Risk Factors Comparison 2023-11-29 to 2022-11-29 Form: 10-K

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You should carefully consider all of the information in this Form 10- K and each of the risks described below, which we believe are the material risks that we face. Some of the risks relate to our business, others to our intellectual property and technology, ~~and~~ the consequences of the Spin- Off **,** ~~. Some risks relate to~~ the securities markets, our indebtedness and ownership of our securities. Any of the following risks could materially and adversely affect our business, financial condition and results of operations and the actual outcome of matters as to which forward- looking statements are made in this Form 10- K. Risks Relating to Our Business The market in which we operate is highly competitive and rapidly changing and we may be unable to compete successfully. There are a number of companies that develop or may develop products that compete in the automotive voice assistance market. The market for our products and services is characterized by intense competition, evolving industry and regulatory standards, emerging business and distribution models, disruptive software technology developments, short product and service life cycles, price sensitivity on the part of customers, and frequent new product introductions, including alternatives for certain of our products that offer limited functionality at significantly lower costs or free of charge. In addition, some of our competitors have business objectives that may drive them to sell their alternative offerings at a significant discount to our offerings in the automotive voice assistant market. Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers. Furthermore, existing or prospective customers may decide to develop competing products or have established, or may in the future establish, strategic relationships with our competitors. We also face significant competition with respect to cloud- based solutions in the automotive cognitive assistance market where existing and new competitors may have or have already established significant market share and product offerings. The competition in the automotive cognitive assistance market **has and** could adversely affect **in the future,** our operating results by reducing the volume of the products and solutions we license or sell or the prices we can charge. Some of our current or potential competitors are large technology companies that have significantly greater financial, technical and marketing resources than we do, and others are smaller specialized companies that possess automotive expertise or regional focus and may have greater price flexibility than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements, or may decide to offer products at low or unsustainable cost to win new business. They may also devote greater resources to the development, promotion and sale of their products than we do, and in certain cases may be able to include or combine their competitive products or technologies with other of their products or technologies in a manner whereby the competitive functionality is available at lower cost or free of charge within the larger offering. To the extent they do so, penetration of our products, and therefore our revenue, may be adversely affected. Our large competitors may also have greater access to data, including customer data, which provides them with a competitive advantage in developing new products and technologies. Our success depends substantially upon our ability to enhance our products and technologies, to develop and introduce, on a timely and cost- effective basis, new products and features that meet changing customer requirements and incorporate technological enhancements, and to maintain our alignment with the OEMs, their technology and market strategies. If we are unable to develop new products and enhance functionalities or technologies to adapt to these changes and maintain our alignment with OEMs, our business will suffer. Adverse conditions in the automotive industry or the global economy more generally could have adverse effects on our results of operations. Our business depends on, and is directly affected by, the global automobile industry. Automotive production and sales are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences, changes in interest rate levels and credit availability, consumer confidence, fuel costs, fuel availability, environmental impact, governmental incentives and regulatory requirements, and political volatility, especially in energy- producing countries and growth markets. Such factors **have in the past and** may **in the future** also negatively impact consumer demand for automobiles that include features such as our products. In addition, automotive production and sales can be affected by our customers' ability to continue operating in response to challenging economic conditions, and in response to labor relations issues, regulatory requirements, trade agreements and other factors. The volume of global automotive production has fluctuated, sometimes significantly, from year to year, and such fluctuations give rise to fluctuations in the demand for our products. Moreover, the automotive industry has recently experienced, and may continue to experience, a semiconductor shortage, which has negatively impacted the production of new vehicles. Any significant adverse change in any of these factors, including, but not limited to, general economic conditions and the resulting bankruptcy of a customer, the closure of a customer manufacturing facility or the ability of a customer manufacturing facility to obtain supplies to manufacture automobiles and to ship or receive shipments of parts, supplies or finished product, may result in a reduction in automotive sales and production by our customers, and could have a material adverse effect on our business, results of operations and financial condition. In recent months, we have observed increased economic uncertainty in the United States and abroad. Impacts of such economic weakness include: • falling overall demand for goods and services, leading to reduced profitability; • reduced credit availability; • higher borrowing costs; • reduced liquidity; • volatility in credit, equity and foreign exchange markets; and • bankruptcies. **Events involving limited liquidity, defaults, non- performance or other adverse developments that affect financial institutions or the financial services industry generally, have in the past and may in the future lead to market- wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank (" SVB "), was placed into receivership with the Federal Deposit Insurance Corporation (" FDIC "), which resulted in all funds held at SVB being temporarily inaccessible by SVB' s customers. Although we do not have deposits with SVB, or any**

other financial institution currently in receivership, we maintain deposits at financial institutions as a part of doing business that could be at risk if another similar event were to occur. If other banks and financial institutions enter receivership or become insolvent in the future in response to financial conditions affecting the banking system and financial markets, then our ability to access our cash and cash equivalents may be threatened and could have a material adverse effect on our business and financial condition. In addition, if any of our customers, suppliers or other parties with whom we conduct business are unable to access funds pursuant to such instruments or lending arrangements with such a financial institution, such parties' ability to pay their obligations to us or to enter into new commercial arrangements requiring additional payments to us could be adversely affected. These developments, along with continued uncertainty about economic stability related to the global outbreak of COVID- 19 and more recently the Russian invasion of Ukraine **and the developing conflict between Israel and Hamas** , have resulted in supply chain disruption, inflation, higher interest rates, fluctuations in currency exchange rates, and uncertainty about business continuity, which may adversely affect our business and our results of operations. As our customers react to global economic conditions and the potential for a global recession, we may see them reduce spending on our products and take additional precautionary measures to limit or delay expenditures and preserve capital and liquidity. Reductions in spending on our solutions, delays in automobile production or purchasing decisions, lack of renewals or the inability to attract new customers, as well as pressure for extended billing terms or pricing discounts, would limit our ability to grow our business and negatively affect our operating results and financial condition. 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 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 **the** ~~how quickly and to what~~ extent **to which** normal economic and operating conditions ~~can resume~~ **are impacted** . 