# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended December 31, 2021**

**OR**

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

**For the transition period from __________ to __________**

**Commission File Number: 001-39030**

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

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **83-4177087**<br>**(I.R.S. Employer Identification No.)** |
| **1 Burlington Woods Drive, Suite 301A**<br>**Burlington, Massachusetts**<br>**(Address of principal executive offices)** | **01803**<br>**(Zip Code)** |

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

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

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

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

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

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

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

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

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

As of January 31, 2022, the registrant had 39,166,567 shares of common stock, $0.01 par value per share, outstanding.

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## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

These and other factors are more fully discussed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021 and elsewhere in this Form 10-Q, including Part II, "Item 1A, Risk Factors". These risks could cause actual results to differ materially from those implied by forward-looking statements in this Form 10-Q. Even if our results of operations, financial condition and liquidity and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Form 10-Q, those results or developments may not be indicative of results or developments in subsequent periods.

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

## PART I—FINANCIAL INFORMATION

### Item 1. Condensed Consolidated Financial Statements.

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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Revenues: | | |
| License | $ 46,850 | $ 46,414 |
| Connected services | 28,159 | 25,930 |
| Professional services | 19,417 | 21,299 |
| Total revenues | 94,426 | 93,643 |
| Cost of revenues: | | |
| License | 721 | 674 |
| Connected services | 5,724 | 7,013 |
| Professional services | 15,903 | 17,322 |
| Amortization of intangible assets | 1,879 | 1,879 |
| Total cost of revenues | 24,227 | 26,888 |
| Gross profit | 70,199 | 66,755 |
| Operating expenses: | | |
| Research and development | 25,792 | 24,131 |
| Sales and marketing | 5,879 | 9,008 |
| General and administrative | 7,527 | 12,434 |
| Amortization of intangible assets | 3,154 | 3,158 |
| Restructuring and other costs, net | 4,915 | 480 |
| Total operating expenses | 47,267 | 49,211 |
| Income from operations | 22,932 | 17,544 |
| Interest income | 90 | 18 |
| Interest expense | (3,427) | (3,799) |
| Other income (expense), net | (252) | (2,237) |
| Income before income taxes | 19,343 | 11,526 |
| Provision for (benefit from) income taxes | 299 | (9,415) |
| Net income | $ 19,044 | $ 20,941 |
| Net income per share: | | |
| Basic | $ 0.49 | $ 0.56 |
| Diluted | $ 0.47 | $ 0.53 |
| Weighted-average common share outstanding: | | |
| Basic | 38,839 | 37,180 |
| Diluted | 44,370 | 43,363 |

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

**CERENCE INC.**

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(unaudited)

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net income | $ 19,044 | $ 20,941 |
| Other comprehensive (loss) income: | | |
| Foreign currency translation adjustments | (5,389) | 14,170 |
| Pension adjustments, net | 73 | (30) |
| Net unrealized loss on available-for-sale securities | (35) | — |
| Total other comprehensive (loss) income | (5,351) | 14,140 |
| Comprehensive income | $ 13,693 | $ 35,081 |

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

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

| | December 31, 2021 | September 30, 2021 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 117,236 | $ 128,428 |
| Marketable securities | 27,905 | 30,435 |
| Accounts receivable, net of allowances of $181 and $395 | 37,765 | 45,560 |
| Deferred costs | 5,894 | 6,095 |
| Prepaid expenses and other current assets | 92,352 | 76,530 |
| Total current assets | 281,152 | 287,048 |
| Long-term marketable securities | 7,720 | 7,339 |
| Property and equipment, net | 34,437 | 31,505 |
| Deferred costs | 29,882 | 31,702 |
| Operating lease right of use assets | 16,525 | 14,901 |
| Goodwill | 1,125,648 | 1,128,511 |
| Intangible assets, net | 20,138 | 25,348 |
| Deferred tax assets | 157,833 | 159,293 |
| Other assets | 19,090 | 20,081 |
| Total assets | $ 1,692,425 | $ 1,705,728 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 8,322 | $ 11,636 |
| Deferred revenue | 71,215 | 78,394 |
| Short-term operating lease liabilities | 5,386 | 4,562 |
| Short-term debt | 6,250 | 6,250 |
| Accrued expenses and other current liabilities | 50,309 | 64,467 |
| Total current liabilities | 141,482 | 165,309 |
| Long-term debt | 264,831 | 265,093 |
| Deferred revenue, net of current portion | 193,443 | 198,343 |
| Long-term operating lease liabilities | 12,998 | 12,216 |
| Other liabilities | 30,170 | 32,822 |
| Total liabilities | 642,924 | 673,783 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' Equity: | | |
| Common stock, $0.01 par value, 560,000 shares authorized; 39,162 and 38,025 shares issued and outstanding, respectively | 392 | 381 |
| Accumulated other comprehensive (loss) income | (3,717) | 1,634 |
| Additional paid-in capital | 1,006,205 | 1,002,353 |
| Retained earnings | 46,621 | 27,577 |
| Total stockholders' equity | 1,049,501 | 1,031,945 |
| Total liabilities and stockholders' equity | $ 1,692,425 | $ 1,705,728 |

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

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

Three Months Ended December 31, 2021

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

Three Months Ended December 31, 2020

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-In Capital | (Accumulated Deficit) Retained Earnings | Accumulated Other Comprehensive Income | Total |
| Balance at September 30, 2020 | 36,842 | $ 369 | $ 974,307 | $ (18,316) | $ 3,711 | $ 960,071 |
| Net loss | - | - | - | 20,941 | - | 20,941 |
| Other comprehensive income | - | - | - | - | 14,140 | 14,140 |
| Issuance of common stock | 1,276 | 13 | 3,650 | - | - | 3,663 |
| Stock withheld to cover tax withholdings requirements upon stock vesting | (433) | (4) | (30,254) | - | - | (30,258) |
| Stock-based compensation | - | - | 27,163 | - | - | 27,163 |
| Balance at December 31, 2020 | 37,685 | $ 378 | $ 974,866 | $ 2,625 | $ 17,851 | $ 995,720 |

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

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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Cash flows from operating activities:** | | |
| Net income | $ 19,044 | $ 20,941 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation and amortization | 7,210 | 7,624 |
| Benefit from credit loss reserve | (418) | (410) |
| Stock-based compensation | 5,841 | 13,325 |
| Non-cash interest expense | 1,301 | 1,230 |
| Deferred tax benefit | (1,455) | (16,137) |
| Other | 551 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 7,555 | (7,155) |
| Prepaid expenses and other assets | (19,707) | 1,025 |
| Deferred costs | 1,509 | 2,051 |
| Accounts payable | (3,153) | (3,655) |
| Accrued expenses and other liabilities | (2,797) | (1,527) |
| Deferred revenue | (10,336) | (6,503) |
| Net cash provided by operating activities | 5,145 | 10,809 |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (4,410) | (2,369) |
| Purchases of marketable securities | (3,593) | (6,358) |
| Sale and maturities of marketable securities | 5,706 | — |
| Other investing activities | 559 | — |
| Net cash used in investing activities | (1,738) | (8,727) |
| **Cash flows from financing activities:** | | |
| Payments for long-term debt issuance costs | — | (520) |
| Principal payments of long-term debt | (1,563) | (1,563) |
| Common stock repurchases for tax withholdings for net settlement of equity awards | (44,573) | (30,258) |
| Principal payment of lease liabilities arising from a finance lease | (155) | (101) |
| Proceeds from the issuance of common stock | 32,139 | 3,663 |
| Net cash used in financing activities | (14,152) | (28,779) |
| Effects of exchange rate changes on cash and cash equivalents | (447) | 990 |
| Net change in cash and cash equivalents | (11,192) | (25,707) |
| Cash and cash equivalents at beginning of period | 128,428 | 136,067 |
| Cash and cash equivalents at end of period | $ 117,236 | $ 110,360 |
| **Supplemental information:** | | |
| Cash paid for income taxes | $ 2,455 | $ 563 |
| Cash paid for interest | $ 3,392 | $ 3,805 |

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

## Note 1. Business Overview

### *Business*

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

### *COVID-19 Update*

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

We have taken numerous steps in our approach to addressing the COVID-19 pandemic, as described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021. We continue to closely monitor ongoing developments in connection with the COVID-19 pandemic and its impact on our business.

The full extent to which the ongoing COVID-19 pandemic adversely affects our financial performance will depend on future developments, many of which are outside of our control, are highly uncertain and cannot be predicted, including, but not limited to, the duration and scope of the pandemic, its severity, the emergence of new variants of the virus, such as Omicron, the development and availability of effective treatments and vaccines, the speed at which vaccines are administered, and how quickly and to what extent normal economic and operating conditions can resume. The COVID-19 pandemic has resulted in, and may continue to result in, additional governmental restrictions and regulations, which has adversely affected, and may continue to adversely affect our business and financial results. For example, we have seen, and anticipate that we will continue to see, supply chain challenges in the automotive industry related to semiconductor devices that are used in automobiles. The current macroeconomic conditions have also increased competition for qualified employees in our industry, particularly for members of our professional service teams, and we, along with automotive OEMs, face significant competition in hiring and retaining them. In addition, a recession, depression or other sustained adverse market impact resulting from COVID-19 could materially and adversely affect our business, our access to needed capital and liquidity, and the value of our common stock. Even after the COVID-19 pandemic has lessened or subsided, we may continue to experience adverse impacts on our business and financial performance as a result of its global economic impact.

## Note 2. Significant Accounting Policies

### *Principles of Consolidation*

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

### *Basis of Presentation*

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

The condensed consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three months ended December 31, 2021 are not necessarily indicative of the results to be expected for any other interim period or for the year ending September 30, 2022. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated and combined financial statements and notes contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

### *Use of Estimates*

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

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

### *Concentration of Risk*

Financial instruments that potentially subject us to significant concentrations of credit risk primarily consist of trade accounts receivable. We perform ongoing credit evaluations of our customers' financial condition and limit the amount of credit extended when deemed appropriate. Two customers accounted for 11.1% and 10.3% of our Accounts receivable, net balance at December 31, 2021. One customer accounted for 12.1% of our Accounts receivable, net balance at September 30, 2021.

### *Allowance for Credit Losses*

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

The change in the allowance for credit losses for the three months ended December 31, 2021 is as follows (dollars in thousands):

| | Allowance for Credit Losses |
|---|---|
| Balance as of September 30, 2021 | $ 879 |
| Credit loss provision | (431) |
| Write-offs, net of recoveries | 14 |
| Foreign exchange impact on ending balance | (33) |
| Balance as of December 31, 2021 | $ 429 |

### *Recently Issued Accounting Pronouncements to be Adopted*

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

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

**Note 3. Revenue Recognition**

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

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

We currently recognize revenue after applying the following five steps:

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

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

- the pricing of standalone sales (when available);
- the pricing established by management when setting prices for deliverables that are intended to be sold on a standalone basis;
- contractually stated prices for deliverables that are intended to be sold on a standalone basis; and
- other pricing factors, such as the geographical region in which the products are sold and expected discounts based on the customer size and type.

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

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

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

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

***(a) Performance Obligations***

Licenses

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

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

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

Connected Services

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

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

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

Professional Services

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

(***b) Significant Judgments***

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

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

***(c) Disaggregated Revenue***

Revenues, classified by the major geographic region in which our customers are located, for the three months ended December 31, 2021 and 2020 (dollars in thousands):

| | Three Months Ended December 31, | |
|---|---|---|
| | **2021** | **2020** |
| Revenues: | | |
| United States | $ 35,129 | $ 32,094 |
| Other Americas | 2 | 43 |
| Germany | 19,509 | 32,044 |
| Other Europe, Middle East and Africa | 3,963 | 3,469 |
| Japan | 26,076 | 12,673 |
| Other Asia-Pacific | 9,747 | 13,320 |
| Total net revenues | $ 94,426 | $ 93,643 |

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

Revenues relating to two customers accounted for $24.2 million, or 25.7%, and $17.9 million, or 19.0%, of revenues for the three months ended December 31, 2021. Revenues relating to one customer accounted for $17.9 million, or 19.1%, of revenues for the three months ended December 31, 2020.

