

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, 2025

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 April 30, 2025, the registrant had 43,258,066 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, anticipations, intentions, 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 company, business, market trends, 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 consumer spending and preferences, changes in interest rate levels and credit availability, fuel costs and availability, governmental incentives and regulatory requirements, trade restrictions, customs regulations, tariffs and price or exchange controls, and the ongoing conflicts in Ukraine and the Middle East;
- volatility in the political, legal and regulatory environment in which we operate, including trade, tariffs and other policies implemented by the new administration in the United States or actions taken by other countries in response and automotive production curtailment or delays related thereto;
- 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, and other public health events;
- 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") and price increases related thereto;
- escalating pricing pressures from our customers;
- the cancellation or postponement of service contracts after a design win;
- our failure to win, renew or implement service contracts;
- 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;
- 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; the mix of revenue from customer contracts; and the level of professional service projects;
- our inability to control and successfully manage our expense and cash positions;
- our transformation plans and cost efficiency initiatives, including estimated net cost savings;
- our inability to deliver improved financial results from process optimization efforts and cost reductions;
- disruptions arising from transitions in management personnel;
- 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, tariff, trade, 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;
- adverse developments related to our intellectual property enforcement litigation, the outcome of such litigation, or remedies that could be awarded in connection with such litigation;
- 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, the use of cash to service our debt and our inability to generate sufficient cash from our operations; 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, 2024 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 our business or 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,	
	2025	2024	2025	2024
Revenues:				
License	\$ 51,460	\$ 35,527	\$ 74,185	\$ 56,350
Connected services	12,648	13,597	26,355	110,417
Professional services	13,902	18,701	28,366	39,393
Total revenues	78,010	67,825	128,906	206,160
Cost of revenues:				
License	2,432	1,404	4,214	3,008
Connected services	4,979	5,359	11,290	12,662
Professional services	10,418	14,119	20,149	31,444
Amortization of intangible assets	—	—	—	103
Total cost of revenues	17,829	20,882	35,653	47,217
Gross profit	60,181	46,943	93,253	158,943
Operating expenses:				
Research and development	23,332	31,846	44,201	65,152
Sales and marketing	4,930	5,619	9,696	11,690
General and administrative	11,199	16,659	23,953	29,452
Amortization of intangible assets	536	555	1,090	1,100
Restructuring and other costs, net	2,832	4,551	13,894	5,256
Goodwill impairment	—	252,096	—	252,096
Total operating expenses	42,829	311,326	92,834	364,746
Income (loss) from operations	17,352	(264,383)	419	(205,803)
Interest income	918	1,190	2,355	2,622
Interest expense	(2,716)	(3,111)	(6,109)	(6,347)
Other income (expense), net	499	(25)	771	1,397
Income (loss) before income taxes	16,053	(266,329)	(2,564)	(208,131)
(Benefit from) provision for income taxes	(5,603)	11,647	68	45,988
Net income (loss)	\$ 21,656	\$ (277,976)	\$ (2,632)	\$ (254,119)
Net income (loss) per share:				
Basic	\$ 0.50	\$ (6.66)	\$ (0.06)	\$ (6.13)
Diluted	0.46	(6.66)	(0.06)	(6.13)
Weighted-average common shares outstanding:				
Basic	43,223	41,724	43,059	41,452
Diluted	51,530	41,724	43,059	41,452

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Net income (loss)	\$ 21,656	\$ (277,976)	\$ (2,632)	\$ (254,119)
Other comprehensive income (loss):				
Foreign currency translation adjustments	972	(3,225)	(2,877)	1,055
Pension adjustments, net	(5)	(39)	(8)	(12)
Net unrealized gains (losses) on available-for-sale securities	4	(3)	(17)	160
Total other comprehensive income (loss)	971	(3,267)	(2,902)	1,203
Comprehensive income (loss)	<u>\$ 22,627</u>	<u>\$ (281,243)</u>	<u>\$ (5,534)</u>	<u>\$ (252,916)</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, 2025</u>	<u>September 30, 2024</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 117,368	\$ 121,485
Marketable securities	5,413	5,502
Accounts receivable, net of allowances of \$54 and \$1,613	65,018	62,755
Deferred costs	4,737	5,286
Prepaid expenses and other current assets	39,633	70,481
Total current assets	<u>232,169</u>	<u>265,509</u>
Long-term marketable securities	-	3,453
Property and equipment, net	29,412	30,139
Deferred costs	15,960	18,051
Operating lease right of use assets	17,989	12,879
Goodwill	293,357	296,858
Intangible assets, net	551	1,706
Deferred tax assets	55,248	51,398
Other assets	20,860	22,365
Total assets	<u>\$ 665,546</u>	<u>\$ 702,358</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,634	\$ 3,959
Deferred revenue	49,740	52,822
Short-term operating lease liabilities	3,958	4,528
Short-term debt	60,056	87,094
Accrued expenses and other current liabilities	37,506	68,405
Total current liabilities	<u>157,894</u>	<u>216,808</u>
Long-term debt	197,593	194,812
Deferred revenue, net of current portion	119,954	114,354
Long-term operating lease liabilities	14,557	8,803
Other liabilities	26,279	26,484
Total liabilities	<u>516,277</u>	<u>561,261</u>
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Common stock, \$0.01 par value, 560,000 shares authorized; 43,254 and 41,924 shares issued and outstanding, respectively	433	419
Accumulated other comprehensive loss	(28,814)	(25,912)
Additional paid-in capital	1,102,022	1,088,330
Accumulated deficit	(924,372)	(921,740)
Total stockholders' equity	<u>149,269</u>	<u>141,097</u>
Total liabilities and stockholders' equity	<u>\$ 665,546</u>	<u>\$ 702,358</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, 2025						
Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2024	42,988	430	1,096,085	(946,028)	(29,785)	120,702
Net income	-	-	-	21,656	-	21,656
Other comprehensive income	-	-	-	-	971	971
Issuance of common stock	265	3	808	-	-	811
Stock withheld to cover tax withholdings requirements upon stock vesting	-	-	(802)	-	-	(802)
Stock-based compensation	-	-	5,931	-	-	5,931
Balance at March 31, 2025	<u>43,253</u>	<u>\$ 433</u>	<u>\$ 1,102,022</u>	<u>\$ (924,372)</u>	<u>\$ (28,814)</u>	<u>\$ 149,269</u>

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>

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

Six Months Ended March 31, 2025						
Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at September 30, 2024	41,924	419	1,088,330	(921,740)	(25,912)	141,097
Net loss	-	-	-	(2,632)	-	(2,632)
Other comprehensive loss	-	-	-	-	(2,902)	(2,902)
Issuance of common stock	1,331	14	2,161	-	-	2,175
Stock withheld to cover tax withholdings requirements upon stock vesting	(2)	-	(2,171)	-	-	(2,171)
Stock-based compensation	-	-	13,702	-	-	13,702
Balance at March 31, 2025	<u>43,253</u>	<u>\$ 433</u>	<u>\$ 1,102,022</u>	<u>\$ (924,372)</u>	<u>\$ (28,814)</u>	<u>\$ 149,269</u>
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>

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,	
	2025	2024
Cash flows from operating activities:		
Net loss	\$ (2,632)	\$ (254,119)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Depreciation and amortization	5,793	5,384
Provision for credit loss reserve	208	6,065
Stock-based compensation	13,702	13,125
Non-cash interest expense	3,348	2,939
Loss on debt extinguishment	(327)	—
Deferred tax (benefit) provision	(4,271)	40,949
Goodwill impairment	—	252,096
Unrealized foreign currency transaction losses (gains)	345	(262)
Other, net	(33)	474
Changes in operating assets and liabilities:		
Accounts receivable	(8,029)	(75)
Prepaid expenses and other assets	25,250	5,854
Deferred costs	2,041	3,423
Accounts payable	2,492	(292)
Accrued expenses and other liabilities	(23,532)	(1,673)
Deferred revenue	10,365	(75,659)
Net cash provided by (used in) operating activities	24,720	(1,771)
Cash flows from investing activities:		
Capital expenditures	(3,703)	(2,776)
Sale and maturities of marketable securities	3,493	3,912
Other investing activities	(716)	(891)
Net cash (used in) provided by investing activities	(926)	245
Cash flows from financing activities:		
Principal payments of short-term debt	(26,964)	—
Common stock repurchases for tax withholdings for net settlement of equity awards	(2,171)	(9,744)
Principal payment of lease liabilities arising from a finance lease	(229)	(202)
Proceeds from the issuance of common stock	2,175	10,461
Net cash (used in) provided by financing activities	(27,189)	515
Effects of exchange rate changes on cash and cash equivalents	(722)	(967)
Net change in cash and cash equivalents	(4,117)	(1,978)
Cash and cash equivalents at beginning of period	121,485	101,154
Cash and cash equivalents at end of period	\$ 117,368	\$ 99,176
Supplemental information:		
Cash paid for income taxes	\$ 3,105	\$ 6,256
Cash paid for interest	\$ 3,077	\$ 3,076

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 nearly 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, 2025 are not necessarily indicative of the results to be expected for any other interim period or for the fiscal year ending September 30, 2025. 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, 2024.

Use of Estimates

The financial statements are prepared in accordance with GAAP, which requires management to make estimates, judgments 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 stock-based compensation; accounting for income taxes; accounting for leases; accounting for convertible debt; and loss contingencies. We base our estimates on historical experience, market participant fair value considerations, projected future cash flows, and various other factors that are believed to be reasonable under the circumstances. Actual amounts could differ significantly from these estimates.

Concentration of Risk

Financial instruments that potentially subject us to significant concentrations of credit risk primarily consist of trade accounts receivable. We perform ongoing credit evaluations of our customers’ financial condition and limit the amount of credit extended when deemed appropriate. Two customers accounted for 21.6% and 10.6% of our Accounts receivable, net balance at March 31, 2025. One customer accounted for 21.4% of our Accounts receivable, net balance at September 30, 2024.

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, 2025 is as follows (dollars in thousands):

	Allowance for Credit Losses	
Balance as of September 30, 2024	\$	1,614
Credit loss provision		208
Write-offs, net of recoveries		(1,745)
Effect of foreign currency translation		(13)
Balance as of March 31, 2025	\$	64

During the three months ended December 31, 2024, we signed a termination agreement with an international electric vehicle maker. As a result, we wrote off a \$1.7 million balance, of which \$1.5 million had been previously reserved for within our allowance for credit losses.