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 or related to 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 **, our ability to access needed capital and liquidity, and the value of our common stock** as a result of its global economic impact. Our strategy to increase cloud connected services may adversely affect our near- term revenue growth and results of operations. Our leadership position has historically been derived from our products and services based on edge software technology. We have been and are continuing to develop new products and services that incorporate cloud- connected components. The design and development of new cloud- connected components will involve significant expense. Our research and development costs have greatly increased in recent years and, together with certain expenses associated with delivering our connected services, are projected to continue to escalate in the near future. We may encounter difficulties with designing, developing and releasing new cloud- connected components, as well as integrating these components with our existing hybrid technologies. These development issues may further increase costs and may affect our ability to innovate in a manner demanded by the market. As a result, our strategy to incorporate more cloud- connected components may adversely affect our revenue growth and results of operations. Pricing pressures from our customers may adversely affect our business. We **have in the past, and** may **in the future** experience pricing pressure from our customers ~~in the future~~ , **including** ~~which could result~~ from the strong purchasing power of major OEMs. As a developer of automotive cognitive assistance components, we **have been in the past, and** may be **in the future,** expected to quote fixed prices or be forced to accept prices with annual price reduction commitments for long- term sales arrangements or discounted reimbursements for our work. We **have in the past, and** may **in the future** encounter customers unwilling to accept the terms of our software license or non- recurring engineering agreements. Any price reductions could impact our sales and profit margins. Our future profitability will depend upon, among other things, our ability to continuously reduce the costs for our components and maintain our cost structure. Our profitability is also influenced by our success in designing and marketing technological improvements in automotive cognitive assistance systems. If we are unable to offset any price reductions in the future, our business, results of operations and financial condition would be adversely affected. We invest effort and money seeking OEMs' validation of our technology, and there can be no assurance that we will win or be able to renew service contracts, which could adversely affect our future business, results of operations and financial condition. We invest effort and money from the time an OEM or a tier 1 supplier begins designing for an upcoming program to the date on which the customer chooses our technology to be incorporated directly or indirectly into one or more specific vehicle models to be produced by the customer. This selection process is known as a " design win. " We could expend our resources without success **, and in the past we have not always been selected despite the investment of effort and money** . After a design win, it is typically quite difficult for a product or technology that did not receive the design win to displace the winner until the customer begins a new selection process because it is very unlikely that a customer will change complex technology until a vehicle model is revamped. In addition, the company with the winning design may have an advantage with the customer going forward because of the established relationship between the winning company and such customer, which could make it more difficult for such company' s competitors to win the designs for other service contracts. Even if we have an established relationship with a customer, any failure to perform under a service contract or innovate in response to their feedback may neutralize our advantage with that customer. If we fail to win a significant number of customer design competitions in the future or to renew a significant number of existing service contracts, our business, results of operations and financial condition would be adversely affected. Moreover, due to the evolution of our connected offerings and architecture, trending away from providing legacy infotainment and connected services and a change in our professional services pricing strategies, 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 the cash from the contract has been collected. To the extent we are unable to renew existing service contracts, such decrease could intensify. The period of time from winning a contract to implementation is long and we are subject to the risks of cancellation or postponement of the contract or unsuccessful implementation. Our products are technologically complex and incorporate many technological innovations. Prospective customers generally must make significant commitments of resources to test and validate our products before including them in any particular vehicle model. The development cycles of our products with new customers are approximately six months to two years after a design win, depending on the customer and the complexity of the product. These development cycles result in us investing our resources prior to realizing any revenues from the customer contracts. Further, we are subject to the risk that a customer cancels or postpones implementation of our technology, as well as the risk that we will not be able to implement our technology successfully. Further, our sales could be less than forecast if the vehicle model is unsuccessful, including reasons unrelated to our technology. Long development cycles and product cancellations or postponements may adversely affect our business, results of operations and financial condition. Our business could be materially and adversely affected if we lost any of our largest customers. The loss of business from any of our major customers, whether by lower overall demand for vehicles, cancellation of existing contracts or the failure to award us new business, **has in the past and** could **in the future** have a material adverse effect on our business, results of operations and financial condition. Alternatively, there is a risk that one or more of our major customers could be unable to pay our invoices as they become due or that a customer will simply refuse to make such payments given its financial difficulties. If a major customer becomes subject to bankruptcy or similar proceedings whereby contractual commitments are subject to stay of execution and the possibility of legal or other modification, or if a major customer otherwise successfully procures protection against us legally enforcing its obligations, it is likely that we will be forced to record a substantial loss. In addition, certain of our customers that are tier 1 suppliers exclusively sell to certain OEMs, including some of our other customers. A bankruptcy of, or other significant disruption to, any of these OEMs could intensify any adverse impact on our business and results of operations. Our operating results may fluctuate significantly from period to period, and this may cause our stock price to decline. Our revenue and operating results may fluctuate materially in the future. These fluctuations may cause our results of operations to not meet the expectations of securities analysts or investors which would likely cause the price of our stock to decline. Factors that may contribute to fluctuations in operating results include: • given our limited customer base, the volume, timing and fulfillment of large customer contracts; • renewals of existing customer contracts and wins of new customer programs; • our mix of variable, fixed prepaid or fixed minimum purchase commitment license contracts; • increased expenditures incurred pursuing new product or market opportunities; • the timing of the receipt of royalty reports; • fluctuating sales by our customers to their end- users; • contractual counterparties failing to meet their contractual commitments to us; • introduction of new products by us or our competitors; • cybersecurity or data breaches; • reduction in the prices of our products in response to competition, market conditions or contractual obligations; • impairment of goodwill or intangible assets; • accounts receivable that are not collectible; • higher than anticipated costs related to fixed- price contracts with our customers; • change in costs due to regulatory or trade restrictions; • expenses incurred in litigation matters, whether initiated by us or brought by third- parties against us, and settlements or judgments we are required to pay in connection with disputes; • changes in our stock compensation practices, as **it** relates to employee short- term incentive payments; and • general economic trends as they affect the customer bases into which we sell. Due to the foregoing factors, among others, our financial and operating results may fluctuate significantly from period to period. Our expense levels are based in significant part on our expectations of future revenue, and we may not be able to reduce our expenses quickly to respond to near- term shortfalls in projected revenue. Therefore, our failure to meet revenue expectations would seriously harm our operating results, financial condition and cash flows. We may not be successful with the adoption of new products. Part of our growth strategy includes the successful introduction of new products that will rely on subscription or transactional- based revenue generation. These represent new applications and we cannot assure the introduction of these new products, the level of adoption of these new products, or how quickly they can ramp to generate meaningful revenue. The development and launch of new products will require maintaining adequate resources, such as the appropriate personnel and technology to develop such products. We may experience delays between the time we incur expenses associated with the development and launch of new products and the revenue generated from the products. In addition, anticipated demand for the new products could decrease after we have spent time and resources on the development of the new product, or our efforts may not lead to the successful introduction of new products that are competitive, which would harm our business, results of operations and financial condition. If we are unable to attract and retain management and other key personnel, our business could be harmed. If any of our management or other key employees were to leave, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience. Although we have arrangements with some of our executive officers designed to promote retention, our employment relationships are generally at- will and we have had management and other key employees leave in the past. We cannot assure you that one or more management or other key employees will not leave in the future. The departure of key leadership personnel, in particular, 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. If we do not successfully manage the transition of management positions, it could be viewed negatively by our customers, employees or investors and could have an adverse impact on our business and strategic direction. A change in senior management, such as we experienced over the past ~~year~~ **years** , also could result in our future strategy and plans differing from those of the past. Further, we intend to continue to hire additional highly qualified personnel, including research and development and operational personnel, but may not be able to attract, assimilate or retain qualified personnel in the future. Any failure