

Nuance Communications, Inc.  
Form 10-K  
November 29, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K  
(Mark  
One)

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

For the fiscal year ended September 30, 2017

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

For the transition period from to

Commission file number 001-27038

NUANCE COMMUNICATIONS, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware 94-3156479

(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

1 Wayside Road 01803  
Burlington, Massachusetts

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (781) 565-5000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| Title of Each Class | Name of Each Exchange on Which<br>Registered |
|---------------------|--|
|---------------------|--|

|                                 |                         |
|---------------------------------|-------------------------|
| Common stock, \$0.001 par value | NASDAQ Stock Market LLC |
|---------------------------------|-------------------------|

|                                 |                         |
|---------------------------------|-------------------------|
| Preferred share purchase rights | NASDAQ Stock Market LLC |
|---------------------------------|-------------------------|

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated  
filer

Accelerated filer

Smaller reporting  
company

Non-accelerated filer  (Do not check if a smaller reporting  
company)

Emerging growth  
company

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

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

The aggregate market value of the outstanding common equity held by non-affiliates of the Registrant as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$3.5 billion based upon the last reported sales price on the Nasdaq National Market for such date. For purposes of this disclosure, shares of Common Stock held by officers and directors of the Registrant and by persons who hold more than 5% of the outstanding Common Stock have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive.

The number of shares of the Registrant's Common Stock, outstanding as of October 31, 2017, was 290,278,330.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement to be delivered to stockholders in connection with the Registrant's 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks, uncertainties and assumptions that, if they never materialize or if they prove incorrect, could cause our consolidated results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking, including statements pertaining to: our future revenue, cost of revenue, research and development expense, selling, general and administrative expenses, amortization of intangible assets and gross margin, earnings, cash flows and liquidity; our strategy relating to our segments; the potential of future product releases; our product development plans and investments in research and development; future acquisitions and anticipated benefits from acquisitions; international operations and localized versions of our products; our contractual commitments; our fiscal year 2018 revenue and expense expectations and legal proceedings and litigation matters. You can identify these and other forward-looking statements by the use of words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential,” “continue” or the negative of such terms, or comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Item 1A of this Annual Report under the heading “Risk Factors.” All forward-looking statements included in this document are based on information available to us on the date hereof. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations that may be announced or closed after the date hereof. We will not undertake and specifically decline any obligation to update any forward-looking statements.

Item 1. Business

Overview

We are a leading provider of voice recognition and natural language understanding solutions. We work with companies around the world, from banks and hospitals to airlines, telecommunications carriers, and automotive manufacturers and suppliers, who use our solutions and technologies to create better experiences for their customers and their users by enhancing the users' interaction, increasing productivity and customer satisfaction. We offer our customers high accuracy in automated speech recognition, capabilities for natural language understanding (“NLU”), dialog and information management, biometric speaker authentication, text-to-speech, optical character recognition (“OCR”) capabilities, and domain knowledge, along with professional services and implementation support. In addition, our solutions increasingly utilize our innovations in artificial intelligence (“AI”), including cognitive sciences and machine learning to create smarter, more natural experiences with technology. Using advanced analytics and algorithms, our technologies create personalized experiences and transform the way people interact with information and the technology around them. We market and sell our solutions and technologies around the world directly through a dedicated sales force, through our e-commerce website, and also through a global network of resellers, including system integrators, independent software vendors, value-added resellers, distributors, hardware vendors, and telecommunications carriers.

We are a global organization steeped in research and development. We have 2,000 language scientists, developers, and engineers dedicated to continually refining our technologies and advancing our portfolio to better meet our customers' diverse and changing needs. We have more than 60 international operating locations and a sales presence in more than 79 countries. We were incorporated under the laws of the State of Delaware in 1992 and our corporate headquarters is located in Burlington, Massachusetts, with international headquarter in Dublin, Ireland. In fiscal year 2017, our revenue was \$1.9 billion.

Our website is located at [www.nuance.com](http://www.nuance.com) and we trade under the ticker symbol NUAN. We are not including the information contained in our website as part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, as soon as reasonably practicable after we

electronically file these materials with, or otherwise furnish them to, the Securities and Exchange Commission ("SEC").

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### Our Strategy

We have large addressable vertical markets, and we focus on growth by providing industry-leading, value-add solutions for our customers and partners through a broad set of flexible technologies, solutions, and service offerings available directly and through our channel capabilities. The key elements of our strategy include:

Maintain global leadership in all of our major markets and solutions areas. We have historically targeted markets where we benefit from strong technology, sales and vertical market differentiation. Today, we enjoy a prominent position in the markets we serve, where we are considered one of the leading providers of voice recognition and NLU. We invest considerable time and resources to ensure we maintain this position through customer satisfaction, technology leadership, deep domain experience and market specialization.

Maintain depth in technology, intellectual property and innovation portfolio. We have built a world-class portfolio of intellectual property, technologies, applications and solutions through both internal development and acquisitions. We expect to continue to pursue opportunities to expand our assets, geographic presence, distribution network and customer base through acquisitions of other businesses and technologies. We continue to strengthen our core technologies in voice and language, and expand our offerings through research and innovations in AI, including cognitive computing and machine learning.

Continue to expand our extensive network of global operations, distribution and services networks. We market and sell our solutions and technologies directly through a dedicated sales force, through our e-commerce website and also through a global network of resellers, including system integrators, independent software vendors, value-added resellers, distributors, hardware vendors, and telecommunications carriers. In addition, we continue to expand our presence within our markets, such as mobile operators in our Mobile segment, ambulatory markets in our Healthcare segment and new customer services channels in our Enterprise segment, and we have expanded initiatives in geographic markets such as China, Latin America and Southeast Asia.

Continue to expand hosting and transaction-based offerings. We continue to be focused on increasing our hosting and transaction-based offerings. Our hosting revenues are generated through on-demand models that typically have multi-year terms with pricing based on volume of usage, number of transactions, number of seats or number of devices. This pricing structure allows customers to use our products at a lower initial cost when compared to the sale of a perpetual license. This will enable us to deliver applications that our customers use, and pay for, on a recurring basis, providing us with the opportunity to enjoy the benefits of recurring revenue streams.

Maintain significant presence and customer preference in our markets. We specialize in creating large, enterprise-class solutions that are used by many of the world's largest companies. By combining our core technology, professional services, local presence and deep domain experience, we are able to deliver these customized offerings for our customers and partners. We have established a trusted position in numerous markets and today work with a majority of the Fortune 100 companies.

Strengthen financial profile with improvement in revenue, earnings per share, margin, and cash flow. We are focused on improving our financial performance, by further executing upon identified strategic initiatives, further evolving our business toward recurring revenue models, all of which are positioning us for increased future revenue and profitability growth. Recurring revenue represented 72.5% and 69.6% of total revenue in fiscal years 2017 and 2016, respectively.

### Business Segments and Financial Information

We are organized into four segments: Healthcare, Mobile, Enterprise, and Imaging. See Note 19 to the consolidated financial statements for additional information about our reportable segments. We offer our solutions and technologies to our customers in a variety of ways, including hosted cloud-based solutions, perpetual licenses, implementation and custom solution development services and maintenance and support. Our product revenues include embedded original equipment manufacturer ("OEM") royalties, traditional perpetual licensing, term-based licensing and consumer sales. Our hosting, royalty, term license and maintenance and support revenues are recurring in nature as our customers use our products on an ongoing basis to handle their needs in medical transcription, medical coding and compliance, enterprise customer service and mobile connected services. Our professional services offer a visible revenue stream, as we have a backlog of assignments that take time to complete.



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### Healthcare Segment

Our Healthcare segment is a leading provider in clinical speech and clinical language understanding solutions that drive smart, efficient decisions and increase productivity across healthcare. Our solutions and services improve the clinical documentation process - from capturing the complete patient record to improving clinical documentation and quality measures for reimbursement. We support clinical documentation work flows and electronic medical record ("EMR") adoption through our flexible offerings, including transcription services, dictation software for the EMR, diagnostics work flows, and mobile applications. These solutions increasingly leverage clinical language understanding and AI innovations to help physicians deliver better outcomes. In addition, we continue to extend our strong hospital customer franchise into the automation and management of healthcare coding and billing processes in order to ensure timely and appropriate reimbursement. These solutions are designed to help healthcare organizations derive additional value from EMR investments and are driven by industry trends such as value-based care, Meaningful Use requirements, which is a program that awards incentives for using EMR technology to improve patient care, and government regulations related to medical codes.

Today, more than 500,000 clinicians and 10,000 healthcare facilities worldwide leverage our solutions to improve patient care and support the physician in clinical work flows from many devices. Our Healthcare segment revenues were \$899.3 million, \$973.3 million, and \$1,000.8 million in fiscal years 2017, 2016 and 2015, respectively. As a percentage of total segment revenue, Healthcare segment revenues represented 45.5%, 49.2% and 50.6% in fiscal years 2017, 2016 and 2015, respectively.

Our principal solutions for the Healthcare segment include the following:

**Transcription solutions:** Enable physicians in larger and mid-sized healthcare enterprises to streamline clinical documentation with an on-demand, enterprise-wide medical transcription platforms, and allow healthcare organizations to outsource transcription services. Our transcription solutions are generally offered as an on-demand model.

**Dragon Medical:** Provide dictation capabilities that empowers physicians to accurately capture and document patient care in real-time from many devices and without disrupting existing work flows. We have expanded this solution to provide clinical language understanding and cognitive intelligence that delivers real-time queries to physicians at the point of care, producing measurable clinical, financial and compliance outcomes. This capability has historically been sold under a traditional perpetual software license model; however, it is now frequently sold as a multi-year cloud-based service.

**Clinical document improvement ("CDI") and coding solutions:** Ensure patient health information is accurately documented, coded, and evaluated to provide more complete and accurate clinical documentation. These services and offerings assist organizations with regulatory compliance and coding efficiency to receive appropriate and timely reimbursement and improve quality reporting. The solutions are generally sold under a term licensing model.

**Diagnostic solutions:** Allow radiologists to easily document, collaborate, and share medical images and reports, to optimize patient care. These solutions are generally sold under a traditional perpetual license model, with accelerated transition to term licensing and transaction based models.

**Dragon solutions:** Provide professional and personal productivity solutions to business users and consumers with the ability to use their voice to create content, reports and other documents, as well as control their computers and laptops without the use of a keyboard or mouse. This dictation capability is similar to Dragon Medical and is used in markets such as law, public safety, social services, education and accessibility. Dragon solutions are sold generally through a traditional perpetual software license model, and we have recently introduced an on-demand model.

The channels for distribution in the Healthcare segment utilize our direct sales force to address the market and our professional services organization that supports the implementation requirements of the healthcare industry. Direct distribution is supplemented by distributors, resellers and partnerships with a variety of healthcare IT providers. Our Healthcare customers and partners include Cerner, Epic, McKesson, UPMC, Cleveland Clinic, Siemens, and the Mayo Clinic.

Areas of expansion and focus for our Healthcare segment include providing customers deeper integration with our clinical documentation solutions, investing in our cloud-based offerings, operations and network security, entering



new and adjacent markets such as ambulatory care, and expanding our international capabilities.

**Mobile Segment**

Our Mobile segment provides a broad portfolio of specialized virtual assistants and connected services built on voice recognition, text-to-speech, NLU, dialog, and text input technologies. Our mobile platform includes embedded and cloud-based technologies

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that work together through our hybrid (connected and embedded) architecture. As consumer demands for convenience, ease-of-use, and more personalized experiences increase, companies will need to embrace the Internet of Things ("IoT") to enhance the overall interaction and productivity for their users. Our technologies help leading automotive manufacturers, consumer electronic companies and mobile and cable operators provide the consistent, connected, and more human experience their customers are looking for with the devices and technology around them, including their phones, tablets, computers, autos, wearable devices, TVs, applications, and related services. Mobile segment revenues were \$398.0 million, \$377.3 million, and \$391.2 million in fiscal years 2017, 2016 and 2015, respectively. As a percentage of total segment revenue, the Mobile segment revenues represented 20.1%, 19.1% and 19.8% in fiscal years 2017, 2016 and 2015, respectively.

Our principal solutions for the Mobile segment include the following:

**Automotive solutions:** Provide automotive manufacturers and their suppliers intuitive, personalized, virtual assistants and connected services for cars that are safer, easier, and more enjoyable. Our deep domain experience, integration capabilities and independence make us a preferred vendor to the world's largest automotive manufacturers and suppliers. Our automotive solutions are generally sold as on-demand models that are typically priced on a per-unit basis for multi-year service terms. We have a worldwide professional services team to provide custom solution development services and sell our technologies through a traditional perpetual software license model, including a royalty-based model.

**Devices solutions:** Provide consumer electronic manufacturers, developers, and others within the broad ecosystem around the IoT, with specialized virtual assistants, virtual keyboards and connected services. Our connected solutions are sold through on-demand models that typically have multi-year terms with pricing generally based on volume. We provide custom solution development and integration services, and sell our technologies through a traditional perpetual software license model, including a royalty-based model.

**Mobile operator services:** Provide mobile network operators value added services, such as speech to text, that assist in creating new, high-profit revenue streams from their subscribers, especially in emerging markets such as Latin American, India and Southeast Asia. Our mobile operator services are sold through on-demand models that typically have multi-year terms and a revenue share-based model.

In the Mobile segment, we utilize a direct sales force to sell to automotive manufacturers and their suppliers, device makers, and mobile operators. Direct distribution is supplemented by OEM relationships with electronics suppliers and integrators.

Areas of expansion and focus for our Mobile segment include: cloud and content expansion of our automotive solutions, expansion across the IoT in our device solutions, and geographic expansion of our mobile operator services.

### Enterprise Segment

Our Enterprise segment is a leading provider of automated customer solutions and services worldwide. Differentiated by speech and AI technologies, and complemented by our large professional services organization, our solutions help enterprises reduce or replace human contact center agents with conversational systems, across voice, mobile, web and messaging channels. Our intelligent self-service solutions are highly accurate and dependable, resulting in increased customer satisfaction levels while simultaneously reducing the costs associated with delivering customer service for the enterprise. We are transforming this business, leveraging our presence in on-premise interactive voice response ("IVR") solutions and services, and expanding into multichannel, self-service cloud solutions. Our solutions and services portfolio now span voice, mobile, web and messaging channels, with inbound and outbound customer service and engagement, voice biometrics, and digital virtual assistant capabilities.

Enterprise segment revenues were \$462.3 million, \$387.5 million, and \$349.3 million in fiscal years 2017, 2016 and 2015, respectively. As a percentage of total segment revenue, the Enterprise segment revenues represented 23.4%, 19.6% and 17.7% in fiscal years 2017, 2016 and 2015, respectively.

Our principal solutions for the Enterprise segment include the following:

**On-Premise solutions and services:** Provide software that is leveraged to implement automated customer service solutions that are integrated with a wide range of on-premise third-party IVR and contact center platforms. Our products and technologies include speech recognition, voice biometrics, transcription, text-to-speech, dialog and

analytics. Our global professional services team leverages domain expertise to provide end-to-end services to customers and partners, including business consulting, design, development, and deployment of integrated solutions. Our on-premise licensed products are

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primarily sold through a traditional perpetual software license model, and our on-premise professional services are sold under project-based and multi-year managed services contracts.

On-Demand multichannel cloud: Deliver a platform that provides enterprises with the ability to implement automatic customer service across inbound, outbound, and digital customer service channels in the cloud. Our on-demand multichannel cloud leverages our speech, voice biometrics, text to speech, and virtual assistant technologies, to implement intelligent, conversational self-service applications, including voice call steering and self-service, automated verification, account access, virtual chat, proactive SMS, messaging and email, and customer service for mobile device customers. In addition, the acquisition of TouchCommerce, Inc. in fiscal year 2016 allows us to be able to provide an end-to-end engagement platform that merges intelligent self-service with assisted service to increase customer satisfaction, strengthen customer loyalty and improve business results. Our on-demand multichannel cloud is sold through sales models that typically have multi-year terms with pricing based on the channel provided and/or volume of usage.

The selling models in the Enterprise segment utilize both direct and channel sales, which includes a network of partners such as Avaya, BT, Cisco, DiData, Genesys, Huawei, MoshiMoshi, NICE, Telstra, and Verint. Our customers include, American Airlines, Amtrak, Bank of America, Barclays, Dominos, Delta, Deutsche Telekom, e\*trade, ING Bank, Lloyds Banking Group, T-Mobile, Telefonica, Telstra, and Vodafone.

Areas of focus and expansion for our Enterprise segment include extending our technology capabilities with intelligent self-service and AI for customer service, expansion of our on-demand multichannel cloud to international markets, sales and solution expansion for our voice biometrics suite, and expanding our on-premise product and services portfolio.

### Imaging Segment

Our Imaging segment provides software solutions and expertise that help professionals and organizations gain optimal control of their document and information processes. Our portfolio of products and services helps business customers achieve compliance with information security policies and regulations while enabling organizations to streamline and eliminate gaps across their document work flows.

We seek to grow our business through multi-function printer ("MFP") OEM channels, expanding our scanning and print management software solutions, and broadening our footprint with end-user customers to become a solution suite provider. We have built on our position in MFP OEM channels and managed print services space by accelerating the integration of capture and print management technologies. Our intelligent document capture and work flow solutions transform manual, disconnected processes into dynamic, streamlined, and automated work flows. When combined with print management technologies, organizations are also able to control, manage, and monitor their entire print environment. Our business has seen strong commitments from key OEMs, a broad number of OEM partners who embed multiple products, and strong end-user demand in key verticals like healthcare, legal, and financial services.

Imaging segment revenues were \$217.7 million, \$241.6 million, and \$237.7 million in fiscal years 2017, 2016 and 2015, respectively. As a percentage of total segment revenue, the Imaging segment revenues represented 11.0%, 12.2% and 12.0% in fiscal years 2017, 2016 and 2015, respectively.

Our principal solutions for the Imaging segment include the following:

• MFP Scan automation solutions: Deliver scanning and document management solutions that improve productivity, drive efficiency and assist in enhancing security.

• MFP Print automation solutions: Offer printing and document management solutions to capture and automate paper to digital work flows to increase efficiency.

• PDF and OCR software: Provide intuitive technologies that enable the efficient capture, creation, and management of document work flows.

The channels for distribution in the Imaging segment include a combination of a global reseller network and direct sales. Our Imaging solutions are generally sold under a traditional perpetual software license model with a subset of our offerings sold as term licenses. Our Imaging customers and partners include Ricoh, Xerox, HP, Canon, and Samsung.



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Areas of expansion and focus in the Imaging segment include investing to merge the scan and print technology platforms, improving mobile access to our solutions and technologies, and expanding our distribution channels including OEM embedded relationships to drive a more comprehensive and compelling offering to our customer and partners.

### Research and Development/Intellectual Property

Over our history we have developed and acquired extensive technology assets, intellectual property, and industry expertise in voice recognition, natural language understanding and imaging technologies that provide us with a competitive advantage in our markets. Our technologies are based on complex algorithms that require extensive amounts of acoustic and language models, and recognition and understanding techniques. A significant investment in capital and time would be necessary to replicate our current capabilities.

We continue to invest in technologies to maintain our market-leading position and to develop new applications. We rely on a portfolio of patents, copyrights, trademarks, services marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our intellectual property and proprietary rights. As of September 30, 2017, we held approximately 4,500 patents and 800 patent applications. Our intellectual property is critical to our success and competitive position. We incurred research and development expenses of \$266.1 million, \$271.1 million, and \$306.9 million in fiscal years 2017, 2016 and 2015, respectively.

### Competition

The several markets in which we compete are highly competitive and are subject to rapid technology changes. There are a number of companies that develop or may develop solutions and technologies that compete in our target markets; however, currently there is no one company that directly competes with us across all of our solutions and technologies. While we expect competition to continue to increase both from existing competitors and new market entrants, we believe that we will compete effectively based on many factors, including:

**Specialized Professional Services.** Our superior technology, when coupled with the high quality and domain knowledge of our professional services organization, allows our customers and partners to place a high degree of confidence and trust in our ability to deliver results. We support our customers in designing and building powerful innovative applications that specifically address their needs and requirements.

**International Coverage.** The international reach of our solutions and technologies is due to the broad language coverage of our offerings, including our voice recognition and natural language understanding solutions, which provide recognition for approximately 70 languages and dialects and natural-sounding synthesized speech in over 160 voices, and support a broad range of hardware platforms and operating systems. Our imaging technology supports more than 120 languages for OCR and document handling, with up to 20 screen language choices, including Asian languages.

**Technological Superiority.** Our voice recognition, NLU and imaging technologies, applications and solutions are often recognized as the most innovative and proficient in their respective categories. Our voice recognition and NLU solutions have industry-leading recognition accuracy and provide a natural, voice-enabled interaction with systems, devices and applications. Our OCR technology in our Imaging segment is viewed as the most accurate in the industry. Technology publications, analyst research and independent benchmarks have consistently indicated that our solutions and technologies rank at or above performance levels of alternative solutions.

**Broad Distribution Channels.** Our ability to address the needs of specific markets, such as financial, law, healthcare and government, and to introduce new solutions and technologies quickly and effectively is provided by our direct sales force, our extensive global network of resellers, comprising system integrators, independent software vendors, value-added resellers, hardware vendors, telecommunications carriers and distributors, and our e-commerce website. We compete with companies such as Adobe, Google, iFlyTek, LivePerson, M\*Modal, Optum and 3M. In addition, a number of smaller companies offer solutions, technologies or products that are competitive with our solutions and technologies in the voice recognition, natural language understanding, text input and imaging markets. In certain markets, some of our partners such as Avaya, Cisco, Convergys, and Genesys develop and market products and services that might be considered substitutes for our solutions and technologies. 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.

Some of our competitors or potential competitors, such as Adobe, Google, and 3M, have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging

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technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than we do.

### Employees

As of September 30, 2017, we had approximately 11,600 full-time employees, including approximately 1,300 in sales and marketing, approximately 2,700 in professional services, approximately 2,000 in research and development, approximately 900 in general and administrative and approximately 4,700 who provide transcription and editing services. Approximately 62% of our employees are based outside of the United States, approximately 51% of whom provide transcription and editing services and are based in India. None of our employees in the United States is represented by a labor union. In certain foreign subsidiaries, labor unions or workers' councils represent some of our employees. We believe that our relationships with our employees are satisfactory.

### Financial Information About Geographic Areas

We have offices in a number of international locations including Australia, Austria, Belgium, Brazil, Canada, China, Germany, Hungary, India, Ireland, Italy, Japan, and the United Kingdom. The responsibilities of our international operations include research and development, healthcare transcription and editing, customer support, sales and marketing and general and administrative. Additionally, we maintain smaller sales, services and support offices throughout the world to support our international customers and to expand international revenue opportunities. Geographic revenue classification is based on the geographic areas in which our customers are located. For fiscal years 2017, 2016 and 2015, 70%, 71% and 73% of revenue was generated in the United States and 30%, 29% and 27% of revenue was generated by our international customers, respectively.

### Item 1A. Risk Factors

You should carefully consider the risks described below when evaluating our company and when deciding whether to invest in our company. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we do not currently believe are important to an investor may also harm our business operations. If any of the events, contingencies, circumstances or conditions described below actually occurs, our business, financial condition or our results of operations could be seriously harmed. If that happens, the trading price of our common stock could decline and you may lose part or all of the value of any of our shares held by you.

#### Risks Related to Our Business

The markets in which we operate are 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 our targeted markets. The markets for our products and services are characterized by intense competition, evolving industry standards, emerging business and distribution models, disruptive software and hardware technology developments, short product and service life cycles, price sensitivity on the part of customers, and frequent new product introductions, including alternatives with limited functionality available at lower costs or free of charge. Within voice recognition and natural language understanding, we compete primarily with Amazon, Google, iFlyTek and other smaller providers. Within healthcare, we compete primarily with M\*Modal, Optum, 3M and other smaller providers. Within imaging, we compete primarily with ABBYY and Adobe. In our enterprise business, some of our partners such as Avaya, Cisco, and Genesys develop and market products that might be considered substitutes for our solutions. In addition, a number of smaller companies in voice recognition, natural language understanding, text input and imaging produce technologies or products that are in some markets competitive with our solutions. 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, there has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations.



The competition in these markets could adversely affect our operating results by reducing the volume of the products we license or the prices we can charge. Some of our current or potential competitors, such as 3M, Adobe, Amazon and Google, have significantly greater financial, technical and marketing resources 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. 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

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is available at lower cost or free of charge within the larger offering. To the extent they do so, market acceptance and penetration of our products, and therefore our revenue and bookings, may be adversely affected. Our success will depend substantially upon our ability to enhance our products and technologies and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing customer requirements and incorporate technological enhancements. If we are unable to develop new products and enhance functionalities or technologies to adapt to these changes, or if we are unable to realize synergies among our acquired products and technologies, our business will suffer.

Our operating results may fluctuate significantly from period to period, and this may cause our stock price to decline. Our revenue, bookings and operating results have fluctuated in the past and are expected to continue to fluctuate in the future. Given these fluctuations, we believe that quarter to quarter comparisons of revenue, bookings and operating results are not necessarily meaningful or an accurate indicator of our future performance. These fluctuations may cause our results of operations to not meet the expectations of securities analysts or investors. If this occurs, the price of our stock would likely decline. Factors that contribute to fluctuations in operating results include:

- volume, timing and fulfillment of customer orders and receipt of royalty reports;
- the pace of the transition to an on-demand and transactional revenue model;
- slowing sales by our channel partners to their customers;
- customers delaying their purchasing decisions in anticipation of new versions of our products;
- contractual counterparties are unable to, or do not, meet their contractual commitments to us;
- introduction of new products by us or our competitors;
- seasonality in purchasing patterns of our customers;
- reduction in the prices of our products in response to competition, market conditions or contractual obligations;
- returns and allowance charges in excess of accrued amounts;
- timing of significant marketing and sales promotions;
- impairment of goodwill or intangible assets;
- delayed realization of synergies resulting from our acquisitions;
- unforeseen actions taken by hackers or other third parties, such as the Malware Incident we experienced in June 2017;
- accounts receivable that are not collectible and write-offs of excess or obsolete inventory;
- increased expenditures incurred pursuing new product or market opportunities;
- general economic trends as they affect retail and corporate sales; and
- higher than anticipated costs related to fixed-price contracts with our customers.

Due to the foregoing factors, among others, our revenue, bookings and operating results are difficult to forecast. 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 a shortfall in projected revenue. Therefore, our failure to meet revenue expectations would seriously harm our operating results, financial condition and cash flows.

A significant portion of our revenue and bookings 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, regulatory, foreign currency fluctuations and other risks associated with these international regions.

Because we operate worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenue and bookings from international operations could increase in the future. Most of our international revenue and bookings are generated by sales in Europe and Asia. In addition, some of our products are developed outside the United States and we have a large number of employees in India that provide transcription services. We also have a large number of employees in Canada, Germany and the United Kingdom that provide professional services. A significant portion of the development of our voice recognition and natural language understanding solutions is conducted in Canada and Germany, and a significant portion of our imaging research and development is conducted in Hungary and Canada. We also have significant research and development resources in Austria, Belgium, China, Italy, and the United Kingdom. In addition, we are exposed to changes in foreign currencies including the euro, British pound, Brazilian real, Canadian dollar, Japanese yen, Indian rupee and Hungarian forint.

Changes in



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the value of foreign currencies relative to the value of the U.S. dollar could adversely affect future revenue and operating results. Accordingly, our future results could be harmed by a variety of factors associated with international sales and operations, including:

- 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;
- changes in a specific country's or region's economic conditions;
- compliance with laws and regulations in many countries and any subsequent changes in such laws and regulations;
- geopolitical turmoil, including terrorism and war;
- trade protection measures and import or export licensing requirements imposed by the United States and/or by other countries;
- 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.

If we are unable to attract and retain key personnel, our business could be harmed.

If any of our 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. Our employment relationships are generally at-will and we have had key employees leave in the past. We cannot assure you that one or more key employees will not leave in the future. 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 experienced a significant malware incident in the third quarter of fiscal 2017, which has a significant impact on our future results of operations and financial condition.

On June 27, 2017, Nuance was a victim of the global NotPetya malware incident (the "Malware Incident"). The NotPetya malware affected certain Nuance systems, including systems used by our healthcare customers, primarily for transcription services, as well as systems used by our imaging division to receive and process orders. Our revenue and our operating results for fiscal year 2017 were negatively impacted by the Malware Incident. For fiscal year 2017, we estimate that we lost approximately \$68.0 million in revenues, primarily in our Healthcare segment, due to the service disruption and the reserves we established for customer refund credits. Additionally, we incurred incremental costs of approximately \$24.0 million for fiscal year 2017 as a result of our remediation and restoration efforts, as well as incremental amortization expenses.

Our business is subject to a variety of domestic and international laws, rules, policies and other obligations regarding data protection.

We are subject to a complex array of federal, state and international laws relating to the collection, use, retention, disclosure, security and transfer of personally identifiable information and personal health information, with additional laws applicable in some jurisdictions where the information is collected from children. In many cases, these laws apply not only to transfers between unrelated third-parties but also to transfers between us and our subsidiaries. Many jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. The European Commission adopted the European General Data Protection Regulation (the "GDPR"), which will be in effect as of May 2018. China adopted a new cybersecurity law as of June 2017, and there is an increase in regulation of biometric data globally, which may include voiceprints. Complying with the GDPR and other emerging and changing requirements may cause us to incur substantial costs or require us to change our business practices. Noncompliance could result in penalties or significant legal liability, and could affect our ability to retain and attract customers.

Any failure by us, our customers, suppliers or other parties with whom we do business to comply with our privacy policy or with federal, state or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others. Any alleged or actual failure to comply with applicable privacy laws and regulations may:

cause our customers to lose confidence in our solutions;  
harm our reputation;

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• expose us to litigation and liability; and  
• require us to incur significant expenses for remediation.  
Security and 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. Our services involve the transmission, use, and storage of customers' and their customer's confidential information. We were the victim of a cybercrime in the past, and a future security or privacy incident could have a material adverse effect on our results of operations and financial condition. While we maintain a broad array of 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, or that of our customers, or to our intellectual property; disabling or degrading service; or sabotaging systems or information. In addition, hardware, software, 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. We will continue to incur significant costs to continuously enhance our security measures to defend against the threat of cybercrime. Any security or 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;
- loss of revenue due to loss of customers;
- material remediation costs to restore systems;
- material investments in new or enhanced systems in order to enhance our 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;
- costs associated with any required notices of a data breach;
- costs associated with the potential loss of critical business data; and
- other consequences of which we are not currently aware but will discover through the remediation process

For example, as noted elsewhere in these Risk Factors, on June 27, 2017, Nuance was a victim of the global NotPetya Malware Incident, which had a material impact on our results of operations during fiscal year 2017 and is expected to have a material impact on our future results of operations and financial condition.

Interruptions or delays in services could impair the delivery of our services and harm our business

Because our services are complex and incorporate a variety of hardware and proprietary and third-party 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. As we acquire companies, we may encounter difficulty in incorporating the acquired services or technologies into our services. Any damage to, or failure of, the systems 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.

Interruptions or delays in service from data center hosting facilities could impair the delivery of our services and harm our business.

We currently serve our customers from our, third-party, data center hosting facilities, and third-party public cloud facilities. Any damage to, or failure of, the systems 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.

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As part of our business strategy, we acquire other businesses and technologies, and our ability to realize the anticipated benefits of our acquisitions will depend on successfully integrating the acquired businesses.

As part of our business strategy, we have in the past acquired, and expect to continue to acquire, other businesses and technologies. Our prior acquisitions required, and our recently completed acquisitions continue to require, substantial integration and management efforts, and we expect future acquisitions to require similar efforts. Successfully realizing the benefits of acquisitions involves a number of risks, including:

- difficulty in transitioning and integrating the operations and personnel of the acquired businesses;
- potential disruption of our ongoing business and distraction of management;
- difficulty in incorporating acquired products and technologies into our products and technologies;
- potential difficulties in completing projects associated with in-process research and development;
- unanticipated expenses and delays in completing acquired development projects and technology integration and upgrades;
- challenges associated with managing additional, geographically remote businesses;
- impairment of relationships with partners and customers;
- assumption of unknown material liabilities of acquired companies;
- inaccurate projection of revenue and bookings plans of the acquired entity in the due diligence process;
- customers delaying purchases of our products pending resolution of product integration between our existing and our newly acquired products;
- entering markets or types of businesses in which we have limited experience; and
- potential loss of key employees of the acquired business.

As a result of these and other risks, if we are unable to successfully integrate acquired businesses, we may not realize the anticipated benefits from our acquisitions. Any failure to achieve these benefits or failure to successfully integrate acquired businesses and technologies could seriously harm our business.

Charges to earnings as a result of our acquisitions may adversely affect our operating results in the foreseeable future, which could have a material and adverse effect on the market value of our common stock.