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, 2025 and September 30, 2024, inventory was \$1.2 million and \$1.0 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.

In November 2024, the FASB issued ASU 2024-03, “Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses” (“ASU 2024-03”), which requires disclosure about the types of costs and expenses included in certain expense captions presented on the income statement. ASU 2024-03 is effective for fiscal years beginning after December 15, 2026, and for interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted, and may be applied either prospectively or retrospectively. We are currently evaluating this pronouncement to determine its impact on our 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, 2025 and 2024 (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Revenues:				
United States	\$ 9,348	\$ 16,018	\$ 18,796	\$ 115,487
Other Americas	450	52	647	136
Germany	19,698	35,424	39,107	54,557
Other Europe, Middle East and Africa	5,610	3,457	11,153	8,232
Japan	18,501	4,548	24,458	10,171
Other Asia-Pacific	24,403	8,326	34,745	17,577
Total net revenues	<u>\$ 78,010</u>	<u>\$ 67,825</u>	<u>\$ 128,906</u>	<u>\$ 206,160</u>

For the three and six months ended March 31, 2025, revenues within Korea were \$16.1 million and \$18.2 million, respectively, which were more than 10% of revenues. For the three and six months ended March 31, 2025, revenues within China were \$4.9 million and \$10.3 million, respectively, which were less than 10% of revenues. Revenues within China and Korea are included in the total for the Other Asia-Pacific major geographic region in the table above.

Revenues relating to two customers accounted for \$13.4 million, or 17.1%, and \$8.1 million, or 10.4%, of revenues for the three months ended March 31, 2025. Revenues relating to two customers accounted for \$14.6 million, or 11.3%, and \$14.1 million, or 10.9%, of revenues for the six months ended March 31, 2025.

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. The acceleration of deferred revenue into the first quarter of fiscal year 2024 was included in the total for the United States major geographic region in the table above.

(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, 2025 and September 30, 2024, we had \$5.9 million and \$7.1 million of contract acquisition costs, respectively. We had amortization expense of \$0.6 million and \$1.0 million related to these costs during the three months ended March 31, 2025 and 2024, respectively, and \$1.2 million and \$1.7 million for the six months ended March 31, 2025 and 2024, 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 \$1.1 million and \$1.7 million related to these costs during the three months ended March 31, 2025 and 2024, respectively, and \$3.5 million and \$5.8 million for the six months ended March 31, 2025 and 2024, 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, 2024 and 2023 was \$62.8 million and \$61.3 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 the right to payment is not solely subject to the passage of time. Contract assets were \$56.7 million as of September 30, 2023. 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, 2024	\$ 22,219
Revenues recognized but not billed	14,738
Amounts reclassified to Accounts receivable, net	(18,519)
Effect of foreign currency translation	(1,002)
Balance as of March 31, 2025	\$ 17,436

Our contract liabilities, which we present as deferred revenue, consist of advance payments and billings in excess of revenues recognized. Deferred revenues were \$222.6 million as of September 30, 2023. 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, 2024	\$ 167,176
Amounts billed but not recognized	50,021
Revenue recognized	(44,515)
Effect of foreign currency translation	(2,988)
Balance as of March 31, 2025	\$ 169,694

(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, 2025 (dollars in thousands):

	Within One Year	Two to Five Years	Greater than Five Years	Total
Total revenue	\$ 75,621	\$ 96,085	\$ 32,548	\$ 204,254

The table above includes fixed remaining performance obligations and does not include contingent usage-based activities, such as royalties and usage-based connected services.

Note 4. Earnings Per Share

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

The dilutive effect of the Notes (as defined in Note 14) is reflected in net (loss) income per share by application of the “if-converted” method. The “if-converted” method is only assumed in periods where such application would be dilutive. In applying the “if-converted” method for diluted net (loss) income per share, we would assume conversion of the Notes at 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) income per share:

<i>in thousands, except per share data</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Numerator:				
Net income (loss) - basic	\$ 21,656	\$ (277,976)	\$ (2,632)	\$ (254,119)
Interest on the Notes, net of tax	2,093	-	-	-
Net income (loss) - diluted	<u>\$ 23,749</u>	<u>\$ (277,976)</u>	<u>\$ (2,632)</u>	<u>\$ (254,119)</u>
Denominator:				
Weighted average common shares outstanding - basic	43,223	41,724	43,059	41,452
Dilutive effect of restricted stock awards	1,481	-	-	-
Dilutive effect of contingently issuable stock awards	62	-	-	-
Dilutive effect of the Notes	6,764	-	-	-
Weighted average common shares outstanding - diluted	<u>51,530</u>	<u>41,724</u>	<u>43,059</u>	<u>41,452</u>
Net income (loss) per common share:				
Basic	\$ 0.50	\$ (6.66)	\$ (0.06)	\$ (6.13)
Diluted	<u>\$ 0.46</u>	<u>\$ (6.66)</u>	<u>\$ (0.06)</u>	<u>\$ (6.13)</u>

We exclude weighted-average potential shares from the calculations of diluted net (loss) income per share during the applicable periods when their inclusion is anti-dilutive. The following table sets forth potential shares that were considered anti-dilutive during the three and six months ended March 31, 2025 and 2024.

<i>in thousands</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Contingently issuable stock awards	-	218	92	396
Conversion option of our Notes	-	7,495	7,099	7,495

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, 2025		
	Fair Value	Cash and Cash Equivalents	Marketable Securities
Level 1:			
Money market funds, \$54,616 at cost ^(a)	\$ 54,616	\$ 54,616	\$ -
Level 2:			
Government securities, \$1,405 at cost ^(b)	1,410	-	1,410
Time deposits, \$5,499 at cost ^(a)	5,499	5,499	-
Corporate bonds, \$3,995 at cost ^(b)	4,003	-	4,003
Debt securities, \$2,000 at cost ^(c)	3,166	-	-
Total assets	\$ 68,694	\$ 60,115	\$ 5,413

	September 30, 2024		
	Fair Value	Cash and Cash Equivalents	Marketable Securities
Level 1:			
Money market funds, \$77,785 at cost ^(a)	\$ 77,785	\$ 77,785	\$ -
Level 2:			
Government securities, \$3,940 at cost ^(b)	3,950	-	3,950
Time deposits, \$3,700 at cost ^(a)	3,700	3,700	-
Corporate bonds, \$4,984 at cost ^(b)	5,005	-	5,005
Debt securities, \$2,000 at cost ^(c)	3,099	-	-
Total assets	\$ 93,539	\$ 81,485	\$ 8,955

(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, 2025, unrealized gains related to our marketable securities were immaterial within Accumulated other comprehensive (loss) income. 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) income.

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, 2025 and September 30, 2024, the estimated fair value of our Notes was \$210.4 million and \$184.8 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, 2025 and September 30, 2024. 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, 2025 and 2024.

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, 2025 and September 30, 2024, the total notional amount of forward contracts was \$31.0 million and \$59.1 million, respectively. As of March 31, 2025 and September 30, 2024, the weighted-average remaining maturity of these instruments was approximately 8.5 and 9.9 months, respectively.

The following table summarizes the fair value and presentation in the Condensed Consolidated Balance Sheet for derivative instruments as of March 31, 2025 and September 30, 2024 (dollars in thousands):

Derivatives not designated as hedges	Classification	Fair Value	
		March 31, 2025	September 30, 2024
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 151	\$ 65
Foreign currency forward contracts	Other assets	45	68
Foreign currency forward contracts	Accrued expenses and other current liabilities	1,141	691
Foreign currency forward contracts	Other liabilities	1	163

The following tables display a summary of the loss related to foreign currency forward contracts for the three and six months ended March 31, 2025 and 2024 (dollars in thousands):

Derivatives not designated as hedges	Classification	Income (loss) recognized in earnings			
		Three Months Ended March 31,		Six Months Ended March 31,	
		2025	2024	2025	2024
Foreign currency forward contracts	Other income, net	\$ (888)	\$ (171)	\$ (992)	\$ (500)

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.

The changes in the carrying amount of goodwill for the six months ended March 31, 2025 are as follows (dollars in thousands):

	Total
Balance as of September 30, 2024	\$ 296,858
Effect of foreign currency translation	(3,501)
Balance as of March 31, 2025	\$ 293,357

At March 31, 2024, we performed a quantitative impairment test. We concluded indicators of impairment were present due to the current macroeconomic conditions and 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 during the three and six months ended March 31, 2024.

(b) Intangible Assets, Net

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

	March 31, 2025			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	\$ 107,362	\$ (106,811)	\$ 551	0.1
Technology and patents	89,456	(89,456)	-	-
Total	<u>\$ 196,818</u>	<u>\$ (196,267)</u>	<u>\$ 551</u>	

	September 30, 2024			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	\$ 108,659	\$ (106,953)	\$ 1,706	0.5
Technology and patents	90,042	(90,042)	-	-
Total	<u>\$ 198,701</u>	<u>\$ (196,995)</u>	<u>\$ 1,706</u>	

Amortization expense related to intangible assets in the aggregate was \$0.5 million and \$0.6 million for the three months ended March 31, 2025 and 2024, respectively, and \$1.1 million and \$1.2 million for the six months ended March 31, 2025 and 2024, respectively. We expect amortization of intangible assets to be approximately \$0.5 million for the remainder of fiscal year 2025.