***(d) Contract Acquisition Costs***

In conjunction with the adoption of ASC 606, we are required to capitalize certain contract acquisition costs. The capitalized costs primarily relate to paid commissions. In accordance with the practical expedient in ASC 606-10-10-4, we apply a portfolio approach to estimate contract acquisition costs for groups of customer contracts. We elect to apply the practical expedient in ASC 340-40-25-4 and will expense contract acquisition costs as incurred where the expected period of benefit is one year or less. Contract acquisition costs are deferred and amortized on a straight-line basis over the period of benefit, which we have estimated to be, on average, between one and eight years. The period of benefit was determined based on an average customer contract term, expected contract renewals, changes in technology and our ability to retain customers, including canceled contracts. We assess the amortization term for all major transactions based on specific facts and circumstances. Contract acquisition costs are classified as current or noncurrent assets based on when the expense will be recognized. The current and noncurrent portions of contract acquisition costs are included in Prepaid expenses and other current assets, and in Other assets, respectively. As of December 31, 2021 and September 30, 2021, we had $6.5 million and $6.9 million of contract acquisition costs, respectively. We had amortization expense of $0.6 million and $0.4 million related to these costs during the three months ended December 31, 2021 and 2020, respectively. There was no impairment related to contract acquisition costs.

***(e) Capitalized Contract Costs***

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

We had amortization expense of $2.8 million and $4.3 million related to these costs during the three months ended December 31, 2021 and 2020, respectively. There was no impairment related to contract costs capitalized.

***(f) Trade Accounts Receivable and Contract Balances***

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

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

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

| | Contract assets |
|---|---|
| Balance as of September 30, 2021 | $ 59,143 |
| Revenues recognized but not billed | 36,425 |
| Amounts reclassified to accounts receivable, net | (18,087) |
| Balance as of December 31, 2021 | $ 77,481 |

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

| | Deferred revenue |
|---|---|
| Balance as of September 30, 2021 | $ 276,737 |
| Amounts billed but not recognized | 23,881 |
| Revenue recognized | (35,960) |
| Balance as of December 31, 2021 | $ 264,658 |

***(g) Remaining Performance Obligations***

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at December 31, 2021 (dollars in thousands):

| | Within One Year | Two to Five Years | Greater than Five Years | Total |
|---|---|---|---|---|
| Total revenue | $ 125,457 | $ 163,626 | $ 20,298 | $ 309,381 |

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

**Note 4. Earnings Per Share**

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

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

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

| *in thousands, except per share data* | Three Months Ended December 31, 2021 | 2020 |
|---|---|---|
| **Numerator:** | | |
| Net income - basic and diluted | $ 19,044 | $ 20,941 |
| Interest on Convertible Senior Notes, net of tax | 1,911 | 1,831 |
| Net income - diluted | $ 20,955 | $ 22,772 |
| | | |
| **Denominator:** | | |
| Weighted average common shares outstanding - basic | 38,839 | 37,180 |
| Dilutive effect of restricted stock awards | 854 | 1,506 |
| Dilutive effect of the Notes | 4,677 | 4,677 |
| Weighted average common shares outstanding - diluted | 44,370 | 43,363 |
| | | |
| **Net income per common share:** | | |
| Basic | $ 0.49 | $ 0.56 |
| Diluted | $ 0.47 | $ 0.53 |

We exclude weighted-average potential shares from the calculations of diluted net income per share during the applicable periods when their inclusion is anti-dilutive. For the three months ended December 31, 2021 and 2020, no shares were considered anti-dilutive.

**Note 5. Fair Value Measurements**

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

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

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

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

| | December 31, 2021 | | |
|---|---|---|---|
| | Fair Value | Cash and Cash Equivalents | Marketable Securities |
| Level 1: | | | |
| Money market funds (a) | $ 77,303 | $ 77,303 | $ - |
| Level 2: | | | |
| Time deposits, $1,748 at cost (a) | 1,748 | 1,748 | - |
| Commercial paper, $16,683 at cost (b) | 16,683 | - | 16,683 |
| Corporate bonds, $18,987 at cost (b) | 18,942 | - | 18,942 |
| Debt securities, $2,000 at cost (c) | 2,000 | - | - |
| Total assets | $ 116,676 | $ 79,051 | $ 35,625 |

| | September 30, 2021 | | |
|---|---|---|---|
| | Fair Value | Cash and Cash Equivalents | Marketable Securities |
| Level 1: | | | |
| Money market funds (a) | $ 75,873 | $ 75,873 | $ - |
| Level 2: | | | |
| Time deposits, $2,965 at cost (a) | 2,965 | 2,965 | - |
| Commercial paper, $18,080 at cost (b) | 18,080 | - | 18,080 |
| Corporate bonds, $19,704 at cost (b) | 19,694 | - | 19,694 |
| Debt securities, $2,000 at cost (c) | 2,000 | - | - |
| Total assets | $ 118,612 | $ 78,838 | $ 37,774 |

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

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

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

During the three months ended December 31, 2021 and 2020, we recorded an immaterial amount of unrealized losses related to our marketable securities within Accumulated other comprehensive 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 and are classified within Level 2 of the fair value hierarchy. See *Note 6 – Derivative Financial Instruments* for additional details.

***Long-term debt***

The estimated fair value of our Long-term debt is determined by Level 2 inputs and is based on observable market data including prices for similar instruments. As of December 31, 2021 and September 30, 2021, the estimated fair value of our Notes was $337.8 million and $469.0 million, respectively. The Notes are recorded at face value less unamortized debt discount and transaction costs on our Condensed Consolidated Balance Sheets. The carrying amount of the Senior Credit Facilities (as defined in Note 14) approximates fair value given the underlying interest rate applied to such amounts outstanding is currently set to the prevailing market rate.

***Equity securities***

We have non-controlling equity investments in privately held companies. We evaluated the equity investments under the voting model and concluded consolidation was not applicable. We accounted for the investments by electing the measurement alternative for investments without readily determinable fair values and for which we do not have the ability to exercise significant influence. The non-marketable equity securities are carried at cost less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, which is recorded within the Condensed Consolidated Statements of Operations. We hold $3.1 million of investments without readily determinable fair values as of December 31, 2021. The investments are included within Other assets on the Condensed Consolidated Balance Sheets. There have been no adjustments to the carrying value of the investments resulting from impairments or observable price changes.

## Note 6. Derivative Financial Instruments

We operate internationally and, in the normal course of business, are exposed to fluctuations in foreign currency exchange rates related to third-party vendor and intercompany payments for goods and services within our non-U.S. subsidiaries. We use foreign exchange forward contracts that are not designated as hedges to manage currency risk. The contracts can have maturities up to three years. At December 31, 2021, the total notional amount of forward contracts was $65.9 million. At December 31, 2021, the weighted-average remaining maturity of these instruments was approximately 11.8 months.

The following table summarizes the fair value and presentation in the Condensed Consolidated Balance Sheet for derivative instruments as of December 31, 2021 and September 30, 2021 (dollars in thousands):

| | | Fair Value | |
|---|---|---|---|
| **Derivatives not designated as hedges** | **Classification** | **December 31, 2021** | **September 30, 2021** |
| Foreign currency forward contracts | Prepaid expenses and other current assets | $ 1,642 | $ 1,235 |
| Foreign currency forward contracts | Other assets | 517 | 365 |
| Foreign currency forward contracts | Accrued expenses and other current liabilities | 148 | 131 |
| Foreign currency forward contracts | Other liabilities | $ 169 | $ 148 |

The following tables display a summary of the income (loss) related to foreign currency forward contracts for the three months ended December 31, 2021 and 2020 (dollars in thousand):

| | | Gain recognized in earnings<br>Three Months Ended | |
|---|---|---|---|
| **Derivatives not designated as hedges** | **Classification** | **December 31, 2021** | **December 31, 2020** |
| Foreign currency forward contracts | Other income (expense), net | $ 1,117 | $ 386 |

## Note 7. Goodwill and Other Intangible Assets

### *(a) Goodwill*

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

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

On December 31, 2021, we concluded that no goodwill impairment indicators were present. We will continue to monitor the impacts of the COVID-19 pandemic on our reporting unit fair value. The full extent to which the ongoing COVID-19 pandemic could adversely affect our financial performance will depend on future developments, many of which are outside of our control.

The changes in the carrying amount of goodwill for the three months ended December 31, 2021 are as follows (dollars in thousands):

| | Total |
|---|---|
| Balance as of September 30, 2021 | $ 1,128,511 |
| Effect of foreign currency translation | (2,863) |
| Balance as of December 31, 2021 | $ 1,125,648 |

### *(b) Intangible Assets, Net*

As of December 31, 2021, there were no indicators of impairment present related to our long-lived asset group.

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

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted Average Remaining Life (Years) |
| Customer relationships | $ 109,833 | $ (91,317) | $ 18,516 | 2.1 |
| Technology and patents | 90,494 | (88,872) | 1,622 | 1.1 |
| Total | $ 200,327 | $ (180,189) | $ 20,138 | |

| | September 30, 2021 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted Average Remaining Life (Years) |
| Customer relationships | $ 110,485 | $ (88,638) | $ 21,847 | 2.2 |
| Technology and patents | 90,738 | (87,237) | 3,501 | 0.9 |
| Total | $ 201,223 | $ (175,875) | $ 25,348 | |

Amortization expense related to intangible assets in the aggregate was $5.0 million and $5.0 million for the three months ended December 31, 2021 and 2020, respectively. We expect amortization of intangible assets to be approximately $9.6 million for the remainder of fiscal year 2022.

**Note 8. Leases**

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

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

The following table presents certain information related to lease term and incremental borrowing rates for leases as of December 31, 2021 and September 30, 2021:

| | December 31, 2021 | September 30, 2021 |
|---|---|---|
| Weighted-average remaining lease term (in months): | | |
| Operating leases | 46.9 | 52.2 |
| Finance leases | 44.6 | 47.1 |
| Weighted-average discount rate: | | |
| Operating leases | 4.5% | 5.1% |
| Finance leases | 4.4% | 4.4% |

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

The following table presents lease expense for the three months ended December 31, 2021 and 2020 (dollars in thousands):

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Finance lease costs: | | |
| Amortization of right of use asset | $ 109 | $ 141 |
| Interest on lease liability | 14 | 15 |
| Operating lease cost | 1,558 | 2,071 |
| Variable lease cost | 877 | 178 |
| Sublease income | (48) | (53) |
| Total lease cost | $ 2,510 | $ 2,352 |

For operating leases, the related cash payments are included in the operating cash flows on the Condensed Consolidated Statements of Cash Flows. For the three months ended December 31, 2021 and 2020, cash payments related to operating leases were $1.6 million and $2.3 million, respectively. For financing leases, the related cash payments for the principal portion of the lease liability are included in the financing cash flows on the Condensed Consolidated Statement of Cash Flows and the related cash payments for the interest portion of the lease liability are included within the operating section of the Condensed Consolidated Statement of Cash Flows. For the three months ended December 31, 2021 and 2020, cash payments related to financing leases were $0.2 million and $0.1 million, respectively, of which an immaterial amount related to the interest portion of the lease liability. For the three months ended December 31, 2021 and 2020, right of use assets obtained in exchange for lease obligations were $3.1 million and $2.0 million, respectively.