Under accounting principles generally accepted in the United States of America, we record the market value of our common stock and other forms of consideration issued in connection with an acquisition as the cost of acquiring the company or business. We allocate that cost to the individual assets acquired and liabilities assumed, including various identifiable intangible assets such as acquired technology, acquired trade names and acquired customer relationships, based on their respective fair values. Our estimates of fair value are based upon assumptions believed to be reasonable, but are inherently uncertain. After we complete an acquisition, the following factors could result in material charges and may adversely affect our operating results and cash flows:

- costs incurred to combine the operations of businesses we acquire, such as transitional employee expenses and employee retention, redeployment or relocation expenses;
- impairment of goodwill or intangible assets;
- amortization of intangible assets acquired;
- a reduction in the useful lives of intangible assets acquired;
- identification of or changes to assumed contingent liabilities, both income tax and non-income tax related, after our final determination of the amounts for these contingencies or the conclusion of the measurement period (generally up to one year from the acquisition date), whichever comes first;
- charges to our operating results to eliminate certain duplicative pre-merger activities, to restructure our operations or to reduce our cost structure;
- charges to our operating results resulting from expenses incurred to effect the acquisition; and
- charges to our operating results due to the expensing of certain stock awards assumed in an acquisition.

Intangible assets are generally amortized over three to ten years. Goodwill is not subject to amortization but is subject to an impairment analysis, at least annually, which may result in an impairment charge if the carrying value exceeds its implied fair value. As of September 30, 2017, we had identified intangible assets of approximately \$0.7 billion, net of accumulated





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amortization, and goodwill of approximately \$3.6 billion. In addition, purchase accounting limits our ability to recognize certain revenue that otherwise would have been recognized by the acquired company as an independent business. As a result, the combined company may delay revenue recognition or recognize less revenue than we and the acquired company would have recognized as independent companies.

We have grown, and may continue to grow, through acquisitions, which could dilute our existing stockholders and/or increase our debt levels.

In connection with past acquisitions, we issued a substantial number of shares of our common stock as transaction consideration, including contingent consideration, and incurred a significant amount of debt to finance the cash consideration used for our acquisitions. We may continue to issue equity securities for future acquisitions, which would dilute existing stockholders, perhaps significantly, depending on the terms of such acquisitions. We may also incur additional debt in connection with future acquisitions, which, if available at all, may place additional restrictions on our ability to operate our business.

Our strategy to increase cloud services, term licensing and transaction-based recurring revenue may adversely affect our near-term revenue growth and results of operations.

Our ongoing shift from a perpetual software license model to cloud services, term licensing and transaction-based recurring revenue models will create a recurring revenue stream that is more predictable. The transition, however, creates risks related to the timing of revenue recognition. We also incur certain expenses associated with the infrastructures and selling efforts of our hosting offerings in advance of our ability to recognize the revenues associated with these offerings, which may adversely affect our near-term reported revenues, results of operations and cash flows. A decline in renewals of recurring revenue offerings in any period may not be immediately reflected in our results for that period but may result in a decline in our revenue and results of operations in future quarters.

We have a history of operating losses, and may incur losses in the future, which may require us to raise additional capital on unfavorable terms.

We reported net losses of \$151.0 million, \$12.5 million and \$115.0 million in fiscal years 2017, 2016 and 2015, respectively, and have a total accumulated deficit of \$580.0 million as of September 30, 2017. If we are unable to return to profitability, the market price for our stock may decline, perhaps substantially. We cannot assure you that our revenue or bookings will grow or that we will return to profitability in the future. If we do not achieve profitability, we may be required to raise additional capital to maintain or grow our operations. Additional capital, if available at all, may be highly dilutive to existing investors or contain other unfavorable terms, such as a high interest rate and restrictive covenants.

If our efforts to execute our formal transformation program are not successful, our business could be harmed.

We have been executing a formal transformation program to focus our product investments on our growth opportunities, increase our operating efficiencies, reduce costs, and further enhance shareholder value through share buybacks. There can be no assurance that we will be successful in executing this transformation program or be able to fully realize the anticipated benefits of this program, within the expected timeframes, or at all. Additionally, if we are not successful in strategically aligning our product portfolio, we may not be able to achieve the anticipated benefits of this program. A failure to successfully reduce and re-align our costs could have an adverse effect on our revenue and on our expenses and profitability. As a result, our financial results may not meet our or the expectations of securities analysts or investors in the future and our business could be harmed.

Tax matters may cause significant variability in our financial results.

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;

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• 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; and  
• changes in tax laws and their interpretations in countries in which we are subject to taxation.

During 2014, Ireland enacted changes to the taxation of certain Irish incorporated companies effective as of January 2021. On October 5, 2015, the Organization for Economic Cooperation and Development released the Final Reports for its Action Plan on Base Erosion and Profit Shifting. The implementation of one or more of these reports in jurisdictions in which we operate, together with the 2014 enactment by Ireland, could result in an increase to our effective tax rate.

The failure to successfully maintain the adequacy of our system of internal control over financial reporting could have a material adverse impact on our ability to report our financial results in an accurate and timely manner.

Under the Sarbanes-Oxley Act of 2002, we were required to develop and are required to maintain an effective system of disclosure controls and internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. In addition, our management is required to assess and certify the adequacy of our controls on a quarterly basis, and our independent auditors must attest and report on the effectiveness of our internal control over financial reporting on an annual basis. Any failure in the effectiveness of our system of internal control over financial reporting could have a material adverse impact on our ability to report our financial statements in an accurate and timely manner. Inaccurate and/or untimely financial statements could subject us to regulatory actions, civil or criminal penalties, shareholder litigation, or loss of customer confidence, which could result in an adverse reaction in the financial marketplace and ultimately could negatively impact our stock price due to a loss of investor confidence in the reliability of our financial statements.

Impairment of our intangible assets could result in significant charges that would adversely impact our future operating results.

We have significant intangible assets, including goodwill and intangibles with indefinite lives, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The most significant intangible assets are customer relationships, patents and core technology, completed technology and trademarks. Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefits of customer relationships are being utilized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives. We assess the potential impairment of intangible assets on an annual basis, as well as whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment of such assets include the following:

• significant underperformance relative to historical or projected future operating results;  
• significant changes in the manner of or use of the acquired assets or the strategy for our overall business;  
• significant negative industry or economic trends;  
• significant decline in our stock price for a sustained period;

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; and

• our market capitalization declining to below net book value.

Future adverse changes in these or other unforeseeable factors could result in an impairment charge that would impact our results of operations and financial position in the reporting period identified.

Our sales to government clients subject us to risks, including early termination, audits, investigations, sanctions and penalties.

We derive a portion of our revenues and bookings from contracts with the United States government, as well as various state and local governments, and their respective agencies. Government contracts are generally subject to oversight, including audits and investigations which could identify violations of these agreements. Government contract violations could result in a range of consequences including, but not limited to, contract price adjustments, civil and criminal penalties, contract termination, forfeiture of profit and/or suspension of payment, and suspension or

debarment from future government contracts. We could also suffer serious harm to our reputation if we were found to have violated the terms of our government contracts.

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### Risks Related 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 law 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 manufacturing or 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.

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 efforts.

Our software products may have bugs, which could result in delayed or lost revenue and bookings, 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 and bookings, 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.

### Risks Related to our Corporate Structure, Organization and Common Stock

Our debt agreements contain covenant restrictions that may limit our ability to operate our business.

Our debt agreements contain, and any of our other future debt agreements or arrangements may contain, covenant restrictions that limit our ability to operate our business, including restrictions on our ability to:

- incur additional debt or issue guarantees;
- create liens;
- make certain investments;
- enter into transactions with our affiliates;

sell certain assets;  
repurchase capital stock or make other restricted payments;  
declare or pay dividends or make other distributions to stockholders; and

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merge or consolidate with any entity.

Our ability to comply with these limitations is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. As a result of these limitations, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. In addition, our failure to comply with our debt covenants could result in a default under our debt agreements, which could permit the holders to accelerate our obligation to repay the debt. If any of our debt is accelerated, we may not have sufficient funds available to repay the accelerated debt.

Our significant debt could adversely affect our financial health and prevent us from fulfilling our obligations under our credit facility and our convertible debentures.

We have a significant amount of debt. As of September 30, 2017, we had \$2,918.1 million outstanding principal of debt, including \$450.0 million of senior note due in 2020, \$300.0 million of senior note due in 2024, and \$500.0 million of senior note due in 2026, \$377.7 million of 2.75% 2031 Debentures redeemable in November 2017, \$263.9 million of 1.5% 2035 Debentures redeemable in November 2021, \$676.5 million of 1.0% 2035 Debentures redeemable in December 2022, and \$350.0 million of 1.25% 2025 Debentures redeemable in April 2025. Investors may require us to redeem these debentures earlier than the dates indicated if the closing sale price of our common stock is more than 130% of the then current conversion price of the respective debentures for certain specified periods. If a holder elects to convert, we will be required to pay the principal amount in cash and any amounts payable in excess of the principal amount in cash or shares of our common stock, at our election. For example, on November 1, 2017, holders of \$331.2 million of our 2.75% 2031 Debentures exercised their rights to require us to repurchase such debentures. We also had a \$242.5 million Revolving Credit Facility under which \$4.5 million was committed to backing outstanding letters of credit issued and \$238.0 million was available for borrowing at September 30, 2017.

Our debt level could have important consequences, for example it could:

require us to use a large portion of our cash flow to pay principal and interest on debt, including the convertible debentures and the credit facility, which will reduce the availability of our cash flow to fund working capital, capital expenditures, acquisitions, research and development, exploiting business opportunities, and other business activities; place us at a competitive disadvantage compared to our competitors that have less debt; and

limit, along with the financial and other restrictive covenants related to our debt, our ability to borrow additional funds, dispose of assets or pay cash dividends.

Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that additional capital will be available to us, in an amount sufficient to enable us to meet our payment obligations under the convertible debentures and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including the convertible debentures, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the convertible debentures and our other debt.

The market price of our common stock has been and may continue to be subject to wide fluctuations, and this may make it difficult for you to resell the common stock when you want or at prices you find attractive.

Our stock price historically has been, and may continue to be, volatile. Various factors contribute to the volatility of our stock price, including, for example, quarterly variations in our financial results, new product introductions by us or our competitors and general economic and market conditions. Sales of a substantial number of shares of our common stock by our largest stockholders, or the perception that such sales could occur, could also contribute to the volatility of our stock price. While we cannot predict the individual effect that any of these factors may have on the market price of our common stock, these factors, either individually or in the aggregate, could result in significant volatility in our stock price. Moreover, companies that have experienced volatility in the market price of their stock often are subject to securities class action litigation. Any such litigation could result in substantial costs and divert management's



attention and resources.

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Current uncertainty in the global financial markets and the global economy may negatively affect the value of our investment portfolio.

Our investment portfolios, which include investments in money market funds, bank deposits and separately managed investment portfolios, are generally subject to credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by a global financial crisis or by uncertainty surrounding the United Kingdom's exit from the European Union. If the banking system or the fixed income, credit or equity markets deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected. Future issuances of our common stock could adversely affect the trading price of our common stock and our ability to raise funds in new stock offerings.

Future issuances of substantial amounts of our common stock, whether in the public market or through private placements, including issuances in connection with acquisition activities, or the perception that such issuances could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. In connection with past acquisitions, we issued a substantial number of shares of our common stock as transaction consideration or contingent consideration. We may continue to issue equity securities for future acquisitions, which would dilute existing stockholders, perhaps significantly depending on the terms of such acquisitions. No prediction can be made as to the effect, if any, that future sales of shares of common stock, or the availability of shares of common stock for future sale, will have on the trading price of our common stock.

Our business could be negatively affected by the actions of activist stockholders.

Responding to actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Furthermore, any perceived uncertainties as to our future direction could result in the loss of potential business opportunities, and may make it more difficult to attract and retain qualified personnel and business partners.

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

Our corporate headquarters are located in Burlington, Massachusetts. As of September 30, 2017, we leased approximately 1.4 million square feet of building space, primarily in the United States, and to a lesser extent, in Europe, Canada, Japan and the Asia-Pacific regions. Larger leased sites include properties located in: Montreal, Canada; Sunnyvale, California; and Bangalore, India. In addition, we own 130,000 square feet of building space located in Melbourne, Florida.

We also include in the total square feet leased space leased in specialized data centers in Massachusetts, Washington, Texas, China and smaller facilities around the world.

We believe our existing facilities and equipment, which are used by all of our operating segments, are in good operating condition and are suitable for the conduct of our business.

### Item 3. Legal Proceedings

Similar to many companies in the software industry, we are involved in a variety of claims, demands, suits, investigations and proceedings that arise from time to time relating to matters incidental to the ordinary course of our business, including actions with respect to contracts, intellectual property, employment, benefits and securities matters. We evaluate the probability of adverse outcomes and, as applicable, estimate the amount of probable losses that may result from pending matters. Probable losses that can be reasonably estimated are reflected in our consolidated financial statements. These recorded amounts are not material to our consolidated financial statements for any of the periods presented in the accompanying consolidated financial statements. While it is not possible to predict the outcome of these matters with certainty, we do not expect the results of any of these actions to have a material adverse effect on our results of operations or financial position. However, each of these matters is subject to uncertainties, the actual losses may prove to be larger or smaller than the accruals reflected in our consolidated financial statements, and we could incur judgments or enter into settlements of claims that could adversely affect our

financial position, results of operations or cash flows.

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Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol "NUAN". The following table sets forth, for our fiscal quarters indicated, the high and low sales prices of our common stock, in each case as reported on the NASDAQ Global Select Market.

|                   | Low      | High     |
|-------------------|----------|----------|
| Fiscal Year 2016: |          |          |
| First quarter     | \$ 15.97 | \$ 21.83 |
| Second quarter    | \$ 15.86 | \$ 20.56 |
| Third quarter     | \$ 14.56 | \$ 19.27 |
| Fourth quarter    | \$ 13.74 | \$ 16.41 |
| Fiscal Year 2017: |          |          |
| First quarter     | \$ 13.44 | \$ 17.47 |
| Second quarter    | \$ 14.85 | \$ 17.43 |
| Third quarter     | \$ 16.36 | \$ 19.93 |
| Fourth quarter    | \$ 15.38 | \$ 17.97 |

Holder

As of October 31, 2017, there were 643 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial owners represented by these record holders.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently expect to retain future earnings, if any, to finance the growth and development of our business, or to purchase common stock under our share repurchase program and do not anticipate paying any cash dividends in the foreseeable future. Furthermore, the terms of our debt agreements place restrictions on our ability to pay dividends, except for stock dividends.

Issuer Purchases of Equity Securities

On April 29, 2013, our Board of Directors approved a share repurchase program for up to \$500.0 million of our outstanding shares of common stock. On April 29, 2015, our Board of Directors approved an additional \$500.0 million under our share repurchase program, bringing up the total to \$1.0 billion. The plan has no expiration date. There were no repurchases under the program during the three months ended September 30, 2017.

Unregistered Sales of Equity Securities and Use of Proceeds

On December 13, 2016, we issued 75,000 shares of our common stock in connection with charitable contributions. On February 7, 2017, we issued 844,108 shares of our common stock in connection with a business acquisition. On July 5, 2017 we issued 100,000 shares of our common stock in connection with charitable contributions. All the proceeding shares were issued in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended, provided by Section 4(a)(2) thereof because the issuance did not involve a public offering.



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## Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data is not necessarily indicative of the results of future operations and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

| (Dollars in millions, except per share amounts)     | Fiscal Year Ended September 30, |           |            |            |            |   |
|---|---------------------------------|-----------|------------|------------|------------|---|
|   | 2017                            | 2016      | 2015       | 2014       | 2013       |   |
| <b>Operations:</b>                                  |                                 |           |            |            |            |   |
| Total revenues                                      | \$1,939.4                       | \$1,948.9 | \$1,931.1  | \$1,923.5  | \$1,855.3  |   |
| Gross profit  | \$1,085.6                       | \$1,119.4 | \$1,102.6  | \$1,080.9  | \$1,091.1  |   |
| Income (loss) from operations                       | \$52.0                          | \$138.5   | \$54.9     | \$(21.4 )  | \$48.5     |   |
| Provision (benefit) for income taxes                | \$32.0                          | \$14.2    | \$34.5     | \$(4.7 )   | \$18.6     |   |
| Net loss  | \$(151.0 )                      | \$(12.5 ) | \$(115.0 ) | \$(150.3 ) | \$(115.2 ) |   |
| <b>Net Loss Per Share Data:</b>                     |                                 |           |            |            |            |   |
| Basic   | \$(0.52 )                       | \$(0.04 ) | \$(0.36 )  | \$(0.47 )  | \$(0.37 )  |   |
| Diluted   | \$(0.52 )                       | \$(0.04 ) | \$(0.36 )  | \$(0.47 )  | \$(0.37 )  |   |
| <b>Weighted average common shares outstanding:</b>  |                                 |           |            |            |            |   |
| Basic   | 289.3                           | 292.1     | 317.0      | 316.9      | 313.6      |   |
| Diluted   | 289.3                           | 292.1     | 317.0      | 316.9      | 313.6      |   |
| <b>Financial Position:</b>                          |                                 |           |            |            |            |   |
| Cash and cash equivalents and marketable securities | \$874.1                         | \$608.1   | \$568.8    | \$588.2    | \$846.8    |   |
| Total assets  | \$5,931.9                       | \$5,661.5 | \$5,511.9  | \$5,738.2  | \$5,854.1  |   |
| Long-term debt, net of current portion              | \$2,241.3                       | \$2,433.2 | \$2,103.1  | \$2,108.4  | \$2,084.1  |   |
| Total deferred revenue                              | \$790.0                         | \$736.2   | \$668.2    | \$548.1    | \$414.6    |   |
| Total stockholders’ equity                          | \$1,931.4                       | \$1,931.3 | \$2,265.3  | \$2,582.0  | \$2,638.0  |   |
| <b>Selected Data and Ratios:</b>                    |                                 |           |            |            |            |   |
| Working capital                                     | \$216.4                         | \$347.7   | \$360.2    | \$466.5    | \$529.3    |   |
| Depreciation of property and equipment              | \$55.7                          | \$60.6    | \$62.4     | \$51.7     | \$39.8     |   |
| Amortization of intangible assets                   | \$178.7                         | \$170.9   | \$168.3    | \$170.1    | \$168.8    |   |
| Gross margin percentage                             | 56.0                            | % 57.4    | % 57.1     | % 56.2     | % 58.8     | % |

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis is intended to help the reader understand the results of operations and financial condition of our business. Management’s Discussion and Analysis is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to the consolidated financial statements.

## Overview

## Business Overview

We are a leading provider of voice recognition and natural language understanding solutions. Our solutions and technologies are used in the healthcare, mobile, consumer, enterprise customer service, and imaging markets. We are seeing several trends in our markets, including (i) the growing adoption of cloud-based, connected services and highly interactive mobile applications, (ii) deeper integration of virtual assistant capabilities and services, and (iii) the continued expansion of our core technology portfolio from speech recognition to natural language understanding, semantic processing, domain-specific reasoning, dialog management capabilities, artificial intelligence, and biometric speaker authentication.

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Confronted by dramatic increases in electronic information, consumers, business personnel and healthcare professionals must use a variety of resources to retrieve information, transcribe patient records, conduct transactions and perform other job-related functions. We believe that the power of our solutions can transform the way people use the Internet, telecommunications systems, electronic medical records ("EMR"), wireless and mobile networks and related corporate infrastructure to conduct business.

### Malware Incident

On June 27, 2017, Nuance was a victim of the global NotPetya malware incident (the "Malware Incident"), which affected certain Nuance systems, including systems used by our healthcare customers, primarily for transcription services, as well as systems used by our Imaging division to receive and process orders. Despite the Malware Incident, we managed to preserve the security and integrity of our customer data and our software products and restore services to the majority of our customers by the end of July 2017.

Our revenue and our operating results for fiscal year 2017 were negatively impacted by the Malware Incident. For fiscal year 2017, we estimate that we lost approximately \$68.0 million in revenues, primarily in our Healthcare segment, due to the service disruption and the reserves we established for customer refund credits. Additionally, we incurred incremental costs of approximately \$24.0 million for fiscal year 2017 as a result of our remediation and restoration efforts, as well as incremental amortization expenses. We are evaluating our insurance coverage to determine the amount, if any, of Malware Incident losses that are recoverable under our policies.

Additionally, as a result of the Malware Incident, we incurred capital expenditures of approximately \$13.0 million related to upgrading our existing technology infrastructures during the fourth quarter of fiscal year 2017.

### Trends in Our Businesses

**Healthcare.** The adoption of international classification of diseases 10<sup>th</sup> revision ("ICD-10") and the evolving reimbursement reform increased the complexity our healthcare customers are facing in clinical documentation and coding. As a result, we have seen growing demands for products and solutions that improve the efficiency and accuracy of clinical documentation. Our products and solutions enable our customers to automate these work flows and improve operational efficiency. To address various market opportunities, we continue to expand our product offerings by further integrating our products with our clinical documentation solutions and investing in cloud-based offerings.

Within our healthcare business, our customers are shifting away from solely used hosted transcription services towards more integrated solutions that combine both Dragon Medical cloud and hosted transcription offerings. The volume processed in our hosted transcription services has continued to decline as customers implement electronic medical record systems and our Dragon Medical solutions. The Malware Incident further eroded the transcription services as many customers shifted towards our Dragon Medical solutions or other alternative solutions during the service disruption. This decline was partially offset by new customer wins and higher demands for integrated solutions. Dragon Medical perpetual license revenue also declined as customers shifted toward Dragon Medical SaaS-based cloud offerings. These cloud offerings enable the expansion of our Dragon Medical solutions to include new clinical language understanding and artificial intelligence innovations, providing real time queries to the physician at the point of care.

**Mobile.** Our Mobile business continued to benefit from the increasing demands for specialized virtual assistants and connected services built on voice recognition and natural language understanding from automotive manufacturers as they compete to incorporate specialized virtual assistants in their product offerings to deliver a more integrated and personalized experience for drivers. For fiscal year 2017, revenue from the automotive industry benefited from partnerships with new customers and expanded offerings to existing customers. However, mobile devices revenue continued to decline as a result of the consolidation of the mobile devices industry, which partly offsets the positive impact of the growth in the automotive industry.

Additionally, we continue to see higher penetration of on-demand and transaction-based arrangements as opposed to traditional perpetual licenses in our Mobile segment. Although this has a negative impact on near-term revenue, we

believe this model will create more predictable revenue streams over time. We are investing in the expansion of the cloud capabilities and content of our automotive solutions, machine learning technologies, expansion across the Internet of Things in our devices solutions, and go-to market strategies with mobile operators.



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Enterprise. Our enterprise business continued to benefit from increasing demand for the use of mobile applications and web sites to access customer care systems and records, voice-based authentication of users, increasing interest in coordinating actions and data across customer care channels, and the ability of a broader set of hardware providers and systems integrators to serve the market. Additionally, for large enterprise businesses around the world, customer service interactions are accelerating toward more pervasive digital engagement across web, mobile and social platforms. In order to acquire and retain customers, enterprises need to be able to provide a customer service experience when and how the customer desires. This is creating a growing market opportunity for our omni-channel enterprise solutions and, with the acquisition of TouchCommerce, Inc. in fiscal year 2016, we are able to provide an end-to-end engagement platform that merges intelligent self-service with assisted service to increase customer satisfaction, strengthen customer loyalty, and improve business results. In fiscal year 2017, revenues and bookings from on-demand solutions continued to increase, as a growing proportion of customers choose our cloud-based solutions for call center, web, and mobile customer care solutions. We are investing to extend our technology capabilities with intelligent self-service and artificial intelligence for customer service, extend the market for our on-demand omni-channel enterprise solutions into international markets, expand our sales and solutions for biometrics, and expand our on-premise product and services portfolio.

Imaging. The imaging market is evolving to include more networked solutions to multi-function printing ("MFP") devices, as well as more mobile access to those networked solutions, and away from packaged software. We are investing to merge the scan and print technology platforms to improve mobile access to our solutions and technologies, expand our distribution channels and embedded relationships, and expand our language coverage for optical character recognition ("OCR") in order to drive a more comprehensive and compelling offering to our partners.

### Key Metrics

In evaluating the financial condition and operating performance of our business, management focuses on revenue, net income, gross margins, operating margins, cash flow from operations, and changes in deferred revenue. A summary of these key financial metrics is as follows:

For the fiscal year ended September 30, 2017, as compared to the fiscal year ended September 30, 2016:

• Total revenue decreased by \$9.5 million from \$1,948.9 million to \$1,939.4 million;

• Net loss increased by \$138.5 million to \$151.0 million;

• Gross margins decreased by 1.4 percentage points to 56.0%;

• Operating margins decreased by 4.4 percentage points to 2.7%;

• Cash provided by operating activities for the fiscal year ended September 30, 2017 was \$378.9 million, a decrease of \$186.9 million from the prior fiscal year.

As of September 30, 2017, as compared to September 30, 2016:

• Total deferred revenue increased by 7.3% to \$790.0 million, driven by our hosting solutions, most notably for our automotive connected services in our Mobile segment.

In addition to the above key financial metrics, we also focus on certain operating metrics. A summary of these key operating metrics as of and for the year ended September 30, 2017, as compared to the same period in 2016, is as follows:

Net new bookings increased by 10.1% from the prior fiscal year to \$1.7 billion. The net new bookings growth benefited from strong bookings performance primarily in our Healthcare and Enterprise segments, offset by a negative impact of \$10.2 million as a result of the Malware Incident.

Bookings represent the estimated gross revenue value of transactions at the time of contract execution, except for maintenance and support offerings. For fixed price contracts, the bookings value represents the gross total contract value. For contracts where revenue is based on transaction volume, the bookings value represents the contract price

multiplied by the estimated future transaction volume during the contract term, whether or not such transaction volumes are guaranteed under a minimum commitment clause. Actual results could be different than our initial estimate. The maintenance and support bookings value represents the amounts the customer is invoiced in the period. Because of the inherent estimates required to determine bookings and the fact that the actual resultant revenue may differ from our initial bookings estimates, we consider bookings one indicator of potential future revenue and not as an arithmetic measure of backlog.

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Net new bookings represents the estimated revenue value at the time of contract execution from new contractual arrangements or the estimated revenue value incremental to the portion of value that will be renewed under pre-existing arrangements.

Recurring revenue represented 72.5% and 69.6% of total revenue in fiscal years 2017 and 2016, respectively.

Recurring revenue represents the sum of recurring product and licensing, hosting, and maintenance and support revenues as well as the portion of professional services revenue delivered under ongoing contracts. Recurring product and licensing revenue comprises term-based and ratable licenses as well as revenues from royalty arrangements.

The fourth quarter annualized line run-rate in our healthcare on-demand solutions decreased by 39.0% from the prior fiscal year to approximately 2.9 billion lines per year. The annualized HIM line run rate is calculated using the actual billed HIM line count in the current quarter multiplied by four. In fourth quarter of fiscal year 2017, we had a non-recurring line count loss due to malware incident related service disruption. The non-recurring loss is annualized based on the calculation above, thereby creating an annualized line count that is artificially lower. We expect this metric to normalize in the first quarter of fiscal year 2018.

Estimated three-year value of total on-demand contracts decreased 5.0% from the prior fiscal year to approximately \$2.3 billion, primarily due to the impact of the malware incident, as well as erosion on our HIM business, offset primarily by growth in our Dragon Medical cloud and automotive connected car businesses. We determine this value as of the end of the period reported, by using our estimate of three years of anticipated future revenue streams under signed on-demand contracts then in place, whether or not they are guaranteed through a minimum commitment clause. Our estimate is based on assumptions used in evaluating the contracts and determining sales compensation, adjusted for changes in estimated launch dates, actual volumes achieved and other factors deemed relevant. For contracts with an expiration date beyond three years, we include only the value expected within three years. For other contracts, we assume renewal consistent with historic renewal rates unless there is a known cancellation. Contracts are generally priced by volume of usage and typically have no or low minimum commitments. Actual revenue could vary from our estimates due to factors such as cancellations, non-renewals or volume fluctuations.

**RESULTS OF OPERATIONS****Total Revenues**

The following tables show total revenues by product type and revenue by geographic location, based on the location of our customers, in dollars and percentage change (dollars in millions):

|                                   | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|-----------------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Professional services and hosting | \$976.9                | \$955.3                | \$919.5                | 2.3 %                           | 3.9 %                           |
| Product and licensing             | 635.4                  | 669.2                  | 696.3                  | (5.1 )%                         | (3.9 )%                         |
| Maintenance and support           | 327.1                  | 324.3                  | 315.4                  | 0.9 %                           | 2.8 %                           |
| Total Revenues                    | \$1,939.4              | \$1,948.9              | \$1,931.1              | (0.5 )%                         | 0.9 %                           |
| United States                     | \$1,352.0              | \$1,385.3              | \$1,407.3              | (2.4 )%                         | (1.6 )%                         |
| International                     | 587.3                  | 563.6                  | 523.9                  | 4.2 %                           | 7.6 %                           |
| Total Revenues                    | \$1,939.4              | \$1,948.9              | \$1,931.1              | (0.5 )%                         | 0.9 %                           |

**Fiscal Year 2017 Compared with Fiscal Year 2016**

The geographic split for fiscal year 2017 was 70% of total revenue in the United States and 30% internationally, as compared to 71% of total revenue in the United States and 29% internationally for the prior fiscal year.

**Fiscal Year 2016 Compared with Fiscal Year 2015**

The geographic split for fiscal years 2016 was 71% of total revenue in the United States and 29% internationally, as compared to 73% of total revenue in the United States and 27% internationally for the prior fiscal year.



Table of Contents**Professional Services and Hosting Revenue**

Professional services revenue primarily consists of consulting, implementation and training services for customers. Hosting revenue primarily relates to delivering on-demand hosted services, such as medical transcription, automated customer care applications, mobile operator services, and mobile infotainment, search and transcription, over a specified term. The following table shows professional services and hosting revenue, in dollars and as a percentage of total revenues (dollars in millions):

|   | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|---|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Professional services revenue             | \$243.1                | \$225.2                | \$210.1                | 7.9 %                           | 7.2 %                           |
| Hosting revenue                           | 733.8                  | 730.2                  | 709.4                  | 0.5 %                           | 2.9 %                           |
| Professional services and hosting revenue | \$976.9                | \$955.3                | \$919.5                | 2.3 %                           | 3.9 %                           |
| As a percentage of total revenues         | 50.4 %                 | 49.0 %                 | 47.6 %                 |                                 |                                 |

**Fiscal Year 2017 Compared with Fiscal Year 2016**

Professional services revenue increased by \$17.9 million, or 7.9%, primarily due to recent acquisitions in our Healthcare segment and the continued growth in voice biometrics offerings in our Enterprise segment. Hosting revenue increased by \$3.7 million, or 0.5%, as the increases in our Enterprise and Mobile segments were offset in part by the decline in our Healthcare segment. The \$44.8 million increase in Enterprise was driven by the incremental revenue from recent acquisitions, increases in our omni-channel cloud offerings, and the continued strength in our on-premise and service portfolios. The \$16.4 million increase in Mobile was primarily due to increases in our automotive cloud-based solutions. Hosting revenue of our Healthcare segment decreased by \$57.7 million as the segment was negatively impacted by the Malware Incident and the continued erosion of the transcription services, offset in part by the positive effect of customers' transition to subscription and cloud-based offerings. As a percentage of total revenue, professional services and hosting revenue increased from 49.0% for fiscal year 2016 to 50.4% for fiscal year 2017. This increase reflected the continued shifts from product licenses towards cloud-based solutions in all our segments.

**Fiscal Year 2016 Compared with Fiscal Year 2015**

Mobile hosting revenue increased by \$21.9 million primarily driven by the continued trend toward cloud-based services in our automotive and devices solutions. Enterprise hosting revenue increased \$19.7 million. These increases were partially offset by a \$20.8 million decrease in the Healthcare hosting revenue as we continue to experience erosion in our transcription services owed in part to the growing penetration of our Dragon Medical cloud and subscription offerings. Professional services revenue increased primarily as a result of a \$13.6 million increase in our Healthcare segment due to a recent acquisition.

**Product and Licensing Revenue**

Product and licensing revenue primarily consists of sales and licenses of our technology. The following table shows product and licensing revenue, in dollars and as a percentage of total revenues (dollars in millions):

|                                   | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|-----------------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Product and licensing revenue     | \$635.4                | \$669.2                | \$696.3                | (5.1)%                          | (3.9)%                          |
| As a percentage of total revenues | 32.8 %                 | 34.3 %                 | 36.1 %                 |                                 |                                 |

Fiscal Year 2017 Compared with Fiscal Year 2016

Product and licensing revenue decreased by \$33.8 million, or 5.1%, primarily due to decreases in our Healthcare and Imaging segments, offset in part by the increase in our Mobile segment. The decrease of \$16.7 million in Healthcare reflected our continued transition from product licensing to cloud-based solutions. The decrease of \$25.6 million in Imaging was primarily due to lower sales of our multi-functional printers ("MFP"). The increase of \$6.7 million in Mobile was driven by revenue growth in our automotive business, offset in part by a decline in handset revenues due to the continued consolidation of the mobile devices industry.

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As a percentage of total revenue, product and licensing revenue decreased from 34.3% for fiscal year 2016 to 32.8% for fiscal year 2017. This decrease reflected our transition from product licensing to subscription and cloud-based models.

**Fiscal Year 2016 Compared with Fiscal Year 2015**

The decrease in product and licensing revenue consisted of a \$26.2 million decrease in our Mobile segment and a \$24.1 million decrease in our Healthcare segment, partially offset by a \$13.7 million increase in our Enterprise segment and a \$9.6 million increase in our Imaging segment. The revenue decrease in our Mobile business was driven by a decline in handset revenues resulting from deterioration in mature markets, partially offset by revenue growth in our automotive business. The revenue decrease in our Healthcare segment was mainly driven by lower revenues from our licensed Dragon Medical product sales as we transition from perpetual to cloud and subscription models. These decreases were partially offset with higher license sales primarily related to our on-premise solutions within our Enterprise segment and our print management and capture products within our Imaging segment.

