We expect amortization of intangible assets to be approximately \$1.1 million for the remainder of fiscal year 2024.

Note 8. Leases

We have entered into a number of facility and equipment leases which qualify as operating leases under GAAP. We also have a limited number of equipment leases that qualify as finance leases.

The following table presents certain information related to lease term and incremental borrowing rates for leases as of March 31, 2024 and September 30, 2023:

	March 31, 2024	September 30, 2023
Weighted-average remaining lease term (in months):		
Operating leases	38.9	37.2
Finance leases	19.0	24.5
Weighted-average discount rate:		
Operating leases	5.6 %	5.3 %
Finance leases	4.4 %	4.4 %

The following table presents lease expense for the three and six months ended March 31, 2024 and 2023 (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Finance lease costs:				
Amortization of right of use asset	\$ 108	\$ 108	\$ 216	\$ 216
Interest on lease liability	6	10	13	20
Operating lease cost	1,581	1,645	3,209	3,331
Variable lease cost	807	808	1,571	1,499
Sublease income	(51)	(48)	(111)	(93)
Total lease cost	<u>\$ 2,451</u>	<u>\$ 2,523</u>	<u>\$ 4,898</u>	<u>\$ 4,973</u>

For the three months ended March 31, 2024 and 2023, cash payments related to operating leases were \$1.6 million and \$3.3 million and \$3.4 million for the six months ended March 31, 2024 and 2023, respectively. For the three months ended March 31, 2024 and 2023 cash payments related to finance 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 six months ended March 31, 2024 and 2023, cash payments related to financing leases were \$0.2 million and \$0.3 million, respectively, of which an immaterial amount related to the interest portion of the lease liability. For the three months ended March 31, 2024 and 2023, right of use assets obtained in exchange for lease obligations were \$0.1 million and \$0.4 million, respectively, and \$1.6 million and \$2.9 million for the six months ended March 31, 2024 and 2023.

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 March 31, 2024 (dollars in thousands):

Year Ending September 30,	Operating Leases	Financing Leases	Total
2024	\$ 3,163	\$ 208	\$ 3,371
2025	4,440	362	4,802
2026	2,302	52	2,354
2027	1,834	—	1,834
2028	955	—	955
Thereafter	745	—	745
Total future minimum lease payments	\$ 13,439	\$ 622	\$ 14,061
Less effects of discounting	(1,241)	(16)	(1,257)
Total lease liabilities	<u>\$ 12,198</u>	<u>\$ 606</u>	<u>\$ 12,804</u>
Reported as of March 31, 2024			
Short-term lease liabilities	\$ 5,188	\$ 402	\$ 5,590
Long-term lease liabilities	7,010	204	7,214
Total lease liabilities	<u>\$ 12,198</u>	<u>\$ 606</u>	<u>\$ 12,804</u>

Note 9. Accrued Expenses and Other Liabilities

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

	March 31, 2024	September 30, 2023
Compensation	\$ 16,494	\$ 24,997
Sales and other taxes payable	7,080	7,384
Professional fees	3,700	3,386
Cost of revenue related liabilities	3,025	4,326
Interest payable	1,734	1,781
Other	7,519	6,844
Total	<u>\$ 39,552</u>	<u>\$ 48,718</u>

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 six months ended March 31, 2024 (dollars in thousands):

	Personnel	Facilities	Restructuring Subtotal	Other	Total
Balance as of September 30, 2023	\$ 549	\$ 1,033	\$ 1,582	\$ —	\$ 1,582
Restructuring and other costs, net	4,519	292	4,811	445	5,256
Non-cash adjustments	—	(351)	(351)	(300)	(651)
Cash payments	(2,544)	(261)	(2,805)	(113)	(2,918)
Effect of foreign currency translation	4	—	4	—	4
Balance at March 31, 2024	<u>\$ 2,528</u>	<u>\$ 713</u>	<u>\$ 3,241</u>	<u>\$ 32</u>	<u>\$ 3,273</u>

The following table sets forth restructuring and other costs, net recognized for the three and six months ended March 31, 2024 and 2023 (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Personnel	\$ 4,404	\$ 3,371	\$ 4,519	\$ 6,420
Facilities	147	150	292	343
Restructuring subtotal	4,551	3,521	4,811	6,763
Other	—	2,193	445	3,140
Restructuring and other costs, net	<u>\$ 4,551</u>	<u>\$ 5,714</u>	<u>\$ 5,256</u>	<u>\$ 9,903</u>

Fiscal Year 2024

For the three months ended March 31, 2024, we recorded restructuring and other costs, net of \$4.6 million which included a \$4.4 million severance charge related to the elimination of personnel and a \$0.1 million charge resulting from the closure of facilities that will no longer be utilized.

For the six months ended March 31, 2024, we recorded restructuring and other costs, net of \$5.3 million, which included a \$4.5 million severance charge related to the elimination of personnel, \$0.4 million related to other one-time charges and a \$0.3 million charge resulting from the closure of facilities that will no longer be utilized.

Fiscal Year 2023

For the three months ended March 31, 2023, we recorded restructuring and other costs, net of \$5.7 million, which included a \$3.4 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 \$2.2 million related to other one-time charges.

For the six months ended March 31, 2023, we recorded restructuring and other costs, net of \$9.9 million, which included a \$6.4 million severance charge related to the elimination of personnel, a \$0.3 million charge resulting from the closure of facilities that will no longer be utilized, and \$3.1 million related to other one-time charges.

Note 11. Stockholders' Equity

On October 2, 2019, we registered the issuance of 6,350,000 shares of Common Stock, par value \$0.01 per share ("Common Stock"), consisting of 5,300,000 shares of Common Stock reserved for issuance upon the exercise of options granted, or in respect of awards granted, under the Cerence 2019 Equity Incentive Plan ("Equity Incentive Plan"), and 1,050,000 shares of Common Stock that are reserved for issuance under the Cerence 2019 Employee Stock Purchase Plan. The Equity Incentive Plan provides for the grant of incentive stock options, stock awards, stock units, stock appreciation rights, and certain other stock-based awards. The shares available for issuance will automatically increase on January 1st of each year, by the lesser of (A) 3% of the number of shares of Common Stock outstanding as of the close of business on the immediately preceding December 31st; and (B) the number of shares of Common Stock determined by the Board on or prior to such date for such year. On March 4, 2024, we registered the issuance of 600,000 shares of Common Stock, reserved for issuance under the Cerence Inc. 2024 Inducement Plan.

Restricted Units

Information with respect to our non-vested restricted stock units for the six months ended March 31, 2024 was as follows:

	Non-Vested Restricted Stock Units					Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
	Time-Based Shares	Performance-Based Shares	Total Shares	Weighted-Average Grant-Date Fair Value			
Non-vested at September 30, 2023	2,372,145	1,145,550	3,517,695	\$ 32.52			
Granted	2,084,023	406,166	2,490,189	\$ 17.37			
Vested	(1,232,235)	(63,998)	(1,296,233)	\$ 35.06			
Forfeited	(122,308)	(137,068)	(259,376)	\$ 39.93			
Non-vested at March 31, 2024	3,101,625	1,350,650	4,452,275	\$ 23.63			
Expected to vest			4,452,275	\$ 23.63	1.34	\$	70,079

Stock-based Compensation

Stock-based compensation was included in the following captions in our Condensed Consolidated Statements of Operations for the three and six months ended March 31, 2024 and 2023 (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Cost of connected services	\$ 64	\$ 175	\$ 145	\$ 371
Cost of professional services	601	1,012	1,161	2,165
Research and development	2,548	4,088	6,379	8,542
Sales and marketing	372	1,522	1,090	3,182
General and administrative	1,160	5,558	4,350	10,567
	<u>\$ 4,745</u>	<u>\$ 12,355</u>	<u>\$ 13,125</u>	<u>\$ 24,827</u>

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 March 31, 2024, accrued losses were not material to our condensed consolidated financial statements, and we do not expect any pending matter to have a material impact on our condensed consolidated financial statements.

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

On February 25, 2022, a purported shareholder class action captioned as City Of Miami Fire Fighters' and Police Officers' Retirement Trust v. Cerence Inc., et al. (the "Securities Action") was filed in the United States District Court for the District of Massachusetts, naming the Company and two of its former officers as defendants. Following the court's selection of a lead plaintiff and lead counsel, an amended complaint was filed on July 26, 2022. The plaintiff claims to be suing on behalf of anyone who purchased the Company's common stock between November 16, 2020 and February 4, 2022. The lawsuit alleges that material misrepresentations and/or omissions of material fact regarding the Company's operations, financial performance and prospects were made in the Company's public disclosures during the period from November 16, 2020 to February 4, 2022, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The plaintiff seeks unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including attorney's fees. On

September 9, 2022, the defendants in the Securities Action moved to dismiss the action in its entirety. On March 25, 2024, the court granted in part and denied in part the motion to dismiss, dismissing certain of the alleged misrepresentations and omissions while allowing claims challenging certain other alleged misrepresentations and omissions to proceed. On April 15, 2024, the defendants filed their answer to the amended complaint. We intend to defend the claims vigorously.

Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

Derivative Actions

On May 10 and 12, 2022, respectively, plaintiffs William Shafer and Peter Morse filed shareholder derivative complaints in the United States District Court for the District of Massachusetts on behalf of Cerence Inc. against defendants (and former officers) Sanjay Dwahan and Mark J. Gallenberger as well as board members Arun Sarin, Thomas Beaudoin, Marianne Budnik, Sanjay Jha, Kristi Ann Matus, Alfred Nietzel and current CEO and board member Stefan Ortmanns. These actions are premised on factual contentions substantially similar to those made in the Securities Action and contain substantially similar legal contentions. As such, on June 13, 2022, at the parties' request, the court consolidated these derivative actions into a single action and appointed co-lead counsel for plaintiffs in that consolidated action. The court previously stayed the case pending a ruling on the motion to dismiss in the Securities Action. On April 23, 2024, the parties submitted proposals for how the case should proceed. As of the date of this report, the court has yet to act on these competing proposals.

Two shareholder derivative complaints making factual and legal contentions substantially similar to those raised in the consolidated federal derivative action have been also filed in the Delaware Court of Chancery: one filed on October 19, 2022 by plaintiff Melinda Hipp against the defendants named in the consolidated action and board member Douglas Davis and one filed on August 17, 2023 by plaintiff Catherine Fleming against the defendants named in the consolidated federal derivative action. On October 20, 2023, Ms. Hipp voluntarily dismissed her action with prejudice. Plaintiff Catherine Fleming is due to file an amended complaint on May 24, 2024, and the defendants' anticipated motion to dismiss is due on July 23, 2024.

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

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

On March 24, 2023, plaintiffs A.P., a minor, by and through her guardian, Carlos Pena, and Carlos Pena, each individually and on behalf of similarly situated individuals filed a purported class action lawsuit in the Circuit Court of Cook County, Illinois, Chancery Division (Case. No. 2023CH02866 (Cir. Ct. Cook Cnty. 2023)). The case was removed to Federal Court (Case No. 1:23CV2667 (N.D. Ill.)), and then severed and remanded back in part, so there are two pending cases. Plaintiffs subsequently amended the federal complaint twice, with the latest second amended complaint, filed on July 13, 2023, adding plaintiffs Randolph Freshour and Vincenzo Allan, each also filing individually and on behalf of similarly situated individuals. Plaintiffs allege that Cerence violated the Illinois Biometric Information Privacy Act ("BIPA"), 740 ILCS 14/1 et seq. through Cerence's Drive Platform technology, which is integrated in various automobiles. The named plaintiffs allegedly drove or rode in a vehicle with Cerence's Drive Platform technology. Across both cases, plaintiffs allege that Cerence violated: (1) BIPA Section 15(a) by possessing biometrics without any public written policy for their retention or destruction; (2) BIPA Section 15(b) by collecting, capturing, or obtaining biometrics without written notice or consent; (3) BIPA Section 15(c) by profiting from biometrics obtained from Plaintiffs and putative class members; and (4) BIPA Section 15(d) by disclosing biometrics to third party companies without consent. Cerence has filed motions to dismiss both cases. On February 27, 2024, the Circuit Court issued an order denying Cerence's motion to dismiss. Cerence's answer is due on April 16, 2024. The Federal Court has not yet resolved Cerence's pending motion to dismiss that case. Plaintiffs are seeking statutory damages of \$5,000 for each willful and/or reckless violation of BIPA and, alternatively, damages of \$1,000 for each negligent violation of BIPA. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

Guarantees and Other

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

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

As of March 31, 2024, we have a \$0.9 million letter of credit that is used as a security deposit in connection with our leased Bellevue, Washington office space. In the event of default on the underlying lease, the landlord would be eligible to draw against the letter of credit. The letter of credit is subject to aggregate reductions, provided that we are not in default under the underlying lease. We also have letters of credit in connection with security deposits for other facility leases totaling \$0.6 million in the aggregate. These letters of credit have various terms and expire during fiscal year 2024 and beyond, while some of the letters of credit may automatically renew based on the terms of the underlying agreements.

Note 13. Income Taxes

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Domestic	\$ (270,347)	\$ (15,919)	\$ (204,711)	\$ (9,866)
Foreign	4,018	(6,464)	(3,420)	(13,425)
Loss before income taxes	<u>\$ (266,329)</u>	<u>\$ (22,383)</u>	<u>\$ (208,131)</u>	<u>\$ (23,291)</u>

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Domestic	\$ 2,994	\$ 618	\$ 32,072	\$ 369
Foreign	8,653	3,088	13,916	4,587
Provision for income taxes	<u>\$ 11,647</u>	<u>\$ 3,706</u>	<u>\$ 45,988</u>	<u>\$ 4,956</u>
Effective income tax rate	(4.4)%	(16.6)%	(22.1)%	(21.3)%

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 March 31, 2024 was negative 4.4% compared to negative 16.6% for the three months ended March 31, 2023. Consequently, our provision for income taxes for the three months ended March 31, 2024 was \$11.6 million, a net change of \$7.9 million from a provision for income taxes of \$3.7 million for the three months ended March 31, 2023. This difference was attributable to impairment of book goodwill and the change in income tax expense related to foreign valuation allowance.

Our effective tax rate for the six months ended March 31, 2024 was negative 22.1% compared to negative 21.3% for the six months ended March 31, 2023. Consequently, our provision for income taxes for the six months ended March 31, 2024 was \$46.0 million, a net change of \$41.0 million from a provision for income taxes of \$5.0 million for the six months ended March 31, 2023. This difference was attributable to impairment of book goodwill and the change in income tax expense related to foreign valuation allowance.

Starting with fiscal year 2023, the Tax Cuts and Jobs Act of 2017 eliminated the option to deduct research and development expenditures in the current year. It requires us to amortize U.S. R&D expenses over five years and foreign R&D expenses over 15 years. The change in deductibility of the foreign research and development expenditures increases our tested income included in the Global Intangible Low Tax Income ("GILTI"). This led to an increase in our overall effective tax rate for the three and six months ended March 31, 2024 and 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):

March 31, 2024							
Description	Maturity Date	Convertible Debt Coupon Rate	Effective Interest Rate	Principal	Unamortized Discount	Deferred Issuance Costs	Carrying Value
2025 Modified Notes	6/1/2025	3.00%	3.70%	\$ 87,500	\$ -	\$ (701)	\$ 86,799
2025 Modified Notes	7/1/2028	1.50%	8.65%	87,500	(3,294)	(12,574)	71,632
2028 Notes	7/1/2028	1.50%	1.91%	122,500	-	(2,041)	120,459
Total debt				\$ 297,500	\$ (3,294)	\$ (15,316)	278,890
Less: current portion of long-term debt							—
Total long-term debt							\$ 278,890

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

The following table summarizes the maturities of our borrowing obligations as of March 31, 2024 (in thousands):

Fiscal Year	2028 Notes	2025 Modified Notes	Total
2024	\$ —	\$ —	\$ —
2025	—	87,500	87,500
2026	—	—	—
2027	—	—	—
2028	122,500	87,500	210,000
Thereafter	—	—	—
Total before unamortized discount and issuance costs and current portion	\$ 122,500	\$ 175,000	\$ 297,500
Less: unamortized discount and issuance costs	(2,041)	(16,569)	(18,610)
Less: current portion of long-term debt	—	—	—
Total long-term debt	\$ 120,459	\$ 158,431	\$ 278,890

1.50% Senior Convertible Notes due 2028

On June 26, 2023, we issued \$190.0 million in aggregate principal amount of 1.50% Convertible Senior Notes due 2028 (the “2028 Notes”), which are governed by an indenture (the “2028 Indenture”), between us and U.S. Bank Trust Company, National Association, as trustee (the “Trustee”), in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”). On July 3, 2023, we issued an additional \$20.0 million in aggregate principal amount of 2028 Notes. The initial net proceeds from the issuance of the 2028 Notes were \$193.2 million after deducting transaction costs.