The table below reconciles the undiscounted future minimum lease payments under non-cancelable leases to the total lease liabilities recognized on the Condensed Consolidated Balance Sheet as of December 31, 2021 (dollars in thousands):

| Year Ending September 30, | Operating Leases | Financing Leases | Total |
|---|---|---|---|
| 2022 | $ 4,772 | $ 312 | $ 5,084 |
| 2023 | 5,219 | 468 | 5,687 |
| 2024 | 4,570 | 417 | 4,987 |
| 2025 | 2,368 | 362 | 2,730 |
| 2026 | 1,518 | 53 | 1,571 |
| Thereafter | 1,520 | — | 1,520 |
| Total future minimum lease payments | $ 19,967 | $ 1,612 | $ 21,579 |
| Less effects of discounting | (1,583) | (102) | (1,685) |
| Total lease liabilities | $ 18,384 | $ 1,510 | $ 19,894 |
| **Reported as of December 31, 2021** | | | |
| Short-term lease liabilities | $ 5,386 | $ 370 | $ 5,756 |
| Long-term lease liabilities | 12,998 | 1,140 | 14,138 |
| Total lease liabilities | $ 18,384 | $ 1,510 | $ 19,894 |

## Note 9. Accrued Expenses and Other Liabilities

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

| | December 31, 2021 | September 30, 2021 |
|---|---|---|
| Compensation | $ 22,002 | $ 39,536 |
| Sales and other taxes payable | 8,996 | 8,574 |
| Cost of revenue related liabilities | 5,422 | 4,634 |
| Professional fees | 3,705 | 3,604 |
| Interest payable | 610 | 1,919 |
| Other | 9,574 | 6,200 |
| Total | $ 50,309 | $ 64,467 |

## Note 10. Restructuring and Other Costs, Net

Restructuring and other costs, net includes restructuring expenses as well as other charges that are unusual in nature, are the result of unplanned events, and arise outside of the ordinary course of our business. The following table sets forth accrual activity relating to restructuring reserves for the three months ended December 31, 2021 (dollars in thousands):

| | Personnel | Facilities | Restructuring Subtotal | Other | Total |
|---|---|---|---|---|---|
| Balance at September 30, 2021 | $ 1,620 | $ 1,881 | $ 3,501 | $ 1,534 | $ 5,035 |
| Restructuring and other costs, net | 237 | 197 | 434 | 4,481 | 4,915 |
| Non-cash adjustments | — | (151) | (151) | (4,000) | (4,151) |
| Cash (payments) receipts | (1,105) | 255 | (850) | (1,177) | (2,027) |
| Foreign exchange impact on ending balance | — | 2 | 2 | — | 2 |
| Balance at December 31, 2021 | $ 752 | $ 2,184 | $ 2,936 | $ 838 | $ 3,774 |

The following table sets forth restructuring and other costs, net recognized for the three months ended December 31, 2021 and 2020 (dollars in thousands):

| | Three Months Ended December 31, 2021 | Three Months Ended December 31, 2020 |
|---|---|---|
| Personnel | $ 237 | $ 336 |
| Facilities | 197 | 118 |
| Restructuring subtotal | 434 | 454 |
| Other | 4,481 | 26 |
| Restructuring and other costs, net | $ 4,915 | $ 480 |

***Fiscal Year 2022***

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

***Fiscal Year 2021***

For the three months ended December 31, 2020, we recorded restructuring charges of $0.5 million, which included a $0.3 million severance charge related to the elimination of personnel, and $0.1 million resulting from the closure of facilities that will no longer be utilized, including adjustments to assumptions associated with these facilities.

## 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) three percent (3%) of the number of shares of Common Stock outstanding as of the close of business on the immediately preceding December 31st; and (B) the number of shares of Common Stock determined by the Board on or prior to such date for such year.

### *Restricted Units*

Information with respect to our non-vested restricted stock units for the three months ended December 31, 2021 was as follows:

| | Non-Vested Restricted Stock Units | | | | | |
|---|---|---|---|---|---|---|
| | Time-Based Shares | Performance-Based Shares | Total Shares | Weighted-Average Grant-Date Fair Value | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (in thousands) |
| Non-vested at September 30, 2021 | 1,420,532 | 654,619 | 2,075,151 | $ 44.20 | | |
| Granted | 364,118 | 171,583 | 535,701 | $ 83.90 | | |
| Vested | (806,660) | (474,681) | (1,281,341) | $ 59.84 | | |
| Forfeited | (39,647) | (75,308) | (114,955) | $ 54.95 | | |
| Non-vested at December 31, 2021 | 938,343 | 276,213 | 1,214,556 | $ 64.14 | | |
| Expected to vest | | | 1,214,556 | $ 64.14 | 1.21 | $ 93,071 |

### *Stock-based Compensation*

Stock-based compensation was included in the following captions in our Condensed Consolidated Statements of Operations for the three months ended December 31, 2021 and 2020 (in thousands):

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Cost of connected services | $ 146 | $ 291 |
| Cost of professional services | 946 | 1,301 |
| Research and development | 1,995 | 4,138 |
| Sales and marketing | (578) | 2,639 |
| General and administrative | (668) | 4,956 |
| Restructuring and other costs, net | 4,000 | — |
| | $ 5,841 | $ 13,325 |

For the three months ended December 31, 2021, we decreased stock-based compensation expense relating to our performance-based restricted stock units. Compensation cost for our performance-based restricted stock units is recognized based on the number of units expected to vest upon the achievement of the performance conditions. We recorded $4.0 million, net of $5.0 million in forfeitures, in stock-based compensation due to the resignation of our former CEO and the resulting modification of certain stock-based awards in Restructuring and other costs, net.

## Note 12. Commitments and Contingencies

### *Litigation and Other Claims*

Similar to many companies in the software industry, we are involved in a variety of claims, demands, suits, investigations and proceedings that arise from time to time relating to matters incidental to the ordinary course of our business, including at times actions with respect to contracts, intellectual property, employment, benefits and securities matters. At each balance sheet date, we evaluate contingent liabilities associated with these matters in accordance with ASC 450 "*Contingencies*." If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgments are required for the determination of probability and the range of the outcomes, and estimates are based only on the best information available at the time. Due to the inherent uncertainties involved in claims and legal proceedings and in estimating losses that may arise, actual outcomes may differ from our estimates. Contingencies deemed not probable or for which losses were not estimable in one period may become probable, or losses may become estimable in later periods, which may have a material impact on our results of operations and financial position. As of December 31, 2021, accrued losses were not material to our condensed consolidated financial statements, and we do not expect any pending matter to have a material impact on our condensed consolidated financial statements.

***Guarantees and Other***

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

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

As of December 31, 2021, we have a $1.7 million letter of credit that is used as a security deposit in connection with our leased Bellevue, Washington office space. In the event of default on the underlying lease, the landlord would be eligible to draw against the letter of credit. The letter of credit is subject to aggregate reductions, provided that we are not in default under the underlying lease. We also have letters of credit in connection with security deposits for other facility leases totaling $0.6 million in the aggregate. These letters of credit have various terms and expire during fiscal year 2022 and beyond, while some of the letters of credit may automatically renew based on the terms of the underlying agreements.

**Note 13. Income Taxes**

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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Domestic | $ 17,208 | $ 3,314 |
| Foreign | 2,135 | 8,212 |
| Income before income taxes | $ 19,343 | $ 11,526 |

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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Domestic | $ 1,437 | $ (438) |
| Foreign | (1,138) | (8,977) |
| Provision for (benefit from) income taxes | $ 299 | $ (9,415) |
| Effective income tax rate | 1.5% | (81.7)% |

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

Our effective tax rate for the three months ended December 31, 2021 was 1.5% compared to negative 81.7% for the three months ended December 31, 2020. Consequently, our provision for income taxes for the three months ended December 31, 2021 was $0.3 million, a net change of $9.7 million from a benefit from income taxes of $9.4 million for the three months ended December 31, 2020. This difference was attributable to our composition of jurisdiction earnings, U.S. inclusions of foreign taxable income as a result of 2017 tax law changes, and a $15.8 million tax benefit recorded as a result of an increase to the enacted Netherlands tax rate in the first quarter of fiscal 2021 partially offset by a $3.5 million tax benefit recorded as result of an increase to the enacted Netherlands tax rate in the first quarter of fiscal 2022.

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

**Note 14. Long-Term Debt**

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

| | December 31, 2021 | September 30, 2021 |
|---|---|---|
| 3.00% Convertible Senior Notes due 2025, net of unamortized discount of $14,095 and $15,019, respectively, and deferred issuance costs of $3,544 and $3,776, respectively. Effective interest rate 6.29%. | $ 157,361 | $ 156,205 |
| Senior Credit Facilities, net of unamortized discount of $1,700 and $1,829, respectively, and deferred issuance costs of $206 and $221, respectively. Effective interest rate 2.87% and 2.86%, respectively. | 113,720 | 115,138 |
| Total debt | $ 271,081 | $ 271,343 |
| Less: current portion | (6,250) | (6,250) |
| Total long-term debt | $ 264,831 | $ 265,093 |

The following table summarizes the maturities of our borrowing obligations as of December 31, 2021 (in thousands):

| Fiscal Year | Convertible Senior Notes | Senior Facilities | Total |
|---|---|---|---|
| 2022 | $ — | $ 4,688 | $ 4,688 |
| 2023 | — | 10,938 | 10,938 |
| 2024 | — | 12,500 | 12,500 |
| 2025 | 175,000 | 87,500 | 262,500 |
| Total before unamortized discount and issuance costs and current portion | $ 175,000 | $ 115,626 | $ 290,626 |
| Less: unamortized discount and issuance costs | (17,639) | (1,906) | (19,545) |
| Less: current portion of long-term debt | — | (6,250) | (6,250) |
| Total long-term debt | $ 157,361 | $ 107,470 | $ 264,831 |

***3.00% Senior Convertible Notes due 2025***

On June 2, 2020, in an effort to refinance our debt structure, we issued $175.0 million in aggregate principal amount of 3.00% Convertible Senior Notes due 2025 (the “Notes”), including the initial purchasers’ exercise in full of their option to purchase an additional $25.0 million principal amount of the Notes, between us and U.S. Bank National Association, as trustee (the “Trustee”), in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from the issuance of the Notes were $169.8 million after deducting transaction costs.

The Notes are senior, unsecured obligations and will accrue interest payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020, at a rate of 3.00% per year. The Notes will mature on June 1, 2025, unless earlier converted, redeemed, or repurchased. The Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. As of December 31, 2021, the if-converted value of the Notes exceeds its principal amount by $183.4 million.

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

As of December 31, 2021, the carrying amount of the equity component, net of taxes and transaction costs was $14.4 million.

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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Contractual interest expense | $ 1,322 | $ 1,322 |
| Amortization of debt discount | 924 | 868 |
| Amortization of issuance costs | 232 | 218 |
| Total interest expense related to the Notes | $ 2,478 | $ 2,408 |

The conditional conversion feature of the Notes was triggered during the three months ended December 31, 2021, and the Notes were convertible during the fiscal quarter ended December 31, 2021, with no Notes being converted. Whether any of the Notes will be convertible in future quarters will depend on the satisfaction of one or more of the conversion conditions in the future. If one or more holders elect to convert their Notes at a time when any such Notes are convertible, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

***Senior Credit Facilities***

On June 12, 2020 (the “Financing Closing Date”), in connection with our effort to refinance our existing indebtedness, we entered into a Credit Agreement, by and among the Borrower, the lenders and issuing banks party thereto and Wells Fargo Bank, N.A., as administrative agent (the “Credit Agreement”), consisting of a four-year senior secured term loan facility in the aggregate principal amount of $125.0 million (the “Term Loan Facility”). The net proceeds from the issuance of the Term Loan Facility were $123.0 million. We also entered into a senior secured first-lien revolving credit facility in an aggregate principal amount of $50.0 million (the “Revolving Facility” and, together with the Term Loan Facility, the “Senior Credit Facilities”), which may be drawn on in the event that our working capital and other cash needs are not supported by our operating cash flow. As of December 31, 2021, there were no amounts outstanding under the Revolving Facility.