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, 2025 and September 30, 2024:

	March 31, 2025	September 30, 2024
Weighted-average remaining lease term (in months):		
Operating leases	49.8	46.0
Finance leases	7.3	13.4
Weighted-average discount rate:		
Operating leases	7.2%	6.6%
Finance leases	4.4%	4.4%

The following table presents lease expense for the three and six months ended March 31, 2025 and 2024 (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Finance lease costs:				
Amortization of right of use asset	\$ 96	\$ 108	\$ 192	\$ 216
Interest on lease liability	2	6	5	13
Operating lease cost	1,375	1,581	2,785	3,209
Variable lease cost	463	807	918	1,571
Sublease income	(54)	(51)	(97)	(111)
Total lease cost	<u>\$ 1,882</u>	<u>\$ 2,451</u>	<u>\$ 3,803</u>	<u>\$ 4,898</u>

For the three months ended March 31, 2025 and 2024, cash payments related to operating leases were \$1.4 million and \$1.6 million, respectively, and \$2.7 million and \$3.4 million for the six months ended March 31, 2025 and 2024, respectively. For the three months ended March 31, 2025 and 2024, cash payments related to finance leases were \$0.1 million and \$0.1 million, respectively, of which an immaterial amount related to the interest portion of the lease liability. For the six months ended March 31, 2025 and 2024, cash payments related to financing leases were \$0.2 million and \$0.2 million, respectively, of which an immaterial amount related to the interest portion of the lease liability. For the three months ended March 31, 2025 and 2024, right of use assets obtained in exchange for lease obligations were \$5.9 million and \$0.1 million, respectively, and \$7.9 million and \$1.6 million for the six months ended March 31, 2025 and 2024, respectively.

The table below reconciles the undiscounted future minimum lease payments under non-cancelable leases to the total lease liabilities recognized on the Condensed Consolidated Balance Sheet as of March 31, 2025 (dollars in thousands):

Year Ending September 30,	Operating Leases	Financing Leases	Total
2025	\$ 2,416	\$ 211	\$ 2,627
2026	5,519	53	5,572
2027	5,112	—	5,112
2028	4,388	—	4,388
2029	3,074	—	3,074
Thereafter	1,219	—	1,219
Total future minimum lease payments	\$ 21,728	\$ 264	\$ 21,992
Less effects of discounting	(3,213)	(2)	(3,215)
Total lease liabilities	\$ 18,515	\$ 262	\$ 18,777
Reported as of March 31, 2025			
Short-term lease liabilities	\$ 3,958	\$ 249	\$ 4,207
Long-term lease liabilities	14,557	13	14,570
Total lease liabilities	\$ 18,515	\$ 262	\$ 18,777

Note 9. Accrued Expenses and Other Liabilities

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

	March 31, 2025	September 30, 2024
Compensation	\$ 19,344	\$ 18,755
Professional fees	4,470	4,015
Cost of revenue related liabilities	3,323	2,864
Sales and other taxes payable	3,675	3,668
Interest payable	1,375	1,735
Legal settlement	—	30,000
Other	5,319	7,368
Total	\$ 37,506	\$ 68,405

At September 30, 2024, we recorded a \$30.0 million legal settlement related to the settlement of the Securities Action (as defined in Note 12) and a corresponding receivable related to the insurance proceeds in Prepaid and other current assets. The entire settlement amount was funded by insurance proceeds in the first quarter of fiscal year 2025. See Note 12 - Commitments and Contingencies for additional details.

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, 2025 (dollars in thousands):

	Personnel	Other	Total
Balance as of September 30, 2024	\$ 3,758	\$ 572	\$ 4,330
Restructuring and other costs, net	11,970	1,924	13,894
Non-cash adjustments	(2,963)	—	(2,963)
Cash payments	(11,648)	(876)	(12,524)
Effect of foreign currency translation	46	—	46
Balance at March 31, 2025	<u>\$ 1,163</u>	<u>\$ 1,620</u>	<u>\$ 2,783</u>

The following table sets forth restructuring and other costs, net recognized for the three and six months ended March 31, 2025 and 2024 (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Personnel	\$ 1,774	\$ 4,404	\$ 11,970	\$ 4,519
Facilities	—	147	—	292
Other	1,058	—	1,924	445
Restructuring and other costs, net	<u>\$ 2,832</u>	<u>\$ 4,551</u>	<u>\$ 13,894</u>	<u>\$ 5,256</u>

Fiscal Year 2025

For the three months ended March 31, 2025, we recorded restructuring and other costs, net of \$2.8 million, which included a \$1.8 million charge related to the elimination of personnel and a \$1.0 million charge relating to our transformation initiatives.

For the six months ended March 31, 2025, we recorded restructuring and other costs, net of \$13.9 million, which included a \$12.0 million charge related to the elimination of personnel, of which \$3.0 million related to the stock-based compensation expense associated with the termination of former senior management employees, and a \$1.9 million charge related to our transformation initiatives.

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.

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 our board of directors 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 (the "Inducement Plan"). On October 6, 2024, we adopted Amendment No. 1 to the Inducement Plan, which increased the number of authorized shares of our Common Stock available for issuance under the Inducement Plan from

600,000 to 3,000,000. On November 29, 2024, we adopted Amendment No. 2 to the Inducement Plan, which increased the number of authorized shares of our Common Stock available for issuance under the Inducement Plan from 3,000,000 to 4,500,000.

Restricted Stock Units

Information with respect to our non-vested restricted stock units for the six months ended March 31, 2025 was as follows:

	Non-Vested Restricted Stock Units			Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
	Time-Based Shares	Performance-Based Shares	Total Shares			
Non-vested at September 30, 2024	2,587,386	1,119,437	3,706,823	\$ 23.51		
Granted	3,272,500	2,130,431	5,402,931	\$ 10.18		
Vested	(1,064,029)	(267,890)	(1,331,919)	\$ 28.79		
Forfeited	(410,810)	(681,420)	(1,092,230)	\$ 20.90		
Non-vested at March 31, 2025	4,385,047	2,300,558	6,685,605	\$ 13.15		
Expected to vest			6,685,605	\$ 13.15	1.46	\$ —

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, 2025 and 2024 (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Cost of connected services	\$ 76	\$ 64	\$ 129	\$ 145
Cost of professional services	481	601	918	1,161
Research and development	2,566	2,548	4,395	6,379
Sales and marketing	887	372	1,396	1,090
General and administrative	1,921	1,160	3,901	4,350
Restructuring and other costs, net	—	—	2,963	—
	<u>\$ 5,931</u>	<u>\$ 4,745</u>	<u>\$ 13,702</u>	<u>\$ 13,125</u>

During the three months ended December 31, 2024, we recorded \$2.6 million in stock-based compensation due to the termination of employment of our former CEO and the resulting vesting of certain stock-based awards in Restructuring and other costs, net. During the three months ended December 31, 2024, we recorded \$0.4 million in stock-based compensation due to the termination of employment of a former senior management employee and the resulting vesting of certain stock-based awards in Restructuring and other costs, net.

Note 12. Commitments and Contingencies

Litigation and Other Claims

Similar to many companies in the software industry, we are involved in a variety of claims, demands, suits, investigations and proceedings that arise from time to time relating to matters incidental to the ordinary course of our business, including at times actions with respect to contracts, intellectual property, employment, benefits and securities matters. At each balance sheet date, we evaluate contingent liabilities associated with these matters in accordance with ASC 450 “Contingencies.” If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgments are required for the determination of probability and the range of the outcomes, and estimates are based only on the best information available at the time. Due to the inherent uncertainties involved in claims and legal proceedings and in estimating losses that may arise, actual outcomes may differ from our estimates. Contingencies deemed not probable or for which losses were not estimable in one period may become probable, or losses may become estimable in later periods, which may have a material impact on our results of operations and financial position. As of March 31, 2025, 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 alleging classwide claims of material misrepresentations and/or omissions of material fact 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. On December 18, 2024, the Court granted final approval of a settlement of the claims in the Securities Action for \$30.0 million, which was paid for by insurance proceeds.

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 then-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. On February 3, 2025, defendants filed a motion to dismiss on the grounds of demand futility and failure to state a claim, which motion is fully briefed as of April 3, 2025. Plaintiffs in the derivative actions seek, among other things, the implementation of purported corporate governance reforms and a requirement that the individual defendants pay unspecified damages and reimbursement of compensation to the company.

Three 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: the first filed on October 19, 2022 by plaintiff Melinda Hipp against the defendants named in the consolidated federal derivative action and board member Douglas Davis, the second filed on August 17, 2023 by plaintiff Catherine Fleming against the defendants named in the consolidated federal derivative action, and the third filed on July 10, 2024 by plaintiff Alberto Goncalves against the defendants named in the consolidated federal derivative action. On October 20, 2023, Ms. Hipp voluntarily dismissed her action with prejudice. On June 26, 2024, the court stayed the Fleming action pending the outcome of mediation. On August 12, 2024, the court stayed the Goncalves action pending the outcome of mediation.

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. On April 16, 2024, Cerence filed its answer and affirmative defenses, a motion to certify the Court's order on Cerence's motion to dismiss, and a motion to stay. Thereafter, in exchange for Cerence withdrawing its motions to certify and stay, plaintiffs filed amended complaints in both the Circuit Court and Federal Court. Cerence's answers in the Federal Court and Circuit Court were due on July 15 and July 18, 2024, respectively, which the Company filed on such dates. 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.

On March 15, 2024, Cerence filed its second patent infringement complaint against Samsung alleging infringement of four Cerence patents. In its responsive pleading on July 10, 2024, Samsung asserted counterclaims, alleging infringement of U.S. Patent Nos. 10,395,657; 10,720,162; 11,823,682; and 9,583,103 against the Cerence Assistant. Samsung seeks damages, including trebled damages, and its costs and fees. Cerence filed its answer denying the allegations and counterclaims of invalidity and noninfringement on September 4, 2024. Trial is scheduled to begin in January 2026. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, 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, 2025, our letters of credit in connection with security deposits for facility leases totaled \$0.6 million in the aggregate. These letters of credit have various terms and expiration dates that align with the underlying facilities for which they relate.

Note 13. Income Taxes

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Domestic	\$ 3,525	\$ (270,347)	\$ (8,300)	\$ (204,711)
Foreign	12,528	4,018	5,736	(3,420)
Income (loss) before income taxes	<u>\$ 16,053</u>	<u>\$ (266,329)</u>	<u>\$ (2,564)</u>	<u>\$ (208,131)</u>

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Domestic	\$ (821)	\$ 2,994	\$ 470	\$ 32,072
Foreign	(4,782)	8,653	(402)	13,916
(Benefit from) provision for income taxes	<u>\$ (5,603)</u>	<u>\$ 11,647</u>	<u>\$ 68</u>	<u>\$ 45,988</u>
Effective income tax rate	(34.9)%	(4.4)%	(2.7)%	(22.1)%

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, 2025 was negative 34.9% compared to negative 4.4% for the three months ended March 31, 2024. Consequently, our benefit from income taxes for the three months ended March 31, 2025 was \$5.6 million, a net change of \$17.2 million from a provision for income taxes of \$11.6 million for the three months ended March 31, 2024. This difference was attributable to the impairment of book goodwill in the three months ended March 31, 2024.