The 2028 Notes are senior, unsecured obligations and accrue interest payable semiannually in arrears on January 1 and July 1 of each year at a rate of 1.50% per year. The 2028 Notes will mature on July 1, 2028, unless earlier converted, redeemed, or

repurchased. The 2028 Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

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

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

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

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

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

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

As a result, \$87.5 million of the 2028 Notes are considered a modification of the 2025 Notes and are included in the balances of the 2025 Notes along with the remaining \$87.5 million of the 2025 Notes (together the “2025 Modified Notes” and together with the 2028 Notes, the “Notes”) that were not repurchased as part of the transaction. We recorded \$14.3 million of fees paid directly to the lenders as deferred debt issuance costs, and \$3.8 million of fees paid to third-parties were expensed in the period. As of March 31, 2024, the carrying amount of the 2025 Modified Notes was \$158.4 million, net of unamortized costs of \$16.6 million.

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

We accounted for \$122.5 million of the 2028 Notes, that were not negotiated with the investors of the 2025 Notes, as a single liability. We incurred transaction costs of \$2.4 million relating to the issuance of the 2028 Notes, which were recorded as a direct deduction from the face amount of the 2028 Notes and are being amortized as interest expense over the term of the 2028 Notes using the interest method. As of March 31, 2024, the carrying amount of the 2028 Notes was \$120.5 million and unamortized issuance costs of \$2.0 million. As of March 31, 2024, the 2028 Notes were not convertible. As of March 31, 2024 and September 30, 2023, the if-converted value of the 2028 Notes was \$75.1 million and \$61.2 million, respectively, less than its principal amount.

3.00% Senior Convertible Notes due 2025

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

The 2025 Notes are senior, unsecured obligations and accrue interest payable semiannually in arrears on June 1 and December 1 of each year at a rate of 3.00% per year. The 2025 Notes will mature on June 1, 2025, unless earlier converted, redeemed, or repurchased. The 2025 Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. As of March 31, 2024 and September 30, 2023, the if-converted value of the 2025 Modified Notes was \$104.3 million and \$83.6 million, respectively, less than its principal amount.

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

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

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

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

The interest expense recognized related to the Notes for the three and six months ended March 31, 2024 and 2023 was as follows (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Contractual interest expense	\$ 1,439	\$ 1,294	\$ 2,881	\$ 2,616
Amortization of debt discount	251	-	502	-
Amortization of issuance costs	1,219	276	2,436	556
Total interest expense related to the Notes	<u>\$ 2,909</u>	<u>\$ 1,570</u>	<u>\$ 5,819</u>	<u>\$ 3,172</u>

The conditional conversion feature of the Notes was not triggered during the three and six months ended March 31, 2024. As of March 31, 2024, the Notes were not convertible. As of this Quarterly Report, no Notes have been converted by the holders. Whether any of the Notes will be converted in future quarters will depend on the satisfaction of one or more of the conversion conditions in the future. If one or more holders elect to convert their Notes at a time when any such Notes are convertible, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional shares), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

Senior Credit Facilities

On June 12, 2020 (the “Financing Closing Date”), we entered into a Credit Agreement, by and among the Borrower, the lenders and issuing banks party thereto and Wells Fargo Bank, N.A., as administrative agent (the “Credit Agreement”), consisting of a four-year senior secured term loan facility in the aggregate principal amount of \$125.0 million (the “Term Loan Facility”). The net proceeds from the issuance of the Term Loan Facility were \$123.0 million. We also entered into a senior secured first-lien revolving credit facility in an aggregate principal amount of \$50.0 million (the “Revolving Facility” and, together with the Term Loan Facility, the “Senior Credit Facilities”), which may be drawn on in the event that our working capital and other cash needs are not supported by our operating cash flow. In connection with the issuance of the 2028 Notes, in the third quarter of fiscal year 2023, we borrowed \$24.7 million under our Revolving Facility and paid \$106.3 million towards our Term Loan Facility. As a result, we recorded \$104.9 million extinguishment of debt and \$1.3 million loss on the extinguishment of debt. All principal and interest on the Term Loan Facility have been paid in full. As of March 31, 2024 and September 30, 2023, there were no amounts outstanding under the Revolver Facility.

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

On November 22, 2022 (the “Amendment No. 2 Effective Date”), we entered into Amendment No. 2 to the Credit Agreement (“Amendment No. 2”). Amendment No. 2 modified certain financial covenants between the fiscal quarter ended March 31, 2023 to the fiscal quarter ended December 31, 2023 (the “covenant adjustment period”). During the covenant adjustment period, each tested quarterly, we are required to maintain (1) a net secured leveraged ratio of not greater than 4.25 to 1.00; (2) minimum liquidity of at least \$125 million; and (3) aggregate capital expenditures less than \$7.5 million. The net total leverage ratio was waived during the covenant adjustment period. At the conclusion of the covenant adjustment period, the original financial covenants resumed. As of March 31, 2024 and September 30, 2023, we were in compliance with all Credit Agreement covenants.

On April 12, 2024 (the “Amendment No. 3 Effective Date”), we entered into Amendment No. 3 to the Credit Agreement (“Amendment No. 3”). Amendment No. 3 modified certain financial covenants. Tested quarterly, we will be required to maintain (i) a net secured leveraged ratio of not greater than 3.00 to 1.00; (ii) a minimum level of EBITDA (as defined in the Credit Agreement) of not less than (A) negative \$5 million for the six month period ending June 30, 2024, (B) \$7.5 million for the nine month period ending September 30, 2024, (C) \$20 million for the four consecutive fiscal quarters ending December 31, 2024, (D) \$30 million for the four consecutive fiscal quarters ending March 31, 2025, (E) \$35 million for the four consecutive fiscal quarters ending June 30, 2025 and for the four consecutive fiscal quarters ending September 30, 2025, (F) \$40 million for the four consecutive fiscal quarters ending December 31, 2025, and (G) \$40 million for the four consecutive fiscal quarters ending March 31, 2026; (iii) minimum liquidity of at least \$50 million; and (iv) aggregate capital expenditures of not more than \$10 million.

Amendment No. 3 revised certain interest rates in the Credit Agreement. The applicable margin is SOFR plus 3.00% for SOFR loans and the highest of (i) the federal funds effective rate, (ii) the prime rate, and (iii) one-month SOFR plus 1.00% (the highest of clauses (i) through (iii), the “ABR”) plus 2.00% for ABR loans.

Amendment No. 3 also modified the maturity date for the Revolving Facility. The Revolving Facility matures on April 1, 2026, provided that if on any date during the period commencing on the date which is 91 days prior to the maturity date of our 2025 Notes and any indebtedness incurred to refinance such notes that matures on or prior to July 1, 2026 (such debt, the “Early Maturity Debt”), and ending on July 1, 2026, the maturity date of such Early Maturity Debt has not been extended to a date after July 1, 2026 and we do not hold in a segregated deposit account an amount of cash sufficient to repay and discharge the principal amount of the Early Maturity Debt at maturity, then the Revolving Facility shall mature on the date that is 91 days prior to the maturity date of the Early Maturity Debt.

Total interest expense relating to the Senior Credit Facilities for the three months ended March 31, 2024 and 2023 was \$0.1 million and \$2.3 million, respectively, and \$0.1 million and \$4.2 million for the six months ended March 31, 2024 and 2023, respectively. Amounts reflect the coupon and accretion of the discount.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our Unaudited Condensed Consolidated Financial Statements, and the related notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q ("Quarterly Report"), and our consolidated financial statements and the related notes and other financial information included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023, filed with the Securities and Exchange Commission ("SEC") on November 29, 2023. Some of the information contained in this discussion and analysis or elsewhere in this Quarterly Report, including information with respect to our plans and strategy for our business, our performance and future success, our liquidity and capital resources, results of operations and financial condition, macroeconomic conditions, the semiconductor shortage, trends in the global auto industry and adjacent markets, including shipping and production issues, new products, cost management, and tax estimates and other tax matters, includes forward-looking statements that involve risks and uncertainties. See "Cautionary Statement Concerning Forward-Looking Statements." You should review the "Risk Factors" section in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. Note that the results of operations for the three and six months ended March 31, 2024 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; however, such revenue may not materialize as expected due to delays in automobile production, changing customer forecasts, macroeconomic conditions or other factors discussed elsewhere in 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, 2023 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting primarily of normal recurring accruals, necessary for a fair presentation of our financial position and results of operations. The operating results for the three and six months ended March 31, 2024 are not necessarily indicative of the results expected for the full fiscal year ending September 30, 2024.

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

Key Financial 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 March 31, 2024 as compared to the three months ended March 31, 2023:

- Total revenue decreased by \$0.6 million, or 0.8%, to \$67.8 million from \$68.4 million.
- Operating margin decreased 359.7 percentage points to negative 389.8% from negative 30.1%.
- Cash provided by operating activities was \$1.0 million, a net change of \$5.6 million from cash provided by operating activities of \$6.6 million.

For the six months ended March 31, 2024 as compared to the six months ended March 31, 2023:

- Total revenue increased by \$54.1 million, or 35.6%, to \$206.2 million from \$152.1 million.
- Operating margin decreased 84.9 percentage points to negative 99.8% from negative 14.9%.
- Cash used in operating activities was \$1.8 million, a net change of \$6.2 million from cash provided by operating activities of \$4.4 million.

Operating Results

The following table shows the Condensed Consolidated Statements of Operations for the three and six months ended March 31, 2024 and 2023 (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Revenue:				
License	\$ 35,527	\$ 30,800	\$ 56,350	\$ 76,217
Connected services	13,597	18,926	110,417	37,320
Professional services	18,701	18,667	39,393	38,514
Total revenues	67,825	68,393	206,160	152,051
Cost of revenue:				
License	1,404	2,209	3,008	3,823
Connected services	5,359	6,114	12,662	12,656
Professional services	14,119	16,587	31,444	34,511
Amortization of intangible assets	—	104	103	207
Total cost of revenues	20,882	25,014	47,217	51,197
Gross profit	46,943	43,379	158,943	100,854
Operating expenses:				
Research and development	31,846	28,494	65,152	57,988
Sales and marketing	5,619	8,217	11,690	17,379
General and administrative	16,659	19,177	29,452	33,434
Amortization of intangible assets	555	2,394	1,100	4,744
Restructuring and other costs, net	4,551	5,714	5,256	9,903
Goodwill impairment	252,096	—	252,096	—
Total operating expenses	311,326	63,996	364,746	123,448
Loss from operations	(264,383)	(20,617)	(205,803)	(22,594)
Interest income	1,190	1,163	2,622	2,033
Interest expense	(3,111)	(4,003)	(6,347)	(7,517)
Other (expense) income, net	(25)	1,074	1,397	4,787
Loss before income taxes	(266,329)	(22,383)	(208,131)	(23,291)
Provision for income taxes	11,647	3,706	45,988	4,956
Net loss	\$ (277,976)	\$ (26,089)	\$ (254,119)	\$ (28,247)

Our revenue consists primarily of license revenue, connected services revenue and revenue from professional services. License revenue primarily consists of license royalties associated with our edge software components. Our edge software components are typically sold under a traditional per unit perpetual software license model, in which a per unit fee is charged for each software instance installed on an automotive head unit. Our contracts contain variable, fixed prepaid or fixed minimum purchase commitment components. Revenue is recognized and cash is collected for variable contracts over the license distribution period. The fixed contracts typically provide the customer with a price discount and can include the conversion of a variable contract that is already in our variable backlog. Revenue for fixed contracts is recognized when the software is made available to the customer, which has typically occurred at the time the contract is signed. Cash is typically expected to be collected for a fixed prepaid deal at the inception of the contract. Cash is expected to be collected for a fixed minimum commitment deal over the license distribution period. Going forward, we will continue to assess the levels of fixed license contracts and make adjustments, as necessary. See Note 3 to the accompanying unaudited condensed consolidated financial statements for further discussion of our revenue, deferred revenue performance obligations and the timing of revenue recognition. Costs of license revenue primarily consists of third-party royalty expenses for certain external technologies we leverage and costs associated with our Cerence Link product.

Connected services revenue primarily represents the subscription fee that provides access to our connected services components, including the customization and construction of our connected services solutions. We also derive revenue within our connected services business from usage contracts and there can be instances where a customer purchases a software license that allows them to take possession of the software to enable hosting by the customer or a third-party. Subscription and usage contracts typically have a term of one to five years. Subscription revenue is recognized over the subscription period and cash is expected to be collected at the start of the subscription period. Usage based revenue is recognized and cash is collected as the service is used. If the customer takes possession of the software to have it hosted by the customer or a third-party, revenue is recognized, and cash is collected at the time the license is delivered. On October 31, 2023, we entered into an early termination agreement relating to a legacy contract acquired by Nuance through a 2013 acquisition. Previously, the term of the contract ended on December 31, 2025, whereas the agreement signed on October 31, 2023 updated the termination date to December 31, 2023. The effect of this change was to accelerate \$67.8 million of deferred revenue into the first quarter of fiscal year 2024. There is no cash flow associated with this legacy contract. We provided services to a separate customer, who in turn provided services to our legacy customer. This separate customer terminated services on October 31, 2023. There is no cash flow associated with this contract. The effect of this termination was to accelerate \$9.9 million of deferred revenue into the first quarter of fiscal year 2024. See Note 3 to the accompanying unaudited condensed consolidated financial statements for further discussion of our revenue, deferred revenue performance obligations and the timing of revenue recognition. Cost of connected service revenue primarily consists of labor costs of software delivery services, infrastructure, and communications fees that support our connected services solutions.

Professional services revenue is primarily comprised of porting, integrating, and customizing our embedded solutions, with costs primarily consisting of compensation for services personnel, contractors and overhead.

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

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

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

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

We expect our revenue to continue to be impacted by the changing dynamics in the global automotive industry which have resulted in production delays and slowdowns. Macroeconomic conditions such as high interest rates and lack of credit availability have contributed to these production delays and slowdowns. In addition, the software and technology systems in automobiles have become increasingly complex, leading to substantial challenges and delays in production for some of our customers. Our business in adjacent markets, such as two-wheeled vehicles, trucks and AIoT, is also developing slower than anticipated due to the challenges of introducing different technology into a new market. In light of these challenges, we intend to focus on our cost structure and expect to take future cost reduction actions, which may result in additional restructuring costs and impairment charges.

Three Months Ended March 31, 2024 Compared with Three Months Ended March 31, 2023

Total Revenues

The following table shows total revenues by product type, including the corresponding percentage change, for the three months ended March 31, 2024 and 2023 (dollars in thousands):

	Three Months Ended March 31,				% Change 2024 vs. 2023
	2024	% of Total	2023	% of Total	
License	\$ 35,527	52.4%	\$ 30,800	45.0%	15.3 %
Connected services	13,597	20.0%	18,926	27.7%	(28.2) %
Professional services	18,701	27.6%	18,667	27.3%	0.2 %
Total revenues	<u>\$ 67,825</u>		<u>\$ 68,393</u>		(0.8) %

Total revenues for the three months ended March 31, 2024 were \$67.8 million, a decrease of \$0.6 million, or 0.8%, from \$68.4 million for the three months ended March 31, 2023. The decrease in revenues was driven by a decrease in connected services revenue. The decrease was partly offset by increases in license revenue, which includes a one-time \$5.0 million deal as full resolution of the one-time adjustment related to a change in a customer's historically reported royalties made in the first quarter of fiscal 2024.

License Revenue

License revenue for the three months ended March 31, 2024 was \$35.5 million, an increase of \$4.7 million, or 15.3%, from \$30.8 million for the three months ended March 31, 2023. The increase in license revenue was driven by a \$5.8 million increase in fixed contracts. The increase was partially offset by a \$1.1 million decrease in variable license revenue due to lower volume of licensing royalties. Included in fixed contracts for the period was a \$5.0 million deal as full resolution of a one-time adjustment related to a change in a customer's historically reported royalties made in the first quarter of fiscal 2024. As a percentage of total revenues, license revenue increased 7.4 percentage points from 45.0% for the three months ended March 31, 2023 to 52.4% for the three months ended March 31, 2024.

Connected Services Revenue

Connected services revenue for the three months ended March 31, 2024 was \$13.6 million, a decrease of \$5.3 million, or 28.2%, from \$18.9 million for the three months ended March 31, 2023. This decrease was driven by a \$8.4 million decrease related to the early termination of a legacy contract acquired by Nuance through a 2013 acquisition. The decrease was partially offset by a \$3.0 million increase in demand for our connected services solutions from new connected business. As a percentage of total revenues, connected services revenue decreased by 7.7 percentage points from 27.7% for the three months ended March 31, 2023 to 20.0% for the three months ended March 31, 2024.

Professional Services Revenue

Professional service revenue for the three months ended March 31, 2024 and 2023 remained flat at \$18.7 million. Professional service revenues are primarily driven by our arrangements and the related timing of fulfilling performance obligations under the contracts. As a percentage of total revenues, professional services revenue increased by 0.3 percentage points from 27.3% for the three months ended March 31, 2023 to 27.6% for the three months ended March 31, 2024.