As a percentage of total revenue, product and licensing revenue decreased from 36.1% to 34.3% for the year ended September 30, 2016. This decrease was primarily driven by our recent acquisitions which have a higher proportion of professional services and hosting revenue as well as continued transition from perpetual licensing model to term-licensing model, which is recognized over time, and to cloud and subscription models.

**Maintenance and Support Revenue**

Maintenance and support revenue primarily consists of technical support and maintenance services. The following table shows maintenance and support revenue, in dollars and as a percentage of total revenues (dollars in millions):

|                                   | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|-----------------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Maintenance and support revenue   | \$327.1                | \$324.3                | \$315.4                | 0.9 %                           | 2.8 %                           |
| As a percentage of total revenues | 16.9 %                 | 16.6 %                 | 16.3 %                 |                                 |                                 |

**Fiscal Year 2017 Compared with Fiscal Year 2016**

Maintenance and support revenue increased by \$2.7 million, or 0.9%, primarily due to an increase in our Enterprise segment due to maintenance renewals, offset in part by a decrease in Healthcare as a result of the continued transition from product licensing to cloud-based solutions.

**Fiscal Year 2016 Compared with Fiscal Year 2015**

The increase in maintenance and support revenue was driven primarily by maintenance renewals in our Imaging segment and prior year license sales in our Healthcare segment, partially offset by a decline in maintenance renewals in our Mobile segment.

**COSTS AND EXPENSES****Cost of Professional Services and Hosting Revenue**

Cost of professional services and hosting revenue primarily consists of compensation for services personnel, outside consultants and overhead, as well as the hardware, infrastructure and communications fees that support our hosting solutions. The following table shows the cost of professional services and hosting revenue, in dollars and as a percentage of professional services and hosting revenue (dollars in millions):

|   | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|---|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Cost of professional services and hosting revenue | \$660.8                | \$626.2                | \$618.6                | 5.5 %                           | 1.2 %                           |

As a percentage of professional services and hosting revenue 67.6 % 65.5 % 67.3 %

Fiscal Year 2017 Compared with Fiscal Year 2016

The increase in cost of professional services and hosting revenue was primarily driven by higher employee-related and infrastructure costs due to higher revenues in our Enterprise segment. Gross margins decreased by 2.1 percentage points primarily driven by the negative impact of the Malware Incident, and the continued erosion of our medical transcription services in our Healthcare segment,



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as well as the unfavorable impact of recent acquisitions in our Enterprise segment. Partially offsetting the margin declines above was the margin improvement in our Imaging segment, primarily due to a favorable shift to higher margin professional service offerings.

**Fiscal Year 2016 Compared with Fiscal Year 2015**

The increase in cost of professional services and hosting revenue was primarily driven by higher professional services compensation expense in our Healthcare segment and higher hosting services expenses in our Enterprise segment driven by recent acquisitions. These increases were partially offset by a reduction in medical transcription expense and Mobile cloud-based services expenses as a result of our cost-savings initiatives including our on-going efforts to move costs and activities to lower-cost countries. Gross margins increased 1.7 percentage points primarily driven by margin expansion in our cloud-based services within our Mobile segment, partially offset by higher professional services revenue in our Healthcare segment which carries a lower gross margin.

**Cost of Product and Licensing Revenue**

Cost of product and licensing revenue primarily consists of material and fulfillment costs, manufacturing and operations costs and third-party royalty expenses. The following table shows the cost of product and licensing revenue, in dollars and as a percentage of product and licensing revenue (dollars in millions):

|  | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|--|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Cost of product and licensing revenue            | \$74.0                 | \$86.4                 | \$91.8                 | (14.4)%                         | (5.9)%                          |
| As a percentage of product and licensing revenue | 11.6 %                 | 12.9 %                 | 13.2 %                 |                                 |                                 |

**Fiscal Year 2017 Compared with Fiscal Year 2016**

The decrease in cost of product and licensing revenue was driven by lower costs in our Healthcare and Imaging segments due to lower product and licensing revenues. Gross margins increased by 1.3 percentage points, due to the margin improvements in Healthcare and Imaging, as well as a favorable shift in revenue mix towards higher margin products in Mobile and Enterprise.

**Fiscal Year 2016 Compared to Fiscal Year 2015**

The decrease in cost of product and licensing revenue was primarily driven by lower costs in our Mobile and Healthcare segments. Gross margins increased 0.3 percentage points, primarily driven by higher revenues from higher margin license products in our Enterprise and Imaging segments.

**Cost of Maintenance and Support Revenue**

Cost of maintenance and support revenue primarily consists of compensation for product support personnel and overhead. The following table shows cost of maintenance and support revenue, in dollars and as a percentage of maintenance and support revenue (dollars in millions):

|  | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|--|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Cost of maintenance and support revenue            | \$54.1                 | \$54.1                 | \$54.4                 | —%                              | (0.6)%                          |
| As a percentage of maintenance and support revenue | 16.5 %                 | 16.7 %                 | 17.3 %                 |                                 |                                 |

**Fiscal Year 2017 Compared with Fiscal Year 2016**

Cost and the gross margin of maintenance and support revenue remained essentially flat during fiscal year 2017.

**Fiscal Year 2016 Compared with Fiscal Year 2015**

The decrease in cost of maintenance and support revenue was primarily driven by lower compensation related expense. Gross margins increased 0.6 percentage points primarily driven by higher maintenance and support revenue in our Healthcare and Imaging segments.



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## Research and Development Expenses

Research and development ("R&D") expenses primarily consist of salaries, benefits, and overhead relating to engineering staff as well as third party engineering costs. The following table shows research and development expense, in dollars and as a percentage of total revenues (dollars in millions):

|                                   | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|-----------------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Research and development expense  | \$266.1                | \$271.1                | \$306.9                | (1.8 )%                         | (11.7)%                         |
| As a percentage of total revenues | 13.7 %                 | 13.9 %                 | 15.9 %                 |                                 |                                 |

## Fiscal Year 2017 Compared with Fiscal Year 2016

Research and development expense decreased by \$5.0 million, primarily due to our continued cost-savings initiatives to reduce headcount and move R&D activities to lower-cost locations, offset in part by higher compensation expenses in our Enterprise segment due to recent acquisitions.

## Fiscal Year 2016 Compared with Fiscal Year 2015

The decrease in research and development expense was primarily attributable to a reduction of \$26.7 million in total compensation costs, including stock-based compensation, as we benefited from our cost-savings initiatives including our restructuring plans executed during the period and our on-going efforts to move costs and activities to lower-cost countries during the fiscal year.

## Sales and Marketing Expenses

Sales and marketing expenses include salaries and benefits, commissions, advertising, direct mail, public relations, tradeshow costs and other costs of marketing programs, travel expenses associated with our sales organization and overhead. The following table shows sales and marketing expense, in dollars and as a percentage of total revenues (dollars in millions):

|                                   | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|-----------------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Sales and marketing expense       | \$398.1                | \$390.9                | \$410.9                | 1.8 %                           | (4.9 )%                         |
| As a percentage of total revenues | 20.5 %                 | 20.1 %                 | 21.3 %                 |                                 |                                 |

## Fiscal Year 2017 Compared with Fiscal Year 2016

The increase in sales and marketing expense was primarily due to higher compensation and commission expenses on increased headcount in our Enterprise segment, offset in part by lower marketing spend in our Healthcare segment.

## Fiscal Year 2016 Compared with Fiscal Year 2015

The decrease in sales and marketing expense was primarily attributable to a \$6.1 million decrease in marketing and channel program spending, a \$4.6 million decrease in travel related expenses, and a \$3.8 million decrease in total compensation costs, including stock-based compensation expense, as we benefited from our cost-saving initiatives including our restructuring plans executed during the period. In addition, sales and marketing expense decreased \$4.0 million as a result of the conclusion of exclusive commercialization rights under a collaboration agreement during the second quarter of fiscal year 2016.

## General and Administrative Expenses

General and administrative expenses primarily consist of personnel costs for administration, finance, human resources, general management, fees for external professional advisers including accountants and attorneys, and provisions for doubtful accounts. The following table shows general and administrative expense, in dollars and as a percentage of total revenues (dollars in millions):

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|                                    | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|------------------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| General and administrative expense | \$ 166.7               | \$ 168.5               | \$ 187.3               | (1.1 )%                         | (10.0)%                         |
| As a percentage of total revenues  | 8.6                    | % 8.6                  | % 9.7                  | %                               |                                 |

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## Fiscal Year 2017 Compared with Fiscal Year 2016

General and administrative expense decreased by \$1.8 million as the effects of higher administrative headcount was more than offset by lower stock-based compensation and lower consulting and professional fees related to identifying and evaluating strategic initiatives.

## Fiscal Year 2016 Compared with Fiscal Year 2015

The decrease in general and administrative expense was primarily attributable to a \$15.8 million decrease in total compensation costs, including stock-based compensation, as we benefited from our cost-savings initiatives including the impact from our restructuring plans executed during the period as well as our on-going efforts to move costs and activities to lower-cost countries during the fiscal year.

## Amortization of Intangible Assets

Amortization of acquired patents and core technology are recorded within cost of revenues whereas the amortization of acquired customer and contractual relationships, non-compete agreements, acquired trade names and trademarks, and other intangibles are recorded within operating expenses. Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefits of the customer relationships are being realized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense was recorded as follows (dollars in millions):

|                                   | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|-----------------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Cost of revenues                  | \$64.9                 | \$62.9                 | \$63.6                 | 3.2 %                           | (1.1 )%                         |
| Operating expense                 | 113.9                  | 108.0                  | 104.6                  | 5.5 %                           | 3.3 %                           |
| Total amortization expense        | \$178.7                | \$170.9                | \$168.3                | 4.6 %                           | 1.5 %                           |
| As a percentage of total revenues | 9.2 %                  | 8.8 %                  | 8.7 %                  |                                 |                                 |

## Fiscal Year 2017 Compared with Fiscal Year 2016

Amortization of intangible assets expense for fiscal year 2017 increased by \$7.9 million from \$170.9 million for fiscal year 2016. The increase was primarily due to the amortization of customer relationship assets acquired in recent acquisitions.

## Fiscal Year 2016 Compared with Fiscal Year 2015

Amortization of intangible assets expense for fiscal year 2016 increased by \$2.6 million, as compared to fiscal year 2015. The increase was primarily attributable to acquired customer relationship assets from recent acquisitions.

## Acquisition-Related Costs, Net

Acquisition-related costs include costs related to business and other acquisitions, including potential acquisitions. These costs consist of (i) transition and integration costs, including retention payments, transitional employee costs, earn-out payments, and other costs related to integration activities; (ii) professional service fees, including financial advisory, legal, accounting, and other outside services incurred in connection with acquisition activities, and disputes and regulatory matters related to acquired entities; and (iii) fair value adjustments to acquisition-related contingencies. A summary of the acquisition-related costs is as follows (dollars in millions):

|                                      | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|--------------------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Transition and integration costs     | \$15.2                 | \$6.1                  | \$10.1                 | 149.2 %                         | (39.6 )%                        |
| Professional service fees            | 12.6                   | 10.9                   | 8.4                    | 15.6 %                          | 29.8 %                          |
| Acquisition-related adjustments      | (0.1 )                 | 0.2                    | (4.1 )                 | (150.0)%                        | (104.9)%                        |
| Total Acquisition-related costs, net | \$27.7                 | \$17.2                 | \$14.4                 | 61.0 %                          | 19.4 %                          |
| As a percentage of total revenue     | 1.4 %                  | 0.9 %                  | 0.7 %                  |                                 |                                 |



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## Fiscal Year 2017 Compared with Fiscal Year 2016

Acquisition-related costs, net for fiscal year 2017 increased by \$10.5 million, as compared to fiscal 2016. Transition and integration costs increased by \$9.1 million from \$6.1 million in fiscal 2016 primarily as a result of higher contingent retention payments related to recent acquisitions.

## Fiscal Year 2016 Compared with Fiscal Year 2015

Transition and integration costs, net for fiscal year 2016 decreased by \$4.0 million as compared to fiscal year 2015. Fiscal year 2015 transition and integration costs included \$6.1 million of contingent payments that were accounted for as compensation expense. Acquisition-related adjustments for fiscal year 2015 was income of \$4.1 million, which included fair value adjustment for contingent acquisition payments and other items related to acquisitions.

## Restructuring and Other Charges, Net

Restructuring and other charges, net include restructuring expenses as well as other charges that are unusual in nature, are the result of unplanned events, and arise outside the ordinary course of our business. Restructuring expenses consist of employee severance costs, charges for the closure of excess facilities and other contract termination costs. Other charges include litigation contingency reserves, costs related to the transition agreement of our CEO, asset impairment charge, expenses associated with the Malware Incident and gains or losses on the sale or disposition of certain non-strategic assets or product lines.

While restructuring and other charges, net are excluded from our calculation of segment profit, the table below presents the restructuring and other charges, net associated with each segment (dollars in thousands):

|                        | Personnel | Facilities | Total<br>Restructuring<br>Expenses | Other<br>Charges | Total     |
|------------------------|-----------|------------|------------------------------------|------------------|-----------|
| Fiscal Year 2017       |           |            |                                    |                  |           |
| Healthcare             | \$ 4,283  | \$ 870     | \$ 5,153                           | \$ 8,758         | \$ 13,911 |
| Mobile                 | 4,792     | (15 )      | 4,777                              | 10,773           | 15,550    |
| Enterprise             | 2,141     | 3,480      | 5,621                              | —                | 5,621     |
| Imaging                | 744       | 387        | 1,131                              | —                | 1,131     |
| Corporate              | 1,337     | 2,013      | 3,350                              | 21,491           | 24,841    |
| Total fiscal year 2017 | \$ 13,297 | \$ 6,735   | \$ 20,032                          | \$ 41,022        | \$ 61,054 |

## Fiscal Year 2016

|                        |           |           |           |        |           |
|------------------------|-----------|-----------|-----------|--------|-----------|
| Healthcare             | \$ 3,531  | \$ 1,398  | \$ 4,929  | \$—    | \$ 4,929  |
| Mobile                 | 5,837     | 1,557     | 7,394     | (486 ) | 6,908     |
| Enterprise             | 1,214     | 2,782     | 3,996     | —      | 3,996     |
| Imaging                | 284       | 478       | 762       | —      | 762       |
| Corporate              | 2,267     | 5,391     | 7,658     | 971    | 8,629     |
| Total fiscal year 2016 | \$ 13,133 | \$ 11,606 | \$ 24,739 | \$ 485 | \$ 25,224 |

## Fiscal Year 2015

|                        |          |          |           |          |           |
|------------------------|----------|----------|-----------|----------|-----------|
| Healthcare             | \$ 452   | \$ 636   | \$ 1,088  | \$—      | \$ 1,088  |
| Mobile                 | 2,960    | 2,863    | 5,823     | 3,322    | 9,145     |
| Enterprise             | 1,144    | 95       | 1,239     | —        | 1,239     |
| Imaging                | 2,047    | 1,814    | 3,861     | —        | 3,861     |
| Corporate              | 1,868    | 4,168    | 6,036     | 2,300    | 8,336     |
| Total fiscal year 2015 | \$ 8,471 | \$ 9,576 | \$ 18,047 | \$ 5,622 | \$ 23,669 |

## Fiscal Year 2017

For fiscal year 2017, we recorded restructuring charges of \$20.0 million. The restructuring charges included \$13.3 million for severance related to the reduction of approximately 807 employees, and \$6.7 million related to the closure of certain excess





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facilities. We expect the remaining severance of \$1.5 million to be substantially paid by the first quarter of fiscal year 2018, and the remaining balance of \$9.2 million related the closure of excess facilities to be paid through fiscal year 2027, in accordance with the terms of the applicable leases.

Additionally, during fiscal year 2017, we recorded other charges of \$41.0 million, with \$8.1 million related to the transition agreement of our CEO, \$18.1 million of professional services fees and \$4.0 million of fixed asset and inventory write-down as a result of the Malware Incident, and an impairment charge of \$10.8 million related to an internally developed software.

**Fiscal Year 2016**

For fiscal year 2016, we recorded restructuring charges of \$24.7 million. The restructuring charges included \$13.1 million for severance related to the reduction of approximately 452 employees as part of our initiatives to reduce costs and optimize processes. The restructuring charges also included an \$11.6 million charge for the closure of certain excess facilities.

Additionally, during fiscal year 2016, we recorded certain other charges that totaled \$0.5 million for litigation contingency reserves.

**Fiscal Year 2015**

For fiscal year 2015, we recorded restructuring charges of \$18.0 million, which included \$8.5 million for severance related to the reduction of approximately 200 employees as part of our initiatives to reduce costs and optimize processes as well as the reduction of approximately 60 employees that eliminated duplicative positions resulting from acquisitions in fiscal year 2014. The restructuring charges also included \$9.6 million charge for the closure of certain excess facilities, including facilities acquired from acquisitions.

Additionally, during fiscal year 2015, we recorded certain other charges that totaled \$5.6 million for the impairment of certain long-lived assets as a result of our strategic realignment of our product portfolio and litigation contingency reserves.

**Other expenses, net**

Other expenses, net consists primarily of interest income, interest expense, foreign exchange gains (losses), and net gain (loss) from other non-operating activities. A summary of Other expenses, net is as follows (dollars in millions):

|                           | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|---------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Interest income           | \$6.9                  | \$4.4                  | \$2.6                  | 56.8 %                          | 69.2 %                          |
| Interest expense          | (156.9 )               | (132.7 )               | (118.6 )               | 18.2 %                          | 11.9 %                          |
| Other expense, net        | (21.0 )                | (8.5 )                 | (19.5 )                | 147.1 %                         | (56.4)%                         |
| Total other expenses, net | \$(171.0)              | \$(136.8)              | \$(135.4)              |                                 |                                 |

**Fiscal Year 2017 Compared with Fiscal Year 2016**

Interest expense increased by \$24.2 million, as compared to fiscal year 2016, primarily driven by the issuance of the 2026 Senior Notes and the 2025 Convertible Debenture, offset in part by the repurchase of \$600 million principal of our 2020 Senior Notes in fiscal year 2017. Other expense, net increased by \$12.5 million primarily due to an \$18.6 million loss on extinguishment of debt resulting from the repurchase of our 2020 Senior Notes discussed above, offset in part by extinguishment losses of \$4.9 million recorded in fiscal year 2016.

**Fiscal Year 2016 Compared with Fiscal Year 2015**

Interest expense for fiscal year 2016 increased \$14.1 million, as compared to fiscal year 2015, primarily driven by the issuance of the \$676.5 million 1.00% convertible senior debentures in the first quarter of fiscal year 2016. Other expense, net for fiscal year 2016 decreased \$11.0 million primarily due to a \$17.7 million loss on extinguishment of debt resulting from the partial exchange of our 2031 debentures in the third quarter of fiscal year 2015.



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## Provision for Income Taxes

The following table shows the provision for income taxes and the effective income tax rate (dollars in millions):

|                            | Fiscal<br>Year<br>2017 | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|----------------------------|------------------------|------------------------|------------------------|---------------------------------|---------------------------------|
| Provision for income taxes | \$32.0                 | \$14.2                 | \$34.5                 | 125.3 %                         | (58.9)%                         |
| Effective income tax rate  | (26.9)%                | 816.4 %                | (42.9)%                |                                 |                                 |

The effective income tax rate is impacted by a number of factors, including the level and mix of taxable incomes and tax losses in different taxing jurisdictions, differences between our domestic and foreign tax rates, changes in valuation allowances, repatriation of foreign earnings, and the levels of other discrete or permanent items. Our applicable income tax rates in foreign jurisdictions are lower than our income tax rate in the United States. Our effective tax rate may be adversely affected by a shift of earnings from jurisdictions with lower tax rates to jurisdictions with higher tax rates.

## Fiscal Year 2017 Compared with Fiscal Year 2016

Our effective income tax rate was (26.9)% in fiscal year 2017, compared to 816.4% in fiscal year 2016. Effective tax rate of (26.9)% in fiscal year 2017 differed from the U.S. statutory rate, primarily due to current period losses in the United States that require additional valuation allowance and an increase in deferred tax liabilities related to goodwill, partially offset by our earnings in foreign operations that are subject to significantly lower tax rates than U.S. statutory tax rate.

Provision for income taxes increased by \$17.8 million in fiscal year 2017 as compared to fiscal year 2016, primarily due to the additional valuation allowance provided related to the losses incurred for the current fiscal year and an increase in deferred tax liabilities related to goodwill in fiscal year 2017, offset in part by the one-time repatriated foreign earnings in fiscal year 2016.

## Fiscal Year 2016 Compared with Fiscal Year 2015

Our effective income tax rate was approximately 816.4% in fiscal year 2016, compared to approximately (42.9)% in fiscal year 2015. Provision for income taxes decreased \$20.3 million in fiscal year 2016 as compared to fiscal year 2015. The decrease in income taxes provision and the difference between the effective tax rate and the U.S. statutory rate were primarily due to our subsidiaries in Ireland, and a \$22.1 million release of domestic valuation allowance as a result of tax benefits recorded in connection with our acquisitions during the period for which a deferred tax liability was established in purchase accounting.

The Board approved an agreement with the Icahn Group to repurchase 26.3 million shares of our common stock, for a total purchase price of \$500.0 million (the "Repurchase"), which was funded with domestic and foreign cash. As a result of the repatriation, we have recorded a \$0.7 million increase to our provision for income taxes, net of benefit from the use of U.S. Federal net operating losses and credit carryforwards.

## SEGMENT ANALYSIS

We organize our businesses into four operating segments: Healthcare, Mobile, Enterprise, and Imaging. Segment revenues and profits are reviewed regularly by our Chief Operating Decision Maker ("CODM") for performance evaluation and resources allocation. Segment profits reflect controllable costs directly related to each segment and the allocation of certain corporate expenses such as, corporate sales and marketing expenses and research and development project costs that benefit multiple segments. Certain items such as stock-based compensation, amortization of intangible assets, acquisition-related costs, net, restructuring and other charges, net, costs associated with intellectual property collaboration agreements, other expenses, net and certain unallocated corporate expenses are excluded from segment profits, which allow for more meaningful comparisons to the financial results of the historical operations for the performance evaluation and resources allocation by our CODM.



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For further details of financial information about our operating segments, see Note 19 to the accompanying consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. The following table presents certain financial information about our operating segments (dollars in millions).

|  | Fiscal Year<br>2017 | Fiscal Year<br>2016 | Fiscal Year<br>2015 | %<br>Change<br>2017 vs.<br>2016 | %<br>Change<br>2016 vs.<br>2015 |
|--|---------------------|---------------------|---------------------|---------------------------------|---------------------------------|
| <b>Segment Revenues</b>                                      |                     |                     |                     |                                 |                                 |
| Healthcare   | \$899.3             | \$973.3             | \$1,000.8           | (7.6 )%                         | (2.7 )%                         |
| Mobile   | 398.0               | 377.3               | 391.2               | 5.5 %                           | (3.6 )%                         |
| Enterprise   | 462.3               | 387.5               | 349.3               | 19.3 %                          | 10.9 %                          |
| Imaging  | 217.7               | 241.6               | 237.7               | (9.9 )%                         | 1.6 %                           |
| Total segment revenues                                       | 1,977.4             | 1,979.6             | 1,979.1             | (0.1 )%                         | — %                             |
| Less: acquisition related revenue adjustments <sup>(a)</sup> | (38.0 )             | (30.7 )             | (47.9 )             | 23.9 %                          | (36.0)%                         |
| Total revenues   | \$1,939.4           | \$1,948.9           | \$1,931.1           | (0.5 )%                         | 0.9 %                           |
| <b>Segment Profit</b>  |                     |                     |                     |                                 |                                 |
| Healthcare   | \$262.1             | \$313.5             | \$343.4             | (16.4)%                         | (8.7 )%                         |
| Mobile   | 154.9               | 133.4               | 108.2               | 16.1 %                          | 23.2 %                          |
| Enterprise   | 141.2               | 130.0               | 94.4                | 8.6 %                           | 37.8 %                          |
| Imaging  | 79.5                | 100.8               | 89.3                | (21.1)%                         | 12.9 %                          |
| Total segment profit   | 637.7               | 677.6               | 635.3               | (5.9 )%                         | 6.7 %                           |
| <b>Segment Profit Margin</b>                                 |                     |                     |                     |                                 |                                 |
| Healthcare   | 29.1                | % 32.2              | % 34.3              | % (3.1 )                        | (2.1 )                          |
| Mobile   | 38.9                | % 35.4              | % 27.7              | % 3.6                           | 7.7                             |
| Enterprise   | 30.5                | % 33.5              | % 27.0              | % (3.0 )                        | 6.5                             |
| Imaging  | 36.5                | % 41.7              | % 37.6              | % (5.2 )                        | 4.2                             |
| Total segment profit margin                                  | 32.3                | % 34.2              | % 32.1              | % (2.0 )                        | 2.1                             |

Segment revenues differ from reported revenues due to certain revenue adjustments related to acquisitions that would otherwise have been recognized but for the purchase accounting treatment of the business combinations. <sup>(a)</sup> These revenues are included to allow for more complete comparisons to the financial results of historical operations and in evaluating management performance.

**Segment Revenues****Fiscal Year 2017 Compared with Fiscal Year 2016**

Healthcare segment revenues decreased by \$74.0 million for fiscal year 2017 as compared to \$973.3 million for fiscal year 2016, primarily due to decreases in hosting revenue and product and licensing revenue. Hosting revenue decreased by \$58.2 million primarily due to the negative impact of the Malware Incident and the continued erosion of the transcription services, offset in part by the positive effect of customers' transition to cloud-based offerings. Product and licensing revenue decreased by \$17.9 million primarily as a result of lower revenues from our licensed Dragon Medical product sales as we transition from product licensing to subscription and cloud-based offerings. We estimated the revenue impact of the Malware Incident due to the service interruption to be approximately \$65 million for fiscal year 2017.

Mobile segment revenues increased by \$20.7 million for fiscal year 2017 as compared to fiscal year 2016, primarily due to the increase in hosting revenue related to our automotive cloud-based solutions.

Enterprise segment revenues increased by \$74.8 million for fiscal year 2017 as compared to fiscal year 2016, primarily due to increases in professional services and hosting revenue and product and licensing revenue.

Professional services and hosting revenue increased by \$51.3 million primarily due to the incremental revenue from recent acquisitions, increases in our omni-channel cloud offerings, and the continued strength in our on-premise and service portfolios. Product and licensing revenue increased by \$15.9 million primarily due to the incremental revenue from recent acquisitions.

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Imaging segment revenues decreased by \$23.8 million for fiscal year 2017 as compared to fiscal year 2016, primarily due to the lower sales of our MFPs.

### Fiscal Year 2016 Compared with Fiscal Year 2015

Healthcare segment revenues decreased \$27.5 million for the year ended September 30, 2016, as compared to the year ended September 30, 2015. Product and licensing revenues decreased \$24.8 million driven by lower revenues from our licensed Dragon Medical product sales as we transition from perpetual to cloud and subscription models.

Professional services and hosting revenues decreased \$8.4 million primarily driven by a decrease of \$21.7 million in hosting revenues as we continue to experience some erosion of revenue in our transcription services owed in part to the growing penetration of our Dragon Medical cloud and subscription offerings, partially offset by an increase of \$13.2 million in professional services primarily from a recent acquisition. Maintenance and support revenues increased \$5.8 million driven by prior year license sales.

Mobile segment revenues decreased \$14.0 million for the year ended September 30, 2016, as compared to the year ended September 30, 2015. Product and licensing revenues decreased \$25.5 million and maintenance and support revenue decreased \$5.0 million, owing to a decline in handset revenues from deterioration in mature markets, partially offset by the growth in recurring product and licensing revenue in our automotive business. Professional services and hosting revenues increased \$16.5 million driven primarily by a continued trend toward cloud-based services in our automotive and devices solutions.

Enterprise segment revenues increased \$38.1 million for the year ended September 30, 2016, as compared to the year ended September 30, 2015. Professional services and hosting revenues increased \$23.3 million driven by higher on-demand revenue. Product and licensing revenues increased \$14.0 million with strong on-premise solutions sales during the period.

Imaging segment revenues increased \$3.8 million for the year ended September 30, 2016, as compared to the year ended September 30, 2015, primarily driven by strong growth in our print management and capture products, partially offset by lower imaging desktop consumer product sales.

### Segment Profit

### Fiscal Year 2017 Compared with Fiscal Year 2016

Healthcare segment profit decreased by \$51.3 million, or 16.4%, during fiscal year 2017 as compared to fiscal year 2016, primarily due to lower segment revenue and lower gross margin as a result of the negative impact of the Malware Incident and the continued erosion of the transcription services, offset in part by the positive effect of customers' transition to cloud-based offerings. Segment profit margin decreased by 3.1 percentage points, to 29.1% for fiscal year 2017 from 32.2% for fiscal year 2016, primarily due to lower gross margin.

Mobile segment profit increased by \$21.5 million, or 16.1%, during fiscal year 2017 as compared to fiscal year 2016, primarily due to higher revenues and gross margin. The gross margin improvement was primarily due to a favorable shift to higher margin cloud-based and licensing offerings. Segment profit margin increased by 3.6 percentage points to 38.9% for fiscal year 2017 from 35.4% for fiscal year 2016, primarily due to higher gross margin and lower operating expense margin as the segment continued to benefit from our costs savings and process optimization initiatives.

Enterprise segment profit increased by \$11.2 million, or 8.6%, during fiscal year 2017 as compared to fiscal year 2016, primarily due to higher segment revenue, offset in part by lower gross margin and higher R&D expenses. Gross margin was lower as our recently acquired entities carried lower gross margins. R&D expenses increased as a result of increased R&D headcount due to recent acquisitions. Segment profit margin decreased by 3.0 percentage points to 30.5% for fiscal year 2017 from 33.5% for fiscal year 2016, primarily due to lower gross margin and higher operating expenses margin.

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Imaging segment profit decreased by \$21.3 million, or 21.1%, during fiscal year 2017 as compared to fiscal year 2016, primarily due to lower segment revenue. Segment profit margin decreased by 5.2 percentage points to 36.5% during fiscal year 2017 from 41.7% during fiscal year 2016, primarily due to relatively flat operating expenses on lower revenues.



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### Fiscal Year 2016 Compared with Fiscal Year 2015

Healthcare segment profit for the year ended September 30, 2016 decreased 8.7% from the same period last year, primarily driven by lower gross profit. Segment profit margin decreased 2.1 percentage points, from 34.3% for the same period last year to 32.2% during the current period. The decrease in segment profit margin was primarily driven by lower gross margins of 2.0 percentage points due to a shift in mix towards a higher percentage of professional services revenue.

Mobile segment profit for the year ended September 30, 2016 increased 23.2% from the same period last year, primarily driven by lower expenses. Segment profit margin increased 7.7 percentage points, from 27.7% for the same period last year to 35.4% during the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 6.4 percentage points due to lower operating expenses and a 1.3 percentage points improvement in gross margin driven by margin expansion in our cloud-based services.

Enterprise segment profit for the year ended September 30, 2016 increased 37.8% from the same period last year, primarily driven by increased gross profit. Segment profit margin increased 6.5 percentage points, from 27.0% for the same period last year to 33.5% in the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 3.7 percentage points due to lower operating expenses and a 2.9 percentage point improvement in gross margin due to improved operational efficiencies within our professional services and hosting services.

Imaging segment profit for the year ended September 30, 2016 increased 12.9% from the same period last year, primarily driven by lower expenses and increased gross profit. Segment profit margin increased 4.2 percentage points, from 37.6% for the same period last year to of 41.7% during the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 3.0 percentage points due to operating expenses and 1.2 percentage points due to improved gross margin.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

We had cash and cash equivalents and marketable securities of \$874.1 million as of September 30, 2017, an increase of \$266.0 million from \$608.1 million as of September 30, 2016. Our working capital, as defined by total current assets less total current liabilities, was \$216.4 million as of September 30, 2017, compared to \$347.7 million as of September 30, 2016. Additionally, we had availability of \$242.5 million under our revolving credit facility as of September 30, 2017. We believe that our existing sources of liquidity are sufficient to support our operating needs, capital requirements and any debt service requirements for the next twelve months.

Cash and cash equivalents and marketable securities held by our international operations totaled \$148.6 million and \$116.5 million, respectively, as of September 30, 2017 and 2016, which are generally subject to U.S. income tax upon repatriation. We utilize a variety of financing strategies to ensure that our worldwide cash is available to meet our liquidity needs. We expect the cash held overseas to be permanently invested in our international operations, and our U.S. operation to be funded through its own operating cash flows, cash and marketable securities within the U.S., and if necessary, borrowing under our revolving credit facility.

Following the Malware Incident, we incurred cash outflows for capital expenditures of approximately \$10.0 million in fiscal year 2017 and we expect to incur additional outflows related to these activities of approximately \$5.0 million in fiscal year 2018. We expect the value of these assets to be depreciated over the next three to five years.

We also incurred significant expenses during the fourth quarter for cybersecurity and forensics experts, IT infrastructure vendors, and other professional services to assist with our restoration efforts in response to the Malware Incident. Cash outflows related to these expenditures during fiscal year 2017 were approximately \$10.0 million and

we expect to incur additional outflows related to these expenditures between \$20.0 million and \$25.0 million in fiscal year 2018.