Our effective tax rate for the six months ended March 31, 2025 was negative 2.7% compared to negative 22.1% for the six months ended March 31, 2024. Consequently, our provision for income taxes for the six months ended March 31, 2025 was \$0.1 million, a net change of \$45.9 million from a provision for income taxes of \$46.0 million for the six months ended March 31, 2024. This difference was attributable to the impairment of book goodwill and one-time acceleration of legacy deferred revenue in the six months ended March 31, 2024.

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, 2025							
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%	3.68%	\$ 60,125	\$ -	\$ (69)	\$ 60,056
2025 Modified Notes	7/1/2028	1.50%	8.46%	87,500	(2,248)	(8,583)	76,669
2028 Notes	7/1/2028	1.50%	1.91%	122,500	-	(1,576)	120,924
Total debt				\$ 270,125	\$ (2,248)	\$ (10,228)	257,649
Less: current portion of long-term debt							(60,056)
Total long-term debt							<u>\$ 197,593</u>

September 30, 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	\$ -	\$ (406)	\$ 87,094
2025 Modified Notes	7/1/2028	1.50%	8.55%	87,500	(2,777)	(10,602)	74,121
2028 Notes	7/1/2028	1.50%	1.91%	122,500	-	(1,809)	120,691
Total debt				\$ 297,500	\$ (2,777)	\$ (12,817)	281,906
Less: current portion of long-term debt							(87,094)
Total long-term debt							<u>\$ 194,812</u>

The following table summarizes the maturities of our borrowing obligations as of March 31, 2025 (in thousands):

Fiscal Year	2028 Notes	2025 Modified Notes	Total
2025	\$ —	\$ 60,125	\$ 60,125
2026	—	—	—
2027	—	—	—
2028	122,500	87,500	210,000
2029	—	—	—
Thereafter	—	—	—
Total before unamortized discount and issuance costs and current portion	\$ 122,500	\$ 147,625	\$ 270,125
Less: unamortized discount and issuance costs	(1,576)	(10,900)	(12,476)
Less: current portion of long-term debt	—	(60,056)	(60,056)
Total long-term debt	<u>\$ 120,924</u>	<u>\$ 76,669</u>	<u>\$ 197,593</u>

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, 2025, the carrying amount of the 2025 Modified Notes was \$136.7 million, net of unamortized costs of \$10.9 million.

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

We accounted for \$122.5 million of the 2028 Notes, that were not negotiated with the investors of the 2025 Notes, as a single liability. We incurred transaction costs of \$2.4 million relating to the issuance of the 2028 Notes, which were recorded as a direct deduction from the face amount of the 2028 Notes and are being amortized as interest expense over the term of the 2028 Notes using the interest method. As of March 31, 2025, the carrying amount of the 2028 Notes was \$120.9 million and unamortized issuance costs of \$1.6 million. As of March 31, 2025, the 2028 Notes were not convertible. As of March 31, 2025 and September 30, 2024, the if-converted value of the 2028 Notes was \$98.7 million and \$113.0 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, 2025 and September 30, 2024, the if-converted value of the 2025 Modified Notes was \$118.0 million and \$160.9 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.

The 2025 Notes did not by their terms permit repayment 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.

During the three months ended December 31, 2024, we repurchased \$27.4 million aggregate principal amount of our 2025 Notes for \$27.0 million in cash, including accrued interest and fees, via privately negotiated transactions with certain holders. The repurchased notes were subsequently cancelled and retired, resulting in a gain on extinguishment of debt of \$0.3 million.

See “1.50% Senior Convertible Notes due 2028” section above for discussion on the 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, 2025 and 2024 was as follows (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Contractual interest expense	\$ 1,221	\$ 1,439	\$ 2,646	\$ 2,881
Amortization of debt discount	263	251	528	502
Amortization of issuance costs	1,224	1,219	2,505	2,436
Total interest expense related to the Notes	<u>\$ 2,708</u>	<u>\$ 2,909</u>	<u>\$ 5,679</u>	<u>\$ 5,819</u>

The conditional conversion feature of the Notes was not triggered during the three and six months ended March 31, 2025. As of March 31, 2025, the Notes were not convertible. As of this Quarterly Report on Form 10-Q, 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 could have been drawn on in the event that our working capital and other cash needs were 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.

On December 31, 2024, we terminated the Credit Agreement. On the date of termination, there were no revolving loans outstanding under the Credit Agreement. As a result of the Credit Agreement termination, we will not have access to the Revolving Facility and we will not be subject to the applicable Credit Agreement covenants.

Total interest expense relating to the Senior Credit Facilities for the three months ended March 31, 2025 and 2024 was none and \$0.1 million, respectively, and for the six months ended March 31, 2025 and 2024 was \$0.4 million and \$0.1 million, respectively. Amounts reflect the coupon and accretion of the discount.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our Unaudited Condensed Consolidated Financial Statements, and the related notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q ("Quarterly Report"), and our consolidated financial statements and the related notes and other financial information included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2024, filed with the Securities and Exchange Commission ("SEC") on November 25, 2024. 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, including our ability to meet our liquidity needs after the repayment of the Notes due in the third quarter of fiscal 2025, results of operations and financial condition, macroeconomic conditions, volatility in the political, legal and regulatory environment in which we operate including trade, tariffs and other policies implemented by the new administration in the United States or actions taken by other countries in response, trends in the global auto industry and adjacent markets, including shipping and production issues, new products, process optimization efforts and cost management, litigation, 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" sections in Part II, Item 1A of this Quarterly Report on Form 10-Q and Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2024 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, 2025 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 leading software platforms for building automotive virtual assistants. Our customers include nearly 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 a 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 nearly 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, volatility in the political, legal and regulatory environment in which we operate including trade, tariffs and other policies implemented by the new administration in the United States or actions taken by other countries in response and automotive production curtailment or delays related thereto, 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, 2024 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, 2025 are not necessarily indicative of the results expected for the full fiscal year ending September 30, 2025.

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, 2025 as compared to the three months ended March 31, 2024:

- Total revenue increased by \$10.2 million, or 15.0%, to \$78.0 million from \$67.8 million.
- Operating margin increased 412.0 percentage points to positive 22.2% from negative 389.8%.
- Cash provided by operating activities was \$15.5 million, a net change of \$14.4 million from cash provided by operating activities of \$1.0 million.

For the six months ended March 31, 2025 as compared to the six months ended March 31, 2024:

- Total revenue decreased by \$77.3 million, or 37.5%, to \$128.9 million from \$206.2 million.
- Operating margin increased 100.1 percentage points to positive 0.3% from negative 99.8%.
- Cash provided by operating activities was \$24.7 million, a net change of \$26.5 million from cash used in operating activities of \$1.8 million.

Operating Results

The following table shows the Condensed Consolidated Statements of Operations for the three and six months ended March 31, 2025 and 2024 (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Revenue:				
License	\$ 51,460	\$ 35,527	\$ 74,185	\$ 56,350
Connected services	12,648	13,597	26,355	110,417
Professional services	13,902	18,701	28,366	39,393
Total revenues	78,010	67,825	128,906	206,160
Cost of revenue:				
License	2,432	1,404	4,214	3,008
Connected services	4,979	5,359	11,290	12,662
Professional services	10,418	14,119	20,149	31,444
Amortization of intangible assets	—	—	—	103
Total cost of revenues	17,829	20,882	35,653	47,217
Gross profit	60,181	46,943	93,253	158,943
Operating expenses:				
Research and development	23,332	31,846	44,201	65,152
Sales and marketing	4,930	5,619	9,696	11,690
General and administrative	11,199	16,659	23,953	29,452
Amortization of intangible assets	536	555	1,090	1,100
Restructuring and other costs, net	2,832	4,551	13,894	5,256
Goodwill impairment	—	252,096	—	252,096
Total operating expenses	42,829	311,326	92,834	364,746
Income (loss) from operations	17,352	(264,383)	419	(205,803)
Interest income	918	1,190	2,355	2,622
Interest expense	(2,716)	(3,111)	(6,109)	(6,347)
Other income (expense), net	499	(25)	771	1,397
Income (loss) before income taxes	16,053	(266,329)	(2,564)	(208,131)
(Benefit from) provision for income taxes	(5,603)	11,647	68	45,988
Net income (loss)	\$ 21,656	\$ (277,976)	\$ (2,632)	\$ (254,119)

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. For the three months ended December 31, 2023, a total of \$76.3 million was recognized in relation to this contract including \$67.8 million of deferred revenue that was accelerated into the first quarter of fiscal year 2024 as a result of the termination. There was 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 was no cash flow associated with this contract. For the three months ended December 31, 2023, a total of \$10.3 million was recognized in relation to this contract including \$9.9 million of deferred revenue that was accelerated 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 dynamics in the global automotive industry which has experienced production delays and slowdowns. Volatility in the political, legal and regulatory environment in which we operate, including trade, tariffs and related policies, also has resulted in increased pricing pressure from customers and delays in program timelines. 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 continue to focus on cost management and may take future cost reduction actions, which may result in additional restructuring costs and impairment charges. In particular, in August 2024, we announced a restructuring plan intended to reduce operating expenses and position us for profitable future growth (the “Plan”). The implementation of the Plan was substantially complete by the end of the first quarter of fiscal year 2025. The charges that we incur are subject to a number of assumptions, including legal requirements in various jurisdictions. For additional details, refer to 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, 2024.