Six Months Ended March 31, 2024 Compared with Six Months Ended March 31, 2023

Total Revenues

The following table shows total revenues by product type, including the corresponding percentage change, for the six months ended March 31, 2024 and 2023 (dollars in thousands):

	Six Months Ended March 31,				% Change 2024 vs. 2023
	2024	% of Total	2023	% of Total	
License	\$ 56,350	27.3%	\$ 76,217	50.1%	(26.1) %
Connected services	110,417	53.6%	37,320	24.5%	195.9 %
Professional services	39,393	19.1%	38,514	25.4%	2.3 %
Total revenues	<u>\$ 206,160</u>		<u>\$ 152,051</u>		35.6 %

Total revenues for the six months ended March 31, 2024 were \$206.2 million, an increase of \$54.1 million, or 35.6%, from \$152.1 million for the six months ended March 31, 2023. The increase in revenues was driven by connected services revenue due to the early termination of a legacy contract acquired by Nuance through a 2013 acquisition and the termination of services provided to a separate customer, who in turn provided services to our legacy customer. The increase was partially offset by decreases in license revenue primarily related to fixed contracts.

License Revenue

License revenue for the six months ended March 31, 2024 was \$56.4 million, a decrease of \$19.8 million, or 26.1%, from \$76.2 million for the six months ended March 31, 2023. The decrease in license revenue was driven by a \$13.2 million decrease in fixed contracts and \$6.6 million decrease in variable license revenue due to lower volume of licensing royalties. Included in fixed contracts for the period was a \$5.0 million deal as full resolution of a one-time adjustment related to a change in a customer's historically reported royalties made in the first quarter of fiscal 2024. As a percentage of total revenues, license revenue decreased 22.8 percentage points from 50.1% for the six months ended March 31, 2023 to 27.3% for the six months ended March 31, 2024.

Connected Services Revenue

Connected services revenue for the six months ended March 31, 2024 was \$110.4 million, an increase of \$73.1 million, or 195.9%, from \$37.3 million for the six months ended March 31, 2023. This increase was primarily driven by the early termination of a legacy contract acquired by Nuance through a 2013 acquisition and the termination of services provided to a separate customer, who in turn provided services to our legacy customer. The effect of these changes was an acceleration of \$67.8 million and \$9.9 million of deferred revenue into the first quarter of fiscal year 2024. As a percentage of total revenues, connected services revenue increased by 29.1 percentage points from 24.5% for the six months ended March 31, 2023 to 53.6% for the six months ended March 31, 2024.

Professional Services Revenue

Professional service revenue for the six months ended March 31, 2024 was \$39.4 million, an increase of \$0.9 million, or 2.3%, from \$38.5 million for the six months ended March 31, 2023. This increase was primarily driven by our arrangements and the related timing of fulfilling performance obligations under the contracts. As a percentage of total revenues, professional services revenue decreased by 6.3 percentage points from 25.4% for the six months ended March 31, 2023 to 19.1% for the six months ended March 31, 2024.

Three Months Ended March 31, 2024 Compared with Three Months Ended March 31, 2023

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 March 31,		% Change 2024 vs. 2023
	2024	2023	
License	\$ 1,404	\$ 2,209	(36.4)%
Connected services	5,359	6,114	(12.3)%
Professional services	14,119	16,587	(14.9)%
Amortization of intangibles	-	104	(100.0)%
Total cost of revenues	<u>\$ 20,882</u>	<u>\$ 25,014</u>	<u>(16.5)%</u>

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

	Three Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
License	\$ 34,123	\$ 28,591	19.3%
Connected services	8,238	12,812	(35.7)%
Professional services	4,582	2,080	120.3%
Amortization of intangibles	—	(104)	100.0%
Total gross profit	<u>\$ 46,943</u>	<u>\$ 43,379</u>	<u>8.2%</u>

Total cost of revenues for the three months ended March 31, 2024 were \$20.9 million, a decrease of \$4.1 million, or 16.5%, from \$25.0 million for the three months ended March 31, 2023.

We experienced an increase in total gross profit of \$3.5 million, or 8.2%, from \$43.4 million for the three months ended March 31, 2023 to \$46.9 million for the three months ended March 31, 2024. The increase was primarily driven by the increase in license revenues due to higher volume of licensing royalties.

Cost of license revenue for the three months ended March 31, 2024 was \$1.4 million, a decrease of \$0.8 million, or 36.4%, from \$2.2 million for the three months ended March 31, 2023. Cost of license revenues decreased primarily due to costs associated with our Cerence Link product. As a percentage of total cost of revenues, cost of license revenue decreased by 2.1 percentage points from 8.8% for the three months ended March 31, 2023 to 6.7% for the three months ended March 31, 2024.

License gross profit increased by \$5.5 million, or 19.3%, for the three months ended March 31, 2024 when compared to the three months ended March 31, 2023, primarily due to increases in license revenues.

Cost of Connected Services Revenue

Cost of connected services revenue for the three months ended March 31, 2024 was \$5.4 million, a decrease of \$0.7 million, or 12.3%, from \$6.1 million for the three months ended March 31, 2023. Cost of connected services revenue decreased primarily due to a \$0.4 million decrease in salary-related expenditures and a \$0.4 million decrease in amortization of costs previously deferred. As a percentage of total cost of revenues, cost of connected services revenue increased by 1.3 percentage points from 24.4% for the three months ended March 31, 2023 to 25.7% for the three months ended March 31, 2024.

Connected services gross profit decreased \$4.6 million, or 35.7%, from \$12.8 million for the three months ended March 31, 2023 to \$8.2 million for the three months ended March 31, 2024, primarily due to declines in connected services revenues.

Cost of Professional Services Revenue

Cost of professional services revenue for the three months ended March 31, 2024 was \$14.1 million, a decrease of \$2.5 million, or 14.9%, from \$16.6 million for the three months ended March 31, 2023. Cost of professional services revenue decreased primarily due a \$1.8 million decrease in salary-related expenditures, a \$0.6 million decrease in amortization of costs previously deferred, and a \$0.4 million decrease in stock-based compensation. The decrease was partially offset by a \$0.5 million increase in internal allocated labor. As a percentage of total cost of revenues, cost of professional services revenue increased by 1.3 percentage points from 66.3% for the three months ended March 31, 2023 to 67.6% for the three months ended March 31, 2024.

Professional services gross profit increased \$2.5 million, or 120.3%, from \$2.1 million for the three months ended March 31, 2023 to \$4.6 million for the three months ended March 31, 2024, which was primarily due to the composition of our professional service arrangements.

Six Months Ended March 31, 2024 Compared with Six Months Ended March 31, 2023

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):

	Six Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
License	\$ 3,008	\$ 3,823	(21.3)%
Connected services	12,662	12,656	0.0%
Professional services	31,444	34,511	(8.9)%
Amortization of intangibles	103	207	(50.2)%
Total cost of revenues	\$ 47,217	\$ 51,197	(7.8)%

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

	Six Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
License	\$ 53,342	\$ 72,394	(26.3)%
Connected services	97,755	24,664	296.3%
Professional services	7,949	4,003	98.6%
Amortization of intangibles	(103)	(207)	50.2%
Total gross profit	\$ 158,943	\$ 100,854	57.6%

Total cost of revenues for the six months ended March 31, 2024 were \$47.2 million, a decrease of \$4.0 million, or 7.8%, from \$51.2 million for the six months ended March 31, 2023.

We experienced an increase in total gross profit of \$58.0 million, or 57.6%, from \$100.9 million for the six months ended March 31, 2023 to \$158.9 million for the six months ended March 31, 2024. The increase was primarily driven by the increase in connected service revenue due to the early termination of a legacy contract acquired by Nuance through a 2013 acquisition and the termination of services provided to a separate customer, who in turn provided services to our legacy customer.

Cost of License Revenue

Cost of license revenue for the six months ended March 31, 2024 was \$3.0 million, a decrease of \$0.8 million, or 21.3%, from \$3.8 million for the six months ended March 31, 2023. Cost of license revenues decreased primarily due to costs associated with our Cerence Link product. As a percentage of total cost of revenues, cost of license revenue decreased by 1.1 percentage points from 7.5% for the six months ended March 31, 2023 to 6.4% for the six months ended March 31, 2024.

License gross profit decreased by \$19.1 million, or 26.3%, for the six months ended March 31, 2024 when compared to the six months ended March 31, 2023, primarily due to declines in license revenues.

Cost of Connected Services Revenue

Cost of connected services revenue for the six months ended March 31, 2024 and 2023 remained flat at \$12.7 million. As a percentage of total cost of revenues, cost of connected service revenue increased by 2.1 percentage points from 24.7% for the six months ended March 31, 2023 to 26.8% for the six months ended March 31, 2024.

Connected services gross profit increased \$73.1 million, or 296.3%, from \$24.7 million for the six months ended March 31, 2023 to \$97.8 million for the six months ended March 31, 2024, primarily due to the increase in connected service revenue due to the early termination of a legacy contract acquired by Nuance through a 2013 acquisition and the termination of services provided to a separate customer, who in turn provided services to our legacy customer.

Cost of Professional Services Revenue

Cost of professional services revenue for the six months ended March 31, 2024 was \$31.4 million, a decrease of \$3.1 million, or 8.9%, from \$34.5 million for the six months ended March 31, 2023. Cost of professional services revenue decreased primarily due to a \$3.4 million decrease in salary-related expenditures, a \$1.0 million decrease in stock-based compensation costs, and a \$0.9 million decrease in amortization of costs previously deferred. The decrease was partially offset by a \$1.9 million increase in internal allocated labor and a \$1.2 million increase in third-party contractor costs. As a percentage of total cost of revenues, cost of professional services revenue decreased by 0.8 percentage points from 67.4% for the six months ended March 31, 2023 to 66.6% for the six months ended March 31, 2024.

Professional services gross profit increased \$3.9 million, or 98.6%, from \$4.0 million for the six months ended March 31, 2023 to \$7.9 million for the six months ended March 31, 2024, which was primarily due to the composition of our professional service arrangements.

Operating Expenses

The tables below show each component of operating expense. Total other expense, 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 March 31, 2024 Compared with Three Months Ended March 31, 2023

	Three Months Ended March 31,		% Change
	2024	2023	2024 vs. 2023
Research and development	\$ 31,846	\$ 28,494	11.8 %

Historically, R&D expenses are our largest operating expense as we continue to build on our existing software platforms and develop new technologies. R&D expenses for the three months ended March 31, 2024 were \$31.8 million, an increase of \$3.3 million, or 11.8%, from \$28.5 million for the three months ended March 31, 2023. The increase was primarily attributable to a \$2.5 million increase in third-party contractor costs, a \$1.8 million increase in salary-related expenditures, and a \$0.6 million decrease in capitalized costs associated with internally developed software. The increase was partially offset by a \$1.5 million decrease in stock-based compensation expense and a \$0.8 million decrease in internally allocated labor. As a percentage of total operating expenses, R&D expenses decreased by 34.3 percentage points from 44.5% for the three months ended March 31, 2023 to 10.2% for the three months ended March 31, 2024.

Six Months Ended March 31, 2024 Compared with Six Months Ended March 31, 2023

	Six Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
Research and development	\$ 65,152	\$ 57,988	12.4%

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 six months ended March 31, 2024 were \$65.2 million, an increase of \$7.2 million, or 12.4%, from \$58.0 million for the six months ended March 31, 2023. The increase was primarily attributable to a \$6.2 million increase in salary-related expenditures, \$4.1 million increase in third-party contractor costs, and a \$0.7 million decrease in capitalized costs associated with internally developed software. The increase was partially offset by a \$2.5 million decrease in internally allocated labor and \$2.2 million decrease in stock-based compensation expense. As a percentage of total operating expenses, R&D expenses decreased by 29.1 percentage points from 47.0% for the six months ended March 31, 2023 to 17.9% for the six months ended March 31, 2024.

Sales & Marketing Expenses

Three Months Ended March 31, 2024 Compared with Three Months Ended March 31, 2023

	Three Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
Sales and marketing	\$ 5,619	\$ 8,217	(31.6)%

Sales and marketing expenses for the three months ended March 31, 2024 were \$5.6 million, a decrease of \$2.6 million, or 31.6%, from \$8.2 million for the three months ended March 31, 2023. The decrease in sales and marketing expenses was primarily attributable to a \$1.7 million decrease in salary-related expenditures, a \$1.2 million decrease in stock-based compensation costs, and a \$0.2 million decrease in professional services. The decrease was partially offset by a \$0.2 million increase in commissions expenditures. As a percentage of total operating expenses, sales and marketing expenses decreased by 11.0 percentage points from 12.8% for the three months ended March 31, 2023 to 1.8% for the three months ended March 31, 2024.

Six Months Ended March 31, 2024 Compared with Six Months Ended March 31, 2023

	Six Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
Sales and marketing	\$ 11,690	\$ 17,379	(32.7)%

Sales and marketing expenses for the six months ended March 31, 2024 were \$11.7 million, a decrease of \$5.7 million, or 32.7%, from \$17.4 million for the six months ended March 31, 2023. The decrease in sales and marketing expenses was primarily attributable to a \$3.1 million decrease in salary-related expenditures, a \$2.1 million decrease in stock-based compensation costs, and a \$0.5 million decrease in professional services. The decrease was partially offset by a \$0.3 million increase in commissions expenditures and a \$0.3 million increase in travel-related expenditures. As a percentage of total operating expenses, sales and marketing expenses decreased by 10.9 percentage points from 14.1% for the six months ended March 31, 2023 to 3.2% for the six months ended March 31, 2024.

General & Administrative Expenses

Three Months Ended March 31, 2024 Compared with Three Months Ended March 31, 2023

	Three Months Ended March 31,		% Change
	2024	2023	2024 vs. 2023
General and administrative	\$ 16,659	\$ 19,177	(13.1)%

General and administrative expenses for the three months ended March 31, 2024 were \$16.7 million, a decrease of \$2.5 million, or 13.1%, from \$19.2 million for the three months ended March 31, 2023. The decrease in general and administrative expenses was primarily attributable to a \$4.4 million decrease in stock-based compensation costs and a \$0.7 million decrease in salary-related expenditures. The decrease was partially offset by a \$2.4 million increase in credit loss provision, including a \$6.1 million provision relating to the bankruptcy of one fitness equipment manufacturer. During the three months ended March 31, 2023, we recorded a \$3.8 million provision relating to one international electric vehicle maker. As a percentage of total operating expenses, general and administrative expenses decreased by 24.6 percentage points from 30.0% for the three months ended March 31, 2023 to 5.4% for the three months ended March 31, 2024.

Six Months Ended March 31, 2024 Compared with Six Months Ended March 31, 2023

	Six Months Ended March 31,		% Change
	2024	2023	2024 vs. 2023
General and administrative	\$ 29,452	\$ 33,434	(11.9)%

General and administrative expenses for the six months ended March 31, 2024 were \$29.5 million, a decrease of \$3.9 million, or 11.9%, from \$33.4 million for the six months ended March 31, 2023. The decrease in general and administrative expenses was primarily attributable to a \$6.2 million decrease in stock-based compensation costs. The decrease was partially offset by a \$2.4 million increase in credit loss provision, including a \$6.1 million provision relating to the bankruptcy of one fitness equipment manufacturer. During the three months ended March 31, 2023, we recorded a \$3.8 million provision relating to one international electric vehicle maker. As a percentage of total operating expenses, general and administrative expenses decreased by 19.0 percentage points from 27.1% for the six months ended March 31, 2023 to 8.1% for the six months ended March 31, 2024.

Amortization of Intangible Assets

Three Months Ended March 31, 2024 Compared with Three Months Ended March 31, 2023

	Three Months Ended March 31,		% Change
	2024	2023	2024 vs. 2023
Cost of revenues	\$ —	\$ 104	(100.0)%
Operating expense	555	2,394	(76.8)%
Total amortization	\$ 555	\$ 2,498	(77.8)%

Intangible asset amortization for the three months ended March 31, 2024 was \$0.6 million, a decrease of \$1.9 million, or 77.8%, from \$2.5 million for the three months ended March 31, 2023. The decrease in amortization relates to certain intangible assets having been fully amortized during fiscal year 2024 and 2023. Amortization expense for acquired technology and patents is included in the cost of revenues in the accompanying Condensed Consolidated Statements of Operations. Amortization expense for customer relationships is included in operating expenses in the accompanying Condensed Consolidated Statements of Operations.

As a percentage of total cost of revenues, intangible asset amortization within cost of revenues decreased by 0.4 percentage points from 0.4% for the three months ended March 31, 2023 to 0.0% for the three months ended March 31, 2024. As a percentage of total operating expenses, intangible asset amortization expenses within operating expenses decreased by 3.5 percentage points from 3.7% for the three months ended March 31, 2023 as compared to 0.2% for the three months ended March 31, 2024.