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Cash provided by operating activities

Fiscal Year 2017 Compared with Fiscal Year 2016

Cash provided by operating activities for fiscal year 2017 was \$378.9 million, a decrease of \$186.9 million, or 33%, from \$565.8 million for fiscal year 2016. The net decrease was primarily due to:

- A decrease of \$77.1 million in cash flows resulting from a higher net loss, exclusive of non-cash adjustment items;
- A decrease of \$95.0 million in cash flows resulting from unfavorable changes in working capital, excluding deferred revenue; and

A decrease in cash inflows of \$14.9 million from deferred revenue. Deferred revenue contributed cash inflow of \$46.9 million in fiscal year 2017, as compared to \$61.7 million in fiscal year 2016. The deferred revenue growth in fiscal year 2017 was driven primarily by our hosting solutions in automotive connected services within our Mobile segment and bundled offerings within our Healthcare segment.

Fiscal Year 2016 Compared to Fiscal Year 2015

Cash provided by operating activities for fiscal year 2016 was \$565.8 million, an increase of \$78.2 million, or 16%, from \$487.6 million for fiscal year 2015. The net increase was primarily due to:

- An increase of \$56.2 million in cash flows resulting from a lower net loss, exclusive of non-cash adjustment items;
- An increase of \$95.4 million in cash flows generated by changes in working capital excluding deferred revenue; and

Partially offset by a decrease in cash inflows of \$73.4 million from deferred revenue. Deferred revenue contributed cash inflow of \$61.7 million in fiscal year 2016, as compared to \$135.2 million in fiscal year 2015.

- The deferred revenue growth in fiscal year 2016 was driven primarily by our on-demand automotive business in our Mobile segment as well as growth in maintenance and support contracts.

Cash used in investing activities

Fiscal Year 2017 Compared with Fiscal Year 2016

Cash used in investing activities for fiscal year 2017 was \$334.2 million, an increase of \$71.2 million, or 27%, from \$263.0 million for fiscal year 2016. The net increase was primarily due to:

- An increase in cash outflows of \$214.8 million for payments of marketable securities and other investments, offset in part by;

- An increase in cash inflows of \$91.6 million for proceeds from marketable securities and other investment; and
- A decrease in cash outflows of \$59.0 million for business and technology acquisitions.

Fiscal Year 2016 Compared to Fiscal Year 2015

Cash used in investing activities for fiscal year 2016 was \$263.0 million, an increase of \$56.9 million, or 28%, from \$206.1 million for fiscal year 2015. The net increase was primarily due to:

- An increase in cash outflows of \$89.5 million for business and technology acquisitions, offset in part by;
- A decrease in cash outflows of \$31.1 million for purchases of marketable securities and other investments.

Cash used in financing activities

Fiscal Year 2017 Compared with Fiscal Year 2016

Cash provided by financing activities for fiscal year 2017 was \$67.1 million, an increase of \$372.2 million, or 122%, from cash used in financing activities of \$305.1 million for fiscal year 2016. The net increase was primarily due to:

- A decrease in cash outflows of \$600.4 million related to share repurchases. We repurchased 5.8 million shares of our common stock for \$99.1 million in fiscal year 2017 as compared to 9.4 million shares repurchased under our share repurchase program and 26.3 million shares repurchased from the Icahn Group for total cash outflow of \$699.5 million in fiscal year 2016;

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A decrease in net cash inflows of \$244.1 million from debt activities. The fiscal year 2017 activity included approximately \$495.0 million net proceeds from the issuance of our 2026 Senior Notes, approximately \$343.6 million net proceeds from the issuance of our 1.25% 2025 Debentures, offset by the repurchase of \$600.0 million in aggregate principal of our 2020 Senior Notes and the repurchase of \$17.8 million in aggregate principal of our 2025 Debentures. The fiscal year 2016 activity included proceeds of \$663.8 million, net of issuance costs, from the issuance of our 1.0% 2035 Debentures offset by the repurchase of \$38.3 million in aggregate principal on our 2.75% Senior Convertible Debentures due in 2031 and repayment of \$472.5 million on our term loan under the amended and restated credit agreement.

An increase in cash outflows of \$14.5 million as a result of higher cash payments required to net share settle employee equity awards due to the increase in the intrinsic value of shares vested during fiscal year 2017 as compared to fiscal year 2016.

Fiscal Year 2016 Compared to Fiscal Year 2015

Cash used in financing activities for fiscal year 2016 was \$305.1 million, a decrease of \$36.1 million, or 11%, as compared to cash used in financing activities of \$341.2 million for fiscal year 2015. The net decrease was primarily due to:

An increase in cash inflows of \$297.0 million from the new senior note debt issuance in June 2016. We issued \$300.0 million aggregate principal amount of 6.000% Senior Notes due on July 1, 2024 in a private placement, net of issuance costs;

An increase in net cash inflows of \$151.9 million from the new convertible debt issuance net of the repayment of long-term debt. The fiscal year 2016 activity included proceeds of \$663.8 million, net of issuance costs, from the issuance of our 1.0% 2035 Debentures offset by the repurchase of \$38.3 million in aggregate principal on our 2.75% Senior Convertible Debentures due in 2031 and repayment of the aggregate principal balance of \$472.5 million on our term loan under the amended and restated credit agreement. The fiscal year 2015 activity included extinguishment on part of our 2031 Debentures for \$256.2 million in exchange for \$263.9 million of our new 1.5% 2035 Debentures; A decrease in cash outflows of \$99.7 million related to our share repurchase program. We repurchased 9.4 million shares of our common stock for total cash outflows of \$198.6 million in fiscal year 2016 as compared to 19.8 million shares of our common stock for total cash outflows of \$298.3 million in fiscal year 2015;

Partially offset by an increase in cash outflows of \$500.9 million related to the repurchase of 26.3 million shares of our common stock from the Icahn Group, inclusive of fees associated with the transaction; and

An increase in cash outflows of \$11.1 million as a result of higher cash payments required to net share settle employee equity awards due to an increase in the intrinsic value of shares vested during fiscal year 2016 as compared to fiscal year 2015.

Debt

For a detailed description of the terms and restrictions of the debt and revolving credit facility, see Note 9 to the accompanying consolidated financial statements.

As more fully described in Note 9 to the accompanying consolidated financial statements, holders of our 2.75% Senior Convertible Debentures due in 2031 (the "2031 Debentures") had the right to require us to redeem such debentures on November 1, 2017. Subsequent to the end of fiscal year 2017, on November 1, 2017, holders of approximately \$331.2 million in aggregate principal amount of the outstanding 2031 Debentures exercised their right to require us to repurchase such debentures. Following the repurchase, \$46.6 million in aggregate principal amount of the 2031 Debentures remains outstanding. On or after November 6, 2017, we have the right to call for redemption of some or all of the then remaining outstanding 2031 Debentures. As of September 30, 2017, the entire outstanding principal amount of the 2031 Debenture was included within the current portion of the long-term debt due to the holders' right to require us to repurchase the debt.

Additionally, we expect to incur cash interest payment on outstanding debt of \$90.7 million in fiscal year 2018, based on the outstanding balance as of September 30, 2017 and the holders' right of redemption discussed above. We expect to fund our debt service requirements through existing sources of liquidity and our operating cash flows.

Share Repurchases

On April 29, 2013, our Board of Directors approved a share repurchase program for up to \$500.0 million of our outstanding shares of common stock. On April 29, 2015, our Board of Directors approved an additional \$500.0 million under our share

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repurchase program. Under the terms of the program, we have the ability to repurchase shares from time to time through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, or any combination of such methods. The share repurchase program does not require us to acquire any specific number of shares and may be modified, suspended, extended or terminated by us at any time without prior notice. The timing and the amount of any purchases will be determined by management based on an evaluation of market conditions, capital allocation alternatives, and other factors. All shares are retired upon repurchase.

Under our share repurchase program, we repurchased 5.8 million shares for \$99.1 million during fiscal year 2017, 9.4 million shares for \$197.5 million during fiscal year 2016, and 19.8 million shares for \$299.5 million (including 1.0 million shares for \$21.4 million repurchased from our Chief Executive Officer) during fiscal year 2015. Since the commencement of the program, we have repurchased 46.5 million shares for \$806.6 million. As of September 30, 2017, approximately \$193.4 million remained available for share repurchases under our share repurchase program. Additionally, in March 2016, our Board of Directors approved a repurchase agreement with the Icahn Group to repurchase 26.3 million shares of our common stock at a price of \$19.00 per share, for a total purchase price of \$500.0 million.

## Off-Balance Sheet Arrangements, Contractual Obligations, Contingent Liabilities and Commitments

## Contractual Obligations

The following table outlines our contractual payment obligations as of September 30, 2017 (dollars in millions):

|   | Payments Due by Fiscal Year Ended |         |                     |                     |            |
|---|-----------------------------------|---------|---------------------|---------------------|------------|
|   | Total                             | 2018    | 2019<br>and<br>2020 | 2021<br>and<br>2022 | Thereafter |
| Contractual Obligations   |                                   |         |                     |                     |            |
| Convertible Debentures <sup>(1)</sup>                                     | \$1,668.1                         | \$377.7 | \$—                 | \$263.9             | \$1,026.5  |
| Senior Notes  | 1,250.0                           | —       | 450.0               | —                   | 800.0      |
| Interest payable on long-term debt <sup>(2)</sup>                         | 561.0                             | 90.7    | 170.8               | 120.4               | 179.1      |
| Letter of Credit <sup>(3)</sup>   | 4.5                               | 4.5     | —                   | —                   | —          |
| Lease obligations and other liabilities:                                  |                                   |         |                     |                     |            |
| Operating leases  | 175.7                             | 33.8    | 38.5                | 27.9                | 75.5       |
| Operating leases under restructuring <sup>(4)</sup>                       | 62.0                              | 10.5    | 15.9                | 14.0                | 21.6       |
| Purchase commitments for inventory, property and equipment <sup>(5)</sup> | 34.8                              | 10.1    | 13.8                | 10.9                | —          |
| Total contractual cash obligations  | \$3,756.1                         | \$527.3 | \$689.0             | \$437.1             | \$2,102.7  |

Holder of the 1.0% 2035 Debentures have the right to require us to redeem the debentures on December 15, 2022, 2027 and 2032. Holders of the 2031 Debentures have the right to require us to redeem the debentures on November 1, 2017, 2021, and 2026. Holders of the 1.5% 2035 Debentures have the right to require us to redeem the debentures on November 1, 2021, 2026, and 2031.

Interest per annum is due and payable semi-annually under 1.0% 2035 Debentures at a rate of 1.0%, under 2031 Debentures at a rate of 2.75%, under 1.25% 2025 Debentures at a rate of 1.25% and under 1.5% 2035 Debentures at a rate of 1.5%. Interest per annum is due and payable semi-annually on the 5.375% Senior Notes at a rate of 5.375% and 6.0% Senior Notes at a rate of 6.0%.

Letters of Credit are in place primarily to secure future operating lease payments.

Obligations include contractual lease commitments related to facilities that were part of restructuring plans. As of

September 30, 2017, we have subleased certain of the facilities with total sublease income of \$47.9 million through fiscal year 2027.

These amounts include non-cancelable purchase commitments for property and equipment as well as inventory in the normal course of business to fulfill customers' orders currently scheduled in our backlog.

The summary above does not include unrecognized tax benefits of \$34.1 million as of September 30, 2017. We do not expect a significant change in the amount of unrecognized tax benefits within the next 12 months. We estimate that none of this amount will be paid within the next year and we are currently unable to reasonably estimate the timing of payments for the remainder of the liability.

Contingent Liabilities and Commitments

In connection with certain acquisitions, we may agree to make contingent cash payments to the selling shareholders of the acquired companies as deferred acquisition consideration or upon the achievement of specified objectives. As of September 30,

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2017, we recorded \$19.5 million of deferred acquisition consideration, which was settled in cash upon the conclusion of an indemnity period in November 2017. As of September 30, 2017, we may be required to pay the selling shareholders up to \$22.8 million contingent upon achieving specified performance goals, including the achievement of future bookings and sales targets related to the products of the acquired entities. Additionally, as of September 30, 2017, the remaining deferred payment obligations of \$27.6 million to certain former shareholders, which are contingent upon their continued employment, will be recognized ratably as compensation expense over the remaining requisite service periods.

### Financial Instruments

We use financial instruments to manage our foreign exchange risk. We operate our business in countries throughout the world and transact business in various foreign currencies. Our foreign currency exposures typically arise from transactions denominated in currencies other than the functional currency of our operations. We have a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effect of certain foreign currency exposures. Our program is designed so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. Generally, we enter into such contracts for less than 90 days and have no cash requirements until maturity. At September 30, 2017 and 2016, we had outstanding contracts with a total notional value of \$69.0 million and \$215.2 million, respectively.

From time to time we enter into agreements that allow us to issue shares of our common stock as part or all of the consideration related to business acquisitions, partnering and technology acquisition activities. Some of these shares are issued subject to security price guarantees, which are accounted for as derivatives. We have determined that these instruments would not be considered equity instruments if they were freestanding. Certain of the security price guarantees require payment from either us to a third party, or from a third party to us, based upon the difference between the price of our common stock on the issue date and an average price of our common stock approximately six months following the issue date. We have also issued minimum price guarantees that may require payments from us to a third party based on the average share price of our common stock approximately six months following the issue date if our stock price falls below the minimum price guarantee. Changes in the fair value of these security price guarantees are reported in other expense, net in our consolidated statements of operations. We have no outstanding shares subject to security price guarantees at September 30, 2017 or September 30, 2016. During the year ended September 30, 2015, we paid cash totaling \$0.3 million upon the settlement of these agreements.

### Defined Benefit Plans

We sponsor certain defined benefit plans that are offered primarily by certain of our foreign subsidiaries. Many of these plans were assumed through our acquisitions or are required by local regulatory requirements. We may deposit funds for these plans with insurance companies, third party trustees, or into government-managed accounts consistent with local regulatory requirements, as applicable. Our total defined benefit plan pension expenses were \$0.4 million, \$0.1 million and \$0.3 million for fiscal years 2017, 2016 and 2015, respectively. The aggregate projected benefit obligation as of September 30, 2017 and September 30, 2016 was \$37.2 million and \$32.1 million, respectively. The aggregate net liability of our defined benefit plans as of September 30, 2017 and September 30, 2016 was \$13.2 million and \$8.2 million, respectively.

### Off-Balance Sheet Arrangements

Through September 30, 2017, we have not entered into any off-balance sheet arrangements or material transactions with unconsolidated entities or other persons.

### CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, assumptions and



judgments, including those related to revenue recognition; allowance for doubtful accounts and sales returns; accounting for deferred costs; accounting for internally developed software; the valuation of goodwill and intangible assets; accounting for business combinations, including contingent consideration; accounting for stock-based compensation; accounting for derivative instruments; accounting for income taxes and related valuation allowances; and loss contingencies. Our management bases its estimates on historical experience, market participant fair value considerations, projected future cash flows and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

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We believe the following critical accounting policies most significantly affect the portrayal of our financial condition and results of operations and require our most difficult and subjective judgments.

**Revenue Recognition.** We derive revenue from the following sources: (1) software license agreements, including royalty and other usage-based arrangements, (2) professional services, (3) hosting services and (4) post-contract customer support ("PCS"). Our hosting services are generally provided through on-demand, usage-based or per transaction fee arrangements. Our revenue recognition policies for these revenue streams are discussed below.

The sale and/or license of software solutions and technology is deemed to have occurred when a customer either has taken possession of or has access to take immediate possession of the software or technology. In select situations, we sell or license intellectual property in conjunction with, or in place of, embedding our intellectual property in software. We also have non-software arrangements including hosting services where the customer does not take possession of the software at the outset of the arrangement either because they have no contractual right to do so or because significant penalties preclude them from doing so. Generally, we recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable and (iv) collectability is probable.

Revenue from royalties on sales of our software products by original equipment manufacturers ("OEMs"), where no services are included, is recognized in the quarter earned so long as we have been notified by the OEM that such royalties are due, and provided that all other revenue recognition criteria are met.

Software arrangements generally include PCS, which includes telephone support and the right to receive unspecified upgrades/enhancements on a when-and-if-available basis, typically for one to five years. Revenue from PCS is recognized ratably on a straight-line basis over the term that the maintenance service is provided. When PCS renews automatically, we provide a reserve based on historical experience for contracts expected to be canceled for non-payment. All known and estimated cancellations are recorded as a reduction to revenue and accounts receivable.

For our software and software-related multiple element arrangements, where customers purchase both software related products and software related services, we use vendor-specific objective evidence ("VSOE") of fair value for software and software-related services to separate the elements and account for them separately. VSOE exists when a company can support what the fair value of its software and/or software-related services is based on evidence of the prices charged when the same elements are sold separately. For the undelivered elements, VSOE of fair value is required in order to separate the accounting for various elements in a software and related services arrangement. We have established VSOE of fair value for the majority of our PCS, professional services, and training.

When we provide professional services considered essential to the functionality of the software, we recognize revenue from the professional services as well as any related software licenses on a percentage-of-completion basis whereby the arrangement consideration is recognized as the services are performed, as measured by an observable input. In these circumstances, we separate license revenue from professional service revenue for income statement presentation by allocating VSOE of fair value of the professional services as professional services and hosting revenue and the residual portion as product and licensing revenue. We generally determine the percentage-of-completion by comparing the labor hours incurred to-date to the estimated total labor hours required to complete the project. We consider labor hours to be the most reliable, available measure of progress on these projects. Adjustments to estimates to complete are made in the periods in which facts resulting in a change become known. When the estimate indicates that a loss will be incurred, such loss is recorded in the period identified. Significant judgments and estimates are involved in determining the percent complete of each contract. Different assumptions could yield materially different results.

We offer some of our products via a Software-as-a-Service ("SaaS") model also known as a hosted model. In this type of arrangement, we are compensated in three ways: (1) fees for up-front setup of the service environment (2) fees charged on a usage or per transaction basis, and (3) fees charged for on-demand service. Our up-front setup fees are nonrefundable. We recognize the up-front setup fees ratably over the longer of the contract lives, or the expected lives of the customer relationships. The usage-based or per transaction fees are due and payable as each individual transaction is processed through the hosting service and is recognized as revenue in the period the services are provided. The on-demand service fees are recognized ratably over our estimate of the useful life of devices on which the hosting service is provided.

We enter into multiple-element arrangements that may include a combination of our various software related and non-software related products and services offerings including software licenses, PCS, professional services, and our hosting services. In such arrangements, we allocate total arrangement consideration to software or software-related elements and any non-software element

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separately based on the selling price hierarchy group following our policies. We determine the selling price for each deliverable using VSOE of selling price, if it exists, or Third Party Evidence (“TPE”) of selling price. Typically, we are unable to determine TPE of selling price. Therefore, when neither VSOE nor TPE of selling price exist for a deliverable, we use our Estimate of Selling Price (“ESP”) for the purposes of allocating the arrangement consideration. We determine ESP for a product or service by considering multiple factors including, but not limited to, major project groupings, market conditions, competitive landscape, price list and discounting practices. Revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for each element.

When products are sold through distributors or resellers, title and risk of loss generally passes upon shipment, at which time the transaction is invoiced and the payment is due. Shipments to distributors and resellers without right of return are recognized as revenue upon shipment, provided all other revenue recognition criteria are met. Certain distributors and resellers have been granted rights of return for as long as the distributors or resellers hold the inventory. We cannot estimate historical returns from these distributors and resellers; and therefore, cannot use such estimates as the basis upon which to estimate future sales returns. As a result, we recognize revenue from sales to these distributors and resellers when the products are sold through to retailers and end-users.

When products are sold directly to retailers or end-users, we make an estimate of sales returns based on historical experience. The provision for these estimated returns is recorded as a reduction of revenue and accounts receivable at the time that the related revenue is recorded. If actual returns differ significantly from our estimates, such differences could have a material impact on our results of operations for the period in which the actual returns become known.

We record consideration given to a reseller as a reduction of revenue to the extent we have recorded cumulative revenue from the customer or reseller. However, when we receive an identifiable benefit in exchange for the consideration, and can reasonably estimate the fair value of the benefit received, the consideration is recorded as an operating expense.

We record reimbursements received for out-of-pocket expenses as revenue, with offsetting costs recorded as cost of revenue. Out-of-pocket expenses generally include, but are not limited to, expenses related to transportation, lodging and meals. We record shipping and handling costs billed to customers as revenue with offsetting costs recorded as cost of revenue.

Our revenue recognition policies require management to make significant estimates. Management analyzes various factors, including a review of specific transactions, historical experience, creditworthiness of customers and current market and economic conditions. Changes in judgments based upon these factors could impact the timing and amount of revenue and cost recognized and thus affects our results of operations and financial condition.

**Business Combinations.** We determine and allocate the purchase price of an acquired company to the tangible and intangible assets acquired and liabilities assumed as of the business combination date. The purchase price allocation process requires us to use significant estimates and assumptions, including fair value estimates, as of the business acquisition date, including:

- estimated fair values of intangible assets;
- estimated fair market values of legal performance commitments to customers, assumed from the acquiree under existing contractual obligations (classified as deferred revenue) at the date of acquisition;
- estimated fair market values of stock awards assumed from the acquiree that are included in the purchase price;
- estimated fair market value of required payments under contingent consideration provisions;
- estimated income tax assets and liabilities assumed from the acquiree; and
-

estimated fair value of pre-acquisition contingencies assumed from the acquiree.

While we use our best estimates and assumptions to determine the fair values of assets acquired and liabilities assumed at the date of acquisition, our estimates and assumptions are inherently uncertain and subject to refinement. As a result, within the measurement period, which is generally one year from the date of acquisition, we record adjustments to the assets acquired and liabilities assumed against goodwill in the period the amounts are determined. Adjustments identified subsequent to the measurement period are recorded within Acquisition-related costs, net.

Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently

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uncertain. Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:

- future expected cash flows from software license sales, support agreements, consulting contracts, hosting services, other customer contracts and acquired developed technologies and patents;
- expected costs to develop in-process research and development projects into commercially viable products and the estimated cash flows from the projects when completed;
- the acquired company's brand and competitive position, as well as assumptions about the period during which the acquired brand will continue to be used in the combined company's product portfolio; and
- discount rates.

Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

In connection with the purchase price allocations for our acquisitions, we estimate the fair market value of legal performance commitments to customers, which are classified as deferred revenue. The estimated fair market value of these obligations is determined and recorded as of the acquisition date.

We may identify certain pre-acquisition contingencies. If, during the purchase price allocation period, we are able to determine the fair values of a pre-acquisition contingencies, we will include that amount in the purchase price allocation. If we are unable to determine the fair value of a pre-acquisition contingency at the end of the measurement period, we will evaluate whether to include an amount in the purchase price allocation based on whether it is probable a liability had been incurred and whether an amount can be reasonably estimated. Subsequent to the end of the measurement period, any adjustment to amounts recorded for a pre-acquisition contingency will be included within acquisition-related cost, net in the period in which the adjustment is determined.

**Goodwill, Intangible and Other Long-Lived Assets and Impairment Assessments.** Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill and intangible assets with indefinite lives are not amortized, but rather the carrying amounts of these assets are assessed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Goodwill is tested for impairment annually on July 1, the first day of the fourth quarter of the fiscal year. In fiscal year 2017, as more fully described in Note 2, the Company elected to early adopt ASU 2017-04, "Simplifying the Test for Goodwill Impairment" for its annual goodwill impairment test. The new guidance removes Step 2 of the goodwill impairment test requiring a hypothetical purchase price allocation. Goodwill impairment, if any, is determined by comparing the reporting unit's fair value to its carrying value. An impairment loss is recognized in an amount equal to the excess of the reporting unit's carrying value over its fair value, up to the amount of goodwill allocated to the reporting unit. There is no goodwill impairment for fiscal years 2017, 2016 and 2015.

For the purpose of testing goodwill for impairment, all goodwill acquired in a business combination is assigned to one or more reporting units. A reporting unit represents an operating segment or a component within an operating segment for which discrete financial information is available and is regularly reviewed by segment management for performance assessment and resource allocation. Components of similar economic characteristics are aggregated into one reporting unit for the purpose of goodwill impairment assessment. Reporting units are identified annually and re-assessed periodically for recent acquisitions and any changes in segment reporting structure.

The carrying value of each reporting unit is determined based on the allocation of assets and liabilities to the reporting units based on the relative size of a reporting unit's revenues and operating expenses compared to our total revenues and operating expenses. Certain corporate assets and liabilities that are not directly attributable to the reporting units' operations and would not be transferred to hypothetical purchasers of the reporting units are excluded from the

reporting units' carrying values.

The fair value of each the reporting unit is determined using a combination of the income approach and the market approach. For the income approach, fair value is determined based on the present value of estimated future after-tax cash flows, discounted at an appropriate risk adjusted rate. We use our internal forecasts to estimate future after-tax cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlook for each reporting unit, which we believe are consistent with other market participants. Actual results may differ from those assumed in our forecasts. We derive our discount rates using a capital asset pricing model and analyzing published rates for industries relevant to our reporting units to estimate the

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weighted average cost of capital. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in our internally developed forecasts. Discount rates used in our reporting unit valuations ranged from 8.8% to 13.5% for fiscal year 2017. For the market approach, we use a valuation technique in which values are derived based on valuation multiples of comparable publicly traded companies. We assess each valuation methodology based upon the relevance and availability of the data at the time we perform the valuation and weight the methodologies appropriately. As of our annual impairment assessment date for fiscal year 2017, the estimated fair values of each of all the reporting units significantly exceeded their carrying values.

Long-lived assets with definite lives are tested for impairment whenever events or changes in circumstances indicate the carrying value of an asset or asset group may not be recoverable. Additionally, the remaining useful lives of long-lived assets are re-assessed periodically for any events or changes in circumstances that warrant changes in the useful lives. We assess the recoverability of the asset or asset group based on the undiscounted future cash flows the assets are expected to generate and recognize an impairment loss when estimated undiscounted future cash flows expected to result directly from the use of the assets plus any net proceeds expected from disposition of the assets are less than the carrying value of the assets. If an asset or asset group is deemed to be impaired, the amount of the impairment loss represents the excess of the asset or asset group's carrying value over its estimated fair value. Determining the fair values of a reporting units or long-lived assets involved the use of significant estimates and assumptions, which we believe to be reasonable, that are unpredictable and inherently uncertain. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, our ability to launch new product and new market penetrations, and determination of appropriate market comparables. Significant adverse changes including, significant declines in the asset markets, changes in our organizational structure, technological obsolescence, intensified competition, and deteriorating economic or market conditions, may result in (a) shortened estimated useful lives, (b) changes to reporting units or asset groups, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit, and/or (c) changes in previously determined assumptions or estimates. Such changes in assumptions and estimates may result in impairment of our goodwill and/or other long-lived assets, which could materially impact our future results of operations and financial conditions.

**Accounting for Stock-Based Compensation.** We recognize stock-based compensation expense over the requisite service period, based on the grant date fair value of the awards and the number of the awards expected to be vested based upon service and performance conditions. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock, and the fair value of stock options is estimated on the date of grant using the Black-Scholes model. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected dividends, share price volatility, forfeiture rates and the number of performance-based restricted stock units expected to be granted. If actual results differ significantly from these estimates, the actual stock-based compensation expense may significantly differ from our estimates.

**Income Taxes.** Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not after consideration of all available evidence. As the income tax returns are not due and filed until after the completion of our annual financial reporting requirements, the amounts recorded for the current period reflect estimates for the tax-based activity for the period. In addition, estimates are often required with respect to, among other things, the appropriate state and foreign income tax rates to use, the potential utilization of operating loss carry-forwards and valuation allowances required, if any, for tax assets that may not be realizable in the future. Tax laws and tax rates vary substantially in these jurisdictions, and are subject to change given the political and economic climate. We report and pay income tax based on operational results and applicable law. Our tax provision contemplates tax rates currently in effect to determine both our current and deferred tax provisions.



Any significant fluctuation in rates or changes in tax laws could cause our estimates of taxes we anticipate either paying or recovering in the future to change. Such changes could lead to either increases or decreases in our effective tax rate.

We have historically estimated the future tax consequence of certain items, including bad debts, inventory valuation, and accruals that cannot be deducted for income tax purposes until such expenses are paid or the related assets are disposed. We believe the procedures and estimates used in our accounting for income taxes are reasonable and in accordance with established tax law. The income tax estimates used have not resulted in material adjustments to income tax expense in subsequent periods when the estimates are adjusted to the actual filed tax return amounts.

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Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal years in which those temporary differences are expected to be recovered or settled. With respect to earnings expected to be indefinitely reinvested offshore, we do not accrue tax for the repatriation of such foreign earnings. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. If positive evidence regarding projected future taxable income, exclusive of reversing taxable temporary differences, existed it would be difficult for it to outweigh objective negative evidence of recent financial reporting losses. Generally, cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed.

As of September 30, 2017, we have \$229.4 million of valuation allowances recorded against all U.S. deferred tax assets and certain foreign deferred tax assets. If we are subsequently able to utilize all or a portion of the deferred tax assets for which the remaining valuation allowance has been established, then we may be required to recognize these deferred tax assets through the reduction of the valuation allowance which could result in a material benefit to our results of operations in the period in which the benefit is determined.

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit which is more likely than not to be realized upon ultimate settlement.

**Loss Contingencies.** We are subject to legal proceedings, lawsuits and other claims relating to labor, service and other matters arising in the ordinary course of business, as discussed in Note 16 of Notes to our Consolidated Financial Statements. On a quarterly basis, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgments are required for the determination of probability and the range of the outcomes. Due to the inherent uncertainties, estimates are based only on the best information available at the time. Actual outcomes may differ from our estimates. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions may have a material impact on our results of operations and financial position.

### **RECENTLY ADOPTED ACCOUNTING STANDARDS**

See Note 2 to the accompanying consolidated financial statements for a description of recently adopted accounting standards.

### **RECENTLY ISSUED ACCOUNTING STANDARDS**

See Note 2 to the accompanying consolidated financial statements for a description of certain recently issued accounting standards which may impact our financial statements in future reporting periods.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

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

#### **Exchange Rate Sensitivity**

We are exposed to changes in foreign currency exchange rates. Any foreign currency transaction, defined as a transaction denominated in a currency other than the local functional currency, will be reported in the functional

currency at the applicable exchange rate in effect at the time of the transaction. A change in the value of the functional currency compared to the foreign currency of the transaction will have either a positive or negative impact on our financial position and results of operations.

Assets and liabilities of our foreign entities are translated into U.S. dollars at exchange rates in effect at the balance sheet date and income and expense items are translated at average rates for the applicable period. Therefore, the change in the value of the

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U.S. dollar compared to foreign currencies will have either a positive or negative effect on our financial position and results of operations. Historically, our primary exposure has related to transactions denominated in the euro, British pound, Brazilian real, Canadian dollar, Japanese yen, Indian rupee and Hungarian forint.

A hypothetical change of 10% in appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2017 would not have a material impact on our revenue, operating results or cash flows in the coming year.

Periodically, we enter into forward exchange contracts to hedge against foreign currency fluctuations. These contracts may or may not be designated as cash flow hedges for accounting purposes. We have in place a program which primarily uses forward contracts to offset the risks associated with foreign currency exposures that arise from transactions denominated in currencies other than the functional currencies of our worldwide operations. The program is designed so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts. The outstanding contracts are not designated as accounting hedges and generally are for periods less than 90 days. The notional contract amount of outstanding foreign currency exchange contracts not designated as cash flow hedges was \$69.0 million at September 30, 2017. Based on the nature of the transactions for which the contracts were purchased, a hypothetical change of 10% in exchange rates would not have a material impact on our financial results.

### Interest Rate Sensitivity

We are exposed to interest rate risk as a result of our cash and cash equivalents and marketable securities.

At September 30, 2017, we held approximately \$874.1 million of cash and cash equivalents and marketable securities consisting of cash, money-market funds, bank deposits and a separately managed investment portfolio. Assuming a one percentage point increase in interest rates, our interest income on our investments classified as cash and cash equivalents and marketable securities would increase by approximately \$6.6 million per annum, based on the September 30, 2017 reported balances of our investment accounts.

At September 30, 2017, we had no outstanding debt exposed to variable interest rates.

### Equity Price Risk

We are exposed to equity price risk as a result of security price guarantees that we enter into from time to time.

Generally, these price guarantees are for a period of six months or less, and require payment from either us to a third party, or from the third party to us, based upon changes in our stock price during the contract term. As of September 30, 2017, we have no security price guarantees outstanding.

### 2031 Debentures, 1.5% 2035 Debentures, 1.0% 2035 Debentures and 1.25% 2025 Debentures

The fair values of our 2031 Debentures, 1.5% 2035 Debentures, 1.0% 2035 Debentures and 1.25% 2025 Debentures are dependent on the price and volatility of our common stock as well as movements in interest rates. The fair market values of these debentures will generally increase as the market price of our common stock increases and will decrease as the market price of our common stock decreases. The fair market values of these debentures will generally increase as interest rates fall and decrease as interest rates rise. The market value and interest rate changes affect the fair market values of these debentures, but do not impact our financial position, results of operations or cash flows due to the fixed nature of the debt obligations. However, increases in the value of our common stock above the stated trigger price for each issuance for a specified period of time may provide the holders of these debentures the right to convert each bond using a conversion ratio and payment method as defined in the debenture agreement.