to attract, integrate, motivate and retain these employees could harm our business. We depend on skilled employees and could be impacted by a shortage of critical skills. Much of our future success depends on the continued service and availability of skilled employees, particularly with respect to technical areas. Skilled and experienced personnel in the areas where we compete are in high demand, and competition for their talents is intense. We expect that many of our key employees will receive a total compensation package that includes equity awards. New regulations or volatility in the stock market could diminish our use, and the value, of our equity awards. This would place us at a competitive disadvantage in attracting qualified personnel or force us to offer more cash compensation. Some of 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. Most of our employees in Europe are represented by workers councils or unions. Although we believe we have a good working relationship with our employees and their legal representatives, they must approve any changes in terms which may impede efforts to restructure our workforce. Cybersecurity and data privacy incidents or breaches may damage client relations and inhibit our growth. The confidentiality and security of our information, and that of third parties, is critical to our business. In particular, our services involve the transmission, use, and storage of customers' and their customers' information, which may be confidential or contain personally identifiable information. Our internal computer systems and those of our current or future service providers, contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Attacks on information technology systems are increasing in their frequency, levels of persistence, sophistication and intensity, and they are being conducted by increasingly sophisticated and organized groups and individuals with a wide range of motives and expertise. The prevalent use of mobile devices also increases the risk of data security incidents. While we maintain a broad array of information security and privacy measures, policies and practices, our networks may be breached through a variety of means, resulting in someone obtaining unauthorized access to our information, to information of our customers or their customers, or to our intellectual property; disabling or degrading service; or sabotaging systems or information. In addition, hardware, software, systems, or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud or other forms of deceiving our employees, contractors, and vendors. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. While we have not experienced any material system failure, accident or security breach to date, if such an event were to occur and cause interruptions in our operations or the operations of third- party service providers, contractors and consultants, it could result in significant reputational, financial, legal, regulatory, business or operational harm. Any cybersecurity or data privacy incident or breach may result in: • loss of revenue resulting from the operational disruption; • loss of revenue or increased bad debt expense due to the inability to invoice properly or to customer dissatisfaction resulting in collection issues; • loss of revenue due to loss of customers; • material remediation costs to recreate or restore systems; • material investments in new or enhanced systems in order to enhance our information security posture; • cost of incentives offered to customers to restore confidence and maintain business relationships; • reputational damage resulting in the failure to retain or attract customers; • costs associated with potential litigation or governmental investigations, enforcement actions or regulatory fines; • claims by third parties asserting that we have breached our privacy, confidentiality, data security or similar obligations; • costs associated with any required notices of a data breach; • costs associated with the potential loss of critical business data; • difficulties enhancing or creating new products due to loss of data or data integrity issues; and • other consequences of which we are not currently aware of but will discover through the remediation process. In addition, our liability insurance may not be sufficient in type or amount to cover us against claims related to security breaches, cyberattacks and other related breaches. While we expect to continue to incur significant costs to continuously enhance our information security measures to defend against the threat of cybercrime, there can be no assurance that such measures will successfully prevent service interruptions, data security incidents and other security breaches. Any cybersecurity or data privacy incidents could have a material adverse effect on our business, results of operations and financial condition. Compliance with global privacy and data security requirements could result in additional costs and liabilities to us or inhibit our ability to collect and process data globally, and the failure to comply with such requirements could have a material adverse effect on our business, financial condition or results of operations. Privacy and data security have become significant issues in the U. S., Europe and in many other jurisdictions where we conduct or may in the future conduct our operations. The regulatory framework for the collection, use, safeguarding, sharing and transfer of information worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Globally, virtually every jurisdiction in which we operate has established its own data security and privacy frameworks with which we must comply. Notably, for example, on May 25, 2018, the European General Data Protection Regulation 2016 / 679, which is commonly referred to as GDPR, took effect. The GDPR applies to any company established in the **European Economic Area (“** EEA **”)** as well as any company outside the EEA that collects or otherwise processes personal data in connection with the offering of goods or services to individuals in the EEA or the monitoring of their behavior. The GDPR enhances data protection obligations for processors and controllers of personal data, including, ~~for example~~ **providing information to individuals regarding data processing activities** , ~~expanded disclosures about how~~ **implementing safeguards to protect the security and confidentiality of** personal ~~information is to be used, limitations on retention of information, mandatory~~ data ~~breach~~ **, providing** notification **of data breaches,** requirements **to conduct data protection impact assessments** and ~~onerous obligations on services providers~~ **taking certain measures when engaging third- party processors** . The GDPR imposes additional obligations and risk upon our business and substantially increases the penalties to which we could be subject in the event of any non- compliance **. Failure to comply with the requirements of the GDPR may result in warning letters, mandatory audits, orders to cease / change the use of data, and financial penalties** . Further, European data protection laws also prohibit the transfer of personal data from the EEA and Switzerland to third countries that are not considered to provide adequate protections for personal data, including the U. S. With regard to transfers of personal data from the EEA, transfers to third countries that have not been approved as “ adequate ” are prohibited unless an appropriate safeguard specified by the GDPR is implemented, such as the Standard Contractual Clauses, or SCCs, approved by the European Commission or binding corporate rules, or a derogation applies. European regulators have issued recent guidance that imposes significant new diligence requirements on transferring data outside the European Union, including under an approved transfer mechanism. **Where relying on** ~~While we have taken steps to mitigate~~ the **SCCs for data transfers, we may also be required to carry out transfer** impact **assessments** ~~on us with respect~~ to ~~transfers of~~ **assess whether the recipient is subject to local laws which allow public authority access to personal** data ~~,~~ **.** In addition, we are subject to Swiss data protection laws, including the Federal Act on Data Protection, or the FADP. While the FADP provides broad protections to personal data, on September 25, 2020, the Swiss federal Parliament enacted a revised version of the FADP, which ~~is anticipated to become~~ **became** effective **September 1,** ~~in 2022 or the beginning of~~ 2023. The new version of the FADP aligns Swiss data protection law with the GDPR. Further, in addition to existing European data protection law, the European Union also is considering another draft data protection regulation. The proposed regulation, known as the Regulation on Privacy and Electronic Communications, or ePrivacy Regulation, would replace the current ePrivacy Directive. New rules related to the ePrivacy Regulation are likely to include enhanced consent requirements in order to use communications content and communications metadata, as well as obligations and restrictions on the processing of data from an end- user’ s terminal equipment, which may negatively impact our product offerings and our relationships with our customers. As another prominent example, we are also subject to data protection regulation in the UK. Following the UK’ s withdrawal from the EU on January 31, 2020 and the end of the transitional arrangements agreed between the UK and EU as of January 1, 2021, the GDPR has been incorporated into UK domestic law. United Kingdom- based organizations doing business in the European Union will need to continue to comply with the GDPR. Although the UK is regarded as a third country under the EU’ s GDPR, the European Commission recognizes the UK as providing adequate protection under the EU GDPR and, therefore, transfers of personal data originating in the EU to the UK remain unrestricted. Like the EU GDPR, the UK GDPR restricts personal data transfers outside the UK to countries not regarded by the UK as providing adequate protection. The UK government has confirmed that personal data transfers from the UK to the EEA remain free flowing. The Information Commissioner’ s Office, or ICO, has recently introduced new mechanisms for international transfers of personal data originating from the **UK** ~~U. K.