Six Months Ended March 31, 2024 Compared with Six Months Ended March 31, 2023

	Six Months Ended March 31,		% Change
	2024	2023	2024 vs. 2023
Cost of revenues	\$ 103	\$ 207	(50.2)%
Operating expense	1,100	4,744	(76.8)%
Total amortization	\$ 1,203	\$ 4,951	(75.7)%

Intangible asset amortization for the six months ended March 31, 2024 was \$1.2 million, a decrease of \$3.8 million, or 75.7%, from \$5.0 million for the six months ended March 31, 2023. The decrease in amortization relates to certain intangible assets having been fully amortized during fiscal year 2024 and 2023. Amortization expense for acquired technology and patents is included in the cost of revenues in the accompanying Condensed Consolidated Statements of Operations. Amortization expense for customer relationships is included in operating expenses in the accompanying Condensed Consolidated Statements of Operations.

As a percentage of total cost of revenues, intangible asset amortization within cost of revenues decreased by 0.2 percentage points from 0.4% for the six months ended March 31, 2023 to 0.2% for the six months ended March 31, 2024. As a percentage of total operating expenses, intangible asset amortization expenses within operating expenses decreased by 3.5 percentage points from 3.8% for the six months ended March 31, 2023 as compared to 0.3% for the six months ended March 31, 2024.

Other Components of Operating Expense

Three Months Ended March 31, 2024 Compared with Three Months Ended March 31, 2023

	Three Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
Restructuring and other costs, net	\$ 4,551	\$ 5,714	(20.4)%
Goodwill impairment	\$ 252,096	\$ -	100.0%

Fiscal Year 2024

For the three months ended March 31, 2024, we recorded restructuring and other costs, net of \$4.6 million which included a \$4.4 million severance charge related to the elimination of personnel and a \$0.1 million charge resulting from the closure of facilities that will no longer be utilized. During the remainder of fiscal year 2024, we expect additional personnel-related restructuring costs as we better align our cost structure with current levels of revenue.

Goodwill impairment for the three months ended March 31, 2024 was \$252.1 million. At March 31, 2024, we concluded indicators of impairment were present due to the current macroeconomic conditions, including declines in our stock price. The fair value of our reporting unit was determined using a combination of the income approach and the market approach. We weighted the methodologies appropriately to estimate a fair value of approximately \$463.4 million as of March 31, 2024. The carrying value of our reporting unit exceeded the estimated fair value. Based upon the results of the impairment test, we recorded a goodwill impairment charge of \$252.1 million.

Whenever events or changes in circumstances indicate that the carrying value may not be recoverable, we will be required to assess the potential impairment of goodwill and other intangible assets. Examples of factors that could trigger an impairment of such assets include, but are not limited to, our market capitalization declining to below net book value, declines in our stock price for sustained periods of time and negative industry or economic trends. Future adverse changes in these or other unforeseeable factors could result in additional impairment charges that would impact our results of operations and financial position in the reporting period identified.

Fiscal Year 2023

For the three months ended March 31, 2023, we recorded restructuring and other charges, net of \$5.7 million, which included a \$3.4 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 \$2.2 million related to other one-time charges.

As a percentage of total operating expenses, restructuring and other costs, net decreased by 7.4 percentage points from 8.9% for the three months ended March 31, 2023 to 1.5% for the three months ended March 31, 2024.

Six Months Ended March 31, 2024 Compared with Six Months Ended March 31, 2023

	Six Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
Restructuring and other costs, net	\$ 5,256	\$ 9,903	(46.9)%
Goodwill impairment	\$ 252,096	\$ -	100.0%

Fiscal Year 2024

For the six months ended March 31, 2024, we recorded restructuring and other costs, net of \$5.3 million, which included a \$4.5 million severance charge related to the elimination of personnel, \$0.4 million related to other one-time charges and a \$0.3 million

charge resulting from the closure of facilities that will no longer be utilized. During the remainder of fiscal year 2024, we expect additional personnel-related restructuring costs as we better align our cost structure with current levels of revenue.

Goodwill impairment for the six months ended March 31, 2024 was \$252.1 million. At March 31, 2024, we concluded indicators of impairment were present due to the current macroeconomic conditions, including declines in our stock price. The fair value of our reporting unit was determined using a combination of the income approach and the market approach. We weighted the methodologies appropriately to estimate a fair value of approximately \$463.4 million as of March 31, 2024. The carrying value of our reporting unit exceeded the estimated fair value. Based upon the results of the impairment test, we recorded a goodwill impairment charge of \$252.1 million.

Whenever events or changes in circumstances indicate that the carrying value may not be recoverable, we will be required to assess the potential impairment of goodwill and other intangible assets. Examples of factors that could trigger an impairment of such assets include, but are not limited to, our market capitalization declining to below net book value, declines in our stock price for sustained periods of time and negative industry or economic trends. Future adverse changes in these or other unforeseeable factors could result in additional impairment charges that would impact our results of operations and financial position in the reporting period identified.

Fiscal Year 2023

For the six months ended March 31, 2023, we recorded restructuring and other charges, net of \$9.9 million, which included a \$6.4 million severance charge related to the elimination of personnel, a \$0.3 million charge resulting from the closure of facilities that will no longer be utilized, and \$3.1 million related to other one-time charges.

As a percentage of total operating expenses, restructuring and other costs, net decreased by 6.6 percentage points from 8.0% for the six months ended March 31, 2023 to 1.4% for the six months ended March 31, 2024.

Total Other Expense, Net

Three Months Ended March 31, 2024 Compared with Three Months Ended March 31, 2023

	Three Months Ended March 31,		% Change
	2024	2023	2024 vs. 2023
Interest income	\$ 1,190	\$ 1,163	2.3 %
Interest expense	(3,111)	(4,003)	(22.3)%
Other (expense) income, net	(25)	1,074	(102.3)%
Total other expense, net	<u>\$ (1,946)</u>	<u>\$ (1,766)</u>	10.2 %

Total other expense, net for the three months ended March 31, 2024 was expense of \$1.9 million, a change of \$0.1 million from \$1.8 million of expense for the three months ended March 31, 2023. The decrease in interest expense was primarily attributable to a lower applicable interest rate on our Notes. The change in Other (expense) income, net was primarily driven by foreign exchange gains. For further information, see “Liquidity and Capital Resources” below.

Six Months Ended March 31, 2024 Compared with Six Months Ended March 31, 2023

	Six Months Ended March 31,		% Change
	2024	2023	2024 vs. 2023
Interest income	\$ 2,622	\$ 2,033	29.0 %
Interest expense	(6,347)	(7,517)	(15.6)%
Other income, net	1,397	4,787	(70.8)%
Total other expense, net	<u>\$ (2,328)</u>	<u>\$ (697)</u>	234.0 %

Total other expense, net for the six months ended March 31, 2024 was expense of \$2.3 million, a change of \$1.6 million from \$0.7 million of expense for the six months ended March 31, 2023. The increase in interest income was primarily attributable to returns on investments. The decrease in interest expense was primarily attributable to a lower applicable interest rate on our Notes. The change in Other income, net was primarily driven by foreign exchange gains, see “Liquidity and Capital Resources” below.

Provision For Income Taxes

Three Months Ended March 31, 2024 Compared with Three Months Ended March 31, 2023

	Three Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
Provision for income taxes	\$ 11,647	\$ 3,706	214.3 %
Effective income tax rate %	(4.4) %	(16.6) %	

Our effective income tax rate for the three months ended March 31, 2024 was negative 4.4%, compared to negative 16.6% for the three months ended March 31, 2023. Our provision for income taxes for the three months ended March 31, 2024 was \$11.6 million, a net change of \$7.9 million from a provision for income taxes of \$3.7 million for the three months ended March 31, 2023. This difference was attributable to impairment of book goodwill and the change in income tax expense related to foreign valuation allowance.

Six Months Ended March 31, 2024 Compared with Six Months Ended March 31, 2023

	Six Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
Provision for income taxes	\$ 45,988	\$ 4,956	827.9 %
Effective income tax rate%	(22.1) %	(21.3) %	

Our effective income tax rate for the six months ended March 31, 2024 was negative 22.1%, compared to negative 21.3% for the six months ended March 31, 2023. Our provision for income taxes for the six months ended March 31, 2024 was \$46.0 million, a net change of \$41.0 million from a provision for income taxes of \$5.0 million for the six months ended March 31, 2023. This difference was attributable to impairment of book goodwill and the change in income tax expense related to foreign valuation allowance.

Liquidity and Capital Resources

Financial Condition

As of March 31, 2024, we had \$115.2 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 March 31, 2024, our net working capital, excluding deferred revenue and deferred costs, was \$166.3 million. This balance is representative of the short-term net cash inflows based on the working capital at that date.

Sources and Material Cash Requirements

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

Our ability to fund future operating needs will depend on our ability to generate positive cash flows from operations and finance additional funding in the capital and debt markets as needed. Based on our expectations to generate positive cash flows and the \$115.2 million of cash, cash equivalents, and marketable securities as of March 31, 2024, we believe that we will be able to meet our liquidity needs over the next 12 months.

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

	Material Cash Requirements Due by Period				
	2024	2025-2026	2027-2028	Thereafter	Total
2028 Notes	\$ -	\$ -	\$ 122,500	\$ -	\$ 122,500
Cash interest payable on the 2028 Notes ^(a)	921	3,672	3,220	-	7,813
2025 Modified Notes	-	87,500	87,500	-	175,000
Cash interest payable on the 2025 Modified Notes ^(a)	1,973	4,370	2,300	-	8,643
Operating leases	3,163	6,742	2,789	745	13,439
Operating leases under restructuring ^(b)	113	371	186	-	670
Financing leases	208	414	-	-	622
Total material cash requirements	\$ 6,378	\$ 103,069	\$ 218,495	\$ 745	\$ 328,687

- (a) Interest per annum is due and payable monthly and is determined based on the outstanding principal as of March 31, 2024.
- (b) Contractual lease commitments are shown net of sublease income related to certain facilities. As of March 31, 2024, we anticipate sublease income of \$0.2 million through fiscal year 2024.

Should we need to secure additional sources of liquidity, we believe that we could finance our needs through the issuance of equity securities or debt offerings. However, we cannot guarantee that we will be able to obtain financing through the issuance of equity securities or debt offerings or that, if such financing is obtained, that it will be on acceptable terms. Our ability to issue debt or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our products or in the solvency of our customers or suppliers or if there are other significantly unfavorable changes in economic conditions. For instance, inflation and rising interest rates, and disruptions and instability in the banking industry have negatively impacted the global economy and rising interest rates, and disruptions and instability in the banking industry have negatively impacted the global economy and created significant volatility and disruption of financial markets. An extended period of economic disruption, market volatility or recent bank failures, could materially affect our business, results of operations, ability to meet debt covenants, access to sources of liquidity and financial condition.

1.50% Senior Convertible Notes due 2028

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

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

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

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

As a result, \$87.5 million of the 2028 Notes are considered a modification of the 2025 Notes and are included in the balances of the 2025 Notes along with the remaining \$87.5 million of the 2025 Notes (together the "2025 Modified Notes") that were not repurchased as part of the transaction. We recorded \$14.3 million of fees paid directly to the lenders as deferred debt issuance costs, and \$3.8 million of fees paid to third-parties were expensed in the period. As of March 31, 2024, the carrying amount of the 2025 Modified Notes was \$158.4 million, net of unamortized costs of \$16.6 million.

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

We accounted for \$122.5 million of the 2028 Notes, that were not negotiated with the investors of the 2025 Notes, as a single liability. We incurred transaction costs of \$2.4 million relating to the issuance of the 2028 Notes, which were recorded as a direct deduction from the face amount of the 2028 Notes and are being amortized as interest expense over the term of the 2028 Notes using the interest method. As of March 31, 2024, the carrying amount of the 2028 Notes was \$120.5 million and unamortized issuance costs of \$2.0 million. As of March 31, 2024, the 2028 Notes were not convertible.

3.00% Senior Convertible Notes due 2025

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

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

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

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

The interest expense recognized related to the Notes for the three and six months ended March 31, 2024 and 2023 was as follows (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Contractual interest expense	\$ 1,439	\$ 1,294	\$ 2,881	\$ 2,616
Amortization of debt discount	251	-	502	-
Amortization of issuance costs	1,219	276	2,436	556
Total interest expense related to the Notes	<u>\$ 2,909</u>	<u>\$ 1,570</u>	<u>\$ 5,819</u>	<u>\$ 3,172</u>

The conditional conversion feature of the Notes was not triggered during the three and six months ended March 31, 2024. As of March 31, 2024, 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 shares), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

Senior Credit Facilities

On June 12, 2020, we entered into a Term Loan Facility. The net proceeds from the issuance of the Term Loan Facility were \$123.0 million. We also entered into the Revolving Facility, which would be drawn on in the event that our working capital and other cash needs are not supported by our operating cash flow. In connection with the issuance of the 2028 Notes, in the third quarter of fiscal year 2023, we borrowed \$24.7 million under our Revolving Facility and paid \$106.3 million towards our Term Loan Facility. As a result, we recorded \$104.9 million extinguishment of debt and \$1.3 million loss on the extinguishment of debt. All principal and

interest on the Term Loan Facility have been paid in full. As of March 31, 2024 and September 30, 2023, there were no amounts outstanding under the Revolver Facility.

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

On November 22, 2022, we entered into Amendment No. 2 to the Credit Agreement. Amendment No. 2 modified certain financial covenants between the fiscal quarter ended March 31, 2023 to the fiscal quarter ended December 31, 2023, which is referred to as the covenant adjustment period. During the covenant adjustment period, each tested quarterly, we were 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 was waived during the covenant adjustment period. At the conclusion of the covenant adjustment period, the original financial covenants resumed. As of March 31, 2024, there were no loan amounts outstanding under the Credit Agreement, and we were in compliance with all Credit Agreement covenants.

On April 12, 2024, we entered into Amendment No. 3 to the Credit Agreement. Amendment No. 3 modified certain financial covenants. Tested quarterly, we will be required to maintain (i) a net secured leveraged ratio of not greater than 3.00 to 1.00; (ii) a minimum level of EBITDA (as defined in the Credit Agreement) of not less than (A) negative \$5 million for the six month period ending June 30, 2024, (B) \$7.5 million for the nine month period ending September 30, 2024, (C) \$20 million for the four consecutive fiscal quarters ending December 31, 2024, (D) \$30 million for the four consecutive fiscal quarters ending March 31, 2025, (E) \$35 million for the four consecutive fiscal quarters ending June 30, 2025 and for the four consecutive fiscal quarters ending September 30, 2025, (F) \$40 million for the four consecutive fiscal quarters ending December 31, 2025, and (G) \$40 million for the four consecutive fiscal quarters ending March 31, 2026; (iii) minimum liquidity of at least \$50 million; and (iv) aggregate capital expenditures of not more than \$10 million. Our ability to comply with such covenants may be affected by our future financial performance as well as events beyond our control, including prevailing economic, financial and industry conditions.

Amendment No. 3 revised certain interest rates in the Credit Agreement. The applicable margin is SOFR plus 3.00% for SOFR loans and the highest of (i) the federal funds effective rate, (ii) the prime rate, and (iii) one-month SOFR plus 1.00% (the highest of clauses (i) through (iii), the "ABR") plus 2.00% for ABR loans.

Amendment No. 3 also modified the maturity date for the Revolving Facility. The Revolving Facility matures on April 1, 2026, provided that if on any date during the period commencing on the date which is 91 days prior to the maturity date of our 2025 Notes and any indebtedness incurred to refinance such notes that matures on or prior to July 1, 2026 (such debt, the "Early Maturity Debt"), and ending on July 1, 2026, the maturity date of such Early Maturity Debt has not been extended to a date after July 1, 2026 and we do not hold in a segregated deposit account an amount of cash sufficient to repay and discharge the principal amount of the Early Maturity Debt at maturity, then the Revolving Facility shall mature on the date that is 91 days prior to the maturity date of the Early Maturity Debt.

Total interest expense relating to the Senior Credit Facilities for the three months ended March 31, 2024 and 2023 was \$0.1 million and \$2.3 million, respectively, and \$0.1 million and \$4.2 million for the six months ended March 31, 2024 and 2023, respectively. Amounts reflect the coupon and accretion of the discount.

Cash Flows

Cash flows from operating, investing and financing activities for the six months ended March 31, 2024 and 2023, 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):

	Six Months Ended March 31,		% Change 2024 vs. 2023
	2024	2023	
Net cash (used in) provided by operating activities	\$ (1,771)	\$ 4,437	(139.9)%
Net cash provided by investing activities	245	2,226	(89.0)%
Net cash provided by (used in) financing activities	515	(5,443)	(109.5)%
Effect of foreign currency exchange rates on cash and cash equivalents	(967)	(690)	40.1%
Net changes in cash and cash equivalents	<u>\$ (1,978)</u>	<u>\$ 530</u>	<u>(473.2)%</u>

Net Cash (Used in) Provided by Operating Activities

Net cash used in operating activities for the six months ended March 31, 2024 was \$1.8 million, a net change of \$6.2 million, or 139.9%, from net cash provided by operating activities of \$4.4 million for the six months ended March 31, 2023. The change in cash flows were primarily due to:

- An increase of \$63.0 million from income before non-cash charges;
- A decrease of \$4.3 million due to unfavorable changes in working capital primarily related to accounts payable and accrued expenses and other liabilities; and
- A decrease of \$64.9 million from changes in deferred revenue.