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

The Amendment, among other things, revised certain interest rates in the Credit Agreement. Following delivery of a compliance certificate for the first full fiscal quarter after the Amendment No. 1 Effective Date, the applicable margins for the revolving credit and term facilities is subject to a pricing grid based upon the net total leverage ratio as follows (i) if the net total leverage ratio is greater than 3.00 to 1.00, the applicable margin is LIBOR plus 3.00% or ABR plus 2.00%; (ii) if the net total leverage ratio is less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00, the applicable margin is LIBOR plus 2.75% or ABR plus 1.75%; (iii) if the net total leverage ratio is less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00, the applicable margin is LIBOR plus 2.50% or ABR plus 1.50%; (iv) if the net total leverage ratio is less than or equal to 2.00 to 1.00 but greater than 1.50 to 1.00, the applicable margin is LIBOR plus 2.25% or ABR plus 1.25%; and (v) if the net total leverage ratio is less than or equal to 1.50 to 1.00, the applicable margin is LIBOR plus 2.20% or ABR plus 1.00%. As a result of the Amendment, the applicable LIBOR floor was reduced from 0.50% to 0.00%. From the Amendment No. 1 Effective Date until the fiscal quarter ended December 31, 2020, the interest rate was LIBOR plus 2.50%. For the three months ended December 31, 2021, the interest rate was LIBOR plus 2.25%. Total interest expense relating to the Senior Credit Facilities for the three months ended December 31, 2021 and 2020 was $0.9 million and $1.4 million, respectively, reflecting the coupon and accretion of the discount.

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

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

The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type that, among other things, limit our and our subsidiaries' ability to incur additional indebtedness or liens, to dispose of assets, to make certain fundamental changes, to designate subsidiaries as unrestricted, to make certain investments, to prepay certain indebtedness and to pay dividends, or to make other distributions or redemptions/repurchases, in respect of our and our subsidiaries' equity interests. In addition, the Credit Agreement contains financial covenants, each tested quarterly, (1) a net secured leveraged ratio of not greater than 3.25 to 1.00; (2) a net total leverage ratio of not greater than 4.25 to 1.00; and (3) minimum liquidity of at least $75 million. The Credit Agreement also contains events of default customary for financings of this type, including certain customary change of control events. As of December 31, 2021, we were in compliance with all Credit Agreement covenants.

## 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 and combined financial statements and the related notes and other financial information included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, filed with the Securities and Exchange Commission ("SEC") on November 23, 2021. Some of the information contained in this discussion and analysis or elsewhere in this Quarterly Report, including information with respect to our plans and strategy for our business, our performance and future success, our liquidity and capital resources, the impact of the COVID-19 pandemic on our business, results of operations and financial condition, and trends in the global auto industry, includes forward-looking statements that involve risks and uncertainties. See "Cautionary Statement Concerning Forward-Looking Statements." You should review the "Risk Factors" section in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, as updated by Part II, Item 1A of this Quarterly Report, for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. Note that the results of operations for the three months ended December 31, 2021 are not necessarily indicative of what our operating results for the full fiscal year will be. In this Item, "we," "us," "our," "Cerence" and the "Company" refer to Cerence Inc. and its consolidated subsidiaries, collectively.*

### Overview

Cerence builds AI powered virtual assistants for the mobility/transportation market. Our primary target is the automobile market, but our solutions can apply to all forms of transportation including but not limited to two-wheel vehicles, planes, tractors, cruise ships and elevators. Our solutions power natural conversational and intuitive interactions between automobiles, drivers and passengers, and the broader digital world. We possess one of the world's most popular software platforms for building automotive virtual assistants. Our customers include all major original equipment manufacturers ("OEMs") or their tier 1 suppliers worldwide. We deliver our solutions on a white-label basis, enabling our customers to deliver customized virtual assistants with unique, branded personalities and ultimately strengthening the bond between automobile brands and end users. Our vision is to enable a more enjoyable, safer journey for everyone.

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

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

### Impact of COVID-19 on our Business

As the full impact of the COVID-19 pandemic on our business continues to develop, we are closely monitoring the global situation. We are unable at this time to predict the full impact of COVID-19 on our operations, liquidity, and financial results, and, depending on the magnitude and duration of the COVID-19 pandemic, such impact may be material. Accordingly, current results and financial condition discussed herein may not be indicative of future operating results and trends. While we are unable to accurately predict the full impact that COVID-19 will have on our results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures, these measures have impacted, and may continue to impact, our business, as well as our customers and consumers. For further discussion of the business risks associated with COVID-19, see Item 1A, Risk Factors, within our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, as updated by Part II, Item 1A of this Quarterly Report.

### *Basis of Presentation*

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

The condensed consolidated balance sheet data as of September 30, 2021 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting primarily of normal recurring accruals, necessary for a fair presentation of our financial position and results of operations. The operating results for the three months ended December 31, 2021 are not necessarily indicative of the results expected for the full year ending September 30, 2022.

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

***Key Metrics***

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

For the three months ended December 31, 2021 as compared to the three months ended December 31, 2020:

- Total revenue increased by $0.8 million, or 0.8%, to $94.4 million from $93.6 million.
- Operating margin increased 5.6 percentage points to 24.3% from 18.7%.
- Cash provided by operating activities was $5.1 million, a decrease of $5.7 million from cash provided by operating activities of $10.8 million.

**Operating Results**

The following table shows the Condensed Consolidated Statement of Operations for the three months ended December 31, 2021 and 2020 (dollars in thousands):

| | Three Months Ended December 31, 2021 | Three Months Ended December 31, 2020 |
|---|---|---|
| Revenue: | | |
| License | $ 46,850 | $ 46,414 |
| Connected services | 28,159 | 25,930 |
| Professional services | 19,417 | 21,299 |
| Total revenues | 94,426 | 93,643 |
| Cost of revenue: | | |
| License | 721 | 674 |
| Connected services | 5,724 | 7,013 |
| Professional services | 15,903 | 17,322 |
| Amortization of intangible assets | 1,879 | 1,879 |
| Total cost of revenues | 24,227 | 26,888 |
| Gross profit | 70,199 | 66,755 |
| Operating expenses: | | |
| Research and development | 25,792 | 24,131 |
| Sales and marketing | 5,879 | 9,008 |
| General and administrative | 7,527 | 12,434 |
| Amortization of intangible assets | 3,154 | 3,158 |
| Restructuring and other costs, net | 4,915 | 480 |
| Total operating expenses | 47,267 | 49,211 |
| Income from operations | 22,932 | 17,544 |
| Interest income | 90 | 18 |
| Interest expense | (3,427) | (3,799) |
| Other income (expense), net | (252) | (2,237) |
| Income before income taxes | 19,343 | 11,526 |
| Provision for (benefit from) income taxes | 299 | (9,415) |
| Net income | $ 19,044 | $ 20,941 |

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

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

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

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

Total other expense, net consists primarily of foreign exchange gains (losses), losses on the extinguishment of debt and interest expense related to Notes, the Senior Credit Facilities, and the Credit Agreement, dated October 1, 2019, by and among the Company, the lenders and issuing banks party thereto and Barclays Bank PLC, as administrative agent, which we repaid using proceeds from the issuance of the Notes.

***Three Months Ended December 31, 2021 Compared with Three Months Ended December 31, 2020***

*Total Revenues*

The following table shows total revenues by product type, including the corresponding percentage change, for the three months ended December 31, 2021 and 2020 (dollars in thousands):

| | Three Months Ended December 31, | | | | % Change |
|---|---|---|---|---|---|
| | 2021 | % of Total | 2020 | % of Total | 2021 vs. 2020 |
| License | $ 46,850 | 49.6% | $ 46,414 | 49.6% | 0.9% |
| Connected services | 28,159 | 29.8% | 25,930 | 27.7% | 8.6% |
| Professional services | 19,417 | 20.6% | 21,299 | 22.7% | (8.8)% |
| Total revenues | $ 94,426 | | $ 93,643 | | 0.8% |

Total revenues for the three months ended December 31, 2021 were $94.4 million, an increase of $0.8 million, or 0.8%, from $93.6 million for the three months ended December 31, 2020. The increase in revenues was driven by increases in licensing revenues and increased demand for our connected services. Currently, the global automotive industry is experiencing a semiconductor shortage. As of the date of this Quarterly Report, we are unable to predict the full extent this will have on our business.

*License Revenue*

License revenue for the three months ended December 31, 2021 was $46.9 million, an increase of $0.5 million, or 0.9%, from $46.4 million for the three months ended December 31, 2020. The increase in license revenue was primarily due to higher volume of licensing royalties as the global auto industry continues to recover from the COVID-19 pandemic and due to new markets. As a percentage of total revenues, license revenue remained flat at 49.6% for the three months ended December 31, 2021 and 2020.

*Connected Services Revenue*

Connected services revenue for the three months ended December 31, 2021 was $28.2 million, an increase of $2.3 million, or 8.6%, from $25.9 million for the three months ended December 31, 2020. This increase was primarily driven by greater demand for our connected services solutions as our customers increasingly deploy hybrid solutions. As a percentage of total revenues, connected services revenue increased by 2.1 percentage point from 27.7% for the three months ended December 31, 2020 to 29.8% for the three months ended December 31, 2021.

*Professional Services Revenue*

Professional service revenue for the three months ended December 31, 2021 was $19.4 million, a decrease of $1.9 million, or 8.8%, from $21.3 million for the three months ended December 31, 2020. This decrease was primarily driven by the composition of our arrangements and the related timing of fulfilling performance obligations under the contracts. As a percentage of total revenues, professional services revenue decreased by 2.1 percentage points from 22.7% for the three months ended December 31, 2020 to 20.6% for the three months ended December 31, 2021.

*Total Cost of Revenues and Gross Profits*

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

| | Three Months Ended December 31, | | % Change |
|---|---|---|---|
| | 2021 | 2020 | 2021 vs. 2020 |
| License | $ 721 | $ 674 | 7.0% |
| Connected services | 5,724 | 7,013 | (18.4)% |
| Professional services | 15,903 | 17,322 | (8.2)% |
| Amortization of intangibles | 1,879 | 1,879 | — |

| | | | |
|---|---|---|---|
| Total cost of revenues | $ 24,227 | $ 26,888 | (9.9)% |

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

| | Three Months Ended December 31, 2021 | 2020 | % Change 2021 vs. 2020 |
|---|---|---|---|
| License | $ 46,129 | $ 45,740 | 0.9% |
| Connected services | 22,435 | 18,917 | 18.6% |
| Professional services | 3,514 | 3,977 | (11.6)% |
| Amortization of intangibles | (1,879) | (1,879) | — |
| Total gross profit | $ 70,199 | $ 66,755 | 5.2% |

Total cost of revenues for the three months ended December 31, 2021 were $24.2 million, a decrease of $2.7 million, or 9.9%, from $26.9 million for the three months ended December 31, 2020.

We experienced an increase in total gross profit of $3.4 million, or 5.2%, from $66.8 million for the three months ended December 31, 2020 to $70.2 million for the three months ended December 31, 2021. The increase was primarily driven by our license and connected services solutions.