Our debentures are traded in the financial markets, and the fair value at September 30, 2017 was \$378.7 million for the 2031 Debentures, based on an average of the bid and ask prices on that day. The conversion value on September 30, 2017 was approximately \$183.8 million. A 10% increase in the stock price over the September 30, 2017 closing price of \$15.72 would cause an estimated \$0.1 million increase to the fair value and a \$18.4 million increase to the conversion value of the debentures. The fair value at September 30, 2017 was \$263.1 million for the 1.5% 2035 Debentures, based on an average of the bid and ask prices on that day. The conversion value on September 30, 2017 was approximately \$178.4 million. A 10% increase in the stock price over the September 30, 2017 closing price of \$15.72 would cause an estimated \$8.5 million increase to the fair value and a \$17.8 million

increase to the conversion value of the debentures. The fair value at September 30, 2017 was \$636.3 million for the 1.0% 2035 Debentures, based on an average of the bid and ask prices on that day. The conversion value on September 30, 2017 was approximately \$390.7 million. A 10% increase in the stock price over the September 30, 2017 closing price of \$15.72 would cause

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an estimated \$18.0 million increase to the fair value and a \$39.1 million increase to the conversion value of the debentures. The fair value at September 30, 2017 was \$339.5 million for the 1.25% 2025 Debentures, based on an average of the bid and ask prices on that day. The conversion value on September 30, 2017 was approximately \$244.2 million. A 10% increase in the stock price over the September 30, 2017 closing price of \$15.72 would cause an estimated \$15.7 million increase to the fair value and a \$24.4 million increase to the conversion value of the debentures.

Item 8. Financial Statements and Supplementary Data

Nuance Communications, Inc. Consolidated Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Nuance Communications, Inc.  
Burlington, Massachusetts

We have audited the accompanying consolidated balance sheets of Nuance Communications, Inc. as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nuance Communications, Inc. at September 30, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Nuance Communications, Inc.'s internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 29, 2017 expressed an unqualified opinion thereon.



/s/ BDO USA, LLP  
BDO USA, LLP

Boston, Massachusetts  
November 29, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Nuance Communications, Inc.  
Burlington, Massachusetts

We have audited Nuance Communications, Inc.'s internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Nuance Communications, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Nuance Communications, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Nuance Communications, Inc. as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2017 and our report dated November 29, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP  
BDO USA, LLP

Boston, Massachusetts  
November 29, 2017



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CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Year Ended September 30,                 |            |             |
|---|--|------------|-------------|
|   | 2017                                     | 2016       | 2015        |
|   | (In thousands, except per share amounts) |            |             |
| Revenues:                                   |  |            |             |
| Professional services and hosting           | \$976,893                                | \$955,329  | \$919,479   |
| Product and licensing                       | 635,391                                  | 669,227    | 696,290     |
| Maintenance and support                     | 327,078                                  | 324,347    | 315,367     |
| Total revenues                              | 1,939,362                                | 1,948,903  | 1,931,136   |
| Cost of revenues:                           |  |            |             |
| Professional services and hosting           | 660,849                                  | 626,168    | 618,633     |
| Product and licensing                       | 74,004                                   | 86,379     | 91,839      |
| Maintenance and support                     | 54,094                                   | 54,077     | 54,424      |
| Amortization of intangible assets           | 64,853                                   | 62,876     | 63,646      |
| Total cost of revenues                      | 853,800                                  | 829,500    | 828,542     |
| Gross profit                                | 1,085,562                                | 1,119,403  | 1,102,594   |
| Operating expenses:                         |  |            |             |
| Research and development                    | 266,097                                  | 271,130    | 306,867     |
| Sales and marketing                         | 398,130                                  | 390,866    | 410,877     |
| General and administrative                  | 166,677                                  | 168,473    | 187,263     |
| Amortization of intangible assets           | 113,895                                  | 108,021    | 104,630     |
| Acquisition-related costs, net              | 27,740                                   | 17,166     | 14,379      |
| Restructuring and other charges, net        | 61,054                                   | 25,224     | 23,669      |
| Total operating expenses                    | 1,033,593                                | 980,880    | 1,047,685   |
| Income from operations                      | 51,969                                   | 138,523    | 54,909      |
| Other income (expense):                     |  |            |             |
| Interest income                             | 6,922                                    | 4,438      | 2,635       |
| Interest expense                            | (156,889 )                               | (132,732 ) | (118,564 )  |
| Other expense, net                          | (21,017 )                                | (8,490 )   | (19,452 )   |
| (Loss) income before income taxes           | (119,015 )                               | 1,739      | (80,472 )   |
| Provision for income taxes                  | 31,981                                   | 14,197     | 34,538      |
| Net loss                                    | \$(150,996)                              | \$(12,458) | \$(115,010) |
| Net loss per share:                         |  |            |             |
| Basic                                       | \$(0.52 )                                | \$(0.04 )  | \$(0.36 )   |
| Diluted                                     | \$(0.52 )                                | \$(0.04 )  | \$(0.36 )   |
| Weighted average common shares outstanding: |  |            |             |
| Basic                                       | 289,348                                  | 292,129    | 317,028     |
| Diluted                                     | 289,348                                  | 292,129    | 317,028     |

See accompanying notes.



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NUANCE COMMUNICATIONS, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

|   | Year Ended September 30, |            |             |
|---|--------------------------|------------|-------------|
|   | 2017                     | 2016       | 2015        |
|   | (In thousands)           |            |             |
| Net loss  | \$(150,996)              | \$(12,458) | \$(115,010) |
| Other comprehensive income (loss):              |                          |            |             |
| Foreign currency translation adjustment         | 13,027                   | 2,421      | (89,844 )   |
| Pension adjustments                             | 1,774                    | (1,741 )   | (3,041 )    |
| Unrealized (loss) gain on marketable securities | (9 )                     | 131        | (45 )       |
| Total other comprehensive income (loss), net    | 14,792                   | 811        | (92,930 )   |
| Comprehensive loss                              | \$(136,204)              | \$(11,647) | \$(207,940) |

See accompanying notes.

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CONSOLIDATED BALANCE SHEETS

|  | September 30,<br>2017                       | September 30,<br>2016 |
|--|---|-----------------------|
|  | (In thousands, except<br>per share amounts) |                       |
| <b>ASSETS</b>  |   |                       |
| Current assets:  |   |                       |
| Cash and cash equivalents  | \$592,299                                   | \$ 481,620            |
| Marketable securities  | 251,981                                     | 98,840                |
| Accounts receivable, less allowances for doubtful accounts of \$14,333 and \$11,038  | 395,392                                     | 380,004               |
| Prepaid expenses and other current assets  | 88,269                                      | 78,126                |
| Total current assets   | 1,327,941                                   | 1,038,590             |
| Marketable securities  | 29,844                                      | 27,632                |
| Land, building and equipment, net  | 176,548                                     | 185,169               |
| Goodwill   | 3,590,608                                   | 3,508,879             |
| Intangible assets, net   | 664,474                                     | 762,220               |
| Other assets   | 142,508                                     | 138,980               |
| Total assets   | \$5,931,923                                 | \$ 5,661,470          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |   |                       |
| Current liabilities:   |   |                       |
| Current portion of long-term debt  | \$376,121                                   | \$ —                  |
| Contingent and deferred acquisition payments   | 28,860                                      | 9,468                 |
| Accounts payable   | 94,604                                      | 94,599                |
| Accrued expenses and other current liabilities   | 245,901                                     | 237,659               |
| Deferred revenue   | 366,042                                     | 349,173               |
| Total current liabilities  | 1,111,528                                   | 690,899               |
| Long-term debt   | 2,241,283                                   | 2,433,152             |
| Deferred revenue, net of current portion   | 423,929                                     | 386,960               |
| Deferred tax liabilities   | 131,320                                     | 115,435               |
| Other liabilities  | 92,481                                      | 103,694               |
| Total liabilities  | 4,000,541                                   | 3,730,140             |
| Commitments and contingencies (Note 16)  |   |                       |
| Stockholders' equity:  |   |                       |
| Common stock, \$0.001 par value per share; 560,000 shares authorized; 293,938 and 291,384 shares issued and 290,187 and 287,633 shares outstanding, respectively | 294   | 291                   |
| Additional paid-in capital   | 2,629,245                                   | 2,492,992             |
| Treasury stock, at cost (3,751 shares)   | (16,788 )                                   | (16,788 )             |
| Accumulated other comprehensive loss   | (101,342 )                                  | (116,134 )            |
| Accumulated deficit  | (580,027 )                                  | (429,031 )            |
| Total stockholders' equity   | 1,931,382                                   | 1,931,330             |
| Total liabilities and stockholders' equity   | \$5,931,923                                 | \$ 5,661,470          |



See accompanying notes.

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Table of ContentsNUANCE COMMUNICATIONS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|   | Common Stock   |        | Additional  | Treasury Stock |            | Accumulated   | Accumulated | Total         |
|---|----------------|--------|-------------|----------------|------------|---------------|-------------|---------------|
|   | Shares         | Amount | Paid-In     | Shares         | Amount     | Other         | Deficit     | Stockholders' |
|   |                |        | Capital     |                |            | Comprehensive |             | Equity        |
|   | (In thousands) |        |             |                |            |               |             |               |
| Balance at September 30, 2014   | 324,621        | \$ 325 | \$2,924,033 | 3,751          | \$(16,788) | \$(24,015)    | \$(301,563) | \$2,581,992   |
| Issuance of common stock under employee stock plans   | 12,322         | 12     | 25,764      | —              | —          | —             | —           | 25,776        |
| Cancellation of restricted stock, and repurchase of common stock at cost for employee tax withholding | (3,917)        | (4)    | (59,904)    | —              | —          | —             | —           | (59,908)      |
| Stock-based compensation  | —              | —      | 175,714     | —              | —          | —             | —           | 175,714       |
| Repurchase and retirement of common stock   | (19,783)       | (19)   | (299,190)   | —              | —          | —             | —           | (299,209)     |
| Issuance of common stock in connection with acquisitions  | 288            | —      | 4,469       | —              | —          | —             | —           | 4,469         |
| Equity portion of convertible debt issuance/retirement, net of tax effect                             | —              | —      | 44,358      | —              | —          | —             | —           | 44,358        |
| Net loss  | —              | —      | —           | —              | —          | —             | (115,010)   | (115,010)     |
| Other comprehensive loss  | —              | —      | —           | —              | —          | (92,930)      | —           | (92,930)      |
| Balance at September 30, 2015   | 313,531        | 314    | 2,815,244   | 3,751          | (16,788)   | (116,945)     | (416,573)   | 2,265,252     |
| Issuance of common stock under employee stock plans   | 11,131         | 11     | 16,839      | —              | —          | —             | —           | 16,850        |
| Cancellation of restricted stock, and repurchase of common stock at cost for employee tax withholding | (3,619)        | (4)    | (68,666)    | —              | —          | —             | —           | (68,670)      |
| Stock-based compensation  | —              | —      | 162,884     | —              | —          | —             | —           | 162,884       |
| Repurchase and retirement of common stock   | (35,753)       | (36)   | (698,658)   | —              | —          | —             | —           | (698,694)     |
| Net issuance of common stock in connection with acquisitions and collaboration agreements             | 6,094          | 6      | 89,785      | —              | —          | —             | —           | 89,791        |

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|   |          |        |             |       |            |              |              |             |
|---|----------|--------|-------------|-------|------------|--------------|--------------|-------------|
| Equity portion of convertible debt issuance/retirement, net of tax effect                             | —        | —      | 175,564     | —     | —          | —            | —            | 175,564     |
| Net loss  | —        | —      | —           | —     | —          | —            | (12,458 )    | (12,458 )   |
| Other comprehensive income  | —        | —      | —           | —     | —          | 811          | —            | 811         |
| Balance at September 30, 2016   | 291,384  | 291    | 2,492,992   | 3,751 | (16,788 )  | (116,134 )   | (429,031 )   | 1,931,330   |
| Issuance of common stock under employee stock plans   | 10,709   | 11     | 17,372      | —     | —          | —            | —            | 17,383      |
| Cancellation of restricted stock, and repurchase of common stock at cost for employee tax withholding | (3,377 ) | (3 )   | (55,129 )   | —     | —          | —            | —            | (55,132 )   |
| Stock-based compensation  | —        | —      | 160,575     | —     | —          | —            | —            | 160,575     |
| Repurchase and retirement of common stock   | (5,797 ) | (6 )   | (99,071 )   | —     | —          | —            | —            | (99,077 )   |
| Net issuance of common stock in connection with acquisitions and charitable contributions             | 1,019    | 1      | 16,346      | —     | —          | —            | —            | 16,347      |
| Equity portion of convertible debt issuance/retirement, net of tax effect                             | —        | —      | 96,160      | —     | —          | —            | —            | 96,160      |
| Net loss  | —        | —      | —           | —     | —          | —            | (150,996 )   | (150,996 )  |
| Other comprehensive income  | —        | —      | —           | —     | —          | 14,792       | —            | 14,792      |
| Balance at September 30, 2017   | 293,938  | \$ 294 | \$2,629,245 | 3,751 | \$(16,788) | \$(101,342 ) | \$(580,027 ) | \$1,931,382 |

See accompanying notes.

Table of ContentsNUANCE COMMUNICATIONS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended September 30, |            |             |
|---|--------------------------|------------|-------------|
|   | 2017                     | 2016       | 2015        |
|   | (In thousands)           |            |             |
| Cash flows from operating activities:   |                          |            |             |
| Net loss  | \$(150,996)              | \$(12,458) | \$(115,010) |
| Adjustments to reconcile net loss to net cash provided by operating activities:   |                          |            |             |
| Depreciation and amortization   | 234,413                  | 231,474    | 230,645     |
| Stock-based compensation  | 154,272                  | 163,828    | 176,776     |
| Non-cash interest expense   | 59,295                   | 47,105     | 29,378      |
| Deferred tax provision  | 4,855                    | (12,014)   | 16,690      |
| Loss on extinguishment of debt  | 18,565                   | 4,851      | 17,714      |
| Fixed asset impairment  | 16,351                   | 2,480      | 6,253       |
| Other   | 8,403                    | (3,055)    | 3,590       |
| Changes in operating assets and liabilities, excluding effects of acquisitions:   |                          |            |             |
| Accounts receivable   | (6,349)                  | 25,450     | 41,657      |
| Prepaid expenses and other assets   | (14,661)                 | (9,645)    | (3,931)     |
| Accounts payable  | (1,207)                  | 38,206     | (3,218)     |
| Accrued expenses and other liabilities  | 9,040                    | 27,826     | (48,118)    |
| Deferred revenue  | 46,886                   | 61,747     | 135,151     |
| Net cash provided by operating activities   | 378,867                  | 565,795    | 487,577     |
| Cash flows from investing activities:   |                          |            |             |
| Capital expenditures  | (61,835)                 | (54,883)   | (58,039)    |
| Payments for business and technology acquisitions, net of cash acquired           | (113,769)                | (172,763)  | (83,278)    |
| Purchases of marketable securities and other investments                          | (332,470)                | (117,640)  | (148,697)   |
| Proceeds from sales and maturities of marketable securities and other investments | 173,864                  | 82,285     | 83,867      |
| Net cash used in investing activities   | (334,210)                | (263,001)  | (206,147)   |
| Cash flows from financing activities:   |                          |            |             |
| Payments of debt  | (634,055)                | (511,844)  | (261,051)   |
| Proceeds from issuance of long-term debt, net of issuance costs                   | 837,482                  | 959,358    | 253,224     |
| Payments for repurchase of common stock   | (99,077)                 | (699,472)  | (298,279)   |
| Proceeds from issuance of common stock from employee stock plans                  | 17,383                   | 16,850     | 25,776      |
| Cash used to net share settle employee equity awards                              | (54,099)                 | (68,636)   | (57,560)    |
| Net payments on other long-term liabilities                                       | (583)                    | (1,371)    | (3,003)     |
| Payments for settlement of other share-based derivatives, net                     | —                        | —          | (340)       |
| Net cash provided by (used in) financing activities                               | 67,051                   | (305,115)  | (341,233)   |
| Effects of exchange rate changes on cash and cash equivalents                     | (1,029)                  | 4,492      | (7,978)     |
| Net increase (decrease) in cash and cash equivalents                              | 110,679                  | 2,171      | (67,781)    |
| Cash and cash equivalents at beginning of year                                    | 481,620                  | 479,449    | 547,230     |
| Cash and cash equivalents at end of year  | \$592,299                | \$481,620  | \$479,449   |

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Presentation

Nuance Communications, Inc. (“we,” “Nuance,” or “the Company”) is a leading provider of voice recognition and natural language understanding solutions. We work with companies around the world, from banks and hospitals to airlines, telecommunications carriers, and automotive manufacturers and suppliers, who use our solutions and technologies to create better experiences for their customers and their users by enhancing the users' experience, increasing productivity and customer satisfaction. We offer our customers high accuracy in automated speech recognition, capabilities for natural language understanding, dialog and information management, biometric speaker authentication, text-to-speech, optical character recognition capabilities, and domain knowledge, along with professional services and implementation support. Using advanced analytics and algorithms, our technologies create personalized experiences and transform the way people interact with information and the technology around them. We market and sell our solutions and technologies around the world directly through a dedicated sales force, through our e-commerce website and also through a global network of resellers, including system integrators, independent software vendors, value-added resellers, distributors, hardware vendors, and telecommunications carriers. We operate in four reportable segments: Healthcare, Mobile, Enterprise, and Imaging. See Note 19 for a description of each of these segments.

We have completed several business acquisitions during the three years ended September 30, 2017, including TouchCommerce, Inc. ("TouchCommerce") on August 16, 2016 and numerous immaterial acquisitions. The results of operations from these acquired businesses have been included in our consolidated financial statements from their respective acquisition dates. See Note 3 for additional disclosure related to these acquisitions.

2. Summary of Significant Accounting Policies

Use of Estimates

The consolidated financial statements are prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"), which requires management to make estimates and assumptions. These estimates, judgments and assumptions can affect the reported amounts in the financial statements and the footnotes thereto. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, assumptions and judgments. Significant estimates inherent to the preparation of financial statements include: revenue recognition; the allowances for doubtful accounts and sales returns; accounting for deferred costs; accounting for internally developed software; the valuation of goodwill and intangible assets; accounting for business combinations, including contingent consideration; accounting for stock-based compensation; accounting for derivative instruments; accounting for income taxes and related valuation allowances; and loss contingencies. We base our estimates on historical experience, market participant fair value considerations, projected future cash flows, and various other factors that are believed to be reasonable under the circumstances. Actual amounts could differ significantly from these estimates.

Basis of Consolidation

The consolidated financial statements include our accounts and those of our wholly-owned domestic and foreign subsidiaries. Intercompany transactions and balances have been eliminated.

Revenue Recognition

We derive revenue from the following sources: (1) software license agreements, including royalty and other usage-based arrangements, (2) professional services, (3) hosting services and (4) post-contract customer support ("PCS"). Our hosting services are generally provided through on-demand, usage-based or per transaction fee arrangements. Generally, we recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable and (iv) collectability is probable. Our revenue recognition policies for these revenue streams are discussed below.

The sale and/or license of software solutions and technology is deemed to have occurred when a customer either has taken possession of or has access to take immediate possession of the software or technology. In select situations, we sell or license intellectual property in conjunction with, or in place of, embedding our intellectual property in software. We also have non-software arrangements including hosting services where the customer does not take possession of the software at the outset of the arrangement either because they have no contractual right to do so or because significant penalties preclude them from doing so.

Revenue from royalties on sales of our software products by original equipment manufacturers (“OEMs”), where no services are included, is recognized in the quarter earned so long as we have been notified by the OEM that such royalties are due, and provided that all other revenue recognition criteria are met.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Software arrangements generally include PCS, which includes telephone support and the right to receive unspecified upgrades/enhancements on a when-and-if-available basis, typically for one to five years. Revenue from PCS is generally recognized ratably on a straight-line basis over the term that the maintenance service is provided. When PCS renews automatically, we provide a reserve based on historical experience for contracts expected to be canceled for non-payment. All known and estimated cancellations are recorded as a reduction to revenue and accounts receivable.

For our software and software-related multiple element arrangements, where customers purchase both software related products and software related services, we use vendor-specific objective evidence (“VSOE”) of fair value for software and software-related services to separate the elements and account for them separately. VSOE exists when a company can support what the fair value of its software and/or software-related services is based on evidence of the prices charged when the same elements are sold separately. For the undelivered elements, VSOE of fair value is required in order to separate the accounting for various elements in a software and related services arrangement. We have established VSOE of fair value for the majority of our PCS, professional services, and training.

When we provide professional services considered essential to the functionality of the software, we recognize revenue from the professional services as well as any related software licenses on a percentage-of-completion basis whereby the arrangement consideration is recognized as the services are performed, as measured by an observable input. In these circumstances, we separate license revenue from professional service revenue for income statement presentation by allocating VSOE of fair value of the professional services as professional services and hosting revenue and the residual portion as product and licensing revenue. We generally determine the percentage-of-completion by comparing the labor hours incurred to-date to the estimated total labor hours required to complete the project. We consider labor hours to be the most reliable, available measure of progress on these projects. Adjustments to estimates to complete are made in the periods in which facts resulting in a change become known. When the estimate indicates that a loss will be incurred, such loss is recorded in the period identified. Significant judgments and estimates are involved in determining the percentage of completion of each contract. Different assumptions could yield materially different results.

We offer some of our products via a Software-as-a-Service (“SaaS”) model also known as a hosting model. In this type of arrangement, we are compensated in three ways: (1) fees for up-front setup of the service environment (2) fees charged on a usage or per transaction basis, and (3) fees charged for on-demand service. Our up-front setup fees are nonrefundable. We recognize the up-front setup fees ratably over the longer of the contract lives or the expected lives of the customer relationships. The usage-based or per transaction fees are due and payable as each individual transaction is processed through the hosting service and is recognized as revenue in the period the services are provided. The on-demand service fees are recognized ratably over our estimate of the useful life of devices on which the hosting service is provided.

We enter into multiple-element arrangements that may include a combination of our various software related and non-software related products and services offerings including software licenses, PCS, professional services, and our hosting services. In such arrangements, we allocate total arrangement consideration to software or software-related elements and any non-software element separately based on the selling price hierarchy group following our policies. We determine the selling price for each deliverable using VSOE of selling price, if it exists, or Third Party Evidence (“TPE”) of selling price. Typically, we are unable to determine TPE of selling price. Therefore, when neither VSOE nor TPE of selling price exist for a deliverable, we use our Estimate of Selling Price (“ESP”) for the purposes of allocating the arrangement consideration. We determine ESP for a product or service by considering multiple factors including, but not limited to, major project groupings, market conditions, competitive landscape, price list and discounting practices. Revenue allocated to each element is then recognized when the basic revenue recognition criteria are met



for each element.

When products are sold through distributors or resellers, title and risk of loss generally passes upon shipment, at which time the transaction is invoiced and the payment is due. Shipments to distributors and resellers without right of return are recognized as revenue upon shipment, provided all other revenue recognition criteria are met. Certain distributors and resellers have been granted rights of return for as long as the distributors or resellers hold the inventory. We cannot use historical returns from these distributors and resellers as a basis upon which to estimate future sales returns. As a result, we recognize revenue from sales to these distributors and resellers when the products are sold through to retailers and end-users.

When products are sold directly to retailers or end-users, we make an estimate of sales returns based on historical experience. The provision for these estimated returns is recorded as a reduction of revenue and accounts receivable at the time that the related

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

revenue is recorded. If actual returns differ significantly from our estimates, such differences could have a material impact on our results of operations for the period in which the actual returns become known.

We record consideration given to a reseller as a reduction of revenue to the extent we have recorded cumulative revenue from the customer or reseller. However, when we receive an identifiable benefit in exchange for the consideration, and can reasonably estimate the fair value of the benefit received, the consideration is recorded as an operating expense.

We record reimbursements received for out-of-pocket expenses as revenue, with offsetting costs recorded as cost of revenue. Out-of-pocket expenses generally include, but are not limited to, expenses related to transportation, lodging and meals. We record shipping and handling costs billed to customers as revenue with offsetting costs recorded as cost of revenue.

**Business Combinations**

We determine and allocate the purchase price of an acquired company to the tangible and intangible assets acquired and liabilities assumed as of the date of acquisition. Results of operations and cash flows of acquired companies are included in our operating results from the date of acquisition. The purchase price allocation process requires us to use significant estimates and assumptions, which include:

- estimated fair values of intangible assets;
- estimated fair values of legal performance commitments to customers, assumed from the acquiree under existing contractual obligations (classified as deferred revenue);
- estimated fair values of stock awards assumed from the acquiree that are included in the purchase price;
- estimated fair value of required payments under contingent consideration provisions;
- estimated income tax assets and liabilities assumed from the acquiree; and
- estimated fair value of pre-acquisition contingencies assumed from the acquiree.

The fair value of any contingent consideration is established at the acquisition date and included in the total purchase price. The contingent consideration is then adjusted to fair value, with any measurement-period adjustment recorded against goodwill. Adjustments identified subsequent to the measurement period are recorded within Acquisition-related costs, net.

While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, our estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the measurement period, which is generally one year from the acquisition date, any adjustment to the assets acquired and liabilities assumed is recorded against goodwill in the period in which the amount is determined. Any adjustment identified subsequent to the measurement period is included in operating results in the period in which the amount is determined.

**Goodwill and Other Long-Lived Assets**

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill and intangible assets with indefinite lives are not amortized, but rather the carrying amounts of these assets are assessed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Goodwill is tested for impairment annually on July 1, the first day of the fourth quarter of the fiscal year. In fiscal year 2017, the Company elected to early adopt ASU 2017-04, "Simplifying the Test for Goodwill Impairment" for its annual goodwill impairment test. ASU 2017-04 removes Step 2 of the goodwill impairment test requiring a hypothetical purchase price allocation. Goodwill impairment, if any, is determined by comparing the reporting unit's fair value to its carrying

value. An impairment loss is recognized in an amount equal to the excess of the reporting unit's carrying value over its fair value, up to the amount of goodwill allocated to the reporting unit. There is no goodwill impairment for fiscal years 2017, 2016, and 2015.

For the purpose of testing goodwill for impairment, all goodwill acquired in a business combination is assigned to one or more reporting units. A reporting unit represents an operating segment or a component within an operating segment for which discrete financial information is available and is regularly reviewed by segment management for performance assessment and resource allocation. Components of similar economic characteristics are aggregated into one reporting unit for the purpose of goodwill

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

impairment assessment. Reporting units are identified annually and re-assessed periodically for recent acquisitions and any changes in segment reporting structure.

The carrying value of each reporting unit is determined based on the allocation of assets and liabilities to the reporting units based on the relative size of a reporting unit's revenues and operating expenses compared to our total revenues and operating expenses. Certain corporate assets and liabilities that are not directly attributable to the reporting units' operations and would not be transferred to hypothetical purchasers of the reporting units are excluded from the reporting units' carrying values.

The fair value of each the reporting unit is determined using a combination of the income approach and the market approach. For the income approach, fair value is determined based on the present value of estimated future after-tax cash flows, discounted at an appropriate risk adjusted rate. We use our internal forecasts to estimate future after-tax cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlook for each reporting unit, which we believe are consistent with other market participants. Actual results may differ from those assumed in our forecasts. We derive our discount rates using a capital asset pricing model and analyzing published rates for industries relevant to our reporting units to estimate the weighted average cost of capital. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in our internally developed forecasts. Discount rates used in our reporting unit valuations ranged from 8.8% to 13.5% for fiscal year 2017. For the market approach, we use a valuation technique in which values are derived based on valuation multiples of comparable publicly traded companies. We assess each valuation methodology based upon the relevance and availability of the data at the time we perform the valuation and weight the methodologies appropriately. As of our annual impairment assessment date for fiscal year 2017, the estimated fair value of each reporting unit significantly exceeded its carrying value.

Our long-lived assets consist principally of technology, customer relationships, internally developed software, land, and building and equipment. Customer relationships are amortized over their estimated economic lives based on the pattern of economic benefits expected to be generated from the use of the asset. Other definite-lived assets are amortized over their estimated economic lives using the straight-line method.

Internally developed software consists of capitalized costs incurred during the application development stage, which include costs related design of the software configuration and interfaces, coding, installation and testing. Costs incurred during the preliminary project stage and post-implementation stage are expensed as incurred. Internally developed software is amortized over the estimated useful life, commencing on the date when the asset is ready for its intended use. Land, building and equipment are stated at cost and depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the related lease term or the estimated useful life. Depreciation is computed using the straight-line method. Repair and maintenance costs are expensed as incurred. The cost and related accumulated depreciation of sold or retired assets are removed from the accounts and any gain or loss is included in the results of operations for the period.

Long-lived assets with definite lives are tested for impairment whenever events or changes in circumstances indicate the carrying value of an asset or asset group may not be recoverable. Additionally, the remaining useful lives of long-lived assets are re-assessed periodically for any events or changes in circumstances that warrant changes in the useful lives. We assess the recoverability of the asset or asset group based on the undiscounted future cash flows the assets are expected to generate and recognize an impairment loss when estimated undiscounted future cash flows expected to result from the use of the assets plus any net proceeds expected from disposition of the assets are less than the carrying value of the assets. If an asset or asset group is deemed to be impaired, the amount of the impairment loss represents the excess of the asset or asset group's carrying value over its estimated fair value.

The impairment assessment of long-lived assets involves significant estimates and assumptions, which may be unpredictable and inherently uncertain. These estimates and assumptions include identification of reporting units and asset groups, long-term growth rates, profitability, estimated useful lives, comparable market multiples, and discount rates. Any changes in these assumptions could impact the result of the impairment assessment.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, including money market funds and time deposits with original maturities of 90 days or less.

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## NUANCE COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Marketable Securities

Marketable securities consist of time deposits and high-quality corporate debt instruments with stated maturities of more than 90 days. Investments are classified as available-for-sale and are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax.

## Accounts Receivable Allowances

Allowances for Doubtful Accounts: We record allowances for doubtful accounts for the estimated probable losses on uncollectible accounts receivable. The allowance is based upon the credit worthiness of our customers, our historical experience, the age of the receivable and current market and economic conditions. Receivables are written off against these allowances in the period they are determined to be uncollectible.

Allowances for Sales Returns: We record allowances for sales returns from customers for which we have the ability to estimate returns based on historical experience. The returns allowance is recorded as a reduction to revenue and accounts receivable at the time the related revenue is recorded. Receivables are written off against the allowance in the period the return is received.

For the years ended September 30, 2017, 2016 and 2015, the activity related to accounts receivable allowances was as follows (dollars in thousands):

|   | Allowance<br>for<br>Doubtful<br>Accounts | Allowance<br>for Sales<br>Returns |
|---|--|-----------------------------------|
| Balance at September 30, 2014           | \$ 11,491                                | \$ 9,928                          |
| Bad debt provision                      | 3,397                                    | —                                 |
| Write-offs, net of recoveries           | (5,704 )                                 | —                                 |
| Revenue adjustments, net                | —  | (1,756 )                          |
| Balance at September 30, 2015           | 9,184                                    | 8,172                             |
| Bad debt provisions                     | 3,103                                    | —                                 |
| Write-offs, net of recoveries           | (1,249 )                                 | —                                 |
| Revenue adjustments, net                | —  | (616 )                            |
| Balance at September 30, 2016           | 11,038                                   | 7,556                             |
| Bad debt provisions                     | 3,792                                    | —                                 |
| Write-offs, net of recoveries           | (497 )                                   | —                                 |
| Revenue adjustments, net <sup>(a)</sup> | —  | 27,750                            |
| Balance at September 30, 2017           | \$ 14,333                                | \$ 35,306                         |

<sup>(a)</sup> The increase in sales return reserves provisions relates to accommodations made to our customers in connection with our Healthcare transcription service interruption due to malware incident.

## Inventories

Inventories are stated at the lower of cost, computed using the first-in, first-out method, or market value and are included in other current assets. We regularly review inventory quantities on hand and record a provision for excess and/or obsolete inventory primarily based on future purchase commitments with our suppliers, and the estimated utility of our inventory as well as other factors including technological changes and new product development.

Inventories are included within Prepaid expenses and other current assets on the Consolidated balance sheets.

Inventories, net of allowances, consisted of the following (dollars in thousands):

|                      | September 30,<br>2017 | September 30,<br>2016 |
|----------------------|-----------------------|-----------------------|
| Components and parts | \$ 5,684              | \$ 9,994              |
| Finished products    | 404                   | 1,648                 |

Total Inventories      \$ 6,088      \$ 11,642

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Accounting for Collaboration Agreements

## Healthcare Collaboration Agreement

We have a collaboration agreement with a large healthcare provider and under the terms of the agreement we have been reimbursed for certain research and development costs related to specified product development projects with the objective of commercializing the resulting products. All intellectual property derived from these research and development efforts will be owned by us. Upon product introduction, we will pay royalties to this party based on the actual sales. During fiscal year 2016, the party could elect to continue with the arrangement, receiving royalties on future sales, or receive a buy-out payment from us and forgo future royalties. Royalties paid to this party upon commercialization of any products from these development efforts will be recorded as a reduction to revenue. The buy-out payment is calculated based on a number of factors including the net cash flows received and paid by the parties, as well as a minimum return on those net cash flows. As of September 30, 2015, we expected our partner to elect to receive a buy-out at the option date and recorded \$3.9 million as research and development expenses in our consolidated financial statements. In fiscal year 2016, our partner elected to receive the buy-out option and we issued 403,325 shares of our common stock to our partner as settlement for the \$6.5 million buy-out option.