Deferred revenue represents a significant portion of our net cash used in or provided by operating activities and, depending on the nature of our contracts with customers and foreign currency exchange rates, this balance can fluctuate significantly from period to period. Fluctuations in deferred revenue are not a reliable indicator of future performance and the related revenue associated with these contractual commitments. We do not expect any changes in deferred revenue to affect our ability to meet our obligations.

Net Cash Provided by Investing Activities

Net cash provided by investing activities for the six months ended March 31, 2024 was \$0.2 million, a net change of \$2.0 million, or 89.0%, from \$2.2 million of cash provided by investing activities for the six months ended March 31, 2023. The change in cash flows were primarily due to:

- A decrease of \$0.9 million net cash inflow related to marketable securities; and
- An increase of \$0.7 million in capital expenditures.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the six months ended March 31, 2024 was \$0.5 million, a net change of \$5.9 million, from cash used in financing activities of \$5.4 million for the six months ended March 31, 2023. The change in cash flows were primarily due to:

- An increase of \$6.1 million in proceeds from the issuance of our common stock;
- An increase of \$5.3 million in payments of tax related withholdings due to the net settlement of equity awards;
- A decrease of \$4.7 million in principal payments for long-term debt; and
- A decrease of \$0.4 million in payments for long-term debt issuance costs.

Critical Accounting Estimates

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

We believe that our critical accounting estimates are those related to revenue recognition; allowance for credit losses; accounting for deferred costs; accounting for internally developed software; the valuation of goodwill and intangible assets; accounting for stock-based compensation; accounting for income taxes; accounting for convertible debt; and loss contingencies. We believe these estimates are critical because they most significantly affect the portrayal of our financial condition and results of operations and involve our most complex and subjective estimates and judgments. A discussion of our critical accounting estimates may be found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Critical Accounting Estimates" and below.

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 \$91.0 million at March 31, 2024. Foreign currency forward contracts are sensitive to changes in foreign currency exchange rates. A 10% unfavorable exchange rate movement in our portfolio of foreign currency contracts would have resulted in unrealized losses of \$7.2 million at March 31, 2024. 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 March 31, 2024, we held approximately \$99.2 million of cash and cash equivalents consisting of cash and highly liquid investments, including money-market funds and time deposits. Assuming a 1% increase in interest rates, our interest income on our highly liquid investments would increase by \$0.5 million per annum, based on March 31, 2024 reported balances.

The borrowings under our Senior Credit Facilities are subject to interest rates based on SOFR. As of March 31, 2024, assuming a 1% increase in interest rates and our Revolving Facility being fully drawn, our interest expense on our Senior Credit Facilities would increase by approximately \$0.5 million per annum.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Quarterly Report. Based on this evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2024 to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

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

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

On February 25, 2022, a purported shareholder class action captioned as City Of Miami Fire Fighters' and Police Officers' Retirement Trust v. Cerence Inc. et al. (the "Securities Action") was filed in the United States District Court for the District of Massachusetts, naming the Company and two of its former officers as defendants. Following the court's selection of a lead plaintiff and lead counsel, an amended complaint was filed on July 26, 2022. The plaintiff claims to be suing on behalf of anyone who purchased the Company's common stock between November 16, 2020 and February 4, 2022. The lawsuit alleges that material misrepresentations and/or omissions of material fact regarding the Company's operations, financial performance and prospects were made in the Company's public disclosures during the period from November 16, 2020 to February 4, 2022, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The plaintiff seeks unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including attorney's fees. On September 9, 2022, the defendants in the Securities Action moved to dismiss the action in its entirety. On March 25, 2024, the court granted in part and denied in part the motion to dismiss, dismissing certain of the alleged misrepresentations and omissions while allowing claims challenging certain other alleged misrepresentations and omissions to proceed. On April 15, 2024, the defendants filed their answer to the amended complaint. We intend to defend the claims vigorously. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

Derivative Actions

On May 10 and 12, 2022, respectively, plaintiffs William Shafer and Peter Morse filed shareholder derivative complaints in the United States District Court for the District of Massachusetts on behalf of Cerence Inc. against defendants (and former officers) Sanjay Dwahan and Mark J. Gallenberger as well as board members Arun Sarin, Thomas Beaudoin, Marianne Budnik, Sanjay Jha, Kristi Ann Matus, Alfred Nietzel and current CEO and board member Stefan Ortmanns. These actions are premised on factual contentions substantially similar to those made in the Securities Action and contain substantially similar legal contentions. As such, on June 13, 2022, at the parties' request, the court consolidated these derivative actions into a single action and appointed co-lead counsel for plaintiffs in that consolidated action. The court previously stayed the case pending a ruling on the motion to dismiss in the Securities Action. On April 23, 2024, the parties submitted proposals for how the case should proceed. As of the date of this report, the court has yet to act on these competing proposals.

Two shareholder derivative complaints making factual and legal contentions substantially similar to those raised in the consolidated federal derivative action have been also filed in the Delaware Court of Chancery: one filed on October 19, 2022 by plaintiff Melinda Hipp against the defendants named in the consolidated action and board member Douglas Davis and one filed on August 17, 2023 by plaintiff Catherine Fleming against the defendants named in the consolidated federal derivative action. On October 20, 2023, Ms. Hipp voluntarily dismissed her action with prejudice. Plaintiff Catherine Fleming is due to file an amended complaint on May 24, 2024, and the defendants' anticipated motion to dismiss is due on July 23, 2024.

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

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

On March 24, 2023, plaintiffs A.P., a minor, by and through her guardian, Carlos Pena, and Carlos Pena, each individually and on behalf of similarly situated individuals filed a purported class action lawsuit in the Circuit Court of Cook County, Illinois, Chancery Division (Case. No. 2023CH02866 (Cir. Ct. Cook Cnty. 2023)). The case was removed to Federal Court (Case No. 1:23CV2667 (N.D. Ill.)), and then severed and remanded back in part, so there are two pending cases. Plaintiffs subsequently amended the federal complaint twice, with the latest second amended complaint, filed on July 13, 2023, adding plaintiffs Randolph Freshour and Vincenzo Allan, each also filing individually and on behalf of similarly situated individuals. Plaintiffs allege that Cerence violated the Illinois Biometric Information Privacy Act ("BIPA"), 740 ILCS 14/1 et seq. through Cerence's Drive Platform technology, which is integrated in various automobiles. The named plaintiffs allegedly drove or rode in a vehicle with Cerence's Drive Platform technology. Across both cases, plaintiffs allege that Cerence violated: (1) BIPA Section 15(a) by possessing biometrics without any public written policy for their retention or destruction; (2) BIPA Section 15(b) by collecting, capturing, or obtaining biometrics without written notice or consent; (3) BIPA Section 15(c) by profiting from biometrics obtained from Plaintiffs and putative class members; and (4) BIPA Section 15(d) by disclosing biometrics to third party companies without consent. Cerence has filed motions to dismiss both cases. On February 27, 2024, the Circuit Court issued an order denying Cerence's motion to dismiss. Cerence's answer is due on April 16, 2024. The Federal Court has not yet resolved Cerence's pending motion to dismiss that case. Plaintiffs are seeking statutory damages of \$5,000 for each willful and/or reckless violation of BIPA and, alternatively, damages of \$1,000 for each negligent violation of BIPA. Given the uncertainty of litigation, the preliminary stage of the case, and the legal

standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

Other Legal Proceedings

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

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023, which could materially affect our business, financial condition or future results of operations. The risks described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There are no material changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

Item 5. Other Information.

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

During the three-month period ended March 31, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

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

Indemnification Agreements. On May 8, 2024, we entered into a revised form of indemnification agreement (the “Indemnification Agreement”) with each of our current directors and executive officers, which will amend and restate the previous indemnification agreements between such parties, if any.

The Indemnification Agreement will, among other things, require us to indemnify, and advance expenses to, each director and executive officer to the fullest extent permitted by law, including indemnification of expenses such as attorneys’ fees, court costs, judgements, fines, penalties, and settlement amounts incurred by the director and executive officer in any action or proceeding arising out of such person’s services as a director or executive officer. The Indemnification Agreements are intended to provide indemnification rights to the fullest extent permitted under Delaware law and shall be in addition to any other rights the directors and executive officers may have under our certificate of incorporation and bylaws.

The foregoing description of the Indemnification Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the form of Indemnification Agreement, which is attached as Exhibit 10.4 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

Item 6. Exhibits.

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

EXHIBIT INDEX

Exhibit Index #	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Exhibit	Filing Date
10.1†	Offer Letter, dated February 27, 2024, by and between Cerence Inc. and Daniel Tempesta.	X				
10.2†	Change of Control and Severance Agreement, effective as of March 18, 2024, by and between Cerence Inc. and Daniel Tempesta.	X				
10.3†	2024 Inducement Plan and form of award agreement thereunder.		8-K	001-39030	10.1	March 4, 2024
10.4	Form of Indemnification Agreement	X				
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					
101.INS	Inline XBRL Instance Document	X				
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents	X				
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*)	X				

* Furnished herewith

† Management contract or compensatory plan or arrangement

SIGNATURES

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

Cerence Inc.

Date: May 10, 2024

By: /s/ Stefan Ortmanns
Stefan Ortmanns
Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2024

By: /s/ Daniel Tempesta
Daniel Tempesta
Chief Financial Officer
(Principal Financial and Accounting Officer)



Cerence Inc.
25 Mall Road
4th floor, Suite # 416
Burlington, MA 01803
USA
cerence.com

February 27, 2024

Daniel Tempesta
82 Arlington Street
Winchester, MA 01890

Dear Dan,

Congratulations! It is with great pleasure that I confirm Cerence Operating Company's ("Cerence" or the "Company") offer of employment for the position of Executive Vice President – Chief Financial Officer. In this position, you will report to Stefan Ortmanns, the Company's Chief Executive Officer. Your work location will be our Burlington, MA office.

Subject to the terms and conditions stated in the letter below, Cerence is pleased to offer you a compensation and benefits package with the following elements:

Base Salary and Employment Status

Your starting annual base salary for this exempt level position will be at the rate of \$19,230.77, paid on a bi-weekly basis, which annualizes to \$500,000.

Bonus Program

In addition to your base salary, you will be eligible to participate in the Cerence Short Term Incentive Plan ("STIP"), with a target STIP award of 75% of your base salary. The STIP coincides with Cerence's fiscal year, which is October 1st through September 30th. Payments will be made in the form of restricted stock units and/or cash and your actual STIP award for fiscal year 2024

will **not** be pro-rated according to your start date. Eligibility to participate and any payment under the STIP will be at the Company's discretion, and the Company has the right to vary, suspend, revoke, or replace the STIP at any time.

Long Term Incentive Plan ("LTIP")

As a material inducement to accept the Company's offer of employment, the Board of Directors of Cerence Inc. (the "Board") or the Compensation Committee of the Board has approved the following equity awards to be granted under the Cerence Inc. 2024 Inducement Award Plan (the "Plan") and pursuant to Rule 5635(c)(4) of the Marketplace Rules of NASDAQ Stock Market, Inc., effective as of, and contingent upon, your commencement of employment with Cerence:

A number of restricted stock units having an aggregate target value of \$3,000,000. The number of restricted stock units will be calculated based on the average closing price of Cerence Inc. common stock over the trailing 20 trading days ending on the date of grant. The restricted stock units will be 50% in the form of time-based restricted stock units ("RSUs") and 50% in the form of performance-based restricted stock units ("PSUs"), as follows in (a) and (b) below:

- A. RSUs: The RSUs will be subject to the terms and conditions for time-based restricted stock units under the Plan, all as reflected in the applicable RSU agreement. The RSUs will vest as follows: one-third of the RSUs on each of October 1, 2024, October 1, 2025, and October 1, 2026, subject to your continued service with Cerence through each vesting date, except as provided in the Change of Control and Severance Agreement (as described below and hereinafter referred to as the "Severance Agreement").
- B. PSUs: The PSUs will be subject to the terms and conditions for performance-based restricted stock units under the Plan, all as reflected in the applicable PSU agreement. The PSUs will be earned based on Company performance upon the completion of fiscal years 2024, 2025 and 2026, subject to your continued service with Cerence through each vesting date. With one-third vesting upon the release of FY 2024 earnings, one-third vesting upon the release of FY 2025 earnings and one-third vesting upon the release of FY 2026 earnings, except as provided in the Severance Agreement.

You will also receive a one-time sign on RSU award under the Plan with a value of \$3,000,000 that will vest one-third December 15, 2024; one-third December 15, 2025; and one-third December 15, 2026, subject to your continued service with Cerence through such date (the "Sign-on Award"). The Company shall use reasonable best efforts to settle the vested portion of Sign-on Award in the year in which it vests. Please note for this award only, in the event that your employment with the Company and its subsidiaries terminates on account of your death or Disability (as defined in the Severance Agreement) or you resign for Good Reason outside of a Change of Control Period (as those terms are defined in the Severance Agreement), in each case, the RSUs that are scheduled to vest during the twelve (12)-month period following the termination of your employment will become vested (the "Vesting Acceleration") as of the date of such termination of employment. Other than in the event of a termination due to your death, the Vesting Acceleration is subject to your compliance with the terms and conditions of Section 4 of the Severance Agreement. For the avoidance of doubt, upon any termination of your employment with the Company and its

subsidiaries for any other reason not explicitly stated in this paragraph, the Sign-on Award shall be subject to the vesting terms and conditions set forth in the Severance Agreement.

You will also be eligible for an annual LTIP award under the Cerence 2019 Equity Incentive Plan (the “2019 Plan”) in November/December 2024 at the discretion of the Compensation Committee of the Board.

Please note that any equity awards granted to you are subject to the terms of the Plan or the 2019 Plan, as applicable, (or any successor plan(s)) and the applicable grant agreements.

Benefits

Cerence offers affordable health care, income protection, and benefits that provide peace of mind now and in the future. If you are regularly scheduled to work twenty (20) hours or more per week, you are eligible for benefits on day one. The benefit programs you are eligible for as a Cerence employee will be provided during the New Hire On-boarding process.

Paid Time-Off

Cerence provides 13 days off for holidays throughout the calendar year. Additionally, you will be entitled to four (4) weeks’ paid time off, which is accrued on a bi-weekly basis commencing on your first day of employment.

Background Check

Your employment is contingent upon satisfactory completion of a background check, which includes, at a minimum, a review of criminal records, and verification of your education. You will be contacted via email by Cerence’s vendor during the onboarding process to complete the process.

Change of Control and Severance Agreement

The Compensation Committee has approved the terms of the enclosed Severance Agreement, which shall become effective upon the Effective Date, as defined in the Severance Agreement.

Taxes

All forms of compensation are subject to reduction to reflect applicable withholding and payroll taxes and other deductions required by law. You are encouraged to obtain your own tax advice regarding your compensation from the Company. You agree that the Company does not have a duty to design its compensation policies in a manner that minimizes your tax liabilities.

Terms and Conditions

Your employment with Cerence will be “at will”, meaning that either you or Cerence will be entitled to terminate your employment at any time and for any reason, with or without cause, subject to the terms of the Severance Agreement, if applicable. Any contrary representations which may have been made to you are superseded by this offer. This Offer Letter (“Offer”) and any other

agreement referenced herein, along with the *Confidential Information, Inventions and Non-Competition Agreement* (“CIIN”), which you are required to sign as a condition of employment, are the full and complete agreement between you and Cerence. Although your job duties, title, compensation, and benefits, as well as Cerence personnel policies and procedures, may change from time to time, the “at will” nature of your employment may only be changed in an express written agreement signed by you and a duly authorized officer of Cerence.

This Offer is contingent upon your satisfying the conditions of hire, including the following:

- Completing and signing an Employment Application in full
- Completing the Employment Eligibility Verification; presenting proof of eligibility to work in the United States
- Executing the Cerence standard *Confidential Information, Inventions and Noncompetition Agreement* – received upon start
- Passing a Background Check

Finally, this Offer is conditioned on your not being subject to any confidentiality or non-competition agreement or any other similar type of restriction that would affect your ability to devote full time and attention to your work at Cerence. If you have previously entered into such an agreement, please provide me with a copy as soon as possible. You’re accepting this Offer and not presenting me with a copy of an agreement containing a confidentiality or non-competition agreement or any other similar type of restriction indicates that no such agreement exists.

This letter, together with any other agreement referenced herein, sets forth the entire agreement and understanding between you and the Company relating to your employment and supersedes all prior agreements, understandings and discussions.

Dan, please confirm your acceptance of our Offer by signing this Offer Letter, indicating your anticipated start date and returning it via Adobe.

If you have further questions regarding our offer, please contact me at (781) 265-8590. On behalf of the Company, I wish you a long and rewarding career with Cerence.