Three Months Ended March 31, 2025 Compared with Three Months Ended March 31, 2024

Total Revenues

The following table shows total revenues by product type, including the corresponding percentage change, for the three months ended March 31, 2025 and 2024 (dollars in thousands):

	Three Months Ended March 31,		Three Months Ended March 31,		% Change 2025 vs. 2024
	2025	% of Total	2024	% of Total	
License	\$ 51,460	66.0%	\$ 35,527	52.4%	44.8%
Connected services	12,648	16.2%	13,597	20.0%	(7.0)%
Professional services	13,902	17.8%	18,701	27.6%	(25.7)%
Total revenues	<u>\$ 78,010</u>		<u>\$ 67,825</u>		15.0%

Total revenues for the three months ended March 31, 2025 were \$78.0 million, an increase of \$10.2 million, or 15.0%, from \$67.8 million for the three months ended March 31, 2024. The increase in revenues was driven by license revenue. The increase was partly offset by decreases in connected service and professional service revenues.

License Revenue

License revenue for the three months ended March 31, 2025 was \$51.5 million, an increase of \$16.0 million, or 44.8%, from \$35.5 million for the three months ended March 31, 2024. The increase in license revenue was primarily driven by a \$11.0 million increase in fixed contracts and a \$5.0 million increase associated with variable contract revenue, as we continue to assess the levels of fixed license contracts and make adjustments. As a percentage of total revenues, license revenue increased 13.6 percentage points from 52.4% for the three months ended March 31, 2024 to 66.0% for the three months ended March 31, 2025.

Connected Services Revenue

Connected services revenue for the three months ended March 31, 2025 was \$12.6 million, a decrease of \$1.0 million, or 7.0%, from \$13.6 million for the three months ended March 31, 2024. This decrease was driven by a \$2.6 million catch up recognized in the 2024 period related to amended customer royalty reports, which did not recur in the 2025 period, partially offset by increased demand for our connected services products. As a percentage of total revenues, connected services revenue decreased by 3.8 percentage points from 20.0% for the three months ended March 31, 2024 to 16.2% for the three months ended March 31, 2025.

Professional Services Revenue

Professional service revenue for the three months ended March 31, 2025 was \$13.9 million, a decrease of \$4.8 million, or 25.7%, from \$18.7 million for the three months ended March 31, 2024. This decrease was driven by the increased standardization of our software product offerings, which requires less professional services effort to implement, other efficiencies in our professional services processes and, in some cases, customers opting to perform these activities internally. As a percentage of total revenues, professional services revenue decreased by 9.8 percentage points from 27.6% for the three months ended March 31, 2024 to 17.8% for the three months ended March 31, 2025.

Six Months Ended March 31, 2025 Compared with Six Months Ended March 31, 2024

Total Revenues

The following table shows total revenues by product type, including the corresponding percentage change, for the six months ended March 31, 2025 and 2024 (dollars in thousands):

	Six Months Ended March 31,				% Change 2025 vs. 2024
	2025	% of Total	2024	% of Total	
License	\$ 74,185	57.5%	\$ 56,350	27.3%	31.7%
Connected services	26,355	20.4%	110,417	53.6%	(76.1)%
Professional services	28,366	22.1%	39,393	19.1%	(28.0)%
Total revenues	<u>\$ 128,906</u>		<u>\$ 206,160</u>		(37.5)%

Total revenues for the six months ended March 31, 2025 were \$128.9 million, a decrease of \$77.3 million, or 37.5%, from \$206.2 million for the six months ended March 31, 2024. The decrease in revenues was driven primarily 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 and a decrease in professional services revenue. The decrease was partially offset by increases in license revenue primarily related to fixed contracts.

License Revenue

License revenue for the six months ended March 31, 2025 was \$74.2 million, an increase of \$17.8 million, or 31.7%, from \$56.4 million for the six months ended March 31, 2024. The increase in license revenue was primarily driven by a \$11.1 million increase in fixed license contracts, a \$5.2 million increase associated with variable contract revenue, as we continue to assess the levels of fixed license contracts and make adjustments, and \$1.5 million associated with our Cerence Link product. As a percentage of total revenues, license revenue increased 30.2 percentage points from 27.3% for the six months ended March 31, 2024 to 57.5% for the six months ended March 31, 2025.

Connected Services Revenue

Connected services revenue for the six months ended March 31, 2025 was \$26.4 million, a decrease of \$84.0 million, or 76.1%, from \$110.4 million for the six months ended March 31, 2024. This decrease 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, respectively, as well as in period revenue of \$8.9 million for these terminated contracts, in the first quarter of fiscal year 2024. This decrease was offset by an increase of \$2.6 million in new connected revenue during the first half of fiscal year 2025. As a percentage of total revenues, connected services revenue decreased by 33.2 percentage points from 53.6% for the six months ended March 31, 2024 to 20.4% for the six months ended March 31, 2025.

Professional Services Revenue

Professional service revenue for the six months ended March 31, 2025 was \$28.4 million, a decrease of \$11.0 million, or 28.0%, from \$39.4 million for the six months ended March 31, 2024. This decrease was primarily driven by the increased standardization of our software product offerings, which requires less professional services effort to implement, other efficiencies in our professional services processes and, in some cases, customers opting to perform these activities internally. As a percentage of total revenues, professional services revenue increased by 3.0 percentage points from 19.1% for the six months ended March 31, 2024 to 22.1% for the six months ended March 31, 2025.

Three Months Ended March 31, 2025 Compared with Three Months Ended March 31, 2024

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 2025 vs. 2024
	2025	2024	
License	\$ 2,432	\$ 1,404	73.2%
Connected services	4,979	5,359	(7.1)%
Professional services	10,418	14,119	(26.2)%
Total cost of revenues	<u>\$ 17,829</u>	<u>\$ 20,882</u>	(14.6)%

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

	Three Months Ended March 31,		% Change 2025 vs. 2024
	2025	2024	
License	\$ 49,028	\$ 34,123	43.7%
Connected services	7,669	8,238	(6.9)%
Professional services	3,484	4,582	(24.0)%
Total gross profit	<u>\$ 60,181</u>	<u>\$ 46,943</u>	28.2%

Total cost of revenues for the three months ended March 31, 2025 were \$17.8 million, a decrease of \$3.1 million, or 14.6%, from \$20.9 million for the three months ended March 31, 2024.

We experienced an increase in total gross profit of \$13.3 million, or 28.2%, from \$46.9 million for the three months ended March 31, 2024 to \$60.2 million for the three months ended March 31, 2025. The increase was primarily driven by the increase in license revenues due to a higher volume of fixed contracts.

Cost of License Revenue

Cost of license revenue for the three months ended March 31, 2025 was \$2.4 million, an increase of \$1.0 million, or 73.2%, from \$1.4 million for the three months ended March 31, 2024. Cost of license revenues increased due to the costs associated with our Cerence Link product revenue. As a percentage of total cost of revenues, cost of license revenue increased by 6.9 percentage points from 6.7% for the three months ended March 31, 2024 to 13.6% for the three months ended March 31, 2025.

License gross profit increased by \$14.9 million, or 43.7%, for the three months ended March 31, 2025 when compared to the three months ended March 31, 2024, primarily due to increases in license revenues.

Cost of Connected Services Revenue

Cost of connected services revenue for the three months ended March 31, 2025 was \$5.0 million, a decrease of \$0.4 million, or 7.1%, from \$5.4 million for the three months ended March 31, 2024. Cost of connected services revenue decreased primarily due to a \$0.2 million decrease in our cloud infrastructure costs and \$0.1 million decrease in amortization of costs previously deferred, and a \$0.1 million decrease in internal allocated labor. As a percentage of total cost of revenues, cost of connected services revenue increased by 2.2 percentage points from 25.7% for the three months ended March 31, 2024 to 27.9% for the three months ended March 31, 2025.

Connected services gross profit decreased \$0.5 million, or 6.9%, from \$8.2 million for the three months ended March 31, 2024 to \$7.7 million for the three months ended March 31, 2025, 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, 2025 was \$10.4 million, a decrease of \$3.7 million, or 26.2%, from \$14.1 million for the three months ended March 31, 2024. Cost of professional services revenue decreased primarily due to a \$2.4 million decrease in third party contract labor and a \$1.3 million decrease in salary-related expenditures. Decreases were driven by the increased standardization of our software product offerings, which requires less professional services effort to implement, and other efficiencies in our professional services processes. As a percentage of total cost of revenues, cost of professional services revenue decreased by 9.2 percentage points from 67.6% for the three months ended March 31, 2024 to 58.4% for the three months ended March 31, 2025.

Professional services gross profit decreased \$1.1 million, or 24.0%, from \$4.6 million for the three months ended March 31, 2024 to \$3.5 million for the three months ended March 31, 2025, which was primarily due to a decrease in professional services revenue.

Six Months Ended March 31, 2025 Compared with Six Months Ended March 31, 2024

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 2025 vs. 2024
	2025	2024	
License	\$ 4,214	\$ 3,008	40.1%
Connected services	11,290	12,662	(10.8)%
Professional services	20,149	31,444	(35.9)%
Amortization of intangibles	-	103	(100.0)%
Total cost of revenues	\$ 35,653	\$ 47,217	(24.5)%

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

	Six Months Ended March 31,		% Change 2025 vs. 2024
	2025	2024	
License	\$ 69,971	\$ 53,342	31.2%
Connected services	15,065	97,755	(84.6)%
Professional services	8,217	7,949	3.4%
Amortization of intangibles	—	(103)	100.0%
Total gross profit	\$ 93,253	\$ 158,943	(41.3)%

Total cost of revenues for the six months ended March 31, 2025 were \$35.7 million, a decrease of \$11.5 million, or 24.5%, from \$47.2 million for the six months ended March 31, 2024.

We experienced a decrease in total gross profit of \$65.6 million, or 41.3%, from \$158.9 million for the six months ended March 31, 2024 to \$93.3 million for the six months ended March 31, 2025. The decrease was primarily driven by the decrease 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, 2025 was \$4.2 million, an increase of \$1.2 million, or 40.1%, from \$3.0 million for the six months ended March 31, 2024. Cost of license revenues increased primarily due to costs associated with our Cerence Link product revenue. As a percentage of total cost of revenues, cost of license revenue increased by 5.4 percentage points from 6.4% for the six months ended March 31, 2024 to 11.8% for the six months ended March 31, 2025.

License gross profit increased by \$16.6 million, or 31.2%, for the six months ended March 31, 2025 when compared to the six months ended March 31, 2024, primarily due to increases in license revenues.