~~ (an International Data Transfer Agreement, or IDTA, along with a separate addendum to the EU SCCs). We will be required to implement these new safeguards when conducting restricted cross- border data transfers and doing so will require significant effort and cost. In addition to European data protection requirements, ~~we face a growing body of privacy and data security requirements in the United States~~ . **For** ~~At the legislative level,for~~ example,in June 2018,California enacted the CCPA,which became operative on January 1,2020 and broadly defines personal information,gives California residents expanded privacy rights and protections,and provides for civil penalties for violations and a private right of action for data breaches.Additionally, **a new privacy law,** the CPRA, **recently was** ~~a ballot initiative~~ approved **by California voters** in **the** November 2020 **election.The CPRA will significantly modify the CCPA** , ~~which went~~ **and goes** into effect **and fully supersedes CCPA** on January 1,2023 **.The CPRA will** significantly ~~modified~~ **modify** the CCPA,including by expanding consumers’ rights and establishing a new state agency that ~~has~~ **will be vested with** authority to implement and enforce the CPRA. ~~Notably~~ **For example** , ~~twelve~~ **the CPRA and the CCPA may lead** other states ~~have~~ **to** ~~passed~~ -- **pass** comparable legislation **,with potentially greater penalties,** and ~~many others are considering proposals for~~ **more rigorous compliance requirements relevant to our business.Virginia enacted the VCDA and Colorado enacted the CDA,respectively,which have** similar **requirements and obligations to** ~~broad consumer privacy laws.Moreover,other states have enacted privacy laws with a more limited scope,such as~~ the **CCPA** ~~state of Washington which has enacted legislation that is focused on health privacy and a small number of states have enacted laws~~ the United States Federal Trade Commission and many state attorney generals are interpreting **existing** federal and state consumer protection laws as imposing standards for the online collection, use, dissemination, and security of data . For example, in June 2018...... similar requirements and obligations to the CCPA . The regulatory framework governing the collection, processing, storage, use and sharing of certain information, particularly financial and other personal data, is rapidly evolving and is likely to continue to be subject to uncertainty and varying interpretations. In addition to new and strengthened laws and regulations in the U. S., European Union, and United Kingdom, many foreign jurisdictions have passed new laws, strengthened existing laws, or are contemplating new laws regulating personal data. For example, we are subject to stringent privacy and data protection requirements in many countries including Singapore and Japan. Additional jurisdictions with stringent data protection laws include Brazil and China. We also continue to see jurisdictions, such as Russia, imposing data localization laws, which under Russian laws require personal information of Russian citizens to be, among other data processing operations, initially collected, stored, and modified in Russia. Preparing for and complying with the evolving application of these laws has required and will continue to require us to incur substantial operational costs and may interfere with our intended business activities, inhibit our ability to expand into certain markets or prohibit us from continuing to offer services in those markets without significant additional costs. It is possible that these laws may impose, or may be interpreted and applied to impose, requirements that are inconsistent with our existing data management practices or the features of our services and platform capabilities. Any failure or perceived failure by us, or any third parties with which we do business, to comply with our posted privacy policies, changing consumer expectations, evolving laws, rules and regulations, industry standards, or contractual obligations to which we or such third parties are or may become subject, may result in actions or other claims against us by governmental entities or private actors, the expenditure of substantial costs, time and other resources, ~~,~~ may cause our customers to lose confidence in our solutions, harm our reputation, expose us to litigation, regulatory investigations and resulting liabilities including reimbursement of customer costs, damages, penalties or fines imposed by regulatory agencies; and require us to incur significant expenses for remediation **. The development and use of artificial intelligence or AI (AI) presents risks and challenges that can impact our business including by posing security risks to our confidential information, proprietary information, and personal data and could give rise to legal and / or regulatory actions, damage our reputation or otherwise materially harm our business. We develop and incorporate AI technology in certain of our products and services and plan to develop and incorporate additional AI technology in future products and services. Issues in the development and use of AI, including generative AI tools and large language models, combined with an uncertain regulatory environment, may result in reputational harm, liability, or other adverse consequences to our business operations. AI presents risks, challenges, and unintended consequences that could affect our and our customers' adoption and use of this technology. AI algorithms and training methodologies may be flawed. Additionally, AI technologies are complex and rapidly evolving, and we face significant competition in the market and from other companies regarding such technologies. Our vendors may incorporate generative AI tools into their offerings without disclosing this use to us, and the providers of these generative AI tools may not meet existing or rapidly evolving regulatory or industry standards with respect to privacy and data protection and may inhibit our or our vendors' ability to maintain an adequate level of service and experience. If we, our vendors, or our third- party partners experience an actual or perceived breach of privacy or security incident because of the use of AI, we may lose valuable intellectual property and confidential information and our reputation and the public perception of the effectiveness of our security measures could be harmed. Further, bad actors around the world use increasingly sophisticated methods, including the use of AI, to engage in illegal activities involving the theft and misuse of personal information, confidential information, and intellectual property. While we aim to develop and use AI responsibly and attempt to identify and mitigate ethical and legal issues presented by its use, we may be unsuccessful in identifying or resolving issues before they arise. AI-related issues, deficiencies and / or failures could (i) give rise to legal and / or regulatory actions, including with respect to proposed legislation regulating AI in jurisdictions such as the EEA, and as a result of new applications of existing data protection, privacy, intellectual property, and other laws; (ii) damage our reputation; or (iii) otherwise materially harm our business** . A significant portion of our revenues are derived, and a significant portion of our research and development activities are based, outside the United States. Our results could be harmed by economic, political, and regulatory risks associated with these international regions and foreign currency fluctuations. Because we operate worldwide, our business is subject to risks associated with doing business internationally. We generate most of our international revenue in Europe and Asia, and we anticipate that revenue from international operations will increase in the future. In addition, some of our products are developed outside the United States. We conduct a significant portion of the development of our voice recognition and natural language understanding solutions in Canada and Germany. We also have significant research and development resources in Belgium, China, India, Italy, and the United Kingdom. We are exposed to fluctuating exchange rates of foreign currencies, including the euro, British pound, Canadian dollar, Chinese RMB, Japanese yen, Indian rupee and South Korean won. Accordingly, our future results could be harmed by a variety of factors associated with international sales and operations, including: • adverse political and economic conditions, or changes to such conditions, in a specific region or country; • trade protection measures, including tariffs and import / export controls, imposed by the United States and / or by other countries or regional authorities such as China, Canada or the European Union; • the impact on local and global economies of the United Kingdom leaving the European Union; • changes in foreign currency exchange rates or the lack of ability to hedge certain foreign currencies; • compliance with laws and regulations in many countries, including with respect to data protection, anticorruption, labor relations, tax, foreign currency, anti- competition, import, export and trade regulations, and any subsequent changes in such laws and regulations; • geopolitical turmoil, including terrorism and war, such as the conflict between Russia and Ukraine **and the developing conflict between Israel and Hamas** ; • changing data privacy regulations and customer requirements to locate data centers in certain jurisdictions; • evolving restrictions on cross- border investment, including recent enhancements to the oversight by the Committee on Foreign Investment in the United States pursuant to the Foreign Investment Risk Preview Modernization Act and substantial restrictions on investment from China; • changes in applicable tax laws; • difficulties in staffing and managing operations in multiple locations in many countries; • longer payment cycles of foreign customers and timing of collections in foreign jurisdictions; and • less effective protection of intellectual property than in the United States. Our business in China is subject to aggressive competition and is sensitive to economic, market and political conditions. We operate in the highly competitive automotive cognitive assistance market in China and face competition from both international and smaller domestic manufacturers. We anticipate that additional competitors, both domestic and international, may seek to enter the