*Cost of License Revenue*

Cost of license revenue for the three months ended December 31, 2021 and 2020 was flat at $0.7 million. As a percentage of total cost of revenues, cost of license revenue increased by 0.5 percentage points from 2.5% for the three months ended December 31, 2020 to 3.0% for the three months ended December 31, 2021.

License gross profit increased by $0.4 million, or 0.9%, for the three months ended December 31, 2021 when compared to the three months ended December 31, 2020, primarily due to increases in license revenues on relatively flat costs.

*Cost of Connected Services Revenue*

Cost of connected services revenue for the three months ended December 31, 2021 was $5.7 million, a decrease of $1.3 million, or 18.4%, from $7.0 million for the three months ended December 31, 2020. Cost of connected services revenue decreased primarily due to a $0.5 million decrease in salary-related expenditures, $0.2 million decrease in third-party contractor costs and $0.2 million decrease in depreciation costs offset by increase of $0.4 million in our cloud infrastructure costs. As a percentage of total cost of revenues, cost of connected service revenue decreased by 2.5 percentage points from 26.1% for the three months ended December 31, 2020 to 23.6% for the three months ended December 31, 2021.

Connected services gross profit increased $3.5 million, or 18.6%, from $18.9 million for the three months ended December 31, 2020 to $22.4 million for the three months ended December 31, 2021, driven by continued revenue growth and cost savings.

*Cost of Professional Services Revenue*

Cost of professional services revenue for the three months ended December 31, 2021 was $15.9 million, a decrease of $1.4 million, or 8.2%, from $17.3 million for the three months ended December 31, 2020. Cost of professional services revenue decreased primarily due to a $1.6 million in lower internal allocated labor, $1.2 million decrease amortization in cost previously deferred, and $0.4 million decrease in stock-based compensation costs. The decrease was partly offset by a $1.9 million increase in third-party contractor costs. As a percentage of total cost of revenues, cost of professional services revenue increased by 1.2 percentage points from 64.4% for the three months ended December 31, 2020 to 65.6% for the three months ended December 31, 2021.

Professional services gross profit decreased $0.5 million, or 11.6%, from $4.0 million for the three months ended December 31, 2020 to $3.5 million for the three months ended December 31, 2021, which was due to a decline in professional services revenues.

*Operating Expenses*

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

*R&D Expenses*

| | Three Months Ended December 31, 2021 | 2020 | % Change 2021 vs. 2020 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Research and development | $ 25,792 | $ 24,131 | 6.9% |

Historically, R&D expenses are our largest operating expense as we continue to build on our existing software platforms and develop new technologies. R&D expenses for the three months ended December 31, 2021 were $25.8 million, an increase of $1.7 million, or 6.9%, from $24.1 million for the three months ended December 31, 2020. The increase in R&D expenses was primarily attributable to a $2.4 million reduction in labor allocated to support our customer projects, $1.4 million increase in salary-related expenditures driven as well as $0.6 million increase in third party contractor costs. The increase was partially offset by $1.0 million increase in capitalized cost associated with internally developed software and $2.1 million decrease in stock-based compensation costs. As a percentage of total operating expenses, R&D expenses increased by 5.6 percentage points from 49.0% for the three months ended December 31, 2020 to 54.6% for the three months ended December 31, 2021.

*Sales & Marketing Expenses*

| | Three Months Ended December 31, | | % Change |
|---|---|---|---|
| | 2021 | 2020 | 2021 vs. 2020 |
| Sales and marketing | $ 5,879 | $ 9,008 | (34.7)% |

Sales and marketing expenses for the three months ended December 31, 2021 were $5.9 million, a decrease of $3.1 million, or 34.7%, from $9.0 million for the three months ended December 31, 2020. The decrease in sales and marketing expenses was primarily attributable to a $3.2 million decrease in stock-based compensation and $0.4 million decrease in salary-related expenses partially offset by an increase of $0.2 million related to commission expense. As a percentage of total operating expenses, sales and marketing expenses decreased by 5.9 percentage points from 18.3% for the three months ended December 31, 2020 to 12.4% for the three months ended December 31, 2021.

*General & Administrative Expenses*

| | Three Months Ended December 31, | | % Change |
|---|---|---|---|
| | 2021 | 2020 | 2021 vs. 2020 |
| General and administrative | $ 7,527 | $ 12,434 | (39.5)% |

General and administrative expenses for the three months ended December 31, 2021 were $7.5 million, a decrease of $4.9 million, or 39.5%, from $12.4 million for the three months ended December 31, 2020. The decrease in general and administrative expenses was primarily attributable to $5.6 million decrease in stock-based compensation and $0.3 million decrease in depreciation expense. The decrease was partly offset by a $1.0 million increase in salary-related expenses. As a percentage of total operating expenses, general and administrative expenses decreased by 9.4 percentage points from 25.3% for the three months ended December 31, 2020 to 15.9% for the three months ended December 31, 2021.

*Amortization of Intangible Assets*

| | Three Months Ended December 31, | | % Change |
|---|---|---|---|
| | 2021 | 2020 | 2021 vs. 2020 |
| Cost of revenues | $ 1,879 | $ 1,879 | — |
| Operating expense | 3,154 | 3,158 | (0.1)% |
| Total amortization | $ 5,033 | $ 5,037 | (0.1)% |

Intangible asset amortization for the three months ended December 31, 2021 and 2020 was flat at $5.0 million. 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 increased by 0.8 percentage point from 7.0% for the three months ended December 31, 2020 to 7.8% for the three months ended December 31, 2021. As a percentage of total operating expenses, intangible asset amortization expenses within operating expenses increased by 0.3 percentage points from 6.4% for the three months ended December 31, 2020 as compared to 6.7% for the three months ended December 31, 2021.

*Restructuring and Other Costs, Net*

| | Three Months Ended December 31, | | % Change |
|---|---|---|---|
| | 2021 | 2020 | 2021 vs. 2020 |
| Restructuring and other costs, net | $ 4,915 | $ 480 | 924.0% |

Restructuring and other costs, net for the three months ended December 31, 2021 were $4.9 million, an increase of $4.4 million, or 924.0%, from $0.5 million for the three months ended December 31, 2020. The increase in restructuring and other costs, net was primarily driven by $4.0 million, net of $5.0 million in forfeitures, in stock-based compensation due to the resignation of our former CEO and the resulting modification of certain stock-based awards. As a percentage of total operating expenses, restructuring and other costs, net increased by 9.4 percentage points from 1.0% for the three months ended December 31, 2020 to 10.4% for the three months ended December 31, 2021.

*Total Other Expense, Net*

| | Three Months Ended December 31, | | % Change |
|---|---|---|---|
| | 2021 | 2020 | 2021 vs. 2020 |
| Interest income | $ 90 | $ 18 | 400.0% |
| Interest expense | (3,427) | (3,799) | (9.8)% |
| Other income (expense), net | (252) | (2,237) | (88.7)% |
| Total other expense, net | $ (3,589) | $ (6,018) | (40.4)% |

Total other expense, net for the three months ended December 31, 2021 was expense of $3.6 million, a decrease of $2.4 million from $6.0 million of expense for the three months ended December 31, 2020. The decrease in interest expense was primarily attributable to a lower applicable interest rate on Term Loan Facility. The decrease in other income (expense), net was primarily driven by foreign exchange gains offset by $1.3 million of expense related to a decrease in an asset corresponding with the release of indemnified pre-Spin-Off liabilities for uncertain tax positions. For further information, see "Liquidity and Capital Resources" below.

*Provision For (Benefit From) Income Taxes*

| | Three Months Ended December 31, | | % Change |
|---|---|---|---|
| | 2021 | 2020 | 2021 vs. 2020 |
| Provision for (benefit from) income taxes | $ 299 | $ (9,415) | (103.2)% |
| Effective income tax rate % | 1.5% | (81.7)% | |

Our effective income tax rate for the three months ended December 31, 2021 was 1.5%, compared to negative 81.7% for the three months ended December 31, 2020. Consequently, our provision for income taxes for the three months ended December 31, 2021 was $0.3 million, a net change of $9.7 million from a benefit from income taxes of $9.4 million for the three months ended December 31, 2020. This difference was attributable to our composition of jurisdiction earnings, U.S. inclusions of foreign taxable income as a result of 2017 tax law changes, and a $15.8 million tax benefit recorded as a result of an increase to the enacted Netherlands tax rate in the first quarter of fiscal 2021 partially offset by a $3.5 million tax benefit recorded as result of an increase to the enacted Netherlands tax rate in the first quarter of fiscal 2022.

## Liquidity and Capital Resources

### *Financial Condition*

As of December 31, 2021, we had $152.9 million in cash, cash equivalents, and marketable securities. Cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. Marketable securities include commercial paper and corporate bonds. As of December 31, 2021, our net working capital, excluding deferred revenue and deferred costs, was $205.0 million. This balance is representative of the short-term net cash inflows based on the working capital at that date.

***Sources and Material Cash Requirements***

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

Our ability to fund future operating needs will depend on our ability to generate positive cash flows from operations and finance additional funding in the capital markets as needed. Based on our history of generating positive cash flows and the $152.9 million of cash, cash equivalents, and marketable securities as of December 31, 2021, we believe that we will be able to meet our liquidity needs over the next 12 months. We believe that we will meet longer-term expected future cash requirements and obligations, through a combination of cash flows from operating activities, available cash balances, and available credit via our Revolving Facility.

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

| | Material Cash Requirements Due by Period | | | | |
|---|---|---|---|---|---|
| | 2022 | 2023 - 2024 | 2025 - 2026 | Thereafter | Total |
| Notes | $ - | $ - | $ 175,000 | $ - | $ 175,000 |
| Interest payable on the Notes (a) | 3,924 | 10,507 | 3,507 | - | 17,938 |
| Senior Credit Facilities | 4,688 | 23,438 | 87,500 | - | 115,626 |
| Interest payable on Senior Credit Facilities (b) | 2,026 | 4,797 | 845 | - | 7,668 |
| Operating leases | 4,772 | 9,789 | 3,886 | 1,520 | 19,967 |
| Operating leases under restructuring (c) | 70 | 25 | 396 | 198 | 689 |
| Financing leases | 312 | 885 | 415 | - | 1,612 |
| Total material cash requirements | $ 15,792 | $ 49,441 | $ 271,549 | $ 1,718 | $ 338,500 |

(a) Interest per annum is due and payable semiannually and is determined based on the outstanding principal as of December 31, 2021.

(b) Interest per annum is due and payable monthly and is determined based on the outstanding principal as of December 31, 2021.

(c) Contractual lease commitments are shown net of sublease income related to certain facilities. As of December 31, 2021, we anticipate sublease income of $2.1 million through fiscal year 2024.

As the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. Should we need to secure additional sources of liquidity, we believe that we could finance our needs through the issuance of equity securities or debt offerings. However, we cannot guarantee that we will be able to obtain financing through the issuance of equity securities or debt offerings on acceptable terms. The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption of financial markets. An extended period of economic disruption could materially affect our business, results of operations, ability to meet debt covenants, access to sources of liquidity and financial condition.

***3.00% Senior Convertible Notes due 2025***

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

The Notes are senior, unsecured obligations and will accrue interest payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020, at a rate of 3.00% per year. The Notes will mature on June 1, 2025, unless earlier converted, redeemed, or repurchased. The Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. As of December 31, 2021, the if-converted value of the Notes exceeds its principal amount by $183.4 million.