Cost of Connected Services Revenue

Cost of connected services revenue for the six months ended March 31, 2025 was \$11.3 million, a decrease of \$1.4 million, or (10.8)%, from \$12.7 million for the six months ended March 31, 2024. Cost of connected services revenue decreased primarily due to a \$0.7 million decrease in amortization of costs previously deferred, a \$0.3 million decrease in our cloud infrastructure costs and a \$0.4 million decrease in internally allocated labor costs. As a percentage of total cost of revenues, cost of connected service revenue increased by 4.9 percentage points from 26.8% for the six months ended March 31, 2024 to 31.7% for the six months ended March 31, 2025.

Connected services gross profit decreased \$82.7 million, or 84.6%, from \$97.8 million for the six months ended March 31, 2024 to \$15.1 million for the six months ended March 31, 2025, primarily due to the decrease 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, 2025 was \$20.1 million, a decrease of \$11.3 million, or 35.9%, from \$31.4 million for the six months ended March 31, 2024. Cost of professional services revenue decreased primarily due to a \$7.6 million decrease in third-party contractor costs, a \$1.7 million decrease in salary-related expenditures, a \$1.7 million decrease in internally allocated labor, a \$0.2 million decrease in travel-related expenses, and a \$0.1 million decrease in hardware costs. Decreases were driven by the increased standardization of our software product offerings, which requires less professional services effort to implement, and other efficiencies in our professional services processes. As a percentage of total cost of revenues, cost of professional services revenue decreased by 10.1 percentage points from 66.6% for the six months ended March 31, 2024 to 56.5% for the six months ended March 31, 2025.

Professional services gross profit increased \$0.3 million, or 3.4%, from \$7.9 million for the six months ended March 31, 2024 to \$8.2 million for the six months ended March 31, 2025, 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 (benefit from) 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, 2025 Compared with Three Months Ended March 31, 2024

	Three Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Research and development	\$ 23,332	\$ 31,846	(26.7)%

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, 2025 were \$23.3 million, a decrease of \$8.5 million, or 26.7%, from \$31.8 million for the three months ended March 31, 2024. The decrease was primarily attributable to a \$2.6 million decrease in third-party contract labor, a \$2.2 million international tax credit catch-up, \$2.0 million in capitalized costs associated with internally developed software and a \$1.7 million decrease in salary-related expenditures. As a percentage of total operating expenses, R&D expenses increased by 44.3 percentage points from 10.2% for the three months ended March 31, 2024 to 54.5% for the three months ended March 31, 2025.

Six Months Ended March 31, 2025 Compared with Six Months Ended March 31, 2024

	Six Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Research and development	\$ 44,201	\$ 65,152	(32.2)%

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, 2025 were \$44.2 million, a decrease of \$21.0 million, or 32.2%, from \$65.2 million for the six months ended March 31, 2024. The decrease was primarily attributable to a \$5.3 million decrease in third-party contractor costs, a \$4.9 million international tax credit catch-up related to two different tax jurisdictions, a \$5.9 million decrease in salary-related expenditures, a \$1.9 million decrease in stock-based compensation expense, and a \$3.2 million decrease in capitalized costs associated with internally developed software. The decreases are offset by a \$0.2 million increase in our cloud infrastructure costs. As a percentage of total operating expenses, R&D expenses increased by 29.7 percentage points from 17.9% for the six months ended March 31, 2024 to 47.6% for the six months ended March 31, 2025.

Sales & Marketing Expenses

Three Months Ended March 31, 2025 Compared with Three Months Ended March 31, 2024

	Three Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Sales and marketing	\$ 4,930	\$ 5,619	(12.3)%

Sales and marketing expenses for the three months ended March 31, 2025 were \$4.9 million, a decrease of \$0.7 million, or 12.3%, from \$5.6 million for the three months ended March 31, 2024. The decrease in sales and marketing expenses was primarily attributable to a \$0.5 million decrease in professional services, and a \$0.2 million decrease in commissions expenditures. As a percentage of total operating expenses, sales and marketing expenses decreased by 9.7 percentage points from 1.8% for the three months ended March 31, 2024 to 11.5% for the three months ended March 31, 2025.

Six Months Ended March 31, 2025 Compared with Six Months Ended March 31, 2024

	Six Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Sales and marketing	\$ 9,696	\$ 11,690	(17.1)%

Sales and marketing expenses for the six months ended March 31, 2025 were \$9.7 million, a decrease of \$2.0 million, or 17.1%, from \$11.7 million for the six months ended March 31, 2024. The decrease in sales and marketing expenses was primarily attributable to a \$1.2 million decrease in salary-related expenditures, a \$0.5 million decrease in travel-related expenditures, and a \$0.3 million decrease in professional services. As a percentage of total operating expenses, sales and marketing expenses increased by 7.2 percentage points from 3.2% for the six months ended March 31, 2024 to 10.4% for the six months ended March 31, 2025.

General & Administrative Expenses

Three Months Ended March 31, 2025 Compared with Three Months Ended March 31, 2024

	Three Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
General and administrative	\$ 11,199	\$ 16,659	(32.8)%

General and administrative expenses for the three months ended March 31, 2025 were \$11.2 million, a decrease of \$5.5 million, or 32.8%, from \$16.7 million for the three months ended March 31, 2024. The decrease in general and administrative expenses was primarily attributable to a \$6.1 million credit loss provision related to the bankruptcy of one fitness equipment manufacturer recognized in the second quarter of 2024, a \$0.5 million decrease in salary-related expenditures, and a \$0.4 million decrease in rent expenditures. The decrease was partially offset by a \$0.8 million increase in stock-based compensation costs and a \$0.7 million increase in depreciation expense. As a percentage of total operating expenses, general and administrative expenses increased by 20.7 percentage points from 5.4% for the three months ended March 31, 2024 to 26.1% for the three months ended March 31, 2025.

Six Months Ended March 31, 2025 Compared with Six Months Ended March 31, 2024

	Six Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
General and administrative	\$ 23,953	\$ 29,452	(18.7)%

General and administrative expenses for the six months ended March 31, 2025 were \$24.0 million, a decrease of \$5.5 million, or 18.7%, from \$29.5 million for the six months ended March 31, 2024. The decrease in general and administrative expenses was primarily attributable to a \$6.1 million credit loss provision related to the bankruptcy of one fitness equipment manufacturer recognized in the second quarter of 2024. The decrease was partially offset by a \$0.6 million increase in third-party contract labor. As a percentage of total operating expenses, general and administrative expenses increased by 17.7 percentage points from 8.1% for the six months ended March 31, 2024 to 25.8% for the six months ended March 31, 2025.

Amortization of Intangible Assets

Three Months Ended March 31, 2025 Compared with Three Months Ended March 31, 2024

	Three Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Cost of revenues	\$ —	\$ —	—
Operating expense	536	555	(3.4)%
Total amortization	\$ 536	\$ 555	(3.4)%

Intangible asset amortization for the three months ended March 31, 2025 was \$0.5 million, a decrease of \$0.1 million, or 3.4%, from \$0.6 million for the three months ended March 31, 2024. The decrease in amortization relates to certain intangible assets having been fully amortized during fiscal year 2025 and 2024. Amortization expense for acquired technology and patents is included in the cost of revenues in the accompanying Condensed Consolidated Statements of Operations. Acquired technology and patents were fully amortized as of December 31, 2024. Amortization expense for customer relationships is included in operating expenses in the accompanying Condensed Consolidated Statements of Operations.

As a percentage of total operating expenses, intangible asset amortization expenses within operating expenses increased by 1.1 percentage point from 0.2% for the six months ended March 31, 2024 as compared to 1.3% for the six months ended March 31, 2025.

Six Months Ended March 31, 2025 Compared with Six Months Ended March 31, 2024

	Six Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Cost of revenues	\$ —	\$ 103	(100.0)%
Operating expense	1,090	1,100	(0.9)%
Total amortization	\$ 1,090	\$ 1,203	(9.4)%

Intangible asset amortization for the six months ended March 31, 2025 was \$1.1 million, a decrease of \$0.1 million, or 9.4%, from \$1.2 million for the six months ended March 31, 2024. The decrease in amortization relates to certain intangible assets having been fully amortized during fiscal year 2025 and 2024. 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 0.2% for the six months ended March 31, 2024 to 0.0% for the six months ended March 31, 2025. As a percentage of total operating expenses, intangible asset amortization expenses within operating expenses increased by 0.9 percentage points from 0.3% for the six months ended March 31, 2024 as compared to 1.2% for the six months ended March 31, 2025.

Other Components of Operating Expense

Three Months Ended March 31, 2025 Compared with Three Months Ended March 31, 2024

	Three Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Restructuring and other costs, net	\$ 2,832	\$ 4,551	(37.8)%
Goodwill impairment	\$ -	\$ 252,096	100.0%

Fiscal Year 2025

For the three months ended March 31, 2025, we recorded restructuring and other costs, net of \$2.8 million, which included a \$1.6 million charge related to the elimination of personnel, and a \$1.1 million charge related to our transformation initiatives.

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 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.

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.

As a percentage of total operating expenses, restructuring and other costs, net increased by 5.1 percentage points from 1.5% for the three months ended March 31, 2024 to 6.6% for the three months ended March 31, 2025.

Six Months Ended March 31, 2025 Compared with Six Months Ended March 31, 2024

	Six Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Restructuring and other costs, net	\$ 13,894	\$ 5,256	164.3%
Goodwill impairment	\$ -	\$ 252,096	100.0%

Fiscal Year 2025

For the six months ended March 31, 2025, we recorded restructuring and other costs, net of \$13.9 million, which included an \$12.0 million charge related to the elimination of personnel, of which \$3.0 million related to the stock-based compensation expense for the termination of our former senior management employees, and a \$1.9 million charge related to our transformation initiatives. We are focused on pursuing actions intended to position us to deliver on our generative AI and LLM product roadmap and also deliver improved financial results which include process optimization efforts and cost reductions. During the remainder of fiscal year 2025, we expect additional personnel-related restructuring costs in connection with the Plan as we better align our cost structure with current levels of revenue.

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.

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.

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.

As a percentage of total operating expenses, restructuring and other costs, net increased by 13.6 percentage points from 1.4% for the six months ended March 31, 2024 to 15.0% for the six months ended March 31, 2025.