Chinese market resulting in increased competition. Increased competition may result in price reductions, reduced margins and our inability to gain or hold market share. There have been periods of increased market volatility and moderation in the levels of economic growth in China, which resulted in periods of lower automotive production growth rates in China than those previously experienced. In addition, political tensions between China and the United States may negatively impact our ability to conduct business in China. If we are unable to grow or maintain our position in the Chinese market, the pace of growth slows or vehicle sales in China decrease, our business, results of operations and financial condition could be materially adversely affected. Government regulations and business considerations may also require us to conduct business in China through joint ventures with Chinese companies. Our participation in joint ventures would limit our control over Chinese operations and may expose our proprietary technologies to misappropriation by joint venture partners. The above risks, if realized, could have a material adverse effect on our business, results of operations and financial condition. Interruptions or delays in our services or services from data center hosting facilities or public clouds could impair the delivery of our services and harm our business. Because our services are complex and incorporate a variety of third- party hardware and software, our services may have errors or defects that could result in unanticipated downtime for our customers and harm to our reputation and our business. We have from time to time, found defects in our services, and new errors in our services may be detected in the future. In addition, we currently serve our customers from data center hosting facilities or third- party public clouds we directly manage. Any damage to, or failure of, the systems and facilities that serve our customers in whole or in part could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay service level agreement penalties, cause customers to terminate their on- demand services, and adversely affect our renewal rates and our ability to attract new customers. If our goodwill or other intangible assets become impaired, our operating results could be negatively impacted. We have significant intangible assets, including goodwill and other intangible assets, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The most significant intangible assets are goodwill, customer relationships and patents and core technologies. 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. Technologies and patents are amortized on a straight- line basis over their estimated useful lives. We assess the potential impairment of goodwill on an annual basis. Whenever events or changes in circumstances indicate that the carrying value may not be recoverable, we will be required to assess the potential impairment of goodwill and other intangible assets. Factors that could trigger an impairment of such assets include the following: • changes in our organization or management reporting structure that could result in additional reporting units, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit; • significant under performance relative to historical or projected future operating results; • significant changes in the strategy for our overall business; • significant negative industry or economic trends; • significant decline in our stock price for a sustained period; and • our market capitalization declining to below net book value. ~~At~~ **During the fiscal year ended** September 30, 2022 ~~, we concluded indicators of impairment were present due to the current macroeconomic conditions, including continued declines in our stock price. Based upon the results of the impairment test~~ , we recorded a goodwill impairment charge of $ 213. 7 million within the Consolidated Statement of Operations **. Due to the update of our multi- year target plan, we concluded that indicators of impairment were present and performed a quantitative impairment test as of September 30, 2023. Based upon the results of the impairment test, no goodwill impairment was recorded as of September 30, 2023** . Future adverse changes in these or other unforeseeable factors could result in additional impairment charges that would impact our results of operations and financial position in the reporting period identified. Risks Relating to our Intellectual Property and Technology Third parties have claimed and may claim in the future that we are infringing their intellectual property, and we could be exposed to significant litigation or licensing expenses or be prevented from selling our products if such claims are successful. From time to time, we are subject to claims and legal actions alleging that we or our customers may be infringing or contributing to the infringement of the intellectual property rights of others. We may be unaware of intellectual property rights of others that may cover some of our technologies and products. If it appears necessary or desirable, we may seek licenses for these intellectual property rights. However, we may not be able to obtain licenses from some or all claimants, the terms of any offered licenses may not be acceptable to us, and we may not be able to resolve disputes without litigation. Any litigation regarding intellectual property could be costly and time- consuming and could divert the attention of our management and key personnel from our business operations. Intellectual property disputes could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from licensing certain of our products, cause severe disruptions to our operations or the markets in which we compete, or require us to satisfy indemnification commitments with our customers including contractual provisions under various arrangements. Any of these could seriously harm our business, financial condition or operations. Unauthorized use of our proprietary technology and intellectual property could adversely affect our business and results of operations. Our success and competitive position depend in large part on our ability to obtain and maintain intellectual property rights protecting our products and services. We rely on a combination of patents, copyrights, trademarks, service marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our intellectual property and proprietary rights. Unauthorized parties may attempt to copy or discover aspects of our products or to obtain, license, sell or otherwise use information that we regard as proprietary. Policing unauthorized use of our products is difficult and we may not be able to protect our technology from unauthorized use. Additionally, our competitors may independently develop technologies that are substantially the same or superior to our technologies and that do not infringe our rights. In these cases, we would be unable to prevent our competitors from selling or licensing these similar or superior technologies. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States. Although the source code for our proprietary software is protected both as a trade secret and as a copyrighted work, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Litigation, regardless of the outcome, can be very expensive and can divert management' s efforts. Our software products may have bugs, which could result in delayed or lost revenue, expensive correction, liability to our customers and claims against us. Complex software products such as ours may contain errors, defects or bugs. Defects in the solutions or products that we develop and sell to our customers could require expensive corrections and result in delayed or lost revenue, adverse customer reaction and negative publicity about us or our products and services. Customers who are not satisfied with any of our products may also bring claims against us for damages, which, even if unsuccessful, would likely be time- consuming to defend, and could result in costly litigation and payment of damages. Such claims could harm our reputation, financial results and competitive position. We may be unable to respond quickly enough to changes in technology and technological risks and to develop our intellectual property into commercially viable products. Changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of our products obsolete or less attractive to our customers, which could adversely affect our results of operations. Our ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products on a timely basis will be a significant factor in our ability to be competitive. There is a risk that we will not be able to achieve the technological advances that may be necessary for us to be competitive or that certain of our products will become obsolete. Moreover, restrictions on the use of our technology over the next ~~two years~~ **year** under the Intellectual Property Agreement which we entered into with Nuance in connection with the Spin- Off may limit our ability to adapt to technology and regulatory developments and thereby compete effectively in the market. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development and failure of products to operate properly. These risks could have a material adverse effect on our business, results of operations and financial condition. We utilize certain key technologies, content and services from, and integrate certain of our solutions with, third parties and may be unable to replace those technologies, content and services if they become obsolete, unavailable or incompatible with our solutions. We utilize certain key technologies and content from, and / or integrate certain of our solutions with, hardware, software, services and content of third parties. Some of these vendors are also our competitors in various respects. These third- party vendors could, in the future, seek to charge us cost prohibitive fees for such use or integration or may design or utilize their solutions in a manner that makes it more difficult for us to continue to utilize their solutions, or integrate their technologies with our solutions, in the same manner or at all. Any significant interruption in the supply or maintenance of such third- party hardware, software, services or content could negatively impact our ability to offer our solutions unless and until we replace the functionality provided by this third- party hardware, software and / or content. In addition, we are dependent upon these third parties' ability to enhance their current products, develop new products on a timely and cost- effective basis and respond to emerging industry standards and other technological changes. There can be no assurance that we would be able to replace the functionality or content provided by third- party vendors in the event that such technologies become obsolete or incompatible with future versions of our solutions or are otherwise not adequately maintained or updated. Any delay in or inability to replace any such functionality could have a material adverse effect on our business, results of operations and financial condition. Furthermore, delays in the release of new and upgraded versions of third- party software applications could have a material adverse effect on our business, results of operations and financial condition. Risks Relating to the Spin- Off If the Spin- Off were determined not to qualify as tax- free for U. S. federal income tax purposes, we could have an indemnification obligation to Nuance, which could adversely affect our business, financial condition and results of operations. On October 1, 2019, we were spun off from Nuance. Completion of the Spin- Off was conditioned on Nuance' s receipt of a written opinion from its tax counsel to the effect that the Distribution will qualify for non- recognition of gain and loss under Section 355 and related provisions of the Internal Revenue Code of 1986, as amended, or the Code. The opinion of counsel does not address any U. S. state or local or foreign tax consequences of the Spin- Off. The opinion assumed that the Spin- Off was completed according to the terms of the Separation and Distribution Agreement and relied on the facts as stated in the Separation and Distribution Agreement, the Tax Matters Agreement, the other ancillary agreements, Information Statement included as part of our registration statement on Form 10 and a number of other documents related to the Spin- Off. In addition, the opinion was based on certain assumptions as well as certain representations as to factual matters from, and certain covenants by, Nuance and us. The opinion cannot be relied on if any of the assumptions, representations or covenants are incorrect, incomplete or inaccurate or are violated in any material respect. If, as a result of any of our representations being untrue or our covenants being breached, the Spin- Off, and certain related transactions or certain transactions, were determined not to qualify for non- recognition of gain or loss under Section 355 and related provisions of the Code, we could be required to indemnify Nuance for the resulting taxes and related expenses. Those amounts could be material. Any such indemnification obligation could adversely affect our business, financial condition and results of operations. We ~~have agreed~~ **may be unable** to **achieve some or all** ~~numerous restrictions to preserve the non-recognition treatment~~ of **the benefits that we expect to achieve from** the Spin- Off ~~, which may reduce our strategic and operating flexibility. We have agreed in the Tax Matters Agreement to covenants and indemnification obligations that address compliance with Section 355 and related provisions of the Code and are intended to preserve the tax- free nature of the Spin-Off. These covenants and indemnification obligations may limit our ability to pursue certain strategic transactions that may maximize the value of our business and, under certain circumstances, might discourage or delay a strategic transaction that our stockholders may consider favorable. We may be unable to achieve some or all of the benefits that we expect to achieve from the Spin- Off~~. We believe that, as an independent, publicly traded company, we **are** ~~will be~~ able to, among other things, design and implement corporate strategies and policies and develop partnerships that are better targeted to our business' s areas of strength and differentiation, better focus our financial and operational resources on those specific strategies, create effective incentives for our management and employees that are more closely tied to our business performance, provide investors more flexibility and enable us to achieve alignment with a more natural stockholder base and implement and maintain a capital structure designed to meet our specific needs. We may be unable to achieve some or all of the benefits that we expect to achieve as an independent company in the time we expect, if at all, for a variety of reasons, including: • as an independent, publicly traded company, we may be more susceptible to market fluctuations and other adverse events than if ~~it~~ **we** were still a part of Nuance; and • as an independent, publicly traded company, our businesses are less diversified than Nuance' s businesses prior to the separation. If we fail to achieve some or all of the benefits that we expect to achieve as an independent company, or do not achieve them in the time we expect, our business, financial condition and results of operations could be adversely affected. We may have potential business conflicts of interest with Nuance with respect to our past and ongoing relationships. Conflicts of interest may arise between Nuance and us in a number of areas relating to our past and ongoing relationships, including: • labor, tax, employee benefit, indemnification and other matters arising from our separation from Nuance; • intellectual property matters; • employee recruiting and retention; and • business combinations involving our company. We may not be able to resolve any potential conflicts, and, even if we do so, the resolution may be less favorable to us than if we were dealing with an unaffiliated party. The allocation of intellectual property rights and data between Nuance and Cerence as part of the Spin- Off, the shared use of certain intellectual property rights and data following the Spin- Off and restrictions on the use of intellectual property rights, could adversely impact our reputation, our ability to enforce certain intellectual property rights that are important to us and our competitive position. In connection with the Spin- Off, we entered into agreements with Nuance governing the allocation of intellectual property rights and data related to our business. These agreements include restrictions on our use of Nuance' s intellectual property rights and data licensed to us, including limitations on the field of use in which we can exercise our license rights. As a result, we may not be able to pursue opportunities that require use of these license rights in industries other than the automotive industry and certain ancillary fields. Moreover, the licenses granted to us under Nuance' s intellectual property rights and data are non- exclusive, so Nuance may be able to license the rights and data to third parties that may compete with us. These agreements could adversely affect our position and options relating to intellectual property enforcement, licensing negotiations and monetization and access to data used in our business. We also may not have sufficient rights to grant sublicenses of intellectual property or data used in our business, and we may be subject to third party rights pertaining to the underlying intellectual property or data. These circumstances could adversely affect our ability to protect our competitive position in the industry and otherwise adversely affect our business, financial condition and results of operations. Risks Relating to Our Securities and Indebtedness The terms of the Senior Credit Facilities restrict our current and future operations, particularly our ability to incur debt that we may need to fund initiatives in response to changes in our business, the industry in which we operate, the economy and governmental regulations. The terms of the Senior Credit Facilities include a number of restrictive covenants that impose significant operating and financial restrictions on us and limit our ability to engage in actions that may be in our long- term best interests. These restrict our ability to take some or all of the following actions: • incur or guarantee additional indebtedness or sell disqualified or preferred stock; • pay dividends on, make distributions in respect of, repurchase or redeem capital stock; • make investments or acquisitions; • create liens; • enter into sale / leaseback transactions; • enter into agreements restricting the ability to pay dividends or make other intercompany transfers; • enter into transactions with affiliates; • prepay, repurchase or redeem certain kinds of indebtedness; • consolidate, merge, sell or otherwise dispose of assets or sell stock of our subsidiaries; and / or • significantly change the nature of our business. Furthermore, the lenders under the Senior Credit Facilities have required that we pledge our assets as collateral as security for our repayment obligations and that we abide by certain financial or operational covenants. Our ability to comply with such covenants and restrictions may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. A breach of any of these covenants, if applicable, could result in an event of default under the terms of the Senior Credit Facilities. If an event of default occurred, the lenders would have the right to accelerate the repayment of such debt, and the event of default or acceleration could result in the acceleration of the repayment of any other debt to which a cross- default or cross- acceleration provision applies. We might not have, or be able to obtain, sufficient funds to make these accelerated payments, and lenders could then proceed against any collateral. Any subsequent replacement of the agreements governing the Senior Credit Facilities or any new indebtedness could have similar or greater restrictions. The occurrence and ramifications of an event of default could adversely affect our business, financial condition and results of operations. Moreover, as a result of all of these restrictions, we may be limited in how we conduct our business and pursue our strategy, unable to raise additional debt financing to operate during general economic or business downturns or unable to compete effectively or to take advantage of new business opportunities. We may evaluate whether to pay cash dividends on our common stock in the future, and the terms of our Senior Credit Facilities limit our ability to pay dividends on our common stock. Our Board of Directors', or our Board **' s**, decisions regarding the payment of dividends depends on consideration of many factors, such as our financial condition, earnings, sufficiency of distributable reserves, opportunities to retain future earnings for use in the operation of our business and to fund future growth, capital requirements, debt service obligations, legal requirements, regulatory constraints and other factors that our Board deems relevant. Additionally, the terms of the Senior Credit Facilities limit our ability to pay cash dividends. There can be no assurance that we will pay a dividend in the future or continue to pay any dividend if we do commence paying dividends. Servicing our debt may require a significant amount of cash. We may not have sufficient cash flow from our business to pay our indebtedness, and we may not have the ability to raise the funds necessary to settle for cash conversions of **our outstanding notes (** the **"** Notes **")** or to repurchase the Notes for cash upon a fundamental change, which could adversely affect our business and results of operations. In June 2020, we issued an aggregate principal amount of $ 175 million 3. 