## Intellectual Property Collaboration Agreements

We entered into collaboration agreements in order to gain access to a third party's extensive speech recognition technology, natural language technology, and semantic processing technology. Depending on the agreement, some or all intellectual property derived from these collaborations will be jointly owned by the two parties. For the majority of the developed intellectual property, we will have sole rights to commercialize such intellectual property for periods ranging between two to six years, depending on the agreement. Generally, the agreements call for annual payments in cash or shares of our common stock, at our election. For the year ended September 30, 2015, we recognized \$2.5 million as research and development expense related to these agreements in our consolidated statements of operations. For the year ended September 30, 2016 and 2015, we also recognized \$4.0 million and \$8.0 million, respectively, as sales and marketing expense for the exclusive commercialization rights related to one of these collaboration agreements in our consolidated statements of operations. As of September 30, 2017, the prepaid asset was completely amortized.

## Research and Development Expenses

Research and development costs related to software that is or will be sold or licensed externally to third-parties, or for which a substantive plan exists to sell or license such software in the future, incurred subsequent to the establishment of technological feasibility, but prior to the general release of the product, are capitalized and amortized to cost of revenue over the estimated useful life of the related products. We have determined that technological feasibility is reached shortly before the general release of our software products. Costs incurred after technological feasibility is established have not been material. We expense research and development costs as incurred.

## Acquisition-Related Costs, net

Acquisition-related costs include costs related to business and other acquisitions, including potential acquisitions. These costs consist of (i) transition and integration costs, including retention payments, transitional employee costs and earn-out payments, and other costs related to integration activities; (ii) professional service fees, including financial advisory, legal, accounting, and other outside services incurred in connection with acquisition activities, and disputes and regulatory matters related to acquired entities; and (iii) fair value adjustments to acquisition-related contingencies.

The components of acquisition-related costs, net are as follows (dollars in thousands):

|                                  | 2017     | 2016     | 2015     |
|----------------------------------|----------|----------|----------|
| Transition and integration costs | \$15,224 | \$6,070  | \$10,071 |
| Professional service fees        | 12,622   | 10,876   | 8,441    |
| Acquisition-related adjustments  | (106 )   | 220      | (4,133 ) |
| Total                            | \$27,740 | \$17,166 | \$14,379 |





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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Advertising Costs

Advertising costs are expensed as incurred and recorded within sales and marketing expenses. The advertising costs capitalized as of September 30, 2017, 2016 and 2015 are de minimis. We incurred advertising costs of \$22.8 million, \$27.8 million and \$32.1 million for fiscal years 2017, 2016 and 2015, respectively.

## Convertible Debt

We bifurcate the debt and equity (the contingently convertible feature) components of our convertible debt instruments in a manner that reflects our nonconvertible debt borrowing rate at the time of issuance. The equity components of our convertible debt instruments are recorded within stockholders' equity with an allocated issuance premium or discount. The debt issuance premium or discount is amortized to interest expense in our consolidated statement of operations using the effective interest method over the expected term of the convertible debt.

## Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits related to net operating loss carryforwards, to the extent that realization of such benefits is more likely than not after consideration of all available evidence. Deferred tax assets and liabilities are measured using the expected enacted tax rates applicable to the taxable income in the future periods in which those temporary differences are expected to be recovered or settled. We do not accrue income taxes for foreign earnings that are expected to be indefinitely reinvested.

We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. The weights assigned to the positive and negative evidences are commensurate with the extent to which the evidence may be objectively verified. If positive evidence regarding projected future taxable income, exclusive of reversing taxable temporary differences, existed it would be difficult for it to outweigh objective negative evidence of recent financial reporting losses. Generally, cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed.

As of September 30, 2017 and 2016, valuation allowances have been established for all U.S. and for certain foreign deferred tax assets which we believe do not meet the "more likely than not" criteria for recognition. If we are subsequently able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been established, then we may be required to recognize these deferred tax assets through the reduction of the valuation allowance which could result in a material benefit to our results of operations in the period in which the benefit is determined.

## Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, reflected in the consolidated statements of stockholders' equity, consisted of the following (dollars in thousands):

|  | 2017        | 2016         | 2015         |
|--|-------------|--------------|--------------|
| Foreign currency translation adjustment            | \$(94,247 ) | \$(107,274 ) | \$(109,695 ) |
| Unrealized gains (losses) on marketable securities | 77          | 86           | (45 )        |
| Net unrealized losses on post-retirement benefits  | (7,172 )    | (8,946 )     | (7,205 )     |
| Accumulated other comprehensive loss               | \$(101,342) | \$(116,134)  | \$(116,945)  |

No income tax provisions or benefits is recorded for foreign currency translation adjustment as the undistributed earnings in our foreign subsidiaries are expected to be indefinitely reinvested.

## Concentration of Risk

Financial instruments that are potentially subject to significant concentrations of credit risk principally consist of cash, cash equivalents, marketable securities and trade accounts receivable. We place our cash and cash equivalents and marketable securities with financial institutions with high credit ratings. As part of our cash and investment

management processes, we perform periodic evaluations of the credit standing of the financial institutions with whom we maintain deposits, and have not recorded any credit

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

losses to-date. For trade accounts receivable, we perform ongoing credit evaluations of our customers' financial condition and limit the amount of credit extended when deemed appropriate. No customer accounted for more than 10% of our net accounts receivable balance at September 30, 2017 and 2016 or 10% of our revenue for fiscal years 2017, 2016 or 2015.

**Foreign Currency Translation**

The functional currency of a foreign subsidiary is generally the local currency. We translate the financial statements of foreign subsidiaries to U.S. dollars using month-end exchange rates for assets and liabilities, and average rates for the reporting period for revenues, costs, and expenses. We record translation gains and losses in accumulated other comprehensive loss as a component of stockholders' equity. We record net foreign exchange transaction gains and losses resulting from the conversion of the transaction currency to the functional currency within in other expense, net. Foreign currency transaction losses for fiscal years 2017 and 2016 were \$1.4 million and \$1.5 million, respectively. Foreign currency transaction gains for fiscal year 2015 were de minimis.

**Financial Instruments and Hedging Activities**

We use forward currency exchange contracts to manage our exposure to fluctuations in foreign currency for certain transactions. In order for instruments to be designated as hedges, specific criteria must be met, including (i) formal documentation must exist for both the hedging relationship and our risk management objectives and strategies for undertaking the hedging activities, (ii) at the inception and on an ongoing basis, the hedging relationship is expected to be highly effective in offsetting changes in fair value attributed to the hedged risk during the period that the hedge is designated, and (iii) an assessment of effectiveness is required whenever financial statements or earnings are reported. The effective portion of changes in the fair values of contracts designated as cash flow hedges is recorded in equity as a component of accumulated other comprehensive income (loss) until the hedged item affects earnings. Once the underlying forecasted transaction is realized, the changes of fair values of instruments designated as hedges reclassified from accumulated other comprehensive loss to the statement of operations, in the appropriate income statement line items. Any ineffective portion of the instruments designated as cash flow hedges is recognized in current earnings. We report cash flows arising from derivative financial instruments designated as fair value or cash flow hedges consistent with the classification of the cash flows from the underlying hedged items that these derivatives are hedging. No forward exchange contracts are designated as hedges for fiscal year 2017, 2016, or 2015. Changes in the fair values of the forward currency exchange contracts are recorded within other expense, net. Cash flows related to investments and settlements of forward currency exchange contracts are included within cash flows from investing activities.

**Stock-Based Compensation**

We recognize stock-based compensation expense over the requisite service period, based on the grant date fair value of the awards and the number of the awards expected to be vested based upon service and performance conditions, net of forfeitures. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock, and the fair value of stock options is estimated on the date of grant using the Black-Scholes model. Historically, we recognized excess tax benefit within Additional Paid-in Capital to the extent that the benefit was utilized to reduce current tax payables. Effective the fourth quarter of fiscal year 2017, as a result of the early adoption of ASU 2016-09 as more fully discussed below, we record any tax effect related to stock-based awards through the consolidated statements of operations. Excess tax benefits are recognized as deferred tax assets upon settlement and are subject to regular review for valuation allowance.

**Net Loss Per Share**

Basic net loss or income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares, giving effect to potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of stock options, restricted stock units, contingently issuable shares under earn-out agreements, and potential issuance of stock upon conversion of our convertible debentures, as more fully described in Note 9. In the event of conversion, each convertible debenture entitles the holder to receive in cash the principal amount with any accrued interest, and in

cash or common stock, at our election, any excess of conversion value over the principal amount plus accrued interest. Therefore, only the shares of common stock potentially issuable upon conversion, if any, are considered dilutive to the weighted average common shares calculation.

For fiscal year 2017, 2016 and 2015, respectively, 7.8 million, 8.8 million, and 10.7 million shares of common stock equivalent securities were excluded from the computation of diluted net loss per share as the inclusion would be anti-dilutive due to the net loss reported for these periods.

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Recently Adopted Accounting Standards

During January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, "Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The standard is effective for annual or interim impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Effective June 2017, we early adopted this standard and the adoption had no impact on our consolidated financial statements. See Note 4, Goodwill and Intangibles Assets, for further information.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business" ("ASU 2017-01"), which provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 requires entities to use a screen test to determine when an integrated set of assets and activities is not a business or if the integrated set of assets and activities needs to be further evaluated against the framework. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017 and the interim periods included herewith, with early adoption permitted. Effective January 2017, we early adopted the guidance and the adoption had no material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax effects, statutory withholding requirements, forfeitures, and classification on the statement of cash flows. ASU 2016-09 is effective for us in the first quarter of fiscal year 2018, and early application is permitted. Effective the fourth quarter of fiscal year 2017, we early adopted the guidance using a modified retrospective approach. As a result, accumulated excess tax benefit of \$76.9 million was recognized as a deferred tax asset with a full valuation allowance against it. Additionally, we continued to estimate the number of awards expected to be vested. The early adoption had no material impact on our consolidated financial statements for fiscal year 2017 or the interim periods within.

Effective October 1, 2016, we implemented ASU No. 2015-02, "Amendments to the Consolidation Analysis" ("ASU 2015-02"). The amendments in ASU 2015-02 provide guidance on evaluating whether a company should consolidate certain legal entities. In accordance with the guidance, all legal entities are subject to reevaluation under the revised consolidation model. The implementation of ASU 2015-02 had no impact on our consolidated financial statements.

Effective October 1, 2016, we implemented ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"), to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. The implementation of ASU 2014-15 had no impact on our consolidated financial statements.

Effective October 1, 2016, we implemented ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. The implementation of ASU 2014-12 had no impact on our consolidated financial statements.

Recently Issued Accounting Standards

From time to time, new accounting pronouncements are issued by the FASB and are adopted by us as of the specified effective dates. Unless otherwise discussed, such pronouncements did not have or will not have a significant impact on our consolidated financial position, results of operations or cash flows, or do not apply to our operations.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which provides guidance on the classification of certain specific cash flow issues including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. The standard requires the use of a retrospective approach to all periods presented, but may be applied prospectively if retrospective application would be

impracticable. ASU 2016-15 is effective for us in the first quarter of fiscal year 2019, and early application is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-15 on our statement of cash flows, but do not expect it to have a material impact.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is effective for us in the first quarter of fiscal year 2020, and early application is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our consolidated financial statements, and we currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of ASU 2016-02, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption. In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Although ASU 2016-01 retains many current requirements, it significantly revises accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments and is effective for us in the first quarter of fiscal year 2019. Based on the composition of our investment portfolio, we do not believe the adoption of ASU 2016-01 will have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606" ("ASU 2014-09"), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 permits two methods of adoption: (i) retrospective to each prior reporting period presented; or (ii) retrospective with the cumulative effect of initially applying the guidance recognized at the date of initial application. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. Accordingly, the updated standard is effective for us in the first quarter of fiscal 2019 and we do not plan to early adopt. In the first quarter of fiscal 2017, we commenced a project to assess the potential impact of the new standard on our consolidated financial statements and related disclosures. This project also includes the assessment and enhancement of our internal processes and systems to address the new standard. While we are continuing to assess all potential impacts of the new standard, we currently believe the most significant impact relates to our accounting for arrangements that include term-based software licenses bundled with maintenance and support. Under current GAAP, the revenue attributable to these software licenses is recognized ratably over the term of the arrangement because vendor-specific objective evidence ("VSOE") does not exist for the undelivered maintenance and support element as it is not sold separately. The requirement to have VSOE for undelivered elements to enable the separation of revenue for the delivered software licenses is eliminated under the new standard. Accordingly, under the new standard we will be required to recognize as revenue a portion of the arrangement fee upon delivery of the software license. While we currently expect revenue related to our professional services and cloud offerings to remain substantially unchanged, we are still in the process of evaluating the impact of the new standard on these arrangements. We plan to adopt this guidance beginning on October 1, 2018 and apply the cumulative catch-up transition method, with a cumulative adjustment to retained earnings as opposed to retrospectively adjusting prior periods.

### 3. Business Acquisitions



As part of our business strategy, we have acquired, and may acquire in the future, certain businesses and technologies primarily to expand our products and service offerings.

Fiscal Year 2017 Acquisitions

In fiscal year 2017, we acquired several businesses in our Enterprise, Healthcare and Mobile segments that were not significant individually or in the aggregate. The total aggregate consideration for these acquisitions was \$97.2 million, including the issuance of 0.8 million shares of our common stock valued at \$13.4 million and an \$8.3 million estimated fair value for future contingent payments. The results of operations of the acquired entities have been included within our consolidated results of operations from the acquisition dates.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We are still finalizing the fair value estimates of assets acquired and liabilities assumed in these acquisitions. These fair value estimates are subject to change as we obtain additional information during the measurement periods up to one year from the acquisitions. There were no significant changes to the fair value estimates during fiscal year 2017. We have not furnished pro forma financial information or the acquired entities' results of operations for the post-acquisition periods, as such acquisitions were not material, individually or in the aggregate, to our consolidated results of operations.

## Fiscal Year 2016 Acquisitions

## Acquisition of TouchCommerce, Inc.

In August 2016, we acquired all of the outstanding stock of TouchCommerce. TouchCommerce is a provider of omni-channel solutions to engage their customers on any device through online chat, guides, personalized content, and other automated tools, resulting in enhanced customer experience, increased revenue and reduced support costs. We expected this acquisition to expand our customer care solutions with a range of new digital engagement offerings, including live chat, customer analytics and personalization solutions within our Enterprise segment. We expected to be able to provide an end-to-end engagement platform that merges intelligent self-service with assisted service to increase customer satisfaction, strengthen customer loyalty and improve business results. The aggregate consideration for this transaction was \$217.5 million, and included \$113.0 million paid in cash and \$85.0 million paid in our common stock. The remaining \$19.5 million was settled in cash at our election upon the conclusion of an indemnity period in November 2017. The acquisition was a stock purchase and the goodwill resulting from this acquisition is not deductible for tax purposes. The results of operations of TouchCommerce was included within our Enterprise segment from the acquisition date.

A summary of the final allocation of the purchase consideration for our TouchCommerce acquisition is as follows (dollars in thousands):

|   | TouchCommerce |
|---|---------------|
| Purchase consideration:                       |               |
| Cash  | \$ 113,008    |
| Common stock <sup>(a)</sup>                   | 85,000        |
| Deferred acquisition payment                  | 19,458        |
| Total purchase consideration                  | \$ 217,466    |
| Allocation of the purchase consideration:     |               |
| Cash  | \$ 137        |
| Accounts receivable <sup>(b)</sup>            | 14,897        |
| Goodwill                                      | 117,576       |
| Identifiable intangible assets <sup>(c)</sup> | 110,800       |
| Other assets                                  | 1,521         |
| Total assets acquired                         | 244,931       |
| Current liabilities                           | (4,134 )      |
| Deferred tax liability                        | (19,913 )     |
| Deferred revenue                              | (2,784 )      |
| Other long-term liabilities                   | (634 )        |
| Total liabilities assumed                     | (27,465 )     |
| Net assets acquired                           | \$ 217,466    |

(a) 5,749,807 shares of our common stock valued at \$14.78 per share were issued at closing.

(b) Accounts receivable have been recorded at their estimated fair values and the fair value reserve was not material.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- (c) The following are the identifiable intangible assets acquired and their respective weighted average useful lives, as determined based on preliminary valuations (dollars in thousands):

|                               | TouchCommerce |  |
|-------------------------------|---------------|--|
|                               | Amount        | Weighted<br>Average<br>Life<br>(Years) |
| Core and completed technology | \$26,000      | 6.0                                    |
| Customer relationships        | 81,600        | 10.0                                   |
| Trade names                   | 3,200         | 5.0                                    |
| Total                         | \$110,800     |  |

## Other Fiscal Year 2016 Acquisitions

During fiscal year 2016, we acquired several other businesses, in our Healthcare segment that were not significant individually or in the aggregate. The total aggregate cash consideration for these acquisitions was \$50.4 million including an estimated fair value for future contingent payments. The results of operations of these acquisitions have been included in our financial results since their respective acquisition dates.

Pro forma results of operations have not been presented because the effects of the business combinations completed in fiscal year 2016, individually and in aggregate, were not material to our consolidated financial results. We have also not presented revenue or the results of operations for each of these business combinations, from the date of acquisition, as they were not material to our consolidated financial results.

The fair value estimates for the assets acquired and liabilities assumed for acquisitions completed during fiscal year 2016 were based upon preliminary calculations and valuations, and our estimates and assumptions for each of these acquisitions are subject to change as we obtain additional information during the respective measurement periods (up to one year from the respective acquisition dates). The primary areas of preliminary estimates that were not yet finalized related to certain assets and liabilities acquired. There were no significant changes to the fair value estimates during the current year.

## Fiscal Year 2015 Acquisitions

During fiscal year 2015, we acquired several businesses in our Mobile and Healthcare segments that were not significant individually or in the aggregate. The total aggregate cash consideration for these acquisitions was \$64.9 million, including an estimated fair value for future contingent payments. The results of operations of these acquisitions have been included in our consolidated financial results since their respective acquisition dates.

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## NUANCE COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 4. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for our reportable segments for fiscal years 2017 and 2016 were as follows (dollars in thousands):

|  | Healthcare  | Mobile      | Enterprise | Imaging   | Total       |
|--|-------------|-------------|------------|-----------|-------------|
| Balance as of September 30, 2015       | \$1,294,518 | \$1,287,528 | \$539,307  | \$256,981 | \$3,378,334 |
| Acquisitions                           | 19,302      | —           | 118,040    | —         | 137,342     |
| Product realignment <sup>(a)</sup>     | 67,626      | (67,626)    | —          | —         | —           |
| Effect of foreign currency translation | (370)       | (2,505)     | (3,979)    | 57        | (6,797)     |
| Balance as of September 30, 2016       | 1,381,076   | 1,217,397   | 653,368    | 257,038   | 3,508,879   |
| Acquisitions                           | 32,985      | 13,660      | 14,415     | —         | 61,060      |
| Purchase accounting adjustments        | (49)        | —           | (463)      | —         | (512)       |
| Effect of foreign currency translation | 4,322       | 9,953       | 6,152      | 754       | 21,181      |
| Balance as of September 30, 2017       | \$1,418,334 | \$1,241,010 | \$673,472  | \$257,792 | \$3,590,608 |

In the first quarter of fiscal year 2016, we reorganized the organizational management and oversight of our Dragon <sup>(a)</sup>Consumer business ("DNS"), which, as a result, was moved into our Healthcare segment from our Mobile segment.

As a result of the reorganization, \$67.6 million of goodwill related to our DNS reporting unit was reclassified from our Mobile segment into our Healthcare segment.

Intangible assets consist of the following as of September 30, 2017 and 2016, which includes licensed technology with a net book value of \$67.3 million and \$59.1 million, respectively (dollars in thousands):

|                                    | September 30, 2017    |                          |                     | Weighted Average Remaining Life (Years) |
|------------------------------------|-----------------------|--------------------------|---------------------|---|
|                                    | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |   |
| Customer relationships             | \$790,846             | \$ (338,511)             | \$452,335           | 7.2                                     |
| Technology and patents             | 447,119               | (264,562)                | 182,557             | 4.6                                     |
| Trade names, trademarks, and other | 58,923                | (29,341)                 | 29,582              | 2.9                                     |
| Total                              | \$1,296,888           | \$ (632,414)             | \$664,474           | 6.3                                     |

|                                    | September 30, 2016    |                          |                     | Weighted Average Remaining Life (Years) |
|------------------------------------|-----------------------|--------------------------|---------------------|---|
|                                    | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |   |
| Customer relationships             | \$969,267             | \$ (424,940)             | \$544,327           | 8.2                                     |
| Technology and patents             | 444,078               | (258,897)                | 185,181             | 4.7                                     |
| Trade names, trademarks, and other | 61,358                | (28,663)                 | 32,695              | 5.9                                     |
| Non-competition agreements         | 206                   | (189)                    | 17                  | 0.2                                     |
| Total                              | \$1,474,909           | \$ (712,689)             | \$762,220           | 7.3                                     |

Amortization expense for acquired technology and patents is included in the cost of revenue in the accompanying statements of operations and amounted to \$64.9 million, \$62.9 million and \$63.6 million in fiscal 2017, 2016 and 2015, respectively. Amortization expense for customer relationships, trade names, trademarks, and other, and non-competition agreements is included in operating expenses and amounted to \$113.9 million, \$108.0 million and \$104.6 million in fiscal 2017, 2016 and 2015, respectively.

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## NUANCE COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Estimated amortization expense for each of the five succeeding years as of September 30, 2017, is as follows (dollars in thousands):

| Year Ending September 30, | Cost of Revenue | Other Operating Expenses | Total     |
|---------------------------|-----------------|--------------------------|-----------|
| 2018                      | \$53,953        | \$89,697                 | \$143,650 |
| 2019                      | 38,071          | 82,533                   | 120,604   |
| 2020                      | 33,522          | 70,559                   | 104,081   |
| 2021                      | 24,585          | 62,939                   | 87,524    |
| 2022                      | 19,397          | 56,601                   | 75,998    |
| Thereafter                | 13,029          | 119,588                  | 132,617   |
| Total                     | \$182,557       | \$481,917                | \$664,474 |

## 5. Accounts Receivable

Accounts receivable, net consisted of the following (dollars in thousands):

|  | September 30, 2017 | September 30, 2016 |
|--|--------------------|--------------------|
| Trade accounts receivable                              | \$ 417,516         | \$ 383,714         |
| Unbilled accounts receivable under long-term contracts | 27,515             | 14,884             |
| Gross accounts receivable                              | 445,031            | 398,598            |
| Less: allowance for doubtful accounts                  | (14,333 )          | (11,038 )          |
| Less: allowance for sales returns                      | (35,306 )          | (7,556 )           |
| Accounts receivable, net                               | \$ 395,392         | \$ 380,004         |

## 6. Land, Building and Equipment, Net

Land, building and equipment, net consisted of the following (dollars in thousands):

|                                   | Useful Life (In Years) | September 30, 2017 | September 30, 2016 |
|-----------------------------------|------------------------|--------------------|--------------------|
| Land                              | —                      | \$ 2,400           | \$ 2,400           |
| Building                          | 30                     | 5,456              | 5,456              |
| Machinery and equipment           | 3-5                    | 144,130            | 121,676            |
| Computers, software and equipment | 3-5                    | 187,732            | 219,556            |
| Leasehold improvements            | 2-15                   | 34,478             | 34,051             |
| Furniture and fixtures            | 5-7                    | 19,171             | 16,780             |
| Construction in progress          | —                      | 9,121              | 7,804              |
| Subtotal                          |                        | 402,488            | 407,723            |
| Less: accumulated depreciation    |                        | (225,940 )         | (222,554 )         |
| Land, building and equipment, net |                        | \$ 176,548         | \$ 185,169         |

At September 30, 2017 and 2016, capitalized internally developed software costs, net was \$27.0 million and \$42.6 million, respectively, which are included within computers, software and equipment and construction in progress. Depreciation expense for fiscal years 2017, 2016 and 2015 was \$55.7 million, \$60.6 million and \$62.4 million, respectively, which included amortization expense of \$11.9 million, \$12.7 million and \$13.6 million, respectively, for internally developed software costs.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 7. Accrued Expenses and Other Current Liabilities

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

|                                     | September 30,<br>2017 | September 30,<br>2016 |
|-------------------------------------|-----------------------|-----------------------|
| Compensation                        | \$ 159,951            | \$ 154,028            |
| Accrued interest payable            | 26,285                | 20,409                |
| Cost of revenue related liabilities | 20,124                | 19,351                |
| Consulting and professional fees    | 12,649                | 18,001                |
| Facilities related liabilities      | 7,158                 | 7,382                 |
| Sales and marketing incentives      | 3,655                 | 6,508                 |
| Sales and other taxes payable       | 3,125                 | 2,708                 |
| Other                               | 12,954                | 9,272                 |
| Total                               | \$ 245,901            | \$ 237,659            |

## 8. Deferred Revenue

Deferred maintenance revenue consists of prepaid fees received for post-contract customer support for our products, including telephone support and the right to receive unspecified upgrades/updates on a when-and-if-available basis. Unearned revenue includes fees for up-front set-up of the service environment; fees charged for on-demand service; certain software arrangements for which we do not have fair value of post-contract customer support, resulting in ratable revenue recognition for the entire arrangement on a straight-line basis; and fees in excess of estimated earnings on percentage-of-completion service contracts.

Deferred revenue consisted of the following (dollars in thousands):

|                                  | September 30,<br>2017 | September 30,<br>2016 |
|----------------------------------|-----------------------|-----------------------|
| Current Liabilities:             |                       |                       |
| Deferred maintenance revenue     | \$ 162,958            | \$ 165,902            |
| Unearned revenue                 | 203,084               | 183,271               |
| Total current deferred revenue   | \$ 366,042            | \$ 349,173            |
| Long-term Liabilities:           |                       |                       |
| Deferred maintenance revenue     | \$ 60,298             | \$ 59,955             |
| Unearned revenue                 | 363,631               | 327,005               |
| Total long-term deferred revenue | \$ 423,929            | \$ 386,960            |



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 9. Debt

At September 30, 2017 and 2016, we had the following borrowing obligations (dollars in thousands):

|  | September 30,<br>2017 | September 30,<br>2016 |
|--|-----------------------|-----------------------|
| 5.625% Senior Notes due 2026, net of deferred issuance costs of \$5.7 million. Effective interest rate 5.625%.   | \$ 494,298            | \$ —                  |
| 5.375% Senior Notes due 2020, net of unamortized premium of \$1.0 million and \$3.0 million, respectively, and deferred issuance costs of \$2.3 million and \$7.3 million, respectively. Effective interest rate 5.375%.               | 448,630               | 1,046,851             |
| 6.000% Senior Notes due 2024, net of deferred issuance costs of \$2.1 million and \$2.4 million, respectively. Effective interest rate 6.000%.   | 297,910               | 297,601               |
| 1.00% Convertible Debentures due 2035, net of unamortized discount of \$140.9 million and \$163.5 million, respectively, and deferred issuance costs of \$6.9 million and \$8.2 million, respectively. Effective interest rate 5.622%. | 528,690               | 504,712               |
| 2.75% Convertible Debentures due 2031, net of unamortized discount of \$1.5 million and \$19.2 million, respectively, and deferred issuance costs of \$0.1 million and \$1.1 million, respectively. Effective interest rate 7.432%.    | 376,121               | 375,208               |
| 1.25% Convertible Debentures due 2025, net of unamortized discount of \$92.7 million, and deferred issuance costs of \$4.3 million. Effective interest rate 5.578%.  | 253,054               | —                     |
| 1.50% Convertible Debentures due 2035, net of unamortized discount of \$42.5 million and \$51.7 million, respectively, and deferred issuance costs of \$1.5 million and \$1.9 million, respectively. Effective interest rate 5.394%.   | 219,875               | 210,286               |
| Deferred issuance costs related to our Revolving Credit Facility   | (1,174)               | (1,506)               |
| Total debt   | 2,617,404             | 2,433,152             |
| Less: current portion  | 376,121               | —                     |
| Total long-term debt   | \$ 2,241,283          | \$ 2,433,152          |

The following table summarizes the maturities of our borrowing obligations as of September 30, 2017 (dollars in thousands):

|   | Convertible<br>Debentures<br>(1) | Senior<br>Notes | Total        |
|---|----------------------------------|-----------------|--------------|
| 2018  | \$ 377,740                       | \$ —            | \$ 377,740   |
| 2019  | —                                | —               | —            |
| 2020  | —                                | 450,000         | 450,000      |
| 2021  | —                                | —               | —            |
| 2022  | —                                | —               | —            |
| Thereafter                                    | 1,290,383                        | 800,000         | 2,090,383    |
| Total before unamortized discount             | 1,668,123                        | 1,250,000       | 2,918,123    |
| Less: unamortized discount and issuance costs | (290,383)                        | (10,336)        | (300,719)    |
| Total long-term debt                          | \$ 1,377,740                     | \$ 1,239,664    | \$ 2,617,404 |

Holder of the 1.0% 2035 Debentures have the right to require us to redeem the debentures on December 15, 2022, (1) 2027 and 2032. Holders of the 1.0% 2031 Debentures have the right to require us to redeem the debentures on November 1, 2017, 2021, and 2026. Holders of the 1.5% 2035 Debentures have the right to require us to redeem the debentures on November 1, 2021, 2026, and 2031.

5.625% Senior Notes due 2026

In December 2016, we issued \$500.0 million aggregate principal amount of 5.625% Senior Notes due on December 15, 2026 (the "2026 Senior Notes") in a private placement. The proceeds from the 2026 Senior Notes were approximately \$493.8 million, net of issuance costs, and we used the proceeds to repurchase a portion of our 2020 Senior Notes. The 2026 Senior Notes bear

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

interest at 5.625% per year, payable in cash semi-annually in arrears, beginning on June 15, 2017.

The 2026 Senior Notes are unsecured senior obligations and are guaranteed on an unsecured senior basis by certain of our domestic subsidiaries ("Subsidiary Guarantors"). The 2026 Senior Notes and the guarantees rank equally in right of payment with all of our and the Subsidiary Guarantors' existing and future unsecured senior debt and rank senior in right of payment to all of our and the Subsidiary Guarantors' future unsecured subordinated debt. The 2026 Senior Notes and guarantees effectively rank junior to all our secured debt and that of the Subsidiary Guarantors to the extent of the value of the collateral securing such debt and to all liabilities, including trade payables, of our subsidiaries that have not guaranteed the 2026 Senior Notes.

At any time before December 15, 2021, we may redeem all or a portion of the 2026 Senior Notes at a redemption price equal to 100% of the aggregate principal amount of the 2026 Senior Notes to be redeemed, plus a "make-whole" premium and accrued and unpaid interest to, but excluding, the redemption date. At any time on or after December 15, 2021, we may redeem all or a portion of the 2026 Senior Notes at certain redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date. At any time and from time to time before December 15, 2021, we may redeem up to 35% of the aggregate outstanding principal amount of the 2026 Senior Notes with the net cash proceeds received by us from certain equity offerings at a price equal to 105.625% of the aggregate principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, provided that the redemption occurs no later than 120 days after the closing of the related equity offering, and at least 50% of the original aggregate principal amount of the 2026 Senior Notes remains outstanding immediately thereafter. Upon the occurrence of certain asset sales or a change in control, we must offer to repurchase the 2026 Senior Notes at a price equal to 100% in the case of an asset sale, or 101% in the case of a change of control, of the principal amount plus accrued and unpaid interest to, but excluding, the repurchase date.

5.375% Senior Notes due 2020

On August 14, 2012, we issued \$700.0 million aggregate principal amount of 5.375% Senior Notes due on August 15, 2020 in a private placement. The net proceeds were approximately \$689.1 million, net of issuance costs, and bear interest at 5.375% per year, payable in cash semi-annually in arrears. On October 22, 2012, we issued, in a private placement, an additional \$350.0 million aggregate principal amount of our 5.375% Senior Notes due 2020 (collectively the "Notes"). The Notes were issued pursuant to the indenture agreement dated August 14, 2012, relating to our existing \$700.0 million aggregate principal amount of 5.375% Senior Notes due in 2020. Total proceeds received, net of issuance costs, were \$351.7 million.

The Notes are our unsecured senior obligations and are guaranteed (the "Guarantees") on an unsecured senior basis by certain of our domestic subsidiaries, (the "Subsidiary Guarantors"). The Notes and Guarantees rank equally in right of payment with all of our and the Subsidiary Guarantors' existing and future unsecured senior debt and rank senior in right of payment to all of our and the Subsidiary Guarantors' future unsecured subordinated debt. The Notes and Guarantees effectively rank junior to all secured debt of our and the Subsidiary Guarantors to the extent of the value of the collateral securing such debt and to all liabilities, including trade payables, of our subsidiaries that have not guaranteed the Notes.

At any time on or after August 15, 2016, we may redeem all or a portion of the Notes at certain redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date.

Upon the occurrence of certain asset sales or a change in control, we must offer to repurchase the Notes at a price equal to 100%, in the case of an asset sale, or 101%, in the case of a change of control, of the principal amount plus accrued and unpaid interest to, but excluding, the repurchase date.

In January 2017, we repurchased \$600.0 million in aggregate principal amount of our 2020 Senior Notes using cash and cash equivalents and the net proceeds from our 2026 Senior Notes issued in December 2016. As a result, we recorded an extinguishment loss of \$18.6 million in fiscal year 2017. In accordance with the authoritative guidance for debt instruments, a loss on extinguishment is equal to the difference between the reacquisition price and the net carrying amount of the extinguished debt, including any unamortized debt discount or issuance costs. Following this

activity, \$450.0 million in aggregate principal amount of our 2020 Senior Notes remains outstanding.