Total Other Expense, Net

Three Months Ended March 31, 2025 Compared with Three Months Ended March 31, 2024

	Three Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Interest income	\$ 918	\$ 1,190	(22.9)%
Interest expense	(2,716)	(3,111)	(12.7)%
Other income (expense), net	499	(25)	(2096.0)%
Total other expense, net	<u>\$ (1,299)</u>	<u>\$ (1,946)</u>	(33.2)%

Total other expense, net for the three months ended March 31, 2025 was expense of \$1.3 million, a change of \$0.6 million from \$1.9 million of expense for the three months ended March 31, 2024. The decrease in interest expense was primarily attributable to a lower principal balance of the 2025 Notes. The change in Other income (expense), net was primarily driven by foreign exchange gains. For further information, see “Liquidity and Capital Resources” below.

Six Months Ended March 31, 2025 Compared with Six Months Ended March 31, 2024

	Six Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Interest income	\$ 2,355	\$ 2,622	(10.2)%
Interest expense	(6,109)	(6,347)	(3.7)%
Other income, net	771	1,397	(44.8)%
Total other expense, net	<u>\$ (2,983)</u>	<u>\$ (2,328)</u>	28.1%

Total other expense, net for the six months ended March 31, 2025 was expense of \$3.0 million, a change of \$0.7 million from \$2.3 million of expense for the six months ended March 31, 2024. The decrease in interest income was primarily attributable to lower returns on investments. The decrease in interest expense was primarily attributable to a lower average principal balance on our 2025 Notes and the termination of our Senior Credit Facilities in December of 2024. The change in Other income, net was primarily driven by a reduction in gains from foreign exchange offset by a \$0.3 million gain on the extinguishment of debt related to our repurchase of \$27.4 million principal value of the 2025 Notes. For further information, see “Liquidity and Capital Resources” below.

Provision For (Benefit From) Income Taxes

Three Months Ended March 31, 2025 Compared with Three Months Ended March 31, 2024

	Three Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
(Benefit from) provision for income taxes	\$ (5,603)	\$ 11,647	(148.1)%
Effective income tax rate %	(34.9)%	(4.4)%	

Our effective income tax rate for the three months ended March 31, 2025 was negative 34.9%, compared to negative 4.4% for the three months ended March 31, 2024. Our benefit from income taxes for the three months ended March 31, 2025 was \$5.6 million, a net change of \$17.2 million from a provision for income taxes of \$11.6 million for the three months ended March 31, 2024. This difference was attributable to the impairment of book goodwill in the three months ended March 31, 2024.

Six Months Ended March 31, 2025 Compared with Six Months Ended March 31, 2024

	Six Months Ended March 31,		% Change
	2025	2024	2025 vs. 2024
Provision for income taxes	\$ 68	\$ 45,988	(99.9)%
Effective income tax rate %	(2.7)%	(22.1)%	

Our effective income tax rate for the six months ended March 31, 2025 was negative 2.7%, compared to negative 22.1% for the six months ended March 31, 2024. Our provision for income taxes for the six months ended March 31, 2025 was \$0.1 million, a net change of \$45.9 million from a provision for income taxes of \$46.0 million for the six months ended March 31, 2024. This difference was attributable to the impairment of book goodwill and one-time acceleration of legacy deferred revenue in the six months ended March 31, 2024.

Liquidity and Capital Resources

Financial Condition

As of March 31, 2025, we had \$122.8 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 corporate bonds and government securities.

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 access additional funding in the capital and debt markets as needed. Based on our expectations to generate positive cash flows and the \$122.8 million of cash, cash equivalents, and marketable securities as of March 31, 2025, we believe that we will be able to meet our liquidity needs over the next 12 months. Our assessment included the repayment of the \$60.1 million of the 2025 Modified Notes due in the third quarter of fiscal 2025.

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

	Material Cash Requirements Due by Period				
	2025	2026-2027	2028-2029	Thereafter	Total
2028 Notes	\$ -	\$ -	\$ 122,500	\$ -	\$ 122,500
Cash interest payable on the 2028 Notes ^(a)	921	3,672	1,383	-	5,976
2025 Modified Notes	60,125	-	87,500	-	147,625
Cash interest payable on the 2025 Modified Notes ^(a)	959	2,623	988	-	4,570
Operating leases	2,416	10,631	7,462	1,219	21,728
Financing leases	196	53	-	-	249
Total material cash requirements	<u>\$ 64,616</u>	<u>\$ 16,979</u>	<u>\$ 219,833</u>	<u>\$ 1,219</u>	<u>\$ 302,647</u>

^(a) Interest per annum is due and payable semiannually and is determined based on the outstanding principal as of March 31, 2025.

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 persistently high interest rates, changes in the political, legal and regulatory environment, including trade policies and tariffs, 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 or market volatility, could materially affect our business, results of operations, 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, 2025, the carrying amount of the 2025 Modified Notes was \$136.7 million, net of unamortized costs of \$10.9 million.

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

We accounted for \$122.5 million of the 2028 Notes, that were not negotiated with the investors of the 2025 Notes, as a single liability. We incurred transaction costs of \$2.4 million relating to the issuance of the 2028 Notes, which were recorded as a direct deduction from the face amount of the 2028 Notes and are being amortized as interest expense over the term of the 2028 Notes using the interest method. As of March 31, 2025, the carrying amount of the 2028 Notes was \$120.9 million and unamortized issuance costs of \$1.6 million. As of March 31, 2025, 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 repayment of the 2025 Notes in cash upon maturity could adversely affect our liquidity.

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.

During the three months ended December 31, 2024, we repurchased \$27.4 million aggregate principal amount of our 2025 Notes for \$27.0 million in cash, including accrued interest and fees, via privately negotiated transactions with certain holders. The repurchased notes were subsequently cancelled and retired, resulting in a gain on extinguishment of debt of \$0.3 million.

See "1.50% Senior Convertible Notes due 2028" section above for discussion on the 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, 2025 and 2024 was as follows (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Contractual interest expense	\$ 1,221	\$ 1,439	\$ 2,646	\$ 2,881
Amortization of debt discount	263	251	528	502
Amortization of issuance costs	1,224	1,219	2,505	2,436
Total interest expense related to the Notes	<u>\$ 2,708</u>	<u>\$ 2,909</u>	<u>\$ 5,679</u>	<u>\$ 5,819</u>

The conditional conversion feature of the Notes was not triggered during the three and six months ended March 31, 2025. As of March 31, 2025, 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 the 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 could have been drawn on in the event that our working capital and other cash needs were 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.

On December 31, 2024, we terminated the Credit Agreement. On the date of termination, there were no revolving loans outstanding under the Credit Agreement. As a result of the Credit Agreement termination, we will not have access to the Revolving Facility and we will not be subject to the applicable Credit Agreement covenants.

Total interest expense relating to the Senior Credit Facilities for the three months ended March 31, 2025 and 2024 was zero and \$0.1 million, respectively, and was \$0.4 million and \$0.1 million for the six months ended March 31, 2025 and 2024, 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, 2025 and 2024, 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
	2025	2024	2025 vs. 2024
Net cash provided by (used in) operating activities	\$ 24,720	\$ (1,771)	1495.8%
Net cash (used in) provided by investing activities	(926)	245	478.0%
Net cash (used in) provided by financing activities	(27,189)	515	5379.4%
Effect of foreign currency exchange rates on cash and cash equivalents	(722)	(967)	25.3%
Net changes in cash and cash equivalents	<u>\$ (4,117)</u>	<u>\$ (1,978)</u>	(108.1)%

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities for the six months ended March 31, 2025 was \$24.7 million, a net change of \$26.5 million, or 1495.8%, from net cash used in operating activities of \$1.8 million for the six months ended March 31, 2024. The change in cash flows were primarily due to:

- A decrease of \$50.5 million from income before non-cash charges;
- A decrease of \$9.0 million due to unfavorable changes in working capital primarily related to accrued expenses and other liabilities, accounts receivable, prepaid expenses and other assets; and
- An increase of \$86.0 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 (Used in) Provided by Investing Activities

Net cash provided by investing activities for the six months ended March 31, 2025 was \$0.9 million, a net change of \$1.1 million, or 478.0%, from \$0.2 million of cash used in investing activities for the six months ended March 31, 2024. The change in cash flows were primarily due to an decrease of \$0.4 million net cash inflow related to marketable securities and \$0.9 million related to additional capital expenditures.

Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the six months ended March 31, 2025 was \$27.2 million, a net change of \$27.7 million, from cash provided by financing activities of \$0.5 million for the six months ended March 31, 2024. The change in cash flows were primarily due to:

- An increase of \$27.0 million in principal payments for short-term debt;
- A decrease of \$8.3 million in proceeds from the issuance of our common stock; and
- A decrease of \$7.6 million in payments of tax related withholdings due to the net settlement of equity awards.

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, 2024 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 \$31.0 million at March 31, 2025. 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 \$2.6 million at March 31, 2025. 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. At March 31, 2025, we held approximately \$117.4 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 \$0.6 million per annum, based on March 31, 2025 reported balances.

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, 2025 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.

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 then-current CEO and board member Stefan Ortmanns. These actions are premised on factual contentions substantially similar to those made in the now settled securities class action filed on February 2022 in the United States District Court for the District of Massachusetts, which alleged 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. 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. On February 3, 2025, defendants filed a motion to dismiss on the grounds of demand futility and failure to state a claim, which motion is fully briefed as of April 3, 2025. Plaintiffs in the derivative actions seek, among other things, the implementation of purported corporate governance reforms and a requirement that the individual defendants pay unspecified damages and reimbursement of compensation to the Company.

Three shareholder derivative complaints making factual and legal contentions substantially similar to those raised in the consolidated federal derivative action have also been filed in the Delaware Court of Chancery: the first filed on October 19, 2022 by plaintiff Melinda Hipp against the defendants named in the consolidated federal derivative action and board member Douglas Davis, the second filed on August 17, 2023 by plaintiff Catherine Fleming against the defendants named in the consolidated federal derivative action, and the third filed on July 10, 2024 by plaintiff Alberto Goncalves against the defendants named in the consolidated federal derivative action. On October 20, 2023, Ms. Hipp voluntarily dismissed her action with prejudice. On June 26, 2024, the court stayed the Fleming action pending the outcome of mediation. On August 12, 2024, the court stayed the Goncalves action pending the outcome of mediation.