00 % convertible senior notes due 2025, ~~or~~ the **" 2025** Notes. **"** The interest rate is fixed at 3. 00 % per annum and is payable semi- annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020. **In June 2023, we issued an aggregate principal amount of $ 210 million 1. 50 % convertible senior notes due 2028, the " 2028 Notes ", and together with the 2025 Notes and the 2025 Modified Notes (as defined below), the " Notes ". The interest rate is fixed at 1. 50 % per annum and is**

payable semi- annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2024. We repurchased $ 87. 5 million of the 2025 Notes with a portion of the proceeds from the sale of the 2028 Notes. We may also incur additional indebtedness to meet future financing needs **, including under our secured revolving credit facility portion of our Senior Credit Facilities** . Our indebtedness could have significant negative consequences for our stockholders and our business, results of operations and financial condition by, among other things: (a) increasing our vulnerability to adverse economic and industry conditions; (b) limiting our ability to obtain additional financing; (c) requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, which will reduce the amount of cash available for other purposes; (d) limiting our flexibility to plan for, or react to, changes in our business; (e) diluting the interests of our existing stockholders as a result of issuing our common stock upon conversion of the Notes; and (f) placing us at a possible competitive disadvantage with competitors that are less leveraged than us or have better access to capital. Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not generate cash flows from operations in the future that are sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flows, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt, or obtaining additional debt financing or equity capital on terms that may be onerous or highly dilutive. Our ability to refinance any future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations. In addition, **our Senior Credit Facilities contain and** any of our future debt agreements may contain restrictive covenants that may prohibit us from adopting any of these alternatives. Holders of the Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change (as defined in the ~~indenture~~ **indentures** governing the Notes) at a repurchase price equal to 100 % of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. Upon conversion, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases in connection with such conversion and our ability to pay may additionally be limited by law, by regulatory authority, or by agreements governing our existing and future indebtedness. Our failure to repurchase the Notes at a time when the repurchase is required by the indenture governing the Notes or to pay any cash payable on future conversions as required by such indenture would constitute a default under such indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our existing and future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof. In addition, our indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could: • make us more vulnerable to adverse changes in general U. S. and worldwide economic, industry, and competitive conditions and adverse changes in government regulations; • limit our flexibility in planning for, or reacting to, changes in our business and our industry; • place us at a disadvantage compared to our competitors who have less debt; • limit our ability to borrow additional amounts for funding acquisitions, for working capital, and for other general corporate purposes; and • make an acquisition of our company less attractive or more difficult. Any of these factors could harm our business, results of operations, and financial condition. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase. The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and results of operations and the value of our common stock. In the event the conditional conversion feature of **either series of** the Notes is triggered, holders **of such series** of Notes will be entitled to convert the Notes **of such series** at any time during specified periods at their option. If one or more holders elect to convert their Notes, 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. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long- term liability, which would result in a material reduction of our net working capital. The conversion of some or all of the Notes would dilute the ownership interests of existing stockholders to the extent we satisfy our conversion obligation by delivering shares of our common stock upon any conversion of such Notes. Our Notes may become in the future convertible at the option of their holders under certain circumstances. If holders of our Notes elect to convert their Notes, we may settle our conversion obligation by delivering to them a significant number of shares of our common stock, which would cause dilution to our existing stockholders. The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results. Under FASB ASC Subtopic 470- 20, Debt with Conversion and Other Options, or ASC 470- 20, an ~~entity must~~ **issuer was required to** separately account for the liability and equity components of convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer' s economic interest cost. ASC 470- 20 requires the value of the conversion options of the Notes, representing the equity component, to be recorded as additional paid- in capital within stockholders' equity in our consolidated balance sheet and as a discount to the Notes, which ~~reduces~~ **reduced** their initial carrying value. The carrying value of the Notes, net of the applicable discount recorded, **were** ~~will be~~ accreted up to the principal amount of the Notes, as the case may be, from the issuance date until maturity, which ~~will result~~ **resulted** in non- cash charges to interest expense in our consolidated statement of operations ~~. Accordingly, we will report lower net income or higher net loss in our financial results because ASC 470- 20 requires interest to include both the current period' s accretion of the debt discount and the instrument' s coupon interest, which could adversely affect our reported or future financial results, the trading~~

~~price of our common stock, and the respective trading price of the Notes~~. In August 2020, the FASB issued Accounting Standards Update ASU 2020- 06, or ASU 2020- 06, with the intent to simplify ASC 470- 20 and ASC subtopic 815- 40, Contracts in Entity' s Own Equity, or ASC 815- 40. Among the changes, ASU 2020- 06 removed the requirement to bifurcate the liability and equity components of convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion. The removal of the bifurcation of liability and equity components ~~would eliminate~~ **eliminated** non-cash interest expense corresponding to the amounts recorded within equity. In addition, ASU 2020- 06 precludes the use of the treasury stock method, when calculating diluted earnings per share, for convertible debt instruments that may be settled entirely or partially in cash upon conversion. **We** ~~The FASB has specified that public companies should adopt~~ **adopted** ASU 2020- 06 **on October 1** ~~as of the beginning of its annual fiscal year~~, **2022 using the modified retrospective approach. Please see Note 2 (t)** for **further discussion** ~~fiscal years beginning after December 15, 2021, our fiscal year 2023~~. We currently apply the " if-converted " method for calculating any potential dilutive effect of the conversion options embedded in the Notes on diluted net income per share, which assumes that all of the Notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti- dilutive. The application of the if- converted method may reduce our reported diluted net income per share to the extent we are profitable, and accounting standards may change in the future in a manner that may otherwise adversely affect our diluted net income per share. Certain provisions in our Amended and Restated Certificate of Incorporation and Amended and Restated By- Laws and Delaware law may discourage takeovers. Several provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By- Laws and Delaware law may discourage, delay or prevent a merger or acquisition. These include, among others, provisions that: • do not permit our stockholders to act by written consent and require that stockholder action must take place at an annual or special meeting of our stockholders, in each case except as such rights may otherwise be provided to holders of preferred stock; • establish advance notice requirements for stockholder nominations and proposals; • provide that a special meeting of our stockholders may only be called by our Board, the Chairman of our Board or our Chief Executive Officer, or at the request of holders of not less than 20 % of the outstanding shares of our common stock; and • limit our ability to enter into certain business combination transactions. These and other provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By- Laws and Delaware law may discourage, delay or prevent certain types of transactions involving an actual or a threatened acquisition or change in control of Cerence, including unsolicited takeover