6.0% Senior Notes due 2024

In June 2016, we issued \$300.0 million aggregate principal amount of 6.0% Senior Notes due on July 1, 2024 (the "2024 Senior Notes") in a private placement. The proceeds from the 2024 Senior Notes were approximately \$297.5 million, net of issuance costs. The 2024 Senior Notes bear interest at 6.0% per year, payable in cash semi-annually in arrears.

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The 2024 Senior Notes are unsecured senior obligations and are guaranteed on an unsecured senior basis by our Subsidiary Guarantors. The 2024 Senior Notes and the guarantees rank equally in right of payment with all of our and the Subsidiary Guarantors' existing and future unsecured senior debt, including our obligations and those of each such Subsidiary Guarantor under our senior credit facility, and rank senior in right of payment to all of our and the Subsidiary Guarantors' future unsecured subordinated debt. The 2024 Senior Notes and guarantees effectively rank junior to all our secured debt and that of the Subsidiary Guarantors to the extent of the value of the collateral securing such debt and to all liabilities, including trade payables, of our subsidiaries that have not guaranteed the 2024 Senior Notes.

At any time before July 1, 2019, we may redeem all or a portion of the 2024 Senior Notes at a redemption price equal to 100% of the aggregate principal amount of the 2024 Senior Notes to be redeemed, plus a "make-whole" premium and accrued and unpaid interest to, but excluding, the redemption date. At any time on or after July 1, 2019, we may redeem all or a portion of the 2024 Senior Notes at certain redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date. At any time and from time to time before July 1, 2019, we may redeem up to 35% of the aggregate outstanding principal amount of the 2024 Senior Notes with the net cash proceeds received by us from certain equity offerings at a price equal to 106% of the aggregate principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, provided that the redemption occurs no later than 120 days after the closing of the related equity offering, and at least 50% of the original aggregate principal amount of the 2024 Senior Notes remains outstanding immediately thereafter.

Upon the occurrence of certain asset sales or a change in control, we must offer to repurchase the 2024 Senior Notes at a price equal to 100% in the case of an asset sale, or 101% in the case of a change of control, of the principal amount plus accrued and unpaid interest to, but excluding, the repurchase date.

**1.0% Convertible Debentures due 2035**

In December 2015, we issued \$676.5 million in aggregate principal amount of 1.0% Senior Convertible Debentures due in 2035 (the "1.0% 2035 Debentures"). Total proceeds were \$663.8 million, net of issuance costs, and we used a portion to repurchase \$38.3 million in aggregate principal on our 2.75% Senior Convertible Debentures due in 2031 (the "2031 Debentures") and to repay the aggregate principal balance of \$472.5 million on our term loan under the amended and restated credit agreement. The 1.0% 2035 Debentures bear interest at 1.0% per year, payable in cash semi-annually in arrears, beginning on June 15, 2016. In addition to ordinary interest and default additional interest, beginning with the semi-annual interest period commencing on December 15, 2022, contingent interest will accrue during any regular semi-annual interest period where the average trading price of our 1.0% 2035 Debentures for the ten trading day period immediately preceding the first day of such semi-annual period is greater than or equal to \$1,200 per \$1,000 principal amount of our 1.0% 2035 Debentures, in which case, contingent interest will accrue at a rate of 0.50% per annum of such average trading price. The 1.0% 2035 Debentures mature on December 15, 2035, subject to the right of the holders to require us to redeem the 1.0% 2035 Debentures on December 15, 2022, 2027, or 2032. The 1.0% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.0% 2035 Debentures. The 1.0% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries.

We account separately for the liability and equity components of the 1.0% 2035 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature and record the remainder in stockholders' equity. At issuance, we allocated \$495.4 million to long-term debt, and \$181.1 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through December 2022. If converted, the principal amount of the 1.0% 2035 Debentures is payable in cash and any amounts payable in excess of the principal amount will (based on an initial conversion rate, which represents an initial conversion price of approximately \$27.22 per share, subject to adjustment) be paid in cash or shares of our common stock, at our election,

only in the following circumstances and to the following extent: (i) prior to June 15, 2035, on any date during any fiscal quarter beginning after March 31, 2016 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for \$1,000 principal amount of the 1.0% 2035 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 1.0% 2035 Debentures; or (iv) at the option of the holder at any time on or after June 15, 2035. Additionally, we may redeem the 1.0% 2035 Debentures, in whole or in part, on or after

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

December 20, 2022 for cash at a price equal to 100% of the principal amount of the 1.0% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. Each holder shall have the right, at such holder's option, to require us to repurchase all or any portion of the 1.0% 2035 Debentures held by such holder on December 15, 2022, December 15, 2027, or December 15, 2032 at par plus accrued and unpaid interest. If we undergo a fundamental change or non-stock change of control (as described in the indenture for the 1.0% 2035 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the 1.0% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of September 30, 2017, none of the conversion criteria were met for the 1.0% 2035 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

2.75% Convertible Debentures due 2031

On October 24, 2011, we sold \$690.0 million of 2.75% Convertible Debentures due in 2031 in a private placement. Total proceeds, net of issuance costs, were \$676.1 million. The 2031 Debentures bear interest at 2.75% per year, payable in cash semi-annually in arrears. The 2031 Debentures mature on November 1, 2031, subject to the right of the holders to require us to redeem the 2031 Debentures on November 1, 2017, 2021, and 2026. The 2031 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 2031 Debentures. The 2031 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries.

We account separately for the liability and equity components of the 2031 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. At issuance, we allocated \$533.6 million to long-term debt, and \$156.4 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through November 2017.

In June 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to exchange, in a private placement, \$256.2 million in aggregate principal amount of our 2031 Debentures for approximately \$263.9 million in aggregate principal amount of our 1.5% 2035 Debentures. Upon repurchase we recorded an extinguishment loss of \$17.7 million in other expense, net, in the accompanying consolidated statements of operations. In December 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to repurchase \$38.3 million in aggregate principal with proceeds received from the issuance of our 1.0% 2035 Debentures. Upon repurchase we recorded an extinguishment loss of \$2.4 million in other expense, net, in the accompanying consolidated statements of operations. In accordance with the authoritative guidance for convertible debt instruments, a loss on extinguishment is equal to the difference between the reacquisition price and the net carrying amount of the extinguished debt for our 2031 Debentures, including any unamortized debt discount or issuance costs. Following this activity, \$395.5 million in aggregate principal amount of our 2031 Debentures remain outstanding. The aggregate debt discount is being amortized to interest expense using the effective interest rate method through November 2017.

If converted, the principal amount of the 2031 Debentures is payable in cash and any amounts payable in excess of the principal amount will (based on an initial conversion rate, which represents an initial conversion price of approximately \$32.30 per share, subject to adjustment) be paid in cash or shares of our common stock, at our election, only in the following circumstances and to the following extent: (i) on any date during any fiscal quarter (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for \$1,000 principal amount of the 2031 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for

the 2031 Debentures; or (iv) at the option of the holder at any time on or after May 1, 2031. Additionally, we may redeem the 2031 Debentures, in whole or in part, on or after November 6, 2017 at par plus accrued and unpaid interest. Each holder shall have the right, at such holder's option, to require us to repurchase all or any portion of the 2031 Debentures held by such holder on November 1, 2017, November 1, 2021, and November 1, 2026 at par plus accrued and unpaid interest. If we undergo a fundamental change (as described in the indenture for the 2031 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of September 30, 2017 and 2016, no conversion triggers were met. If the conversion triggers were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Subsequent to the end of fiscal year 2017, on November 1, 2017, holders of approximately \$331.2 million in aggregate principal amount of the outstanding 2031 Debentures exercised their right to require us to repurchase such debentures. Following the repurchase, \$46.6 million in aggregate principal amount of the 2031 Debentures remains outstanding. On or after November 6, 2017, the Company has the right to call for redemption some or all of the remaining outstanding 2031 Debentures. On or after November 6, 2017, we have the right to call for redemption of some or all of the then remaining outstanding 2031 Debentures. As of September 30, 2017, the entire outstanding principal amount of the 2031 Debenture was included within the current portion of the long-term debt due to the holders' right to require us to repurchase the debt.

**1.25% Convertible Debentures due 2025**

In March 2017, we issued \$350.0 million in aggregate principal amount of 1.25% Senior Convertible Debentures due in 2025 (the "1.25% 2025 Debentures") in a private placement. The proceeds were approximately \$343.6 million, net of issuance costs. We used a portion of the proceeds to repurchase 5.8 million shares of our common stock for \$99.1 million and \$17.8 million in aggregate principal on our 2031 Debentures. We intend to use the remaining net proceeds, together with cash on hand, to repurchase, redeem, retire or otherwise repay all of our remaining outstanding 2031 Debentures in November 2017. The 1.25% 2025 Debentures bear interest at 1.25% per year, payable in cash semi-annually in arrears, beginning on October 1, 2017. The 1.25% 2025 Debentures mature on April 1, 2025. The 1.25% 2025 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.25% 2025 Debentures. The 1.25% 2025 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries.

We account separately for the liability and equity components of the 1.25% 2025 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature and record the remainder in stockholders' equity. At issuance, we allocated \$252.1 million to long-term debt, and \$97.9 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through April 1, 2025. If converted, the principal amount of the 1.25% 2025 Debentures is payable in cash and any amounts payable in excess of the principal amount will (based on an initial conversion rate, which represents an initial conversion price of approximately \$22.22 per share, subject to adjustment under certain circumstances) be paid in cash or shares of our common stock, at our election, only in the following circumstances and to the following extent: (i) prior to October 1, 2024, on any date during any fiscal quarter beginning after June 30, 2017 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) at any time on or after October 1, 2024, (iii) during the five consecutive business-day period immediately following any five consecutive trading-day period in which the trading price for \$1,000 principal amount of the 1.25% 2025 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; or (iv) upon the occurrence of specified corporate transactions, as described in the indenture for the 1.25% 2025 Debentures. We may not redeem the 1.25% 2025 Debentures prior to the maturity date. If we undergo a fundamental change or non-stock change of control (as described in the indenture for the 1.25% 2025 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the 1.25% 2025 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of September 30, 2017, none of the conversion criteria were met for the 1.25% 2025 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

**1.50% Convertible Debentures due 2035**

In June 2015, we issued \$263.9 million in aggregate principal amount of 1.50% Senior Convertible Debentures due in 2035 (the "1.5% 2035 Debentures") in exchange for \$256.2 million in aggregate principal amount of our 2031 Debentures. Total proceeds, net of issuance costs, were \$253.2 million. The 1.5% 2035 Debentures were issued at 97.09% of the principal amount, which resulted in a discount of \$7.7 million. The 1.5% 2035 Debentures bear interest at 1.50% per year, payable in cash semi-annually in arrears, beginning on November 1, 2015. In addition to ordinary interest and default additional interest, beginning with the semi-annual interest period commencing on November 1, 2021, contingent interest will accrue during any regular semi-annual interest period where the average trading price of our 1.5% 2035 Debentures for the ten trading day period immediately preceding the first day of such semi-annual period is greater than or equal to \$1,200 per \$1,000 principal amount of our 1.5% 2035 Debentures, in which case, contingent interest will accrue at a rate of 0.50% per annum of such average trading price. The 1.5% 2035 Debentures mature on November 1, 2035, subject to the right of the holders to require us to redeem the 1.5% 2035 Debentures on November

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

1, 2021, 2026, or 2031. The 1.5% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.5% 2035 Debentures. The 1.5% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries.

We account separately for the liability and equity components of the 1.5% 2035 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. At issuance, we allocated \$208.6 million to long-term debt, and \$55.3 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through November 2021.

If converted, the principal amount of the 1.5% 2035 Debentures is payable in cash and any amounts payable in excess of the principal amount, will (based on an initial conversion rate, which represents an initial conversion price of approximately \$23.26 per share, subject to adjustment) be paid in cash or shares of our common stock, at our election, only in the following circumstances and to the following extent: (i) prior to May 1, 2035, on any date during any fiscal quarter beginning after September 30, 2015 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for \$1,000 principal amount of the 1.5% 2035 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 1.5% 2035 Debentures; or (iv) at the option of the holder at any time on or after May 1, 2035. Additionally, we may redeem the 1.5% 2035 Debentures, in whole or in part, on or after November 5, 2021 for cash at a price equal to 100% of the principal amount of the 1.5% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. Each holder shall have the right, at such holder's option, to require us to repurchase all or any portion of the 1.5% 2035 Debentures held by such holder on November 1, 2021, November 1, 2026, or November 1, 2031 at par plus accrued and unpaid interest. Upon repurchase, we will pay the principal amount in cash and any amounts payable in excess of the principal amount will be paid in cash or shares of our common stock, at our election, with the exception that we may not elect to pay cash in lieu of more than 80% of the number of our common shares we would be obligated to deliver. If we undergo a fundamental change (as described in the indenture for the 1.5% 2035 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the 1.5% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of September 30, 2017 and 2016, none of the conversion criteria were met for the 1.5% 2035 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

**Revolving Credit Facility**

Our revolving credit agreement (the "Revolving Credit Facility"), which expires on April 15, 2021, provides for aggregate borrowing commitments of \$242.5 million, including the revolving facility loans, the swingline loans and issuance of letters of credit. As of September 30, 2017, after taking into account the outstanding letters of credit of \$4.5 million, we had \$238.0 million available for additional borrowing under the Revolving Credit Facility. The borrowing outstanding under the Revolving Credit Facility bears interest at either (i) LIBOR plus an applicable margin of 1.50% or 1.75%, or (ii) the alternative base rate plus an applicable margin of 0.50% or 0.75%. The Revolving Credit Facility is secured by substantially all our assets. The Revolving Credit Facility contains customary affirmative and negative covenants and conditions to borrowing, as well as customary events of default. As of September 30, 2017, we are in compliance with all the debt covenants.

**10. Financial Instruments and Hedging Activities****Derivatives not Designated as Hedges****Forward Currency Contracts**

We operate our business in countries throughout the world and transact business in various foreign currencies. Our foreign currency exposures typically arise from transactions denominated in currencies other than the functional currency of our operations. We have a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effect of certain foreign currency exposures. Our program is designed so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. Generally, we enter into such contracts for less than 90 days and have no cash requirements until maturity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At September 30, 2017 and 2016, we had outstanding contracts with a total notional value of \$69.0 million and \$215.2 million, respectively.

We have not designated these forward contracts as hedging instruments pursuant to the authoritative guidance for derivatives and hedging, and accordingly, we record the fair value of these contracts at the end of each reporting period in our consolidated balance sheet, with the unrealized gains and losses recognized immediately in earnings as other expense, net in our consolidated statements of operations. The cash flows related to the settlement of these contracts are included in cash flows from investing activities within our consolidated statement of cash flows.

**Security Price Guarantees**

From time to time we enter into agreements that allow us to issue shares of our common stock as part or all of the consideration related to business acquisitions, partnering and technology acquisition activities. Some of these shares are issued subject to security price guarantees, which are accounted for as derivatives. We have determined that these instruments would not be considered equity instruments if they were freestanding. Certain of the security price guarantees require payment from either us to a third party, or from a third party to us, based upon the difference between the price of our common stock on the issue date and an average price of our common stock approximately six months following the issue date. We have also issued minimum price guarantees that may require payments from us to a third party based on the average share price of our common stock approximately six months following the issue date if our stock price falls below the minimum price guarantee. Changes in the fair value of these security price guarantees are reported in other expense, net in our consolidated statements of operations. We have no outstanding shares subject to security price guarantees at September 30, 2017 or September 30, 2016. During the year ended September 30, 2015, we paid cash totaling \$0.3 million upon the settlement of these agreements.

The following table provides a quantitative summary of the fair value of our derivative instruments as of September 30, 2017 and 2016 (dollars in thousands):

| Derivatives Not Designated as Hedges: Balance Sheet Classification | Fair Value                                |                    |
|--|---|--------------------|
|  | September 30, 2017                        | September 30, 2016 |
| Foreign currency contracts   | Prepaid expenses and other current assets | \$ 220 \$ 335      |
| Foreign currency contracts   | Accrued expenses and other liabilities    | (373 ) —           |

The following tables summarize the activity of derivative instruments for the fiscal years 2017, 2016 and 2015 (dollars in thousands):

| Derivatives Not Designated as Hedges: | Location of Gain (Loss) Recognized in Income | Amount of Gain (Loss) Recognized in Income |         |            |
|---------------------------------------|--|--|---------|------------|
|                                       |  | 2017                                       | 2016    | 2015       |
| Foreign currency contracts            | Other expense, net                           | \$6,811                                    | \$2,021 | \$(16,275) |
| Security price guarantees             | Other expense, net                           | \$—  | \$—     | \$(204 )   |

**Other Financial Instruments**

Financial instruments including cash equivalents, accounts receivable and accounts payable are carried in the consolidated financial statements at amounts that approximate their fair value based on the short maturities of those instruments. Marketable securities and derivative instruments are carried at fair value.

**11. Fair Value Measures**

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

which we would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following summarizes the three levels of inputs required to measure fair value, of which the first two are considered observable and the third is considered unobservable:

Level 1. Quoted prices for identical assets or liabilities in active markets which we can access.

Level 2. Observable inputs other than those described as Level 1.

Level 3. Unobservable inputs based on the best information available, including management's estimates and assumptions.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2017 and 2016 consisted of (dollars in thousands):

|  | September 30, 2017 |           |           |           |
|--|--------------------|-----------|-----------|-----------|
|  | Level 1            | Level 2   | Level 3   | Total     |
| <b>Assets:</b>   |                    |           |           |           |
| Money market funds <sup>(a)</sup>                          | \$381,899          | \$—       | \$—       | \$381,899 |
| Time deposits <sup>(b)</sup>                               | —                  | 85,570    | —         | 85,570    |
| Commercial paper, \$41,805 at cost <sup>(b)</sup>          | —                  | 41,968    | —         | 41,968    |
| Corporate notes and bonds, \$74,150 at cost <sup>(b)</sup> | —                  | 74,067    | —         | 74,067    |
| Foreign currency exchange contracts <sup>(b)</sup>         | —                  | 220       | —         | 220       |
| Total assets at fair value                                 | \$381,899          | \$201,825 | \$—       | \$583,724 |
| <b>Liabilities:</b>  |                    |           |           |           |
| Foreign currency exchange contracts <sup>(b)</sup>         | \$—                | \$(373)   | \$—       | \$(373)   |
| Contingent acquisition payments <sup>(d)</sup>             | —                  | —         | (8,648)   | (8,648)   |
| Total liabilities at fair value                            | \$—                | \$(373)   | \$(8,648) | \$(9,021) |

|  | September 30, 2016 |           |           |           |
|--|--------------------|-----------|-----------|-----------|
|  | Level 1            | Level 2   | Level 3   | Total     |
| <b>Assets:</b>   |                    |           |           |           |
| Money market funds <sup>(a)</sup>                          | \$331,419          | \$—       | \$—       | \$331,419 |
| US government agency securities <sup>(a)</sup>             | 1,002              | —         | —         | 1,002     |
| Time deposits <sup>(b)</sup>                               | —                  | 33,794    | —         | 33,794    |
| Commercial paper, \$38,108 at cost <sup>(b)</sup>          | —                  | 38,142    | —         | 38,142    |
| Corporate notes and bonds, \$54,484 at cost <sup>(b)</sup> | —                  | 54,536    | —         | 54,536    |
| Foreign currency exchange contracts <sup>(b)</sup>         | —                  | 335       | —         | 335       |
| Total assets at fair value                                 | \$332,421          | \$126,807 | \$—       | \$459,228 |
| <b>Liabilities:</b>  |                    |           |           |           |
| Contingent acquisition payments <sup>(c)</sup>             | \$—                | \$—       | \$(8,240) | \$(8,240) |
| Total liabilities at fair value                            | \$—                | \$—       | \$(8,240) | \$(8,240) |

(a) Money market funds and U.S. government agency securities, included in cash and cash equivalents in the consolidated balance sheets, are valued at quoted market prices in active markets.

(b) Time deposits, commercial paper, corporate notes and bonds, and foreign currency exchange contracts are recorded at fair market values, which are determined based on the most recent observable inputs for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable. Time deposits are generally for terms of one year or less. The commercial paper and corporate notes and bonds mature within three years and have a weighted average maturity of 0.72 years as of September 30, 2017.

(c) The fair values of our contingent consideration arrangements were determined based on our evaluation of the probability and the amount of any earn-out that will be achieved based on expected future performance by the acquired entity.

As of September 30, 2017, \$80.2 million of debt securities included within marketable securities were designated as held-to-maturity investments, which had a weighted average maturity of 0.27 years and an estimated fair value of \$80.4 million based on Level 2 measurements. The estimated fair value of our long-term debt approximated \$2,930.9 million (face value \$2,918.1 million) and \$2,630.3 million (face value \$2,687.1 million) at September 30, 2017 and 2016, respectively, based on Level 2 measurements. These fair value amounts represent the value at which our lenders could trade our debt within the financial markets and do not



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

represent the settlement value of these long-term debt liabilities to us at each reporting date. The fair value of the long-term debt will continue to vary each period based on fluctuations in market interest rates, as well as changes to our credit ratings. The fair value of each borrowing was estimated using the averages of the bid and ask trading quotes at each respective reporting date. We had no balance outstanding under our revolving credit agreement as of September 30, 2017 and September 30, 2016.

The following table provides a summary of changes in fair value of our Level 3 financial instruments for the years ended September 30, 2017 and 2016 (dollars in thousands):

|  | Amount    |
|--|-----------|
| Balance as of September 30, 2015                                     | \$ 15,961 |
| Earn-out liability established at time of acquisition                | 4,855     |
| Payments and foreign currency translation                            | (14,891 ) |
| Adjustments to fair value included in acquisition-related costs, net | 2,315     |
| Balance as of September 30, 2016                                     | 8,240     |
| Earn-out liability established at time of acquisition                | 8,253     |
| Payments and foreign currency translation                            | (7,830 )  |
| Adjustments to fair value included in acquisition-related costs, net | (15 )     |
| Balance as of September 30, 2017                                     | \$ 8,648  |

Our financial liabilities valued based upon Level 3 inputs are composed of contingent consideration arrangements relating to our acquisitions. We are contractually obligated to pay contingent consideration to the selling shareholders upon the achievement of specified objectives, including the achievement of future bookings and sales targets related to the products of the acquired entities and therefore are recorded as contingent consideration liabilities at the time of the acquisitions. We update our assumptions each reporting period based on new developments and record such amounts at fair value based on the revised assumptions until the consideration is paid upon the achievement of the specified objectives or eliminated upon failure to achieve the specified objectives.

Contingent acquisition payment liabilities are scheduled to be paid in periods through fiscal year 2019. As of September 30, 2017, we could be required to pay up to \$22.8 million for contingent consideration arrangements if the specified performance objectives are achieved. We have determined the fair value of the liabilities for the contingent consideration based on a probability-weighted discounted cash flow analysis. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the contingent consideration liability associated with future payments was based on several factors, the most significant of which are the estimated cash flows projected from future product sales and the risk adjusted discount rate for the fair value measurement.

#### 12. Restructuring and Other Charges, Net

Restructuring and other charges, net include restructuring expenses as well as other charges that are unusual in nature, are the result of unplanned events, and arise outside the ordinary course of our business. Restructuring expenses consist of employee severance costs, charges for the closure of excess facilities and other contract termination costs. Other charges include litigation contingency reserves, costs related to the transition agreement of our CEO, asset impairment charge, expenses associated with the Malware Incident and gains or losses on the sale or disposition of certain non-strategic assets or product lines.

The components of restructuring and other charges, net are as follows:

|   | 2017      | 2016      | 2015      |
|---|-----------|-----------|-----------|
| Severance costs                             | \$ 13,297 | \$ 13,133 | \$ 8,471  |
| Costs of consolidating duplicate facilities | 6,735     | 11,606    | 9,576     |
| Total restructuring charges                 | 20,032    | 24,739    | 18,047    |
| Other charges                               | 41,022    | 485       | 5,622     |
| Total restructuring and other charges, net  | \$ 61,054 | \$ 25,224 | \$ 23,669 |



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## NUANCE COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth accrual activity relating to restructuring reserves for fiscal years 2017, 2016 and 2015 (dollars in thousands):

|                               | Personnel | Facilities | Total     |
|-------------------------------|-----------|------------|-----------|
| Balance at September 30, 2014 | \$ 3,258  | \$ 1,468   | \$ 4,726  |
| Restructuring charges, net    | 8,471     | 9,576      | 18,047    |
| Non-cash adjustment           | —         | (2,538 )   | (2,538 )  |
| Cash payments                 | (11,094 ) | (2,284 )   | (13,378 ) |
| Balance at September 30, 2015 | 635       | 6,222      | 6,857     |
| Restructuring charges, net    | 13,133    | 11,606     | 24,739    |
| Non-cash adjustment           | (57 )     | 164        | 107       |
| Cash payments                 | (11,050 ) | (6,860 )   | (17,910 ) |
| Balance at September 30, 2016 | 2,661     | 11,132     | 13,793    |
| Restructuring charges, net    | 13,297    | 6,735      | 20,032    |
| Non-cash adjustment           | —         | (1,374 )   | (1,374 )  |
| Cash payments                 | (14,412 ) | (7,334 )   | (21,746 ) |
| Balance at September 30, 2017 | \$ 1,546  | \$ 9,159   | \$ 10,705 |

Restructuring and other charges, net by segment are as follows (dollars in thousands):

|                        | Personnel | Facilities | Total         | Other     | Total     |
|------------------------|-----------|------------|---------------|-----------|-----------|
|                        |           |            | Restructuring | Charges   |           |
| Fiscal Year 2017       |           |            |               |           |           |
| Healthcare             | \$ 4,283  | \$ 870     | \$ 5,153      | \$ 8,758  | \$ 13,911 |
| Mobile                 | 4,792     | (15 )      | 4,777         | 10,773    | 15,550    |
| Enterprise             | 2,141     | 3,480      | 5,621         | —         | 5,621     |
| Imaging                | 744       | 387        | 1,131         | —         | 1,131     |
| Corporate              | 1,337     | 2,013      | 3,350         | 21,491    | 24,841    |
| Total fiscal year 2017 | \$ 13,297 | \$ 6,735   | \$ 20,032     | \$ 41,022 | \$ 61,054 |

## Fiscal Year 2016

|                        |           |           |           |        |           |
|------------------------|-----------|-----------|-----------|--------|-----------|
| Healthcare             | \$ 3,531  | \$ 1,398  | \$ 4,929  | \$—    | \$ 4,929  |
| Mobile                 | 5,837     | 1,557     | 7,394     | (486 ) | 6,908     |
| Enterprise             | 1,214     | 2,782     | 3,996     | —      | 3,996     |
| Imaging                | 284       | 478       | 762       | —      | 762       |
| Corporate              | 2,267     | 5,391     | 7,658     | 971    | 8,629     |
| Total fiscal year 2016 | \$ 13,133 | \$ 11,606 | \$ 24,739 | \$ 485 | \$ 25,224 |

## Fiscal Year 2015

|                        |          |          |           |          |           |
|------------------------|----------|----------|-----------|----------|-----------|
| Healthcare             | \$ 452   | \$ 636   | \$ 1,088  | \$—      | \$ 1,088  |
| Mobile                 | 2,960    | 2,863    | 5,823     | 3,322    | 9,145     |
| Enterprise             | 1,144    | 95       | 1,239     | —        | 1,239     |
| Imaging                | 2,047    | 1,814    | 3,861     | —        | 3,861     |
| Corporate              | 1,868    | 4,168    | 6,036     | 2,300    | 8,336     |
| Total fiscal year 2015 | \$ 8,471 | \$ 9,576 | \$ 18,047 | \$ 5,622 | \$ 23,669 |

## Fiscal Year 2017

For fiscal year 2017, we recorded restructuring charges of \$20.0 million. The restructuring charges included \$13.3 million for severance costs related to approximately 807 terminated employees and \$6.7 million charge for the closure of certain excess



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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

facilities, including adjustment to sublease assumptions associated with previously vacated facilities. These actions were part of our initiatives to reduce costs and optimize processes. We expect the remaining outstanding severance of \$1.5 million to be substantially paid by the first quarter of fiscal year 2018, and the remaining balance of \$9.2 million for the closure of excess facilities to be made through fiscal year 2027, in accordance with the terms of the applicable leases.

Additionally, during fiscal year 2017, we recorded \$8.1 million for costs related to the transition agreement of our CEO, \$18.1 million of professional services fees and \$4.0 million of fixed asset and inventory write-down as a result of the Malware Incident, and an impairment charge of \$10.8 million related to an internally developed software. The amount payable related to the aforementioned transition agreement is expected to be paid during fiscal years 2018 and 2019.

**Fiscal Year 2016**

For fiscal year 2016, we recorded restructuring charges of \$24.7 million. The restructuring charges included \$13.1 million for severance related to the reduction of approximately 452 employees as part of our initiatives to reduce costs and optimize processes. The restructuring charges also included a \$11.6 million charge for the closure of certain excess facility space. We expect that the remaining severance payments of \$2.7 million will be substantially paid by the end of fiscal year 2017. We expect that the remaining payments of \$11.1 million for the closure of excess facility space will be paid through fiscal year 2025, in accordance with the terms of the applicable leases.

In addition, during fiscal year 2016, we have recorded certain other charges that totaled \$0.5 million for litigation contingency reserves.

**Fiscal Year 2015**

For fiscal year 2015, we recorded restructuring charges of \$18.0 million, which included \$8.5 million for severance related to the reduction of approximately 200 employees as part of our initiatives to reduce costs and optimize processes as well as the reduction of approximately 60 employees that eliminated duplicative positions resulting from acquisitions in fiscal 2014. The restructuring charges also included \$9.6 million charge for the closure of certain excess facility space, including facilities acquired from acquisitions.

In addition, during fiscal year 2015, we have recorded certain other charges that totaled \$5.6 million primarily for the impairment of certain long-lived assets as a result of our strategic realignment of our product portfolio and litigation contingency reserves.

**13. Supplemental Cash Flow Information**

Cash paid for Interest and Income Taxes:

|  | Year Ended September 30, |      |      |
|--|--------------------------|------|------|
|  | 2017                     | 2016 | 2015 |
|  | (Dollars in thousands)   |      |      |

Interest paid \$91,718 \$77,010 \$92,375

Income taxes paid \$24,359 \$21,068 \$15,454

Non-Cash Investing and Financing Activities:

From time to time, we issue shares of our common stock in connection with our business and asset acquisitions, including shares issued as payment for acquisitions, shares initially held in escrow, and shares issued as payment for contingent consideration, which is discussed in Notes 2 and 3. In addition, in connection with certain collaboration agreements we issued shares of our common stock to our partners in satisfaction of our payment obligations under the terms of the agreements, as discussed in Note 2.

**14. Stockholders' Equity**

Share Repurchases

On April 29, 2013, our Board of Directors approved a share repurchase program for up to \$500.0 million of our outstanding shares of common stock. On April 29, 2015, our Board of Directors approved an additional \$500.0

million under our share repurchase program. Under the terms of the share repurchase program, we have the ability to repurchase shares from time to time through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

repurchase transactions, or any combination of such methods. The share repurchase program does not require us to acquire any specific number of shares and may be modified, suspended, extended or terminated by us at any time without prior notice. The timing and the amount of any purchases will be determined by management based on an evaluation of market conditions, capital allocation alternatives, and other factors.

We repurchased 5.8 million shares, 9.4 million shares and 19.8 million shares for \$99.1 million, \$197.5 million and \$299.5 million during the fiscal years ended September 30, 2017, 2016 and 2015, respectively, under the program. The amount paid in excess of par value is recognized in additional paid in capital and these shares were retired upon repurchase. Since the commencement of the program, we have repurchased 46.5 million shares for \$806.6 million, including 1.0 million shares repurchased from our Chief Executive Officer in fiscal year 2016. Approximately \$193.4 million remained available for share repurchases as of September 30, 2017 pursuant to our share repurchase program.

**Related Party Share Repurchases**

In December 2015, as part of our share repurchase program, we repurchased 1.0 million shares from our Chief Executive Officer, composed of 649,649 outstanding shares and 800,000 vested stock options with a net share equivalent of 350,351 shares, for an aggregate purchase price of \$21.4 million, which approximated the fair value of our common stock on the day of the repurchase.

In March 2016, our Board of Directors approved a repurchase agreement with the Icahn Group to repurchase 26.3 million shares of our common stock at a price of \$19.00 per share, which approximated the fair value of our common stock on the day of the repurchase, for a total purchase price of \$500.0 million (the "Repurchase"). At the closing of the Repurchase, we paid \$375.0 million in cash and issued a promissory note in the amount of \$125.0 million. The promissory note bears interest at a rate per annum equal to approximately 2.64% and had a maturity date of June 13, 2016. On April 15, 2016, we fully repaid the promissory note. Immediately prior to the Repurchase, the Icahn Group owned approximately 60.8 million shares, or approximately 20%, of our outstanding common stock. In connection with the Repurchase, David Schechter and Brett Icahn, the Icahn Group representatives on our Board of Directors, resigned from our Board of Directors.

**Stock Issuances**

During the year ended September 30, 2017, we issued 844,108 shares of our common stock valued at \$13.4 million in connection with a business acquisition and 175,000 shares of our common stock valued at \$2.9 million associated with charitable contributions. During the year ended September 30, 2016, we issued 403,325 shares of our common stock valued at \$6.5 million to our partner in a healthcare collaboration agreement as settlement for a buy-out option and 5,749,807 shares of our common stock valued at \$85.0 million as consideration for our acquisition of TouchCommerce, which are discussed in Notes 2 and 3. During the year ended September 30, 2015, we issued 288,148 shares of our common stock valued at \$4.5 million as a settlement for a contingent earn-out obligation.