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

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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Contractual interest expense | $ 1,322 | $ 1,322 |
| Amortization of debt discount | 924 | 868 |
| Amortization of issuance costs | 232 | 218 |
| Total interest expense related to the Notes | $ 2,478 | $ 2,408 |

The conditional conversion feature of the Notes was triggered in the three months ended December 31, 2021, with no Notes being converted. Whether any of the Notes will be convertible in future quarters will depend on the satisfaction of one or more of the conversion conditions in the future. If one or more holders elect to convert their Notes at a time when any such Notes are convertible, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

***Senior Credit Facilities***

On June 12, 2020, in connection with our effort to refinance our existing indebtedness, we entered into a Term Loan Facility. The net proceeds from the issuance of the Term Loan Facility were $123.0 million. We also entered the Revolving Facility, which shall be drawn on in the event that our working capital and other cash needs are not supported by our operating cash flow. As of December 31, 2021, there were no amounts outstanding under the Revolving Facility.

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

The Amendment revised certain interest rates in the Credit Agreement. Following delivery of a compliance certificate for the first full fiscal quarter after the Amendment No. 1 Effective Date, the applicable margins for the revolving credit and term facilities is subject to a pricing grid based upon the net total leverage ratio as follows (i) if the net total leverage ratio is greater than 3.00 to 1.00, the applicable margin is LIBOR plus 3.00% or ABR plus 2.00%; (ii) if the net total leverage ratio is less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00, the applicable margin is LIBOR plus 2.75% or ABR plus 1.75%; (iii) if the net total leverage ratio is less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00, the applicable margin is LIBOR plus 2.50% or ABR plus 1.50%; (iv) if the net total leverage ratio is less than or equal to 2.00 to 1.00 but greater than 1.50 to 1.00, the applicable margin is LIBOR plus 2.25% or ABR plus 1.25%; and (v) if the net total leverage ratio is less than or equal to 1.50 to 1.00, the applicable margin is LIBOR plus 2.20% or ABR plus 1.00%. As a result of the Amendment, the applicable LIBOR floor was reduced from 0.50% to 0.00%. From the Amendment No. 1 Effective Date until the fiscal quarter ended December 31, 2020, the interest rate was LIBOR plus 2.50%. For the three months ended December 31, 2021, the interest rate was LIBOR plus 2.25%. Total interest expense relating to the Senior Credit Facilities for the three months ended December 31, 2021 and 2020 was $0.9 million and $1.4 million, respectively, reflecting the coupon and accretion of the discount.

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

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

The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type that, among other things, limit our and our subsidiaries' ability to incur additional indebtedness or liens, to dispose of assets, to make certain fundamental changes, to designate subsidiaries as unrestricted, to make certain investments, to prepay certain indebtedness and to pay dividends, or to make other distributions or redemptions/repurchases, in respect of our and our subsidiaries' equity interests. In addition, the Credit Agreement contains financial covenants, each tested quarterly, (1) a net secured leveraged ratio of not greater than 3.25 to 1.00; (2) a net total leverage ratio of not greater than 4.25 to 1.00; and (3) minimum liquidity of at least $75 million. The Credit Agreement also contains events of default customary for financings of this type, including certain customary change of control events. As of December 31, 2021, we were in compliance with all Credit Agreement covenants.

***Cash Flows***

Cash flows from operating, investing and financing activities for the three months ended December 31, 2021 and 2020, as reflected in the unaudited Condensed Consolidated Statements of Cash Flows included in Item 1 of this Form 10-Q, are summarized in the following table (dollars in thousands):

| | Three Months Ended December 31, | | % Change |
|---|---|---|---|
| | 2021 | 2020 | 2021 vs. 2020 |
| Net cash provided by operating activities | $ 5,145 | $ 10,809 | (52.4)% |
| Net cash used in investing activities | (1,738) | (8,727) | (80.1)% |
| Net cash used in financing activities | (14,152) | (28,779) | (50.8)% |
| Effect of foreign currency exchange rates on cash and cash equivalents | (447) | 990 | (145.2)% |
| Net changes in cash and cash equivalents | $ (11,192) | $ (25,707) | (56.5)% |

*Net Cash Provided by Operating Activities*

Net cash provided by operating activities for the three months ended December 31, 2021 was $5.1 million, a net decrease of $5.7 million, or 52.4%, from net cash provided by operating activities of $10.8 million for the three months ended December 31, 2020. The net increase in cash provided by operating activities was primarily due to:

- An increase of $5.5 million from income before non-cash charges;
- A decrease of $7.3 million due to unfavorable changes in working capital primarily related to cash outflows from prepaid expenses and other assets; and
- A decrease of $3.8 million from changes in deferred revenue.

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

*Net Cash Used in Investing Activities*

Net cash used in investing activities for the three months ended December 31, 2021 was $1.7 million, a decrease in cash used of $7.0 million, or 80.1%, from $8.7 million for the three months ended December 31, 2020. The decrease in cash outflows were driven by:

- An increase of $8.5 million net cash inflow related to marketable securities for the three months ended December 31, 2021; and
- An increase of $2.0 million in capital expenditures.

*Net Cash Used in Financing Activities*

Net cash used in financing activities for the three months ended December 31, 2021 was $14.2 million, a net change of $14.6 million, from cash used in financing activities of $28.8 million for the three months ended December 31, 2020. The change in cash flows were primarily due to:

- An increase of $14.3 million in payments of tax related withholdings due to the net settlement of equity awards during the three months ended December 31, 2021; and
- An increase of $28.5 million in proceeds from the issuance of our common stock.

**Critical Accounting Policies, Judgments and Estimates**

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

We believe that our critical accounting policies and estimates are those related to revenue recognition; allowance for credit losses; accounting for deferred costs; accounting for internally developed software; the valuation of goodwill and intangible assets; accounting for business combinations; accounting for stock-based compensation; accounting for income taxes; accounting for leases; accounting for convertible debt; and loss contingencies. We believe these policies and estimates are critical because they most significantly affect the portrayal of our financial condition and results of operations and involve our most complex and subjective estimates and judgments. A discussion of our critical accounting policies and estimates may be found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021 in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Policies, Judgments and Estimates” and below.

***Revenue Recognition***

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

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

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

***Goodwill***

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

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

On December 31, 2021, we concluded that no goodwill impairment indicators were present.

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

**Recently Adopted Accounting Pronouncements and Recent Accounting Pronouncements To Be Adopted**

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

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

***Exchange Rate Sensitivity***

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

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

We use foreign currency forward contracts to hedge the foreign currency exchange risk associated with forecasted foreign denominated payments related to our ongoing business. The aggregate notional amount of our outstanding foreign currency forward contracts was $65.9 million at December 31, 2021. Foreign currency forward contracts are sensitive to changes in foreign currency exchange rates. A 10% unfavorable exchange rate movement in our portfolio of foreign currency contracts would have resulted in unrealized losses of $5.8 million at December 31, 2021. Such losses would be offset by corresponding gains in the remeasurement of the underlying transactions being hedged. We believe these foreign currency forward exchange contracts and the offsetting underlying commitments, when taken together, do not create material market risk.

***Interest Rate Sensitivity***

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

At December 31, 2021, we held approximately $117.2 million of cash and cash equivalents consisting of cash and highly liquid investments, including money-market funds. Assuming a 1% increase in interest rates, our interest income on our money-market funds and time deposits classified as cash and cash equivalents would increase by $0.8 million per annum, based on December 31, 2021 reported balances.

The borrowings under our Senior Credit Facilities are subject to interest rates based on LIBOR. As of December 31, 2021, assuming a 1% increase in interest rates and our Revolving Facility being fully drawn, our interest expense on our Senior Credit Facilities would increase by approximately $1.7 million per annum.

## Item 4. Controls and Procedures.

*Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Quarterly Report. Based on this evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2021 to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

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

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

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

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

### Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021 are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There are no material changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, other than the risks described below.

***The transition in our chief executive officer position will be critical to our success and our business could be negatively impacted if we do not successfully manage this transition.***

On December 15, 2021, Stefan Ortmanns succeeded Sanjay Dhawan, as CEO and as a member of the Company's board of directors. The departure of key leadership personnel, such as a CEO, can take significant knowledge and experience from the Company. While this loss of knowledge and experience can be mitigated through a successful transition, there can be no assurance that we will be successful in such efforts. Further, if the Company's new CEO formulates different or changed views, the future strategy and plans of the Company may differ materially from those of the past. If the Company does not successfully manage this transition, it could be viewed negatively by our customers, employees or investors and could have an adverse impact on our business and strategic direction.

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

Our business depends on, and is directly affected by, the output and sales of the global automotive industry and the use of automobiles by consumers. Pandemics or disease outbreaks, such as COVID-19, have disrupted, and may continue to disrupt, global automotive industry customer sales and production volumes. Vehicle production initially decreased significantly in China, which was first affected by COVID-19, then Europe and also the United States. Subsequent events resulted in the shutdown of manufacturing operations in China, Europe and the United States, and even though manufacturing operations have resumed, the capacity of such global manufacturing operations remains uncertain. More recently, we have seen, and anticipate that we will continue to see, supply chain challenges in the automotive industry related to semiconductor devices that are used in automobiles. As a result, we have experienced, and may continue to experience, difficulties in entering into new contracts with our customers, a decline in revenues resulting from the decrease in the production and sale of automobiles by our customers, the use of automobiles, increased difficulties in collecting payment obligations from our customers and the possibility customers will stall or not continue existing projects. These all may be further exacerbated by the global economic downturn resulting from the pandemic which could further decrease consumer demand for vehicles or result in the financial distress of one or more of our customers.

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

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

Even after the COVID-19 pandemic has lessened or subsided, we may continue to experience adverse impacts on our business and financial performance as a result of its global economic impact.

**Item 6. Exhibits.**

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

**EXHIBIT INDEX**

| Exhibit Index # | Exhibit Description | Filed Herewith | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| | | | **Form** | **File No.** | **Exhibit** | **Filing Date** |
| 3.1 | Amended and Restated Certificate of Incorporation of Cerence Inc. | | 8-K | 001-39030 | 3.1 | October 2, 2019 |
| 3.2 | Amended and Restated By-Laws of Cerence Inc. | | 8-K | 001-39030 | 3.2 | October 2, 2019 |
| 10.1† | Offer Letter, dated December 14, 2021, by and between Cerence Inc. and Stefan Ortmanns | | 8-K | 001-39030 | 10.1 | December 15, 2021 |
| 10.2† | Separation Agreement, dated December 14, 2021, by and between Cerence Inc. and Sanjay Dhawan | X | | | | |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X | | | | |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X | | | | |
| 32.1 | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | X | | | | |
| 32.2 | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | X | | | | |
| 101.INS | Inline XBRL Instance Document | X | | | | |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | X | | | | |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | X | | | | |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | X | | | | |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | X | | | | |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | X | | | | |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*) | X | | | | |

† Management contract or compensatory plan or arrangement

## SIGNATURES

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

| | |
|---|---|
| | **Cerence Inc.** |
| Date: February 7, 2022 | By: /s/ Stefan Ortmanns |
| | Stefan Ortmanns |
| | Chief Executive Officer |
| | *(Principal Executive Officer)* |
| Date: February 7, 2022 | By: /s/ Mark Gallenberger |
| | Mark Gallenberger |
| | Chief Financial Officer |
| | *(Principal Financial and Accounting Officer)* |

# SEPARATION AND RELEASE AGREEMENT

This Separation and Release Agreement (“Agreement”) is made by and between Sanjay Dhawan (“Executive”) and Cerence, Inc. (the “Company”) (collectively referred to as the “Parties” or individually referred to as a “Party”).