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. On April 16, 2024, Cerence filed its answer and affirmative defenses, a motion to certify the Court's order on Cerence's motion to dismiss, and a motion to stay. Thereafter, in exchange for Cerence withdrawing its motions to certify and stay, plaintiffs filed amended complaints in both the Circuit Court and Federal Court. Cerence's answers in the Federal Court and Circuit Court were due on July 15 and July 18, 2024, respectively, which the Company filed on such dates. 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.

Samsung Electronics Co. Ltd and Samsung Electronics America, Inc.

On March 15, 2024, Cerence filed its second patent infringement complaint against Samsung alleging infringement of four Cerence patents. In its responsive pleading on July 10, 2024, Samsung asserted counterclaims, alleging infringement of U.S. Patent Nos. 10,395,657; 10,720,162; 11,823,682; and 9,583,103 against the Cerence Assistant. Samsung seeks damages, including trebled damages, and its costs and fees. Cerence filed its answer denying the allegations and counterclaims of invalidity and noninfringement.

on September 4, 2024. Trial is scheduled to begin in January 2026. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, 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, 2024, 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, 2024 and those described in this Quarterly Report 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. Other than as updated below, 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, 2024.

Adverse conditions in the automotive industry or the global economy more generally could have adverse effects on our results of operations.

Our business depends on, and is directly affected by, the global automotive industry. Automotive production and sales are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences, changes in interest rate levels and credit availability, consumer confidence, fuel costs, fuel availability, environmental impact, governmental incentives and regulatory requirements, trade restrictions, customs regulations, tariffs and price or exchange controls, preferences by nations for domestically manufactured products and political volatility, especially in energy-producing countries and large or high growth markets. Such factors have in the past and may in the future also negatively impact consumer demand for automobiles that include features such as our products. In addition, automotive production and sales can be affected by our customers’ ability to continue operating in response to challenging economic conditions, and in response to labor relations issues, regulatory requirements, trade agreements and other factors. The volume of global automotive production has fluctuated, sometimes significantly, from year to year, and such fluctuations give rise to fluctuations in the demand for our products. For example, the U.S. government and governments of other countries recently adopted tariffs that apply to the automotive industry and may affect the business of our customers, which in turn could impact our own business. Any significant adverse change in any of these factors, including, but not limited to, general economic conditions and the resulting bankruptcy of a customer, the closure of a customer manufacturing facility or the ability of a customer manufacturing facility to obtain supplies to manufacture automobiles and to ship or receive shipments of parts, supplies or finished product on prices that are acceptable to them, or imposition of tariffs that affect the prices at which end consumers purchase automobiles, may result in a reduction in automotive sales and production by our customers, and could have a material adverse effect on our business, results of operations and financial condition.

In the past couple of years, we have observed increased economic uncertainty in the United States and abroad. Impacts of such economic weakness include:

- falling overall demand for goods and services, leading to reduced profitability;
- reduced credit availability;
- higher borrowing costs;
- reduced liquidity;
- recession risks;
- volatility in credit, equity and foreign exchange markets; and
- bankruptcies.

Events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions or the financial services industry generally, have in the past and may in the future lead to market-wide liquidity problems. If banks or financial institutions where we maintain deposits enter receivership or become insolvent in the future in response to financial conditions affecting the banking system and financial markets, then our ability to access our cash and cash equivalents may be threatened and could have a material adverse effect on our business and financial condition. In addition, if any of our customers, suppliers or other parties with whom we conduct business are unable to access funds pursuant to such instruments or lending arrangements with such a financial institution, such parties' ability to pay their obligations to us or to enter into new commercial arrangements requiring additional payments to us could be adversely affected.

These developments, along with continued uncertainty about tariffs and trade policies, economic stability related to the global outbreak of COVID-19, and the ongoing conflicts in Ukraine and the Middle East, have resulted in supply chain disruption, inflation, higher interest rates, fluctuations in currency exchange rates, and uncertainty about business continuity, which may adversely affect our business and our results of operations. As our customers react to global political, trade and economic conditions and the potential for a global recession, we may see them increase pricing pressure on us, reduce spending on our products and take additional precautionary measures to limit or delay expenditures and preserve capital and liquidity. Reductions in spending on our solutions, delays in automobile production or purchasing decisions, lack of renewals or the inability to attract new customers, as well as pressure for extended billing terms or pricing discounts, would limit our ability to grow our business and negatively affect our operating results and financial condition.

Our operating results may fluctuate significantly from period to period, and this may cause our stock price to decline.

Our revenue and operating results may fluctuate materially in the future. These fluctuations may cause our results of operations to not meet the expectations of securities analysts or investors which would likely cause the price of our stock to decline. Factors that may contribute to fluctuations in operating results include:

- given our limited customer base, the volume, timing and fulfillment of large customer contracts;
- renewals of existing customer contracts and wins of new customer programs;
- our mix of variable, fixed prepaid or fixed minimum purchase commitment license contracts;
- increased expenditures incurred pursuing new product or market opportunities;
- the timing of the receipt and accuracy of royalty reports;
- fluctuating sales by our customers to their end-users;
- contractual counterparties failing to meet their contractual commitments to us;
- introduction of new products by us or our competitors;
- cybersecurity or data breaches;
- reduction in the prices of our products in response to competition, market conditions or contractual obligations;
- impairment of goodwill or intangible assets;
- accounts receivable that are not collectible;
- higher than anticipated costs related to fixed-price contracts with our customers;
- change in costs and demand for our products due to tariffs, or regulatory or trade restrictions;
- expenses incurred in litigation matters, whether initiated by us or brought by third-parties against us, and settlements or judgments we are required to pay in connection with disputes;
- changes in our stock compensation practices, as it relates to employee short-term incentive payments; and
- general economic trends as they affect the customer bases into which we sell.

Due to the foregoing factors, among others, our financial and operating results may fluctuate significantly from period to period. Our expense levels are based in significant part on our expectations of future revenue, and we may not be able to reduce our expenses quickly to respond to near-term shortfalls in projected revenue. Therefore, our failure to meet revenue expectations would seriously harm our operating results, financial condition and cash flows.

Unauthorized use of our proprietary technology and intellectual property could adversely affect our business and results of operations.

Our success and competitive position depend in large part on our ability to obtain and maintain intellectual property rights protecting our products and services. We rely on a combination of patents, copyrights, trademarks, service marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our intellectual property and proprietary rights. Unauthorized parties may attempt to copy or discover aspects of our products or to obtain, license, sell or otherwise use information that we regard as proprietary. Policing unauthorized use of our products is difficult and we may not be able to protect our technology from unauthorized use. Additionally, our competitors may independently develop technologies that are substantially the same or superior to our technologies and that do not infringe our rights. In these cases, we would be unable to prevent our competitors from selling or licensing these similar or superior technologies. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

Litigation may be necessary to enforce our intellectual property rights, including our patents, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. For example, we have initiated legal proceedings to enforce or defend our intellectual property rights or the terms of existing agreements against multiple third parties. Litigation, regardless of the outcome, can be very expensive and can divert management's efforts, which could harm our business and financial results, and third parties may have the ability to dedicate substantially greater resources to these legal actions than us. The potential outcomes of litigation are unpredictable and, as a result, there can be no assurance that we will prevail in any such litigation or, if we prevail, what remedies might be awarded. Moreover, such litigation has resulted, and may in the future result, in counterclaims against us which may be costly to defend and could subject us to significant liabilities or cause severe disruptions to our business. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property rights which could harm the Company's business, financial condition and results of operations.

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, 2025, 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.

By-law Amendment. On May 6, 2025, our Board of Directors approved an amendment (the "Amendment") to Section 5.10 of our Second Amended and Restated By-laws for purposes of clarifying that our Controller shall be our Chief accounting Officer, unless otherwise determined by our Board of Directors. This Amendment is effective as of May 6, 2025. The Amendment is filed as Exhibit 3.3 to this report and incorporated herein by this 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.	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Cerence Inc.			001-39030	October 2, 2019
3.2	Second Amended and Restated By-laws of Cerence Inc.		8-K	001-39030	May 4, 2023
3.3	Amendment No. 1 to Second Amended and Restated By-laws of Cerence Inc.	X			
10.1 [†]	Promotion Offer Letter, dated January 2, 2025, by and between Cerence Inc. and Christian Mentz		10-Q	001-39030	February 3, 2025
10.2 [†]	Retention Bonus Agreement, dated January 2, 2025, by and between Cerence Inc. and Christian Mentz		10-Q	001-39030	February 3, 2025
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 7, 2025

By: _____
/s/ Brian Krzanich
Brian Krzanich
Chief Executive Officer
(Principal Executive Officer)

Date: May 7, 2025

By: _____
/s/ Tony Rodriquez
Tony Rodriquez
Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

CERENCE INC.

AMENDMENT NO. 1
TO SECOND AMENDED AND RESTATED BY-LAWS

This Amendment No. 1 to the Second Amended and Restated By-Laws (as amended, the “**By-laws**”) of Cerence Inc., a Delaware corporation (the “**Corporation**”), is effective as of April 30, 2025.

ARTICLE V, SECTION 5.10 of the By-laws entitled “Controller” is hereby amended and restated in its entirety to read as follows:

SECTION 5.10. Controller. The Controller shall be the chief accounting officer of the Corporation, **unless otherwise determined by the Board**. The Controller shall, when requested, counsel with and advise the other officers of the Corporation and shall perform such other duties as he or she may agree with the Chief Executive Officer or the Chief Financial Officer or as the Board may from time to time determine.

Except as specifically amended by this Amendment No. 1, the By-laws remain unchanged and, as modified, continue in full force and effect.

**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, Brian Krzanich, 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/ Brian Krzanich
Brian Krzanich
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, Tony Rodriquez, 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.

Date: May 7, 2025

By:

/s/ Tony Rodriquez

Tony Rodriquez
Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

- (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.

By: /s/ Brian Krzanich
Brian Krzanich
Chief Executive Officer
(Principal Executive Officer)

- (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.

By: /s/ Tony Rodriguez
Tony Rodriguez
Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)