Sincerely,

Sachin Sahney
SVP Chief Human Resources Officer

I ACCEPT THE OFFER OF EMPLOYMENT AS STATED ABOVE:

/s/ Daniel Tempesta
Signature

February 28, 2024
Date of Acceptance

March 18, 2024
Tentative Start Date

CERENCE INC.

CHANGE OF CONTROL AND SEVERANCE AGREEMENT

This Change of Control and Severance Agreement (the “*Agreement*”) is made and entered into by and between Daniel Tempesta (“*Executive*”) and Cerence Inc., a Delaware corporation (the “*Company*”), effective as of the later of (1) the latest date on the signature page of this Agreement and (ii) the date Executive’s employment with the Company commences (the “*Effective Date*”).

RECITALS

1. The Compensation Committee (the “*Committee*”) of the Board of Directors of the Company (the “*Board*”) has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication and objectivity of Executive, notwithstanding the possibility, threat, or occurrence of a Change of Control.
2. The Committee believes that it is imperative to provide Executive with severance benefits upon Executive’s termination of employment under certain circumstances to provide Executive with enhanced financial security, incentive and encouragement to remain with the Company.
3. Certain capitalized terms used in the Agreement and not otherwise defined are defined in Section 7 below.

AGREEMENT

NOW, THEREFORE, in consideration of Executive’s continued employment and the mutual covenants contained herein, the parties hereto agree as follows:

1. Term of Agreement. The term of the Executive’s employment hereunder shall commence as of the Effective Date and shall continue until terminated in accordance with this Agreement (the “*Term*”). If Executive becomes entitled to benefits under Section 3 during the Term, the Agreement will not terminate until all of the obligations of the parties hereto with respect to this Agreement have been satisfied. The Company and the Executive agree that if the Company adopts an executive severance and change of control plan (a “*Severance Plan*”), and if the Executive agrees to participate in the Severance Plan, the Executive will waive his rights under this Agreement in exchange for participating in the Severance Plan and the Term of this Agreement will end as of the date Executive commences participation in the Severance Plan.
 2. At-Will Employment. The Company and Executive acknowledge that Executive’s employment is and will continue to be at-will, as defined under applicable law, except as otherwise
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specifically provided under the terms of a written employment agreement or offer letter between the Company and Executive.

3. Severance Benefits.

(a) Termination Other than During Change of Control Period. If Executive's employment with the Company and its subsidiaries is terminated by the Company other than for Cause and for a reason other than due to Executive's death or Disability (absence from work due to a disability for a period in excess of one hundred and eighty (180) days in any twelve (12)-month period that qualifies for benefits under the Company's a long-term disability program ("**Disability**")), and such termination occurs outside the Change of Control Period, then, subject to Section 4 and the other provisions of this Agreement, Executive will receive from the Company:

(i) Base Salary Severance. A lump sum cash severance payment equal to one hundred percent (100%) of Executive's annual base salary as in effect immediately prior to the termination date.

(ii) Target Bonus Severance. A lump sum cash severance payment equal to one hundred percent (100%) of Executive's target bonus and a prorated percentage of Executive's target bonus as in effect for the fiscal year that includes the termination date. The prorated percentage will be determined by dividing the number of days during the fiscal year for which Executive remained an employee of the Company, by three hundred and sixty-five (365). If Executive's target bonus for the fiscal year including the termination date has not been set as of the termination date, Executive instead will receive a prorated percentage of Executive's target bonus for the immediately preceding fiscal year.

(iii) Time-Based Equity Awards. Vesting of the portion of each (if any) of Executive's outstanding and unvested equity awards covering shares of the Company's common stock that are subject solely to time-based vesting (excluding any awards subject to performance-based vesting) (such awards "**Time-Based Awards**") that are scheduled to vest during the twelve (12)-month period following Executive's termination date.

(iv) Performance-Based Equity Awards. Vesting of the earned portion of any of Executive's outstanding and unvested equity awards subject to performance-based vesting (excluding any Time-Based Awards) (such awards, "**Performance-Based Awards**") for which the performance period is complete as of the termination date. In addition, for any Performance-Based awards held by Executive with a single three-year performance period for which the performance period is not complete as of the termination date ("**Three-Year Performance-Based Awards**") and provided that Executive has been employed by the Company for at least six months of the performance period, except as otherwise provided in the applicable award agreement, a pro-rated portion of any such Three-Year Performance-Based Award (with pro-ration determined by multiplying the number of shares or units subject to the applicable Three-Year Performance-Based Award by a fraction, the numerator of which is the number of days elapsed between the first day of the performance period of the Three-Year Performance-Based Award and Executive's termination date and the denominator of which is the total number of days

in the performance period for the applicable Three-Year Performance-Based Award) (such portion, the “**Pro-Rated Portion**”) shall remain eligible to be earned at the end of the performance period applicable to the Three-Year Performance-Based Award based upon actual achievement of the applicable performance metrics in accordance with the terms of the applicable award agreements and equity incentive plans and any Pro-Rated Portion that is earned at the end of the performance period shall be immediately fully vested.

(v) Continued Employee Benefits. Continuation coverage under the terms of the Company medical benefit plan pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“**COBRA**”), for Executive and/or Executive’s eligible dependents, subject to Executive timely electing COBRA coverage. Until the earliest of (A) twelve (12) months from the date of Executive’s termination, (B) Executive’s eligibility for group medical plan benefits under any other employer’s group medical plan, or (C) the cessation of Executive’s continuation rights under COBRA, the Company will pay directly on Executive’s behalf the monthly COBRA premiums (at the coverage levels in effect for active employees of the Company). For the avoidance of doubt, the direct payment of any COBRA premiums will be reported as taxable income and subject to any applicable tax withholdings. Notwithstanding the foregoing, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating, or being subject to an excise tax under, applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company will in lieu thereof provide payroll payments of the applicable premium amounts directly to Executive for the time period specified above. Such payments shall be paid on the Company’s regular payroll dates. For the avoidance of doubt, the taxable payment in lieu of COBRA reimbursements may be used for any purpose, including, but not limited to, continuation coverage under COBRA, and will be subject to all applicable tax withholdings.

(b) Termination During a Change of Control Period. If during the Change of Control Period (i) Executive’s employment with the Company and its subsidiaries is terminated by the Company other than for Cause and for a reason other than due to Executive’s death or Disability or (ii) Executive resigns for Good Reason, then, subject to Section 4 and the other provisions of this Agreement, Executive will receive from the Company:

(i) Base Salary Severance. A lump sum cash severance payment equal to one hundred and fifty percent (150%) of Executive’s annual base salary as in effect immediately prior to the termination date (or, if greater, as in effect immediately prior to the Change of Control).

(ii) Target Bonus Severance. A lump sum cash severance payment equal to (A) one hundred and fifty percent (150%) of the greater of (1) Executive’s target bonus for the year in which Executive’s termination occurs, or (2) Executive’s target bonus in effect immediately prior to the Change of Control plus (B) a prorated percentage of the greater of (1) Executive’s target bonus for the year in which Executive’s termination occurs, or (2) Executive’s target bonus in effect immediately prior to the Change of Control. The prorated percentage will be determined by dividing the number of days during the fiscal year for which Executive remained an employee of the Company, by three hundred and sixty-five (365). If Executive’s target bonus for the fiscal year including the termination date has not been set as of the termination date,

Executive instead will receive a prorated percentage of Executive's target bonus for the immediately preceding fiscal year.

(iii) Vesting of Time-Based Equity Awards. One hundred percent (100%) of Executive's outstanding and unvested Time-Based Awards will become vested in full as of the termination date.

(iv) Vesting of Performance-Based Equity Awards. Executive's outstanding and unvested Performance-Based Awards shall become vested as of the termination date based on actual performance through Executive's termination date, if measurable, and based upon target performance if performance is not measurable as of Executive's termination date.

(v) Continued Employee Benefits. Continuation coverage under the terms of the Company medical benefit plan pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), for Executive and/or Executive's eligible dependents, subject to Executive timely electing COBRA coverage. Until the earliest of (A) eighteen (18) months from the date of Executive's termination, (B) Executive's eligibility for group medical plan benefits under any other employer's group medical plan, or (C) the cessation of Executive's continuation rights under COBRA, the Company will pay directly on Executive's behalf the monthly COBRA premiums (at the coverage levels in effect for active employees of the Company). For the avoidance of doubt, the direct payment of any COBRA premiums will be reported as taxable income and subject to any applicable tax withholdings. Notwithstanding the foregoing, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating, or being subject to an excise tax under, applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company will in lieu thereof provide payroll payments of the applicable premium amounts directly to Executive for the time period specified above. Such payments shall be paid on the Company's regular payroll dates. For the avoidance of doubt, the taxable payment in lieu of COBRA reimbursements may be used for any purpose, including, but not limited to, continuation coverage under COBRA, and will be subject to all applicable tax withholdings.

(c) Equity Documents. Except as provided in this Section 3, all Time-Based Awards and Performance-Based Awards remain subject to the terms of the Company's 2019 Equity Incentive Plan or any successor thereto and the applicable award agreement.

(d) Voluntary Resignation; Termination for Cause. If Executive's employment with the Company and its subsidiaries terminates in a voluntary resignation (other than for Good Reason during the Change of Control Period), or if Executive's employment is terminated for Cause, then Executive shall not be entitled to receive any vesting acceleration except as otherwise may be provided by the applicable equity plan, applicable award agreement or applicable law.

(e) Termination for Death or Disability. Except for the Sign-on Award (as defined in that certain Offer Letter by and between Executive and Cerence Operating Company, dated February [], 2024) granted to the Executive in connection with his hiring and except as otherwise may be provided in a subsequent award agreement for any Time-Based Award, if

Executive's employment with the Company and its subsidiaries terminates on account of Executive's death or Disability, (i) one hundred percent (100%) of Executive's outstanding and unvested Time-Based Awards will become vested as of the termination date, (ii) one hundred percent (100%) of the earned portion of any of Executive's Performance-Based Awards for which the performance period is complete will become vested as of the termination date and (iii) Executive (or his estate or beneficiaries, if applicable) shall remain eligible to earn a Pro-Rated Portion of any Three-Year Performance-Based Award at the end of the performance period applicable to the Three-Year Performance-Based Award based upon actual achievement of the applicable performance metrics in accordance with the terms of the applicable award agreements and equity incentive plans and any such Pro-Rated Portion that is earned at the end of the performance period shall be immediately fully vested. In the case of a termination for Disability, vesting under this Section 3(e) will be subject to Executive's compliance with Section 4 and the other provisions of this Agreement.

(f) Accrued Amounts. Without regard to the reason for, or the timing of, Executive's termination of employment, the Company shall pay Executive: (i) any unpaid base salary due for periods prior to the date of termination, (ii) except if the Executive's employment has been terminated by the Company for Cause or by the Executive for any reason other than for Good Reason during a Change of Control Period, any bonus earned by Executive, but not yet paid to Executive, for the fiscal year immediately prior to the fiscal year in which the date of termination occurs; (iii) accrued and unused vacation, as required under the applicable Company policy; and (iv) all expenses incurred by Executive in connection with the business of the Company prior to the date of termination in accordance with the Company's business expense reimbursement policy. Subject to the immediately prior sentence, these payments shall be made promptly upon termination of Executive's employment and within the period of time mandated by law.

(g) Exclusive Remedy. In the event of termination of Executive's employment as set forth in Section 3 of this Agreement during the Term, the provisions of Section 3 are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive or the Company may otherwise be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by law, or any unreimbursed reimbursable expenses). Subject to Section 11(d), during the Term of this Agreement, Executive will not be entitled to benefits, compensation or other payments or rights with respect to Executive's outstanding equity awards upon termination of employment (except as otherwise explicitly provided in this Agreement or in the applicable award agreement), including under any offer letter, employment agreement, severance agreement or other agreement with the Company or its subsidiaries, other than those benefits expressly set forth in Section 3 of this Agreement.

(h) Transfer between Company and any Subsidiary. For purposes of this Section 3, if Executive's employment relationship with the Company or any parent or subsidiary of the Company ceases, Executive will not, solely by virtue thereof, be determined to have been terminated for purposes of this Agreement if Executive continues to remain employed by the Company or any parent or subsidiary of the Company immediately thereafter (e.g., upon transfer

of Executive's employment from the Company to a parent or subsidiary of the Company or vice versa).

4. Conditions to Entitlement to Equity Acceleration Benefits; Settlement

(a) Release of Claims Agreement. Other than in the event of a termination due to Executive's death, the receipt of any benefits under Section 3 pursuant to this Agreement is subject to Executive signing and not revoking a separation agreement in a form provided by the Company that is fair and reasonable and will contain standard provisions relative to the Executive's departure, and covenants not to exceed those in the CIIN that includes, without limitation, if requested by the Company, a non-competition covenant that applies for up to twelve (12) months following Executive's termination of employment, a non-solicitation covenant that applies for up to twelve (12) months following Executive's termination of employment, **non-disparagement and reasonable post-termination cooperation** obligations of Executive and a release of claims (the "**Separation Agreement**"). The Separation Agreement must become effective and irrevocable no later than the sixtieth (60th) day following Executive's termination of employment (the "**Release Deadline**"). If such Separation Agreement does not become effective and irrevocable by the Release Deadline, Executive will forfeit any right to severance payments or benefits under this Agreement. Any cash severance payments or benefits otherwise payable to Executive in a lump sum or otherwise between the termination date and the Release Deadline will be paid on or within fifteen (15) days (or such earlier date for such payment to qualify as a short-term deferral for purposes of Section 409A) following the Release Deadline. Notwithstanding anything to the contrary in the applicable equity plan or award agreement, to the extent permitted under Section 409A, any equity awards that become vested in connection with Executive's termination of employment under this Agreement shall not be settled or become exercisable, as applicable, until the Separation Agreement becomes effective in accordance with its terms. In no event will any severance payments or benefits be paid or provided until the Separation Agreement actually becomes effective and irrevocable and, if the Separation Agreement does not become effective in accordance with its terms on or prior to the Release Deadline, Executive's entitlement to any such benefits under this Agreement shall be forfeited on the Release Deadline for no consideration payable to Executive.

(b) Proprietary Information and Non-Competition Agreement. Executive's entitlement to any benefits under Section 3 will be subject to Executive continuing to comply with the terms of any agreements between Executive and the Company concerning inventions, confidentiality, or other restrictive covenants (the "**Confidentiality Agreement**").

5. Section 409A.

(a) Notwithstanding anything to the contrary in this Agreement, no Deferred Payments will be paid or otherwise provided until Executive has a "separation from service" within the meaning of Section 409A. Similarly, no amount payable to Executive, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until Executive has a "separation from service" within the meaning of Section 409A. In addition, if Executive is a "specified employee" within the meaning

of Section 409A at the time of Executive's separation from service (other than due to death), then the Deferred Payments, if any, that are payable within the first six (6) months following Executive's separation from service, will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Executive's separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following Executive's separation from service, but before the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive's death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations.

(b) Any amounts paid under this Agreement that satisfy the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Payments for purposes of this Agreement.

(c) Payments under this Agreement are intended to comply with, or be exempt from, the requirements of Section 409A so that none of the benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to so comply. Specifically, the payments hereunder are intended to be exempt from the requirements of Section 409A under the "short-term" deferral rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations. The Company and Executive agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition before actual payment to Executive under Section 409A. The Company makes no representation or warranty to Executive and in no event will the Company reimburse Executive or any other person for any taxes or other costs that may be imposed on Executive as a result of Section 409A or any other law.

6. Limitation on Payments. In the event that the benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then Executive's benefits under this Agreement shall be either:

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be

taxable under Section 4999 of the Code. If a reduction in benefits constituting “parachute payments” is necessary so that benefits are delivered to a lesser extent, reduction will occur in the following order: (1) reduction of cash payments, (2) cancellation of equity awards granted within the twelve (12)-month period prior to a “change of control” (as determined under Code Section 280G) that are deemed to have been granted contingent upon the change of control (as determined under Code Section 280G), (3) cancellation of accelerated vesting of equity awards, and (4) reduction of continued employee benefits. In the event that accelerated vesting of equity awards is to be cancelled, such vesting acceleration will be cancelled in the reverse chronological order of the award grant dates.

Unless the Company and Executive otherwise agree in writing, any determination required under this Section 6 shall be made in writing by the Company’s independent public accountants (the “**Accountants**”), whose determination shall be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section 6, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 6. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 6.