## RECITALS

WHEREAS, Executive was employed by the Company;

WHEREAS, Executive and the Company entered into agreement(s) concerning inventions, confidentiality, or restrictive covenants in connection with Executive’s employment (the “Confidentiality Agreement”), including the Confidential Information, Inventions & Noncompetition Agreement (the “CIIN Agreement”);

WHEREAS, Executive and the Company entered into an Indemnification Agreement (“Indemnification Agreement”);

WHEREAS, Executive and the Company entered into the Change of Control and Severance Agreement dated February 3, 2021 (“Severance Agreement”);

WHEREAS, Executive has elected to resign from employment with the Company (other than for Good Reason) for purposes of the Severance Agreement and, therefore, Executive is not entitled to severance pay, benefits or accelerated vesting pursuant to the Severance Agreement or otherwise;

WHEREAS, Executive and the Company agree that Executive experienced a separation from service under Internal Revenue Code Section 409A pursuant to the Severance Agreement effective December 15, 2021 (the “Separation Date”);

WHEREAS, the Company’s Board of Directors (the “Board”) has determined that it is in the best interest of the Company for Executive to be available on an as requested basis during the Transition Advisory Period (as defined below) to provide transitional assistance in connection with Executive’s resignation;

WHEREAS, in exchange for (i) Executive’s entering into and complying with this Agreement, and (ii) Executive’s continued compliance with any agreements between Executive and the Company concerning inventions, confidentiality or restrictive covenants ((i) and (i) together, the “Conditions”), Executive will continue to have a service relationship under the terms of the Company’s 2019 Equity Incentive Plan (as may be amended from time to time, the “Plan”) during the Transition Advisory Period solely with respect to the equity that would have accelerated in the event Executive’s employment with the Company had been terminated by the Company without Cause or Executive had resigned from Executive’s employment with the Company for Good Reason (as listed in Section 2(d) below, the “Specified Equity Awards”); and

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions, and demands that Executive may have against the Company and any of the Releasees as defined below, including, but not limited to, any and all claims arising out of or in any way related to Executive's employment with or separation from the Company.

NOW, THEREFORE, in consideration of the mutual promises made herein, the Company and Executive hereby agree as follows:

**COVENANTS**

1. Resignation; Ending of Employment. The Parties agree that Executive's employment with the Company shall end on the Separation Date, and that the ending of Executive's employment is a voluntary resignation by Executive other than for Good Reason. Executive acknowledges and agrees that he is not eligible for any of the severance payments or benefits set forth in Section 3(a), (b) or (c) of the Severance Agreement nor is he eligible for any other severance payments or benefits or enhanced equity treatment, whether pursuant to a Company plan, policy or otherwise. Executive will be deemed to have resigned from all officer and/or director positions held at the Company and its affiliates on the Separation Date including as a member of the Board.

2. Transition Advisory Period.

a. On the Separation Date, Executive shall be retained by the Company as an independent contractor, with no break in service relationship solely for purposes of continued vesting in the Specified Equity Awards. Executive shall continue to serve as an independent contractor of the Company until the twelve month anniversary of the Separation Date, unless Executive sooner resigns or unless the Company sooner terminates the consulting arrangement for a material breach by Executive of any of the Condition(s) (such period, the "Transition Advisory Period"). Notwithstanding the foregoing, if this Agreement does not become effective, then the Transition Advisory Period shall immediately end on the date that this Agreement can no longer become effective.

b. During the Transition Advisory Period, Executive shall be available to the Board and/or the Company's new Chief Executive Officer (the "New CEO") on an as requested basis to assist with the transition (the "Services"). Executive agrees that he will not (i) interface with any employees (other than the New CEO), customers, vendors or partners, in connection with his Services unless directed by the Board or the New CEO, (ii) other than in the course of providing the Services, use or disclose any confidential information of the Company or any third party the Company owes a duty of confidentiality. This confidentiality obligation is in addition to, and not in lieu of, the CIIN Agreement and any other confidentiality obligations Executive has to Company. Executive shall continue to be subject to the Company's Insider Trading Policy to the extent applicable.

c. During the Transition Advisory Period, Executive shall no longer be an employee of the Company, but shall be retained as an independent contractor and shall have no authority to bind the Company. Executive shall not be eligible to participate in any vacation, group medical or life insurance, disability, profit sharing or retirement benefits, or any other fringe benefits or benefit plans offered by Company to its employees. Executive shall bear sole responsibility for all taxes, insurance and benefits, if any, and shall indemnify and hold Company harmless from and against any liability with respect thereto.

d. As the sole consideration for the Services, during the Transition Advisory Period, Executive shall continue to vest in the following “Specified Equity Awards”:

(i) 31,908 RSUs and 31,908 PSUs from the Fiscal 2020 Initial Award granted November 14, 2019;

(ii) 39,885 RSUs from the Fiscal 2020 Launch Award granted November 14, 2019; and

(iii) 15,783 RSUs from the Fiscal 2021 Annual LTI granted November 4, 2020;

The Executive’s Services will be a continued service relationship with the Company solely for purposes of the equity award agreements applicable to the Specified Equity Awards and the Plan (collectively along with all of Executive’s award agreements, the “Equity Documents”) and the awards will vest in accordance with the vesting schedule with respect to each applicable grant, provided the PSUs will no longer be subject to performance metrics and, instead, will vest at target (31,908 PSUs) on the twelve month anniversary of the Separation Date if the Transition Advisory Period was not earlier terminated in accordance with this Agreement. In the event of a Covered Transaction (as defined in the Plan) during the Transition Advisory Period that would result in the termination of the Specified Equity Awards without consideration, the vesting of any Specified Equity Awards outstanding as of immediately prior to the completion of the Covered Transaction shall automatically accelerate such that all outstanding Specified Equity Awards shall become fully vested upon completion of the Covered Transaction.

For the avoidance of doubt, (i) if Executive serves for the entire twelve month Transition Advisory Period, Executive will vest in a total of 119,484 RSUs/PSUs; (ii) notwithstanding anything to the contrary in any equity award agreement, equity incentive plan or otherwise, any portion of any equity award held by Executive and not listed above shall cease vesting on the Separation Date, including, without limitation, the 39,885 unvested Launch PSUs granted to Executive on November 14, 2019, and shall terminate and be forfeited for no consideration; and (iii) except as modified herein, the Equity Documents are in full force and effect.

Executive acknowledges that without this Agreement, Executive is otherwise not entitled to continue vesting in the Specified Equity Awards beyond the Separation Date. Executive further acknowledges that he will not receive any additional equity awards or any other compensation during the Transition Advisory Period.

3. Restrictive Covenants and Indemnification Agreement. Executive acknowledges that, separate from this Agreement, Executive remains bound by the post-employment terms and conditions of the CIIN Agreement, including, but not limited to, Sections 2 and 8 of the CIIN Agreement, which govern non-disclosure of Company confidential information and non-competition after Executive’s employment with the Company ends. Similarly, the Company remains bound by the post-termination provisions of the

Indemnification Agreement and all the restrictive covenants contained in Executive's equity award agreements, the terms of which are incorporated by reference.

4. Benefits. Executive's health insurance benefits shall cease on the last day of the month in which the Separation Date occurred, subject to Executive's right to continue Executive's health insurance under COBRA, as provided under applicable law. Executive's participation in all benefits and incidents of employment, including, but not limited to, vesting in stock (except as specified herein) and the accrual of bonuses, vacation, and paid time off, ceased as of the Separation Date.

5. Payment of Salary and Receipt of All Benefits. Executive acknowledges and represents that, other than the consideration set forth in this Agreement and the payment of salary and accrued but unused vacation through the Separation Date, the Company has paid or provided, all salary, wages, bonuses, accrued vacation/paid time off, premiums, leaves, housing allowances, relocation costs, interest, severance, outplacement costs, fees, reimbursable expenses, commissions, stock, stock options, vesting, and any and all other benefits and compensation that are due or may be due to Executive.

6. Release of Claims. Executive agrees that the opportunity to continue his service relationship with the Company during the Transition Advisory Period in order to continue vesting in the Specified Equity Awards is sufficient consideration to support this Agreement and represents settlement in full of all outstanding obligations owed to Executive by the Company and its current and former officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, benefit plans, divisions, subsidiaries, predecessor and successor corporations, and assigns (collectively, the "Releasees"). Executive, on Executive's own behalf and on behalf of Executive's respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute, or pursue, any claim, complaint, charge, duty, obligation, demand, or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Executive may possess against any of the Releasees arising from any omissions, acts, facts, or damages related to the Company or Executive's employment and termination with the Company that have occurred up until and including the date Executive signs this Agreement, including, without limitation:

a. any and all claims relating to or arising from Executive's employment relationship with the Company and the termination of that relationship;

b. any and all claims relating to, or arising from, Executive's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

c. any and all claims for wrongful discharge of employment, termination in violation of public policy, discrimination, harassment, retaliation, breach of contract (both express and implied), breach of covenant of good faith and fair dealing (both express and implied), promissory estoppel, negligent or intentional infliction of emotional distress, fraud, negligent or intentional misrepresentation, negligent or intentional interference with contract or prospective economic advantage, unfair business practices, defamation, libel, slander, negligence, personal injury, assault, battery, invasion of privacy, false imprisonment, conversion, and disability benefits;

d. any and all claims for violation of any federal, state, or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, the Equal Pay Act, the Fair Labor Standards Act, the Fair Credit Reporting Act, the Employee Retirement Income Security Act of 1974, the Worker Adjustment and Retraining Notification Act, the Family and Medical Leave Act, the Immigration Reform and Control Act, the National Labor Relations Act, the California Family Rights Act, the California Labor Code, the California Workers' Compensation Act, the California Fair Employment and Housing Act, the Texas Commission on Human Rights/Texas Employment Discrimination Law, the Texas Disability Discrimination Law, the Texas Minimum Wage Act, the Texas Wage Payment Law, the Texas Disaster and Emergency Responder Protection Law, and the Texas Wiretapping Protection Law;

e. any and all claims for violation of the federal or any state constitution;

f. any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

g. any claim for any loss, cost, damage, or expense arising out of any dispute over the withholding or other tax treatment of any of the proceeds received by Executive as a result of his employment or this Agreement; and

h. any and all claims for attorneys' fees and costs.

Executive agrees that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under this Agreement. This release does not release, and Executive's covenant not to sue does not extend to, claims that cannot be released as a matter of law; claims that arise after the date Executive signs this Agreement, including claims for breach of this Agreement; Executive's rights to any vested and nonforfeitable balances in any retirement plan accounts; claims for indemnification to the extent available under the Indemnification Agreement or claims for applicable liability insurance coverage, including directors and officers liability coverage (in each case, to the extent provided under such insurance or coverage). This release does not extend to any right Executive may have to unemployment compensation benefits.

7. [Intentionally Omitted].

8. California Civil Code Section 1542. Executive acknowledges that Executive has been advised to consult with legal counsel and is familiar with the provisions of California Civil Code Section 1542, a statute that otherwise prohibits the release of unknown claims, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

Executive, being aware of said code section, agrees to expressly waive any rights Executive may have thereunder, as well as under any other statute or common law principles of similar effect.

9. No Pending or Future Lawsuits. Executive represents that Executive has no lawsuits, claims, or actions pending in Executive's name, or on behalf of any other person or entity, against the Company or any of the other Releasees. Executive also represents that Executive does not intend to bring any claims on Executive's own behalf or on behalf of any other person or entity against the Company or any of the other Releasees.

10. Application for Employment. Executive understands and agrees that, as a condition of this Agreement, Executive shall not be entitled to any employment with the Company, and Executive hereby waives any right, or alleged right, of employment or re-employment with the Company.