attempts, even though the transaction may offer our stockholders the opportunity to sell their shares of our common stock at a price above the prevailing market price. Our **organizational documents** ~~Amended and Restated Certificate of Incorporation designates~~ - **designate** the courts of the State of Delaware **or the U. S. district courts** as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees. Our Amended and Restated Certificate of Incorporation provides, in all cases to the fullest extent permitted by law, unless we consent in writing to the selection of an alternative forum, the Court of Chancery located within the State of Delaware is the sole and exclusive forum for any derivative action or proceeding brought on behalf of Cerence, any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee or stockholder of Cerence to Cerence or Cerence' s stockholders, any action asserting a claim arising pursuant to the Delaware General Corporation Law, or DGCL, or as to which the DGCL confers jurisdiction on the Court of Chancery located in the State of Delaware or any action asserting a claim governed by the internal affairs doctrine or any other action asserting an " internal corporate claim " as that term is defined in Section 115 of the DGCL. However, if the Court of Chancery within the State of Delaware does not have jurisdiction, the action may be brought in any other state or federal court located within the State of Delaware. Further, this exclusive forum provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act or the Securities Act of 1933, as amended, or the Securities Act, except that it may apply to such suits if brought derivatively on behalf of Cerence. ~~There is~~ **Our Amended and Restated By- Laws further provide that** , ~~however, uncertainty as~~ **unless we consent in writing** to ~~whether~~ **the selection of an alternative forum, the federal district courts of the United States of America are the sole and exclusive forum for resolving any complaint asserting** a **cause of action arising under the Securities Act,** ~~court would enforce such provision in connection with suits to enforce a duty or liability created by~~ the Exchange Act ~~or the Securities Act if brought derivatively on behalf of Cerence~~, ~~and our~~ - **or** ~~stockholders will not be deemed to have waived our compliance with~~ the **respective** ~~federal securities laws and the~~ rules and regulations **promulgated** thereunder. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of our capital stock will be deemed to have notice of and to have consented to these provisions. ~~This~~ **These** ~~provision~~ **provisions** may limit a stockholder' s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits. Alternatively, if a court were to find ~~this~~ **any of these** ~~provision~~ **provisions** ~~of our Amended and Restated Certificate of Incorporation~~ inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions. General Risk Factors Tax matters may cause significant variability in our financial results and may impact our overall financial condition. Our businesses are subject to income taxation in the United States, as well as in many tax jurisdictions throughout the world. Tax rates in these jurisdictions may be subject to significant change. If our effective tax rate increases, our operating results and cash flow could be adversely affected. Our effective income tax rate can vary significantly between periods due to a number of complex factors including: • projected levels of taxable income; • pre- tax income being lower than anticipated in countries with lower statutory rates or higher than anticipated in countries with higher statutory rates; • increases or decreases to valuation allowances recorded against deferred tax assets; • tax audits conducted and settled by various tax authorities; • adjustments to income taxes upon finalization of income tax returns; • the ability to claim foreign tax credits; • the repatriation of non- U. S. earnings for which we have not previously provided for income taxes; • changes in tax laws and their interpretations in countries in which we are subject to taxation; and • changes to assessments of uncertain tax positions. We regularly evaluate the need for a valuation allowance on deferred tax assets, considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. This analysis is heavily dependent upon our current and projected operating results. A decline in future operating results could provide substantial evidence that a full or partial valuation allowance for deferred tax assets is necessary, which could have a material adverse effect on our results of operations and financial condition. The commercial and credit environment, may adversely affect our access to **, and the cost of,** capital. Our ability to issue debt or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our products or in the solvency of our customers or suppliers or if there are other significantly unfavorable changes in economic conditions. Volatility in the world financial markets, including the recent increases in interest and inflation rates, could increase borrowing costs or affect our ability to access the capital markets. These conditions may adversely affect our ability to obtain targeted credit ratings. Our stock price may fluctuate significantly. The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including: • actual or anticipated fluctuations in our results of operations due to factors related to our business; • success or failure of our business strategies; • competition and industry capacity; • changes in interest rates and other factors that affect earnings and cash flow; • our level of indebtedness, our ability to make payments on or service our indebtedness and our ability to obtain financing as needed; • our ability to retain and recruit qualified personnel; • our quarterly or annual earnings, or those of other companies in our industry; • announcements by us or our competitors of significant acquisitions or dispositions; • changes in accounting standards, policies, guidance, interpretations or principles; • the failure of securities analysts to cover, or positively cover, our common stock; • changes in earnings estimates by securities analysts or our ability to meet those estimates; • the operating and stock price performance of other comparable companies; • investor perception of our company and our industry; • overall market fluctuations unrelated to our operating performance; • results from any material litigation or government investigation; • changes in laws and regulations (including tax laws and regulations) affecting our business; • changes in capital gains taxes and taxes on dividends affecting stockholders; and • general economic conditions **, war, conflict or other political instability,** and other external factors. Low trading volume for our stock would amplify the effect of the above factors on our stock price volatility. Should the market price of our shares drop significantly, stockholders may institute securities class action lawsuits against us. A lawsuit against us, such as the currently pending actions described in Part I – Item 3, " Legal Proceedings, " could cause us to incur substantial costs and could divert the time and attention of our management and other resources. Your percentage ownership in Cerence may be diluted in the future. Your percentage ownership in Cerence may be diluted in the future because of equity issuances for acquisitions, capital market transactions or otherwise, including equity awards that we grant to our directors, officers, employees and other service providers. **Our** ~~In addition, our~~ Board has adopted the Cerence 2019 Equity Incentive Plan, or the Equity Plan, for the benefit of certain of our current and future employees, service providers and non- employee directors. Such awards will have a dilutive effect on our earnings per share, which could adversely affect the market price of our common stock. In addition, our Amended and Restated Certificate of Incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over our common stock with respect to dividends and distributions, as our Board may generally determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of our common stock. For example, we could grant the holders of preferred stock the right to elect some number of the members of our Board in all events or upon the happening of specified events, or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences that we could assign to holders of preferred stock could affect the residual value of our common stock. From time- to- time, we may opportunistically evaluate and pursue acquisition opportunities, including acquisitions for which the consideration thereof may consist partially or entirely of newly- issued shares of our common stock and, therefore, such transactions, if consummated, would dilute the voting power and / or reduce the value of our common stock. If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired and investors' views of us could be harmed. The Sarbanes- Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes- Oxley Act ~~, with auditor attestation of the effectiveness of our internal controls~~ . If we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of shares of our common stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources. Our ability to successfully implement our business plan and comply with Section 404 of the Sarbanes- Oxley Act requires us to be able to prepare timely and accurate financial statements. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures or controls may cause our operations to suffer, and we may be unable to conclude that our internal control over financial reporting is effective and to obtain an unqualified report on internal controls from our auditors as required under Section 404 of the Sarbanes- Oxley Act. Moreover, we cannot be certain that these measures would ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Even if we were to conclude, and our auditors were to concur, that our internal control over financial reporting provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States, or GAAP, because of its inherent limitations, internal control over financial reporting might not prevent or detect fraud or misstatements. This, in turn, could have an adverse impact on trading prices for shares of our common stock, and could adversely affect our ability to access the capital markets.