7. **Definition of Terms.** The following terms referred to in this Agreement will have the following meanings:

(a) **Cause.** “**Cause**” means (i) any act of dishonesty or fraud taken by Executive in connection with his or her responsibilities as an employee other than immaterial, inadvertent acts that, if capable of cure, are promptly remedied by Executive following reasonable notice by the Company, (ii) Executive’s breach of the fiduciary duty or duty of loyalty owed to the Company, or material breach of the duty to protect the Company’s confidential and proprietary information, (iii) Executive’s commission of, conviction of or plea of guilty or nolo contendere to (A) any felony or (B) a crime misdemeanor involving fraud, embezzlement, misappropriation of funds or any other act of moral turpitude, (iv) Executive’s gross negligence or willful misconduct in the performance of his or her duties, (v) Executive’s material breach of this Agreement or any other agreement with the Company or any material written policy of the Company; (vi) Executive’s engagement in conduct or activities that result, or are reasonably likely to result, in negative publicity or public disrespect, contempt or ridicule of the Company that the Board reasonably believes will have a demonstrably injurious effect on the reputation or business of the Company or Executive’s ability to perform his or her duties (but excluding conduct and activities undertaken in good faith by Executive in the ordinary course of performing his or her duties or promoting the Company or its subsidiaries); (vii) Executive’s failure to abide by the lawful and reasonable directives of the Company (other than during a period of Executive’s medically documented incapacity due to physical or mental illness or any failure to achieve a lawful and reasonable directive following the expenditure by Executive of commercially reasonable best efforts); or (viii) Executive’s repeated failure to materially perform the primary duties of Executive’s position (other

than during a period of Executive's medically documented incapacity due to physical or mental illness).

(b) Change of Control. "**Change of Control**" shall have the meaning specified in the Company's 2019 Equity Incentive Plan or any successor thereto.

(c) Change of Control Period. "**Change of Control Period**" means the period beginning on a Change of Control and ending on the one-year anniversary of the Change of Control.

(d) Code. "**Code**" means the United States Internal Revenue Code of 1986, as amended.

(e) Deferred Payments. "**Deferred Payments**" means any benefits to be paid or provided to Executive, if any, pursuant to this Agreement that, in each case, are or when considered together with any other severance payments or separation benefits are, deemed to be "non-qualified deferred compensation" within the meaning of Section 409A.

(f) Exchange Act. "**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended.

(g) Good Reason. "**Good Reason**" means Executive's termination of employment within sixty (60) days following the expiration of any Cure Period (discussed below) following the occurrence of one or more of the following, without Executive's express written consent: (i) a material reduction in Executive's position, title, duties, authority or responsibilities (other than during a period of Executive's incapacity due to physical or mental illness); (ii) a reduction by the Company in the annual base compensation or a material reduction by the Company in the Executive's target bonus opportunity (as a percentage of base salary) of Executive as in effect immediately prior to such reduction provided, however, that one or more reductions in base compensation or target bonus opportunity applicable to all executives generally that, cumulatively, total ten percent (10%) or less in base compensation and/or ten (10) percentage points or less in target bonus opportunity will not constitute a material reduction for purposes of this clause (ii); (iii) the relocation of Executive to a facility or a location more than fifty (50) miles from Executive's then present location; or (iv) a material breach by the Company of this Agreement or any equity award agreement between Company and Executive. In order for an event to qualify as Good Reason, Executive must not terminate employment with the Company without first providing the Company with written notice of the acts or omissions constituting the grounds for "Good Reason" within ninety (90) days of the initial existence of the grounds for "Good Reason" and the Company shall have failed to cure during a period of thirty (30) days following the date of such notice (the "**Cure Period**").

(h) Section 409A. "**Section 409A**" means Section 409A of the Code and the final Treasury Regulations and any official Internal Revenue Service guidance promulgated thereunder.

8. Assignment. Neither Executive nor the Company may make any assignment of this Agreement or any interest in it, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this Agreement without Executive's consent to any affiliate or to any person or entity with whom the Company shall hereafter effect a reorganization, consolidate with, or merge into or to whom it transfers all or substantially all of its properties or assets; provided further that if Executive remains employed or becomes employed by the Company, the purchaser or any of their affiliates in connection with any such transaction, then Executive shall not be entitled to any payments, benefits or vesting pursuant to this Agreement, except as expressly provided in Section 3. This Agreement shall inure to the benefit of and be binding upon Executive and the Company, and each of Executive's and the Company's respective successors, executors, administrators, heirs and permitted assigns.

9. Notice.

(a) General. Notices and all other communications contemplated by this Agreement will be in writing and will be deemed to have been duly given when personally delivered, when mailed by U.S. or applicable registered or certified mail, return receipt requested and postage prepaid, or when delivered by private courier service such as UPS, DHL or Federal Express that has tracking capability. In the case of Executive, mailed notices will be addressed to him or her at the home address which he or she most recently communicated to the Company in writing. In the case of the Company, mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the General Counsel of the Company.

(b) Notice of Termination. Any termination by the Company for Cause or by Executive for Good Reason will be communicated by a notice of termination to the other party hereto given in accordance with Section 9(a) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than thirty (30) days after the giving of such notice or any shorter period required herein).

10. Resignation. Upon termination of Executive's employment for any reason, Executive will be deemed to have resigned from all officer and/or director positions held at the Company and its affiliates voluntarily, without any further action required by the Executive, as of the end of Executive's employment and Executive, at the Board's request, will execute any documents reasonably necessary to reflect Executive's resignation.

11. Miscellaneous Provisions.

(a) No Duty to Mitigate. Executive will not be required to mitigate the amount of any payment contemplated by this Agreement (whether by seeking new employment or in any other manner), nor shall any such payment be reduced by any earnings that Executive may receive from any other source.

(b) Waiver. No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(d) Entire Agreement. This Agreement and the Confidentiality Agreements and the plan and agreements governing the equity awards (subject to the “for the avoidance of doubt” caveat below) constitute the entire agreement of the parties hereto with respect to the subject matter hereof and thereof. This Agreement supersedes, replaces in their entirety and terminates any prior representations, understandings, undertakings or agreements between the Company and Executive, whether written or oral and whether expressed or implied, that provided any severance benefits to Executive upon termination of Executive’s employment for any reason. Nothing in this Agreement shall result in a duplication of severance payments or benefits under any other plan, program or arrangement with the Company. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto and which specifically mention this Agreement. For the avoidance of doubt, it is the intention of the parties that the provisions of this Agreement providing for acceleration or other modification of the vesting provisions of equity awards are intended to supersede the vesting provisions of any equity awards that are outstanding during the term of this Agreement (except as otherwise explicitly provided herein or in the applicable award agreement).

(e) Clawback Provisions. Notwithstanding any other provision in this Agreement to the contrary, Executive agrees that incentive-based compensation or other amounts paid to Executive pursuant to this Agreement or any other agreement or arrangement with Company will be subject to clawback under any Company clawback policy that is applicable to all senior executives of Company (including any such policy adopted by Company pursuant to applicable law, government regulation or stock exchange listing requirement).

(f) Governing Law and Jurisdiction. This Agreement shall be governed by the laws of the State of Delaware (without giving effect to the conflict of laws principles thereof), and the Company and Executive each consent to personal and exclusive jurisdiction and venue in the State of Delaware for the purpose of any suit, action or other proceeding arising out of or based upon the Agreement.

(g) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision hereof, which will remain in full force and effect.

(h) Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable income, employment and other taxes.

(i) Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Change of Control and Severance Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

COMPANY

CERENCE INC.

By: /s/ Sachin Sahney
Sachin Sahney

Title: SVP – Chief Human Resources Officer

Date: February 28, 2024

EXECUTIVE

By: /s/ Daniel Tempesta
Daniel Tempesta

Title: EVP – Chief Financial Officer

Date: February 28, 2024

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (“Agreement”) is made as of _____[Date], 2024 by and between _____Cerence Inc., a Delaware corporation (the “Company”), and _____[Name of Indemnitee] (“Indemnitee”).

RECITALS

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve the Company;

WHEREAS, in order to induce Indemnitee to provide or continue to provide services to the Company, the Company wishes to provide for the indemnification of, and advancement of expenses to, Indemnitee to the maximum extent permitted by law;

WHEREAS, the Bylaws (the “Bylaws”) of the Company require indemnification of the officers and directors of the Company, and Indemnitee may also be entitled to indemnification pursuant to the General Corporation Law of the State of Delaware (the “DGCL”);

WHEREAS, the Bylaws and the DGCL expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the board of directors, officers and other persons with respect to indemnification;

WHEREAS, the Board of Directors of the Company (the “Board”) has determined that the increased difficulty in attracting and retaining highly qualified persons such as Indemnitee is detrimental to the best interests of the Company’s stockholders;

WHEREAS, it is reasonable and prudent for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law, regardless of any amendment or revocation of the Charter or the Bylaws, so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified; and

WHEREAS, this Agreement is a supplement to and in furtherance of the indemnification provided in the Bylaws and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. Services to the Company. Indemnitee agrees to serve as a director and/or an officer of the Company. Indemnitee may at any time and for any reason resign from any such position (subject to any other contractual obligation or any obligation imposed by law), in which event the Company shall have no obligation under this Agreement to continue Indemnitee in such position. This Agreement shall not be deemed an employment contract between the Company (or any of its subsidiaries or any Enterprise) and Indemnitee.

Section 2. Definitions.

As used in this Agreement:

- (a) “Affiliate” and “Associate” shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as in effect on the date of this Agreement; provided, however, that no Person who is a director or officer of the Company shall be deemed an Affiliate or an Associate of any other director or officer of the Company solely as a result of his or her position as director or officer of the Company.
- (b) A Person shall be deemed the “Beneficial Owner” of, and shall be deemed to “Beneficially Own” and have “Beneficial Ownership” of, any securities:
 - (i) which such Person or any of such Person’s Affiliates or Associates, directly or indirectly, Beneficially Owns (as determined pursuant to Rule 13d-3 of the Rules under the Exchange Act, as in effect on the date of this Agreement);
 - (ii) which such Person or any of such Person’s Affiliates or Associates, directly or indirectly, has: (A) the legal, equitable or contractual right or obligation to acquire (whether directly or indirectly and whether exercisable immediately or only after the passage of time, compliance with regulatory requirements, satisfaction of one or more conditions (whether or not within the control of such Person) or otherwise) upon the exercise of any conversion rights, exchange rights, rights, warrants or options, or otherwise; (B) the right to vote pursuant to any agreement, arrangement or understanding (whether or not in writing); or (C) the right to dispose of pursuant to any agreement, arrangement or understanding (whether or not in writing) (other than customary arrangements with and between underwriters and selling group members with respect to a bona fide public offering of securities);
 - (iii) which are Beneficially Owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person or any of such Person’s Affiliates or Associates has any agreement, arrangement or understanding (whether or not in writing) (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) for the purpose of acquiring, holding, voting or disposing of any securities of the Company; or
 - (iv) that are the subject of a derivative transaction entered into by such Person or any of such Person’s Affiliates or Associates, including, for these purposes, any derivative security acquired by such Person or any of such Person’s Affiliates or Associates that gives such Person or any of such Person’s Affiliates or Associates the economic equivalent of ownership of an amount of securities due to the fact that the value of the derivative security is explicitly determined by reference to the price or value of such securities, or that provides such Person or any of such Person’s Affiliates or Associates an opportunity, directly or indirectly, to profit or to share in any profit derived from any change in the value of such securities, in any case without regard to whether (A) such derivative security conveys any voting rights in such securities to such Person or any of such Person’s Affiliates or Associates; (B) the derivative security is required to be, or capable of being, settled through delivery of such securities; or (C) such Person

or any of such Person's Affiliates or Associates may have entered into other transactions that hedge the economic effect of such derivative security.

Notwithstanding the foregoing, no Person engaged in business as an underwriter of securities shall be deemed the Beneficial Owner of any securities acquired through such Person's participation as an underwriter in good faith in a firm commitment underwriting.

(c) A "Change in Control" shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

(i) Acquisition of Stock by Third Party. Any Person is or becomes the Beneficial Owner (as defined above), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities unless the change in relative Beneficial Ownership of the Company's securities by any Person results solely from a reduction in the aggregate number of outstanding shares of securities entitled to vote generally in the election of directors, provided that a Change of Control shall be deemed to have occurred if subsequent to such reduction such Person becomes the Beneficial Owner, directly or indirectly, of any additional securities of the Company conferring upon such Person any additional voting power;

(ii) Change in Board of Directors. During any period of two (2) consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a Person who has entered into an agreement with the Company to effect a transaction described in Sections 2(c)(i), 2(c)(iii) or 2(c)(iv)) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the members of the Board;

(iii) Corporate Transactions. The effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or successor entity) more than 50% of the combined voting power of the voting securities of the surviving or successor entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving or successor entity;

(iv) Liquidation. The approval by the stockholders of the Company of a complete liquidation of the Company or an agreement for the sale, lease, exchange or other transfer by the Company, in one or a series of related transactions, of all or substantially all of the Company's assets; and

(v) Other Events. There occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a

response to any similar item on any similar schedule or form) promulgated under the Exchange Act whether or not the Company is then subject to such reporting requirement.

(d) “Corporate Status” describes the status of a person as a current or former director or officer of the Company or current or former director, manager, partner, officer, employee, agent or trustee of any other Enterprise which such person is or was serving at the request of the Company.

(e) “Enforcement Expenses” shall include all reasonable attorneys’ fees, court costs, transcript costs, fees of experts, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other out-of-pocket disbursements or expenses of the types customarily incurred in connection with an action to enforce indemnification or advancement rights, or an appeal from such action. Expenses, however, shall not include fees, salaries, wages or benefits owed to Indemnitee.

(f) “Enterprise” shall mean any corporation (other than the Company), partnership, joint venture, trust, employee benefit plan, limited liability company or other legal entity of which Indemnitee is or was serving at the request of the Company as a director, manager, partner, officer, employee, agent or trustee.

(g) “Expenses” shall include all reasonable attorneys’ fees, court costs, transcript costs, fees of experts, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other out-of-pocket disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding or an appeal resulting from a Proceeding. Expenses, however, shall not include amounts paid in settlement by Indemnitee, the amount of judgments or fines against Indemnitee or fees, salaries, wages or benefits owed to Indemnitee.

(h) “Independent Counsel” means a law firm, or a partner (or, if applicable, member or shareholder) of such a law firm, that is experienced in matters of Delaware corporation law and neither presently is, nor in the past five (5) years has been, retained to represent: (i) the Company, any subsidiary of the Company, any Enterprise or Indemnitee in any matter material to any such party; or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any Person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel referred to above and to fully indemnify such counsel against any and all expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(i) “Person” shall mean (i) an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, a business trust, a government or political subdivision, any unincorporated organization or any other association or entity including any successor (by merger or otherwise) thereof or thereto, and (ii) a “group” as that term is used for purposes of Section 13(d)(3) of the Exchange Act.

(j) The term “Proceeding” shall include any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative, regulatory or investigative nature, and whether formal or informal, in which Indemnitee was, is or will be involved as a party or otherwise by reason of the fact that Indemnitee is or was a director or an officer of the Company or is or was serving at the request of the Company as a director, manager, partner, officer, employee, agent or trustee of any Enterprise or by reason of any action taken by Indemnitee or of any action taken on his or her part while acting as a director or an officer of the Company or while serving at the request of the Company as a director, manager, partner, officer, employee, agent or trustee of any Enterprise, in each case whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification, reimbursement or advancement of expenses can be provided under this Agreement; provided, however, that the term “Proceeding” shall not include any action, suit or arbitration, or part thereof, initiated by Indemnitee to enforce Indemnitee’s rights under this Agreement as provided for in Section 12(a) of this Agreement.

Section 3. Indemnity in Third-Party Proceedings. The Company shall indemnify Indemnitee to the extent set forth in this Section 3 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3, Indemnitee shall be indemnified against all Expenses, judgments, fines, penalties, excise taxes and amounts paid in settlement actually and reasonably incurred by Indemnitee or on his or her behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

Section 4. Indemnity in Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee to the extent set forth in this Section 4 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 4, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on his or her behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company. No indemnification for Expenses shall be made under this Section 4 in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudged by a court to be liable to the Company, unless and only to the extent that the Delaware Court of Chancery (the “Delaware Court”) shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification for such expenses as the Delaware Court shall deem proper.

Section 5. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provisions of this Agreement and except as provided in Section 7, to the extent that Indemnitee is a party to or a participant in any Proceeding and is successful in such Proceeding or in defense of any claim, issue or matter therein, the Company

shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or her in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on his or her behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 6. Reimbursement for Expenses of a Witness or in Response to a Subpoena. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee, by reason of his or her Corporate Status, (i) is a witness in any Proceeding to which Indemnitee is not a party and is not threatened to be made a party or (ii) receives a subpoena with respect to any Proceeding to which Indemnitee is not a party and is not threatened to be made a party, the Company shall reimburse Indemnitee for all Expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

Section 7. Exclusions. Notwithstanding any provision in this Agreement to the contrary, the Company shall not be obligated under this Agreement:—

(a) to indemnify for amounts otherwise indemnifiable hereunder (or for which advancement is provided hereunder) if and to the extent that Indemnitee has otherwise actually received such amounts under any insurance policy, contract, agreement or otherwise; provided that the foregoing shall not apply to any personal or umbrella liability insurance maintained by Indemnitee;

(b) to indemnify for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act or similar provisions of state statutory law or common law;

(c) to indemnify for any reimbursement of, or repayment to, the Company by Indemnitee of (i) any bonus or other incentive-based or equity-based compensation or of any profits realized by Indemnitee from the sale of securities of the Company pursuant to the terms of (A) Section 304 of SOX, (B) Exchange Act Rule 10D-1 or (C) any formal policy of the Company adopted by the Board (or a committee thereof), or (ii) any other remuneration paid to Indemnitee if it shall be determined by a final judgment or other final adjudication that payment of such remuneration was or would have been in violation of law, in each case to the extent applicable to Indemnitee;

(d) to indemnify with respect to any Proceeding, or part thereof, brought by Indemnitee against the Company, any legal entity which it controls, any director or officer thereof or any third party, unless (i) the Board has consented to the initiation of such Proceeding or part thereof and (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law; provided, however, that this Section 7(d) shall not apply to (A) counterclaims or affirmative defenses asserted by Indemnitee in an action brought against Indemnitee or (B) any action brought by Indemnitee for indemnification or advancement from the Company under this Agreement or under any directors' and officers'

liability insurance policies maintained by the Company in the suit for which indemnification or advancement is being sought as described in Section 12; or

(e) to provide any indemnification or advancement of expenses that is prohibited by applicable law (as such law exists at the time payment would otherwise be required pursuant to this Agreement).