11. Company Property; Executive's Belongings. Executive's signature below constitutes Executive's certification under penalty of perjury that Executive has returned or will promptly return by the Separation Date all documents and other items provided to Executive by the Company, developed or obtained by Executive in connection with Executive's employment with the Company, or otherwise belonging to the Company (with the exception of a copy of the Employee Handbook, Executive's address book or contacts list and personnel documents specifically relating to Executive). Notwithstanding the forgoing, the Company will permit Executive to keep his Company-issued cell phone (provided all Company-related information has been deleted) and to transfer his cell phone number to his personal plan at Executive's expense. The Company agrees that Executive shall be permitted to enter the Company's office within three days of the Separation Date to retrieve his personal belongings.

12. No Cooperation. Subject to the Protected Activity provision, Executive agrees that Executive will not knowingly encourage, counsel, or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party related to his service period against any of the Releasees, unless under a subpoena or other court order to do so or upon written request from an administrative agency or the legislature or as provided in Section 7 above. Executive agrees both to immediately notify the Company upon receipt of any such subpoena or court order or written request from an administrative agency or the legislature, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or other court order or written request from an administrative agency or the legislature. If approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints related to his service period against any of the Releasees, Executive shall state no more than that Executive cannot provide counsel or assistance.

13. Protected Activity Not Prohibited. Executive understands that nothing in this Agreement shall in any way limit or prohibit Executive from engaging in any Protected Activity. Protected Activity includes: (i) filing and/or pursuing a charge, complaint, or report with, or otherwise communicating, cooperating, or participating in any investigation or proceeding that may be conducted by any federal, state or local government agency or commission, including the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, and the National Labor Relations Board ("Government Agencies"); and/or (ii) disclosing information pertaining to sexual harassment or any other unlawful or potentially unlawful conduct, as such disclosure is protected by applicable law; (iii) disclosing factual information related to a claim filed in a civil action or complaint filed in an administrative action about sexual assault, an act of sexual harassment, or an act of (or failure to prevent) harassment or discrimination based on sex, or an act of retaliation against a person for reporting harassment or discrimination based on sex. Executive understands that in connection with such Protected Activity, Executive is permitted to disclose documents or other information as permitted by law, without giving notice to, or receiving authorization from, the Company. Notwithstanding the foregoing, Executive agrees to take all reasonable precautions to prevent any unauthorized use or disclosure of any information that may constitute Company Confidential Information in any manner not protected by applicable law. Executive further understands that "Protected Activity" does not include the disclosure of any Company attorney-client privileged communications or attorney work product. Any language in the Confidentiality Agreement regarding Executive's right to engage in Protected Activity that conflicts with, or is contrary to, this section is superseded by this Agreement. In addition, pursuant to the Defend Trade Secrets Act of 2016, Executive is notified that an individual will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (i) is made in confidence to a federal, state, or local government official (directly or indirectly) or to an attorney *solely* for the purpose of reporting or investigating a suspected violation of law, or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if (and only if) such filing is made under seal. In addition, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the individual's attorney and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

14. Non-disparagement. For a period of two (2) years following the Separation Date, Executive shall refrain from any disparagement, defamation, libel, or slander of any of the Company, its directors or its employees. Executive shall direct any inquiries by potential future employers to the Company's human resources department. For the same two (2) year period, the Company (in its official statements including the 8K and press release associated with Executive's resignation) shall refrain, and will instruct its senior executives and all members of its Board of Directors to refrain from, any disparagement, defamation, libel, or slander of Executive. Truthful legal testimony or truthful rebuttal of false or misleading statements shall not violate this provision. Executive shall have an opportunity to review the Company's 8K and press release

associated with his resignation prior to the Company's filing and distribution of such documents.

15. No Admission of Liability. Executive understands and acknowledges that with respect to all claims released herein, this Agreement constitutes a compromise and settlement of any and all actual or potential disputed claims by Executive unless such claims were explicitly not released by the release in this Agreement. No action taken by the Company hereto, either previously or in connection with this Agreement, shall be deemed or construed to be (a) an admission of the truth or falsity of any actual or potential claims or (b) an acknowledgment or admission by the Company of any fault or liability whatsoever to Executive or to any third party.

16. ARBITRATION. EXCEPT AS PROHIBITED BY LAW, THE PARTIES AGREE THAT ANY AND ALL DISPUTES ARISING OUT OF THE TERMS OF THIS AGREEMENT, THEIR INTERPRETATION, EXECUTIVE'S EMPLOYMENT WITH THE COMPANY OR THE TERMS THEREOF, OR ANY OF THE MATTERS HEREIN RELEASED, SHALL BE SUBJECT TO ARBITRATION PURSUANT TO THE FEDERAL ARBITRATION ACT (THE "FAA") AND THAT THE FAA INCLUDING ITS PROCEDURAL PROVISIONS, SHALL GOVERN AND APPLY TO THIS ARBITRATION AGREEMENT WITH FULL FORCE AND EFFECT. EXECUTIVE AGREES THAT, TO THE FULLEST EXTENT PERMITTED BY LAW, EXECUTIVE MAY BRING ANY SUCH ARBITRATION PROCEEDING ONLY IN EXECUTIVE'S INDIVIDUAL CAPACITY. ANY ARBITRATION WILL OCCUR IN TEXAS, BEFORE JAMS, PURSUANT TO ITS EMPLOYMENT ARBITRATION RULES & PROCEDURES ("JAMS RULES"), EXCEPT AS EXPRESSLY PROVIDED IN THIS SECTION. THE PARTIES AGREE THAT THE ARBITRATOR SHALL HAVE THE POWER TO DECIDE ANY MOTIONS BROUGHT BY ANY PARTY TO THE ARBITRATION, INCLUDING MOTIONS FOR SUMMARY JUDGMENT AND/OR ADJUDICATION, AND MOTIONS TO DISMISS AND DEMURRERS, APPLYING THE STANDARDS SET FORTH UNDER THE TEXAS CODE OF CIVIL PROCEDURE. THE PARTIES AGREE THAT THE ARBITRATOR SHALL ISSUE A WRITTEN DECISION ON THE MERITS. THE PARTIES ALSO AGREE THAT THE ARBITRATOR SHALL HAVE THE POWER TO AWARD ANY REMEDIES AVAILABLE UNDER APPLICABLE LAW, AND THAT THE ARBITRATOR MAY AWARD ATTORNEYS' FEES AND COSTS TO THE PREVAILING PARTY, WHERE PERMITTED BY APPLICABLE LAW. THE ARBITRATOR MAY GRANT INJUNCTIONS AND OTHER RELIEF IN SUCH DISPUTES. THE DECISION OF THE ARBITRATOR SHALL BE FINAL, CONCLUSIVE, AND BINDING ON THE PARTIES TO THE ARBITRATION. THE PARTIES AGREE THAT THE PREVAILING PARTY IN ANY ARBITRATION SHALL BE ENTITLED TO INJUNCTIVE RELIEF IN ANY COURT OF COMPETENT JURISDICTION TO ENFORCE THE ARBITRATION AWARD. THE PARTIES HEREBY AGREE TO WAIVE THEIR RIGHT TO HAVE ANY DISPUTE BETWEEN THEM RESOLVED IN A COURT OF LAW BY A JUDGE OR JURY. NOTWITHSTANDING THE FOREGOING, THIS SECTION WILL NOT PREVENT EITHER PARTY FROM SEEKING INJUNCTIVE RELIEF (OR ANY OTHER PROVISIONAL REMEDY)

FROM ANY COURT HAVING JURISDICTION OVER THE PARTIES AND THE SUBJECT MATTER OF THEIR DISPUTE RELATING TO THIS AGREEMENT AND THE AGREEMENTS INCORPORATED HEREIN BY REFERENCE. SHOULD ANY PART OF THE ARBITRATION AGREEMENT CONTAINED IN THIS SECTION CONFLICT WITH ANY OTHER ARBITRATION AGREEMENT BETWEEN THE PARTIES, INCLUDING, BUT NOT LIMITED TO THE ARBITRATION SECTION OF THE CONFIDENTIALITY AGREEMENT, THE PARTIES AGREE THAT THIS ARBITRATION AGREEMENT IN THIS SECTION SHALL GOVERN.

17. Tax Consequences. The Company makes no representations or warranties with respect to the tax consequences of the payments and any other consideration provided to Executive or made on Executive's behalf in connection with his employment or under the terms of this Agreement. Executive agrees and understands that Executive is responsible for payment, if any, of local, state, and/or federal taxes on the payments in connection with compensation received in connection with his employment and any other consideration provided hereunder by the Company and any penalties or assessments thereon. Executive further agrees to indemnify and hold the Releasees harmless from any claims, demands, deficiencies, penalties, interest, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of (a) Executive's failure to pay or delayed payment of federal or state taxes, or (b) damages sustained by the Company by reason of any such claims, including attorneys' fees and costs. Within five calendar days of a written request by the Company, Executive agrees to pay the Company an amount necessary to satisfy any outstanding withholding obligations that the Company determines in good faith is owed to taxing authorities in connection with any compensation Executive received in connection with his employment with the Company.

18. Authority. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. Executive represents and warrants that Executive has the capacity to act on Executive's own behalf and on behalf of all who might claim through Executive to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

19. Severability. In the event that any provision or any portion of any provision hereof or any surviving agreement made a part hereof becomes or is declared by a court of competent jurisdiction or arbitrator to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision or portion of provision.

20. No Oral Modification; Entire Agreement. This Agreement may only be amended in a writing signed by Executive and an authorized officer of the Company or authorized member of the Company's Board of Directors. This Agreement, together with the Equity Documents, the Indemnification Agreement, the CIIN and the restrictive

covenants referenced herein constitutes the entire agreement between Executive and the Company relating to the subject matter herein and supersedes any previous agreements or understandings between Executive and the Company, including, without limitation, the Severance Agreement.

21. Governing Law. This Agreement shall be governed by the laws of the State of Texas, without regard for choice-of-law provisions, except that any dispute regarding the enforceability of the arbitration section of this Agreement shall be governed by the FAA. Executive consents to personal and exclusive jurisdiction and venue in the State of Texas.

22. Effective Date. This Agreement will become effective upon execution by both parties. (the "Effective Date").

23. Counterparts. This Agreement may be executed in counterparts and each counterpart shall be deemed an original and all of which counterparts taken together shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned. The counterparts of this Agreement may be executed and delivered by facsimile, photo, email PDF, or other electronic transmission or signature.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK; SIGNATURE PAGE FOLLOWS]

24. Voluntary Execution of Agreement. Executive understands and agrees that Executive executed this Agreement voluntarily and without any duress or undue influence on the part or behalf of the Company or any third party, with the full intent of releasing all of Executive's claims against the Company and any of the other Releasees. Executive acknowledges that:

(a) Executive has read this Agreement;

(b) Executive has been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of Executive's own choice;

(c) Executive understands the terms and consequences of this Agreement and of the releases it contains;

(d) Executive is fully aware of the legal and binding effect of this Agreement; and

(e) Executive has not relied upon any representations or statements made by the Company that are not specifically set forth in this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

SANJAY DHAWAN, an individual

Dated: Dec. 14, 2021

/s/ Sanjay Dhawan
Sanjay Dhawan

CERENCE INC.

Dated: December 14, 2021

By /s/ Leanne Fitzgerald
Name: Leanne Fitzgerald
Title: General Counsel and Secretary

**Exhibit 31.1**

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

I, Stefan Ortmanns, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 7, 2022

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

**Exhibit 31.2**

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

I, Mark Gallenberger, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 7, 2022

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

**Exhibit 32.1**

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

In connection with the Quarterly Report of Cerence Inc. (the “Company”) on Form 10-Q for the period ending December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: February 7, 2022

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

**Exhibit 32.2**

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

In connection with the Quarterly Report of Cerence Inc. (the “Company”) on Form 10-Q for the period ending December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: February 7, 2022

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