Section 8. Advancement of Expenses. Subject to Section 9(b), the Company shall advance the Expenses incurred by Indemnitee in connection with any Proceeding, and such advancement shall be made within thirty (30) days after the receipt by the Company of a statement or statements requesting such advances (including any invoices received by Indemnitee, which such invoices may be redacted as necessary to avoid the waiver of any privilege accorded by applicable law) from time to time, whether prior to or after final disposition of any Proceeding. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee's (i) ability to repay the expenses, (ii) ultimate entitlement to indemnification under the other provisions of this Agreement and (iii) entitlement to and availability of insurance coverage, including advancement, payment or reimbursement of defense costs, expenses or covered loss under the provisions of any applicable insurance policy (including, without limitation, whether such advancement, payment or reimbursement is withheld, conditioned or delayed by the insurer(s)). Indemnitee shall qualify for advances upon the execution and delivery to the Company of this Agreement which shall constitute an undertaking providing that Indemnitee undertakes to the fullest extent required by law to repay the advance if and to the extent that it is ultimately determined by a court of competent jurisdiction in a final judgment, not subject to appeal, that Indemnitee is not entitled to be indemnified by the Company. No other form of undertaking shall be required. The right to advances under this paragraph shall in all events continue until final disposition of any Proceeding, including any appeal therein. Nothing in this Section 8 shall limit Indemnitee's right to advancement pursuant to Section 12(e) of this Agreement.

Section 9. Procedure for Notification and Defense of Claim.

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request therefor specifying the basis for the claim, the amounts for which Indemnitee is seeking payment under this Agreement and all documentation related thereto as reasonably requested by the Company.

(b) In the event that the Company shall be obligated hereunder to provide indemnification for or make any advancement of Expenses with respect to any Proceeding, the Company shall be entitled to assume the defense of such Proceeding, or any claim, issue or matter therein, with counsel approved by Indemnitee (which approval shall not be unreasonably withheld or delayed) upon the delivery to Indemnitee of written notice of the Company's election to do so. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees or expenses of separate counsel subsequently employed by or on behalf of Indemnitee with respect to the same Proceeding; provided that (i) Indemnitee shall have the right to employ separate counsel in any such Proceeding at Indemnitee's expense and (ii) if (A) the employment of separate counsel by Indemnitee has been previously authorized by the

Company, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of such defense, (C) the Company shall not continue to retain such counsel to defend such Proceeding or (D) a Change in Control shall have occurred, then the fees and expenses actually and reasonably incurred by Indemnitee with respect to his or her separate counsel shall be Expenses hereunder.

(c) In the event that the Company does not assume the defense in a Proceeding pursuant to paragraph (b) above, then the Company will be entitled to participate in the Proceeding at its own expense.

(d) The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding effected without its prior written consent (which consent shall not be unreasonably withheld or delayed). Without limiting the generality of the foregoing, the fact that an insurer under an applicable insurance policy delays or is unwilling to consent to such settlement or is or may be in breach of its obligations under such policy, or the fact that directors' and officers' liability insurance is otherwise unavailable or not maintained by the Company, may not be taken into account by the Company in determining whether to provide its consent. The Company shall not, without the prior written consent of Indemnitee (which consent shall not be unreasonably withheld or delayed), enter into any settlement which (i) includes an admission of fault of Indemnitee, any non-monetary remedy imposed on Indemnitee or any monetary damages for which Indemnitee is not wholly and actually indemnified hereunder or (ii) with respect to any Proceeding with respect to which Indemnitee may be or is made a party or may be otherwise entitled to seek indemnification hereunder, does not include the full release of Indemnitee from all liability in respect of such Proceeding.

Section 10. Procedure Upon Application for Indemnification.

(a) Upon written request by Indemnitee for indemnification pursuant to Section 9(a), a determination, if such determination is required by applicable law, with respect to Indemnitee's entitlement to indemnification hereunder shall be made in the specific case by one of the following methods: (x) if a Change in Control shall have occurred and indemnification is being requested by Indemnitee hereunder in his or her capacity as a director of the Company, by Independent Counsel in a written opinion to the Board; or (y) in any other case, (i) by a majority vote of the disinterested directors, even though less than a quorum; (ii) by a committee of disinterested directors designated by a majority vote of the disinterested directors, even though less than a quorum; or (iii) if there are no disinterested directors or if the disinterested directors so direct, by Independent Counsel in a written opinion to the Board. For purposes hereof, disinterested directors are those members of the Board who are not parties to the action, suit or proceeding in respect of which indemnification is sought. In the case that such determination is made by Independent Counsel, a copy of Independent Counsel's written opinion shall be delivered to Indemnitee and, if it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within thirty (30) days after such determination. Indemnitee shall cooperate with the Independent Counsel or the Company, as applicable, in making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such counsel or the Company, upon reasonable advance request, any documentation or information which is not privileged or otherwise protected from disclosure and

which is reasonably available to Indemnitee and reasonably necessary to such determination. The Company shall likewise cooperate with Indemnitee and Independent Counsel, if applicable, in making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such counsel and Indemnitee, upon reasonable advance request, any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to the Company and reasonably necessary to such determination. Any out-of-pocket costs or expenses (including reasonable attorneys' fees and disbursements) actually and reasonably incurred by Indemnitee in so cooperating with the Independent Counsel or the Company shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(b) If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 10(a), the Independent Counsel shall be selected by the Board; provided that, if a Change in Control shall have occurred and indemnification is being requested by Indemnitee hereunder in his or her capacity as a director of the Company, the Independent Counsel shall be selected by Indemnitee. Indemnitee or the Company, as the case may be, may, within ten (10) days after written notice of such selection, deliver to the Company or Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 2 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the Person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or the Delaware Court has determined that such objection is without merit. If, within twenty (20) days after the later of (i) submission by Indemnitee of a written request for indemnification pursuant to Section 9(a) and (ii) the final disposition of the Proceeding, including any appeal therein, no Independent Counsel shall have been selected without objection, either Indemnitee or the Company may petition the Delaware Court for resolution of any objection which shall have been made by Indemnitee or the Company to the selection of Independent Counsel and/or for the appointment as Independent Counsel of a Person selected by the court or by such other Person as the court shall designate. The Person with respect to whom all objections are so resolved or the Person so appointed shall act as Independent Counsel under Section 10(a) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 12(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

(c) Notwithstanding anything to the contrary contained in this Agreement, the determination of entitlement to indemnification under this Agreement shall be made without regard to the Indemnitee's entitlement to and availability of insurance coverage, including advancement, payment or reimbursement of defense costs, expenses or covered loss under the provisions of any applicable insurance policy (including, without limitation, whether such advancement, payment or reimbursement is withheld, conditioned or delayed by the insurer(s)).

Section 11. Presumptions and Effect of Certain Proceedings.

(a) To the extent permitted by applicable law, in making a determination with respect to entitlement to indemnification hereunder, it shall be presumed that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 9(a) of this Agreement, and the Company shall have the burden of proof and the burden of persuasion by clear and convincing evidence to overcome that presumption in connection with the making of any determination contrary to that presumption.

(b) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of guilty, nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

(c) Indemnitee shall be deemed to have acted in good faith if Indemnitee's actions based on the records or books of account of the Company or any other Enterprise, including financial statements, or on information supplied to Indemnitee by the directors, officers, agents or employees of the Company or any other Enterprise in the course of their duties, or on the advice of legal counsel for the Company or any other Enterprise or on information or records given or reports made to the Company or any other Enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Company or any other Enterprise. The provisions of this Section 11(c) shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement. In addition, the knowledge and/or actions, or failure to act, of any director, manager, partner, officer, employee, agent or trustee of the Company, any subsidiary of the Company, or any Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement. Whether or not the foregoing provisions of this Section 11(c) are satisfied, it shall in any event be presumed that Indemnitee has at all times acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

Section 12. Remedies of Indemnitee.

(a) Subject to Section 12(f), in the event that (i) a determination is made pursuant to Section 10 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 8 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 10(a) of this Agreement within sixty (60) days after receipt by the Company of the request for indemnification for which a determination is to be made other than by Independent Counsel, (iv) payment of indemnification or reimbursement of expenses is not made

pursuant to Section 5 or 6 or the last sentence of Section 10(a) of this Agreement within thirty (30) days after receipt by the Company of a written request therefor (including any invoices received by Indemnitee, which such invoices may be redacted as necessary to avoid the waiver of any privilege accorded by applicable law) or (v) payment of indemnification pursuant to Section 3 or 4 of this Agreement is not made within thirty (30) days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall be entitled to an adjudication by the Delaware Court of his or her entitlement to such indemnification or advancement. Alternatively, Indemnitee, at his or her option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 12(a); provided, however, that the foregoing time limitation shall not apply in respect of a proceeding brought by Indemnitee to enforce his or her rights under Section 5 of this Agreement. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 10(a) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 12 shall be conducted in all respects as a de novo trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 12, the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement, as the case may be.

(c) If a determination shall have been made pursuant to Section 10(a) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 12, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 12 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement.

(e) The Company shall indemnify Indemnitee to the fullest extent permitted by law against any and all Enforcement Expenses and, if requested by Indemnitee, shall (within thirty (30) days after receipt by the Company of a written request therefor) advance, to the extent not prohibited by law, such Enforcement Expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee for indemnification or advancement from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company in the suit for which indemnification or advancement is being sought. Such written request for advancement shall include invoices received by Indemnitee in connection with such Enforcement Expenses but, in the case of invoices in connection with legal services, any references to legal work performed or to

expenditures made that would cause Indemnitee to waive any privilege accorded by applicable law need not be included with the invoice.

(f) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding, including any appeal therein.

Section 13. Non-exclusivity; Survival of Rights; Insurance; Subrogation.

(a) The rights of indemnification and to receive advancement as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Charter, the Bylaws, any agreement, a vote of stockholders or a resolution of directors or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement than would be afforded currently under the Charter, Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy. [The parties acknowledge that Indemnitee is a party to an Indemnification Agreement with the Company dated as of [____] (the "Existing Agreement"), that this Agreement shall be deemed to be an amendment and restatement of the Existing Agreement, and that the Indemnitee shall continue to be entitled to any rights to indemnification or advancement of expenses, on a non-exclusive basis, under the Existing Agreement with respect to any matters for which a claim for indemnification or advancement of expenses has been made prior to the date hereof.]

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, managers, partners, officers, employees, agents or trustees of the Company or of any other Enterprise, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, manager, partner, officer, employee, agent or trustee under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such claim to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies. Upon request of Indemnitee, the Company shall also promptly provide to Indemnitee: (i) copies of all of the Company's potentially applicable directors' and officers' liability insurance policies, (ii) copies of such notices delivered to the applicable insurers and (iii) copies of all subsequent communications and correspondence between the Company and such insurers regarding the Proceeding.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company's obligation to provide indemnification or advancement hereunder to Indemnitee who is or was serving at the request of the Company as a director, manager, partner, officer, employee, agent or trustee of any other Enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement from such other Enterprise.

Section 14. Duration of Agreement. This Agreement shall continue until and terminate upon the later of: (a) ten (10) years after the date that Indemnitee shall have ceased to serve as a director or an officer of the Company or (b) one (1) year after the final termination of any Proceeding, including any appeal, then pending in respect of which Indemnitee is granted rights of indemnification or advancement hereunder and of any proceeding commenced by Indemnitee pursuant to Section 12 of this Agreement relating thereto. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of Indemnitee and his or her heirs, executors and administrators. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

Section 15. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 16. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve or continue to serve as a director and/or an officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director and/or an officer of the Company

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and[, subject to Section 13(a),] supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof; provided, however, that this Agreement is a supplement to and in furtherance of the Charter, the Bylaws and applicable law, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnatee thereunder.

Section 17. Modification and Waiver. No supplement, modification or amendment, or waiver of any provision, of this Agreement shall be binding unless executed in writing by the parties thereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver. No supplement, modification or amendment of this Agreement or of any provision hereof shall limit or restrict any right of Indemnatee under this Agreement in respect of any action taken or omitted by such Indemnatee prior to such supplement, modification or amendment.

Section 18. Notice by Indemnatee. Indemnatee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification, reimbursement or advancement as provided hereunder. The failure of Indemnatee to so notify the Company or any delay in notification shall not relieve the Company of any obligation which it may have to Indemnatee under this Agreement or otherwise, unless, and then only to the extent that, the Company did not otherwise learn of the Proceeding and such delay is materially prejudicial to the Company's ability to defend such Proceeding or matter; and, provided, further, that notice will be deemed to have been given without any action on the part of Indemnatee in the event the Company is a party to the same Proceeding.

Section 19. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed, (iii) mailed by reputable overnight courier and receipted for by the party to whom said notice or other communication shall have been directed or (iv) sent by email transmission, with receipt of oral confirmation that such transmission has been received:

- (a) If to Indemnatee, at such address as Indemnatee shall provide to the Company.
- (b) If to the Company to:

Cerence Inc.
25 Mall Road, Suite 416
Burlington, MA 01803
Attention: General Counsel
Email: generalcounsel@cerence.com

or to any other address as may have been furnished to Indemnatee by the Company.

Section 20. Contribution. To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnatee for any reason whatsoever, the Company, in lieu of indemnifying Indemnatee, shall contribute to the amount incurred by Indemnatee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any Proceeding in such proportion as is deemed fair and reasonable in light of all of the circumstances in order to reflect (i) the relative benefits received by the Company and Indemnatee in connection with the event(s) and/or transaction(s) giving rise to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnatee in connection with such event(s) and/or transactions.

Section 21. Internal Revenue Code Section 409A. The Company intends for this Agreement to comply with the Indemnification exception under Section 1.409A-1(b)(10) of the regulations promulgated under the Internal Revenue Code of 1986, as amended (the "Code"), which provides that indemnification of, or the purchase of an insurance policy providing for payments of, all or part of the expenses incurred or damages paid or payable by Indemnatee with respect to a bona fide claim against Indemnatee or the Company do not provide for a deferral of compensation, subject to Section 409A of the Code, where such claim is based on actions or failures to act by Indemnatee in his or her capacity as a service provider of the Company. The parties intend that this Agreement be interpreted and construed with such intent.

Section 22. Applicable Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. Except with respect to any arbitration commenced by Indemnatee pursuant to Section 12(a) of this Agreement, the Company and Indemnatee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court, and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) consent to service of process at the address set forth in Section 19 of this Agreement with the same legal force and validity as if served upon such party personally within the State of Delaware, (iv) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court and (v) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

Section 23. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

Section 24. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

Section 25. Monetary Damages Insufficient/Specific Enforcement. The Company and Indemnitee agree that a monetary remedy for breach of this Agreement may be inadequate, impracticable and difficult of proof, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm (having agreed that actual and irreparable harm will result in not forcing the Company to specifically perform its obligations pursuant to this Agreement) and that by seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which he may be entitled. The Company and Indemnitee further agree that Indemnitee shall be entitled to such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertakings in connection therewith. The Company acknowledges that in the absence of a waiver, a bond or undertaking may be required of Indemnitee by the Court, and the Company hereby waives any such requirement of a bond or undertaking.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed as of the day and year first above written.

CERENCE INC.

By: _____

Name:

Title

INDEMNITEE

[Name of Indemnitee]

**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
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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.

By: /s/ Stefan Ortmanns
Stefan Ortmanns
Chief Executive Officer
(Principal Executive Officer)

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

I, Daniel Tempesta, 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
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- Date: May 10, 2024

/s/ Daniel Tempesta
Daniel Tempesta
Chief Financial Officer
(Principal Financial Officer)

**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 March 31, 2024 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: May 10, 2024

By:

/s/ Stefan Ortmanns

Stefan Ortmanns
Chief Executive Officer
(Principal Executive Officer)

**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 March 31, 2024 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: May 10, 2024

By:

/s/ Daniel Tempesta

Daniel Tempesta
Chief Financial Officer
(Principal Financial Officer)