**Preferred Stock**

We are authorized to issue up to 40,000,000 shares of preferred stock, par value \$0.001 per share. The undesignated shares of preferred stock will have rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by the Board of Directors upon issuance of the preferred stock. There were no outstanding shares of preferred stock as of September 30, 2017 or September 30, 2016.

**Series A Preferred Stock**

We have designated 1,000,000 shares as Series A Preferred Stock, par value \$0.001 per share. The Series A Preferred Stock is entitled to receive dividends equal to the greater of \$1.00 and 1,000 times the aggregate per share amount of all dividends declared on our Common Stock. Holders of each share of the Series A Preferred Stock are entitled to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation, and shall vote as one class. The Series A Preferred Stock is not redeemable, and has the right to certain liquidation preferences over our Common Stock. The Series A Preferred Stock ranks junior to all other series of the Preferred Stock as to the payment of dividends and the distribution of assets.

**Series B Preferred Stock**

We have designated 15,000,000 shares as Series B Preferred Stock, par value \$0.001 per share. The Series B Preferred Stock is convertible into shares of common stock on a one-for-one basis and has a liquidation preference of \$1.30 per share plus all declared but unpaid dividends. The holders of Series B Preferred Stock are entitled to non-cumulative dividends at the rate of \$0.05 per

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

annum per share, payable when, and if, declared by the Board of Directors. To date, no dividends have been declared by the Board of Directors. Holders of Series B Preferred Stock have no voting rights, except those rights provided under Delaware law.

## 15. Stock-Based Compensation

We recognize stock-based compensation expense over the requisite service period. Our share-based awards are accounted for as equity instruments. The amounts included in the consolidated statements of operations relating to stock-based compensation are as follows (dollars in thousands):

|   | 2017      | 2016      | 2015      |
|---|-----------|-----------|-----------|
| Cost of professional services and hosting | \$28,962  | \$31,054  | \$30,968  |
| Cost of product and licensing             | 348       | 376       | 516       |
| Cost of maintenance and support           | 3,767     | 4,138     | 3,989     |
| Research and development                  | 33,061    | 35,671    | 39,038    |
| Sales and marketing                       | 45,813    | 49,064    | 50,310    |
| General and administrative                | 42,321    | 43,525    | 51,955    |
| Total                                     | \$154,272 | \$163,828 | \$176,776 |

## Stock Options

We have share-based award plans under which employees, officers and directors may be granted stock options to purchase our common stock, generally at the fair market value of the grant date. Our plans do not allow for options to be granted at below fair market value, nor can they be re-priced at any time. Options granted under our plans generally become exercisable over a period of two to four years and have a maximum term of ten years. We have also assumed options and option plans in connection with certain of our acquisitions. These stock options are governed by the plans and agreements that they were originally issued under but are now exercisable for shares of our common stock.

The table below summarizes activities related to stock options for the years ended September 30, 2017, 2016 and 2015:

|                                      | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value <sup>(a)</sup> |
|--------------------------------------|---------------------|--|---|--|
| Outstanding at September 30, 2014    | 3,723,342           | \$ 13.46                                 |   |  |
| Granted                              | —                   | \$ —                                     |   |  |
| Exercised                            | (765,408 )          | \$ 11.09                                 |   |  |
| Forfeited                            | (892 )              | \$ 20.04                                 |   |  |
| Expired                              | (33,053 )           | \$ 19.34                                 |   |  |
| Outstanding at September 30, 2015    | 2,923,989           | \$ 14.01                                 |   |  |
| Granted                              | —                   | \$ —                                     |   |  |
| Exercised/Repurchased <sup>(b)</sup> | (955,060 )          | \$ 11.96                                 |   |  |
| Forfeited                            | —                   | \$ —                                     |   |  |
| Expired                              | (3,103 )            | \$ 10.42                                 |   |  |
| Outstanding at September 30, 2016    | 1,965,826           | \$ 15.01                                 |   |  |
| Granted                              | —                   | \$ —                                     |   |  |
| Exercised                            | (1,932,286)         | \$ 14.98                                 |   |  |
| Forfeited                            | —                   | \$ —                                     |   |  |
| Expired                              | (9,733 )            | \$ 20.01                                 |   |  |
| Outstanding at September 30, 2017    | 23,807              | \$ 15.39                                 | 2.8 years   | \$0.1 million                                  |

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|                                   |           |          |           |               |
|-----------------------------------|-----------|----------|-----------|---------------|
| Exercisable at September 30, 2017 | 23,798    | \$ 15.39 | 2.8 years | \$0.1 million |
| Exercisable at September 30, 2016 | 1,965,817 |          |           |               |
| Exercisable at September 30, 2015 | 2,923,298 |          |           |               |

The aggregate intrinsic value in this table was calculated based on the positive difference, if any, between the  
(a) closing market price of our common stock as of September 30, 2017 (\$15.72) and the exercise price of the  
underlying options.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We repurchased 1.0 million shares owned directly or indirectly by our Chief Executive Officer, including 649,649<sup>(b)</sup> outstanding shares and 800,000 vested stock options with a net share equivalent of 350,351 shares, for an aggregate purchase price of \$21.4 million.

As of September 30, 2017, there was no unamortized fair value of stock options. A summary of intrinsic value of stock options exercised is as follows:

|  | 2017  | 2016  | 2015  |
|--|-------|-------|-------|
| Total intrinsic value of stock options exercised (in millions) | \$3.6 | \$8.6 | \$4.4 |

**Restricted Awards**

We are authorized to issue equity incentive awards in the form of Restricted Awards, including Restricted Units and Restricted Stock, which are individually discussed below. Unvested Restricted Awards may not be sold, transferred or assigned. The fair value of the Restricted Awards is measured based upon the market price of the underlying common stock as of the date of grant, reduced by the purchase price of \$0.001 per share of the awards. Restricted Awards generally vest over a period of two to four years. We also issued certain Restricted Awards with vesting solely dependent on the achievement of specified performance targets. The fair value of the Restricted Awards is amortized to expense over the awards' applicable requisite service periods using the straight-line method. In the event that the employees' employment with us terminates, or in the case of awards with only performance goals, if those goals are not met, any unvested shares are forfeited and revert to us.

In order to satisfy our employees' withholding tax liability as a result of the vesting of Restricted Awards, we have historically repurchased shares upon the employees' vesting. In fiscal year 2017, we withheld payroll taxes totaling \$55.1 million relating to 3.4 million shares of common stock that were repurchased or canceled.

**Restricted Units**

Restricted Units are not included in issued and outstanding common stock until the shares are vested and released. The table below summarizes activity relating to Restricted Units:

|   | Number of<br>Shares<br>Underlying<br>Restricted<br>Units —<br>Contingent<br>Awards | Number of<br>Shares<br>Underlying<br>Restricted<br>Units —<br>Time-Based<br>Awards |
|---|--|--|
| Outstanding at September 30, 2014   | 5,726,385  | 8,349,107  |
| Granted   | 1,985,374  | 7,741,805  |
| Earned/released   | (2,000,408)  | (8,123,159)  |
| Forfeited   | (1,011,141)  | (959,914)  |
| Outstanding at September 30, 2015   | 4,700,210  | 7,007,839  |
| Granted   | 2,533,389  | 7,146,415  |
| Earned/released   | (2,254,445)  | (7,243,615)  |
| Forfeited   | (754,666)  | (1,026,616)  |
| Outstanding at September 30, 2016   | 4,224,488  | 5,884,023  |
| Granted   | 3,224,696  | 8,457,761  |
| Earned/released   | (1,790,514)  | (7,150,783)  |
| Forfeited   | (614,739)  | (713,837)  |
| Outstanding at September 30, 2017   | 5,043,931  | 6,477,164  |
| Weighted average remaining recognition period of outstanding Restricted Units | 1.2 years  | 1.9 years  |
| Unearned stock-based compensation expense of outstanding Restricted Units     |  |  |

|  |         |         |
|--|---------|---------|
|  | \$39.0  | \$81.8  |
|  | million | million |
| Aggregate intrinsic value of outstanding Restricted Units <sup>(1)</sup> | \$79.3  | \$101.8 |
|  | million | million |

(1) The aggregate intrinsic value on this table was calculated based on the excess of the closing price of our common stock of \$15.72 on September 30, 2017 over the exercise price of the underlying Restricted Units.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the weighted-average grant-date fair value of Restricted Units granted, and the aggregate intrinsic value of Restricted Units vested for each fiscal year is as follows:

|  | 2017    | 2016    | 2015    |
|--|---------|---------|---------|
| Weighted-average grant-date fair value per share     | \$16.31 | \$18.93 | \$15.47 |
| Total intrinsic value of shares vested (in millions) | \$146.0 | \$179.7 | \$154.2 |

## Restricted Stock Awards

Restricted stock awards ("Restricted Stock") are included within the issued and outstanding common stock at the date of the grant. The table below summarizes activities related to Restricted Stock:

|                                   | Number of<br>Shares<br>Underlying<br>Restricted<br>Stock | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|-----------------------------------|--|--|
| Outstanding at September 30, 2014 | 750,000  | \$ 21.28   |
| Granted                           | —  | \$ —   |
| Vested                            | (500,000 )   | \$ 24.06   |
| Outstanding at September 30, 2015 | 250,000  | \$ 15.71   |
| Granted                           | —  | \$ —   |
| Vested                            | (250,000 )   | \$ 15.71   |
| Outstanding at September 30, 2016 | —  | \$ —   |
| Granted                           | 250,000  | \$ 15.55   |
| Vested                            | (250,000 )   | \$ 15.55   |
| Outstanding at September 30, 2017 | —  | \$ —   |

A summary of the weighted-average grant-date fair value of Restricted Stock granted, and the aggregate intrinsic value of Restricted Stock vested for each fiscal year is as follows:

|  | 2017    | 2016  | 2015  |
|--|---------|-------|-------|
| Weighted-average grant-date fair value per share     | \$15.55 | —     | —     |
| Total intrinsic value of shares vested (in millions) | \$3.9   | \$4.3 | \$7.9 |

## 1995 Employee Stock Purchase Plan

Our 1995 Employee Stock Purchase Plan ("the Plan"), as amended and restated on January 27, 2015, authorizes the issuance of a maximum of 20,000,000 shares of common stock in semi-annual offerings to employees at a price equal to the lower of 85% of the closing price on the applicable offering commencement date or 85% of the closing price on the applicable offering termination date. Stock-based compensation expense for the employee stock purchase plan is recognized for the fair value benefit accorded to participating employees. At September 30, 2017, we have reserved 6,416,289 shares for future issuance. A summary of the weighted-average grant-date fair value, shares issued and total stock-based compensation expense recognized related to the Plan are as follows:

|  | 2017   | 2016   | 2015   |
|--|--------|--------|--------|
| Weighted-average grant-date fair value per share     | \$3.84 | \$3.97 | \$3.61 |
| Total shares issued (in millions)                    | 1.3    | 1.2    | 1.4    |
| Total stock-based compensation expense (in millions) | \$4.9  | \$4.8  | \$4.7  |

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of the purchase rights granted under this plan was estimated on the date of grant using the Black-Scholes option-pricing model that uses the following weighted-average assumptions, which were derived in a manner similar to those discussed above relative to stock options:

|                                 | 2017   | 2016   | 2015   |
|---------------------------------|--------|--------|--------|
| Dividend yield                  | 0.0 %  | 0.0 %  | 0.0 %  |
| Expected volatility             | 29.3 % | 34.0 % | 27.9 % |
| Average risk-free interest rate | 0.9 %  | 0.5 %  | 0.1 %  |
| Expected term (in years)        | 0.5    | 0.5    | 0.5    |

## 16. Commitments and Contingencies

## Operating Leases

We have various operating leases for office space around the world. In connection with many of our acquisitions, we assumed facility lease obligations. Among these assumed obligations are lease payments related to office locations that were vacated by certain of the acquired companies prior to the acquisition date. Additionally, certain of our lease obligations have been included in various restructuring charges (Note 12).

The following table outlines our gross future minimum payments under all non-cancelable operating leases as of September 30, 2017 (dollars in thousands):

| Year Ending September 30, | Operating Leases | Operating leases under restructuring | Total     |
|---------------------------|------------------|--------------------------------------|-----------|
| 2018                      | \$33,798         | \$ 10,527                            | \$44,325  |
| 2019                      | 21,220           | 7,964                                | 29,184    |
| 2020                      | 17,342           | 7,886                                | 25,228    |
| 2021                      | 14,830           | 7,062                                | 21,892    |
| 2022                      | 13,141           | 6,924                                | 20,065    |
| Thereafter                | 75,492           | 21,636                               | 97,128    |
| Total                     | \$175,823        | \$ 61,999                            | \$237,822 |

At September 30, 2017, we have subleased certain office space that is included in the above table to third parties. As of September 30, 2017, the aggregate sublease income to be recognized during the remaining lease terms for restructured facilities is \$47.9 million, with approximately \$6.0 million annually for each of the next five fiscal years and approximately \$18.0 million thereafter.

Total rent expense, including rent expense for our data centers, was approximately \$38.5 million, \$38.3 million and \$41.8 million for the years ended September 30, 2017, 2016 and 2015, respectively.

## Litigation and Other Claims

Similar to many companies in the software industry, we are involved in a variety of claims, demands, suits, investigations and proceedings that arise from time to time relating to matters incidental to the ordinary course of our business, including actions with respect to contracts, intellectual property, employment, benefits and securities matters. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgments are required for the determination of probability and the range of the outcomes. Due to the inherent uncertainties, estimates are based only on the best information available at the time. Actual outcomes may differ from our estimates. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions may have a material impact on our results of operations and financial position. As of September 30, 2017 and 2016, accrued losses were not material to our consolidated financial statements, and we do not expect any pending matter to have a material impact on our consolidated financial statements.



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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Guarantees and Other

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

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

17. Pension and Other Post-Retirement Benefits

Defined Contribution Plans

We have established a retirement savings plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). The 401(k) Plan covers substantially all of our U.S. employees who meet minimum age and service requirements, and allows participants to defer a portion of their annual compensation on a pre-tax basis. Effective July 1, 2003, a company match of employee's contributions was established. We match 50% of employee contributions up to 4% of eligible salary. Employer's contributions vest one-third annually over a three-year period. Our contributions to the 401(k) Plan that covers substantially all of our U.S. employees who meet the minimum requirements totaled \$6.7 million, \$6.6 million and \$6.9 million for fiscal years 2017, 2016 and 2015, respectively. We make contributions to various other plans in certain of our foreign operations; total contributions to these plans are not material.

Defined Benefit Plans

We sponsor certain defined benefit plans that are offered primarily by our foreign subsidiaries. Many of these plans were assumed through our acquisitions or are required by local regulatory requirements. We may deposit funds for these plans with insurance companies, third party trustees, or into government-managed accounts consistent with local regulatory requirements, as applicable. Our total defined benefit pension expenses were \$0.4 million, \$0.1 million and \$0.3 million for fiscal years 2017, 2016 and 2015, respectively. The aggregate projected benefit obligation as of September 30, 2017 and September 30, 2016 was \$37.2 million and \$32.1 million, respectively. The aggregate net liability of our defined benefit plans as of September 30, 2017 and September 30, 2016 was \$13.2 million and \$8.2 million, respectively.

18. Income Taxes

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

Year Ended September 30,



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|                                   | 2017        | 2016        | 2015        |
|-----------------------------------|-------------|-------------|-------------|
| Domestic                          | \$(228,406) | \$(118,410) | \$(196,925) |
| Foreign                           | 109,391     | 120,149     | 116,453     |
| (Loss) income before income taxes | \$(119,015) | \$1,739     | \$(80,472 ) |

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

|                            | Year Ended September 30, |           |          |
|----------------------------|--------------------------|-----------|----------|
|                            | 2017                     | 2016      | 2015     |
| Current:                   |                          |           |          |
| Federal                    | \$—                      | \$—       | \$82     |
| State                      | 2,185                    | 3,230     | 982      |
| Foreign                    | 24,941                   | 22,981    | 16,784   |
| Total current              | 27,126                   | 26,211    | 17,848   |
| Deferred:                  |                          |           |          |
| Federal                    | 7,291                    | (7,235 )  | 15,694   |
| State                      | 1,133                    | (1,962 )  | 3,278    |
| Foreign                    | (3,569 )                 | (2,817 )  | (2,282 ) |
| Total deferred             | 4,855                    | (12,014 ) | 16,690   |
| Provision for income taxes | \$31,981                 | \$14,197  | \$34,538 |
| Effective income tax rate  | (26.9 )%                 | 816.4 %   | (42.9 )% |

The provision for income taxes differed from the amount computed by applying the federal statutory rate to our (loss) income before income taxes as follows (dollars in thousands):

|  | Year Ended September 30, |           |            |
|--|--------------------------|-----------|------------|
|  | 2017                     | 2016      | 2015       |
| Federal tax benefit at statutory rate                | \$(41,655)               | \$609     | \$(28,165) |
| State tax provision, net of federal benefit          | 2,560                    | 137       | 3,278      |
| Foreign tax rate and other foreign related tax items | (20,415 )                | (25,976 ) | (30,765 )  |
| Repatriated earnings, net of foreign tax credits     | —                        | 71,343    | —          |
| Stock-based compensation                             | 6,934                    | 6,154     | 10,734     |
| Non-deductible expenditures                          | 3,247                    | 3,235     | (162 )     |
| Change in U.S. and foreign valuation allowance       | 72,318                   | (53,079 ) | 71,238     |
| Executive compensation                               | 5,492                    | 4,749     | 3,873      |
| Other  | 3,500                    | 7,025     | 4,507      |
| Provision for income taxes                           | \$31,981                 | \$14,197  | \$34,538   |

The effective income tax rate is based upon the income for the year, the composition of the income in different countries, changes relating to valuation allowances for certain countries if and as necessary, and adjustments, if any, for the potential tax consequences, benefits or resolutions of audits or other tax contingencies. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States; the majority of our income before provision for income taxes from foreign operations has been earned by subsidiaries in Ireland. Our effective tax rate may be adversely affected by earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated in countries where we have higher statutory tax rates.

The effective income tax rate in fiscal year 2017 differs from the U.S. federal statutory rate of 35% primarily due to current period losses in the United States that require additional valuation allowance, and an increase in deferred tax liabilities related to goodwill, partially offset by our earnings in foreign operations that are subject to significantly lower tax rates than U.S. statutory tax rate.

The effective income tax rate in fiscal year 2016 differs from the U.S. federal statutory rate of 35% primarily due to current period losses in the United States that require additional valuation allowance, an increase in the deferred tax liabilities related to goodwill, and an increase in current tax provisions due to the one-time repatriation of foreign earnings offset by the utilization of previously unbenefited domestic loss and credit carryforwards. These were partially offset by our earnings in foreign operations that are subject to a significantly lower tax rate than U.S. statutory tax rate, driven primarily by our subsidiaries in Ireland, and a \$22.1 million release of domestic valuation allowance as a result of tax benefits recorded in connection with our acquisitions during the period for which a

deferred tax liability was established in purchase accounting.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The effective income tax rates in fiscal year 2015 differs from the U.S. federal statutory rate of 35% primarily due to current period losses in the United States that require additional valuation allowance and an increase to deferred tax liabilities related goodwill, partially offset by our earnings in foreign operations that are subject to a significantly lower tax rate than the U.S. statutory tax rate, driven primarily by our subsidiaries in Ireland.

As of September 30, 2017, the cumulative amount of undistributed earnings of our foreign subsidiaries amounted to \$484.0 million. We have not provided taxes on \$416.6 million of undistributed earnings of our foreign subsidiaries that we consider indefinitely reinvested. Our indefinite reinvestment determination is based on the future operational and capital requirements of our domestic and foreign operations. We expect the cash held by our foreign subsidiaries of \$146.1 million will continue to be used for our foreign operations and therefore do not anticipate repatriating these funds. As of September 30, 2017, it is not practical to calculate the unrecognized deferred tax liability on these earnings due to the complexities of the utilization of foreign tax credits and other tax assets.

Deferred tax assets (liabilities) consist of the following at September 30, 2017 and 2016 (dollars in thousands):

|   | 2017        | 2016        |
|---|-------------|-------------|
| Deferred tax assets:                          |             |             |
| Net operating loss carryforwards              | \$269,495   | \$202,331   |
| Federal and state credit carryforwards        | 58,803      | 50,927      |
| Accrued expenses and other reserves           | 53,795      | 59,622      |
| Difference in timing of revenue related items | 100,971     | 59,818      |
| Deferred compensation                         | 30,528      | 31,564      |
| Other   | 20,424      | 11,649      |
| Total deferred tax assets                     | 534,016     | 415,911     |
| Valuation allowance for deferred tax assets   | (229,449 )  | (110,172 )  |
| Net deferred tax assets                       | 304,567     | 305,739     |
| Deferred tax liabilities:                     |             |             |
| Depreciation                                  | (36,016 )   | (40,032 )   |
| Convertible debt                              | (136,609 )  | (101,810 )  |
| Acquired intangibles                          | (221,707 )  | (237,280 )  |
| Unremitted earnings of foreign subsidiaries   | (20,850 )   | (20,788 )   |
| Net deferred tax liabilities                  | \$(110,615) | \$(94,171 ) |
| Reported as:                                  |             |             |
| Other assets                                  | \$20,705    | \$21,264    |
| Long-term deferred tax liabilities            | (131,320 )  | (115,435 )  |
| Net deferred tax liabilities                  | \$(110,615) | \$(94,171 ) |

Deferred tax assets are reduced by a valuation allowance if, based on the weight of available positive and negative evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. During fiscal year 2017, the valuation allowance for deferred tax assets increased by \$119.3 million. This increase mainly relates to the establishment of valuation allowance against our net domestic deferred tax assets in connection with net operating losses generated in fiscal year 2017 and the recording of additional net operating losses and credit carryforwards as a result of adopting ASU 2016-09, partially offset by the recording of deferred tax liabilities related to the issuance of convertible debt as well as acquisitions. As of September 30, 2017, we have \$202.3 million and \$27.1 million in valuation allowance against our net domestic and foreign deferred tax assets, respectively. As of September 30, 2016, we had \$75.1 million and \$35.1 million in valuation allowance against our net domestic and foreign deferred tax assets, respectively.

The majority of deferred tax assets relate to net operating losses, the use of which may not be available as a result of limitations on the use of acquired losses. With respect to these operating losses, there is no assurance that they will be used given the current assessment of the limitations on their use or our current projection of future taxable income in

the entities for which these losses relate. Based on our analysis, we have concluded that it is not more likely than not that the majority of our deferred tax assets can be realized and therefore a valuation allowance has been assigned to these deferred tax assets. If we are subsequently able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been established, then we may be required to recognize

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

these deferred tax assets through the reduction of the valuation allowance which could result in a material benefit to our results of operations in the period in which the benefit is determined.

At September 30, 2017 and 2016, we had U.S. federal net operating loss carryforwards of \$642.0 million and \$627.9 million, respectively. At September 30, 2017 and 2016, we had state net operating loss carryforwards of \$262.7 million and \$264.8 million, respectively. The net operating loss and credit carryforwards are subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state tax provisions. At September 30, 2017 and 2016, we had foreign net operating loss carryforwards of \$168.8 million and \$178.2 million, respectively. These carryforwards will expire at various dates beginning in 2018 and extending up to an unlimited period.

At September 30, 2017 and 2016, we had federal research and development carryforwards and foreign tax credit carryforwards of \$43.5 million and \$52.2 million, respectively. At September 30, 2017 and 2016, we had state research and development credit and investment tax credit carryforwards of \$6.2 million and \$7.8 million, respectively. At September 30, 2017 and 2016, we had foreign investment tax credit carryforwards of \$14.8 million and \$13.1 million, respectively.

**Uncertain Tax Positions**

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit which is more likely than not to be realized upon ultimate settlement. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes line of our consolidated statements of operations.

The aggregate changes in the balance of our gross unrecognized tax benefits were as follows (dollars in thousands):

|  | September 30, |          |
|--|---------------|----------|
|  | 2017          | 2016     |
| Balance at the beginning of the year                       | \$31,955      | \$22,677 |
| Increases related to tax positions from prior fiscal years | 2,745         | 8,017    |
| Decreases related to tax positions from prior fiscal years | (602 )        | —        |
| Increases for tax positions taken during current period    | 1,676         | 1,807    |
| Decreases for tax settlements and lapse in statutes        | (1,083 )      | (490 )   |
| Cumulative translation adjustments                         | (633 )        | (56 )    |
| Balance at the end of the year                             | \$34,058      | \$31,955 |

As of September 30, 2017, \$29.9 million of the unrecognized tax benefits, if recognized, would impact our effective tax rate. We do not expect a significant change in the amount of unrecognized tax benefits within the next 12 months. We recognized interest and penalties related to uncertain tax positions in our provision for income taxes of \$2.1 million, \$2.2 million, and \$0.6 million during fiscal years 2017, 2016, and 2015, respectively. We recorded interest and penalties of \$9.9 million and \$7.5 million as of September 30, 2017 and 2016, respectively.

We are subject to U.S. federal income tax, various state and local taxes, and international income taxes in numerous jurisdictions. The federal tax returns for 1999 through 2013 remain subject to examination for the purpose of determining the amount of remaining tax NOL and other carryforwards. The 2014 through 2017 years remain open for all purposes of examination by the IRS and other taxing authorities in material jurisdictions.

**19. Segment and Geographic Information**

We organize our businesses into four operating segments: Healthcare, Mobile, Enterprise, and Imaging. Segment revenues and profits are reviewed regularly by our Chief Operating Decision Maker ("CODM") for performance evaluation and resources allocation. Segment profits reflect controllable costs directly related to each segment and the allocation of certain corporate expenses such as, corporate sales and marketing expenses and research and development project costs that benefit multiple segments. Certain items such as stock-based compensation,

amortization of intangible assets, acquisition-related costs, net, restructuring and other charges, net, costs associated with intellectual property collaboration agreements, other expenses, net and certain unallocated corporate expenses are excluded from segment profits, which allow for more meaningful comparisons to the financial results of the historical operations for the performance evaluation and resources allocation by our CODM.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Healthcare segment is primarily engaged in clinical speech and clinical language understanding solutions that improve the clinical documentation process - from capturing the complete patient record to improving clinical documentation and quality measures for reimbursement.

The Mobile segment is primarily engaged in providing a broad portfolio of specialized virtual assistants and connected services built on voice recognition, text-to-speech, natural language understanding, dialog, and text input technologies.

The Enterprise segment is primarily engaged in using speech, natural language understanding, and artificial intelligence to provide automated customer solutions and services for voice, mobile, web and messaging channels.

The Imaging segment is primarily engaged in software solutions and expertise that help professionals and organizations to gain optimal control of their document and information processes through scanning and print management.

As we do not track our assets by operating segment, we do not include total assets or depreciation expenses by operating segment. The following table presents segment results along with a reconciliation of segment profits to (loss) income before income taxes (dollars in thousands):

|   | Year Ended September 30, |            |             |
|---|--------------------------|------------|-------------|
|   | 2017                     | 2016       | 2015        |
| Segment revenues:   |                          |            |             |
| Healthcare  | \$899,341                | \$973,297  | \$1,000,773 |
| Mobile  | 397,999                  | 377,261    | 391,228     |
| Enterprise  | 462,302                  | 387,466    | 349,347     |
| Imaging   | 217,749                  | 241,569    | 237,721     |
| Total segment revenues  | 1,977,391                | 1,979,593  | 1,979,069   |
| Acquisition related revenue adjustments <sup>(a)</sup>        | (38,029 )                | (30,690 )  | (47,933 )   |
| Total consolidated revenue                                    | 1,939,362                | 1,948,903  | 1,931,136   |
| Segment profit:   |                          |            |             |
| Healthcare  | 262,149                  | 313,466    | 343,412     |
| Mobile  | 154,882                  | 133,375    | 108,218     |
| Enterprise  | 141,193                  | 129,978    | 94,352      |
| Imaging   | 79,512                   | 100,823    | 89,286      |
| Total segment profit  | 637,736                  | 677,642    | 635,268     |
| Corporate expenses and other, net                             | (125,924 )               | (128,239 ) | (141,596 )  |
| Acquisition-related revenues and costs of revenues adjustment | (38,029 )                | (29,765 )  | (45,163 )   |
| Stock-based compensation                                      | (154,272 )               | (163,828 ) | (176,776 )  |
| Amortization of intangible assets                             | (178,748 )               | (170,897 ) | (168,276 )  |
| Acquisition-related costs, net                                | (27,740 )                | (17,166 )  | (14,379 )   |
| Restructuring and other charges, net                          | (61,054 )                | (25,224 )  | (23,669 )   |
| Costs associated with IP collaboration agreements             | —                        | (4,000 )   | (10,500 )   |
| Other expenses, net   | (170,984 )               | (136,784 ) | (135,381 )  |
| (Loss) income before income taxes                             | \$(119,015)              | \$1,739    | \$(80,472 ) |

Segment revenues differ from reported revenues due to certain revenue adjustments related to acquisitions that would otherwise have been recognized but for the purchase accounting treatment of the business combinations. <sup>(a)</sup> These revenues are included to allow for more complete comparisons to the financial results of historical operations and in evaluating management performance.

No country outside of the United States provided greater than 10% of our total revenue. Revenue, classified by the major geographic areas in which our customers are located, was as follows (dollars in thousands):



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|               | 2017        | 2016        | 2015        |
|---------------|-------------|-------------|-------------|
| United States | \$1,352,039 | \$1,385,265 | \$1,407,266 |
| International | 587,323     | 563,638     | 523,870     |
| Total         | \$1,939,362 | \$1,948,903 | \$1,931,136 |

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

No country outside of the United States held greater than 10% of our long-lived or total assets. Our long-lived assets, including intangible assets and goodwill, were located as follows (dollars in thousands):

|               | September 30,<br>2017 | September 30,<br>2016 |
|---------------|-----------------------|-----------------------|
| United States | \$ 3,604,140          | \$ 3,899,595          |
| International | 999,842               | 723,285               |
| Total         | \$ 4,603,982          | \$ 4,622,880          |

## 20. Subsequent Event

During the first quarter of fiscal year 2018, the Company will be adjusting its organizational structure and operations to manage its automotive business as a separate reportable segment. The CODM has determined, based on the growth of the business as well as the evolving industry vertical in which it participates, that separately operating and reporting the business would allow greater management focus on growth, velocity of execution and potentially create further investment or strategic opportunities. We currently do not believe that this change will have any material adverse impact on our goodwill and intangible assets. We will complete our assessment of goodwill reallocation based on each component's relative fair value in the first quarter of fiscal 2018.

## 21. Quarterly Data (Unaudited)

The following information has been derived from unaudited consolidated financial statements that, in the opinion of management, include all recurring adjustments necessary for a fair statement of such information (dollars in thousands, except per share amounts):

|   | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Fiscal Year  |
|---|------------------|-------------------|------------------|-------------------|--------------|
| 2017  |                  |                   |                  |                   |              |
| Total revenue                               | \$487,658        | \$499,573         | \$486,221        | \$465,910         | \$1,939,362  |
| Gross profit                                | \$275,248        | \$286,155         | \$270,008        | \$254,151         | \$1,085,562  |
| Net loss                                    | \$(23,929 )      | \$(33,808 )       | \$(27,836 )      | \$(65,423 )       | \$(150,996 ) |
| Net loss per share:                         |                  |                   |                  |                   |              |
| Basic                                       | \$(0.08 )        | \$(0.12 )         | \$(0.10 )        | \$(0.23 )         | \$(0.52 )    |
| Diluted                                     | \$(0.08 )        | \$(0.12 )         | \$(0.10 )        | \$(0.23 )         | \$(0.52 )    |
| Weighted average common shares outstanding: |                  |                   |                  |                   |              |
| Basic                                       | 288,953          | 291,021           | 287,856          | 288,718           | 289,348      |
| Diluted                                     | 288,953          | 291,021           | 287,856          | 288,718           | 289,348      |
| 2016  |                  |                   |                  |                   |              |
| Total revenue                               | \$486,115        | \$478,733         | \$477,851        | \$506,204         | \$1,948,903  |
| Gross profit                                | \$280,517        | \$273,233         | \$269,973        | \$295,680         | \$1,119,403  |
| Net (loss) income                           | \$(12,065 )      | \$(7,046 )        | \$(11,821 )      | \$18,474          | \$(12,458 )  |
| Net (loss) income per share:                |                  |                   |                  |                   |              |
| Basic                                       | \$(0.04 )        | \$(0.02 )         | \$(0.04 )        | \$0.07            | \$(0.04 )    |
| Diluted                                     | \$(0.04 )        | \$(0.02 )         | \$(0.04 )        | \$0.06            | \$(0.04 )    |
| Weighted average common shares outstanding: |                  |                   |                  |                   |              |
| Basic                                       | 307,794          | 298,021           | 279,373          | 283,139           | 292,129      |
| Diluted                                     | 307,794          | 298,021           | 279,373          | 289,371           | 292,129      |



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### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

### Item 9A. Controls and Procedures

#### Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures. Our disclosure controls and procedures are designed (i) to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed and summarized and reported within the time periods specified in the SEC's rules and forms and (ii) to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2017, our disclosure controls and procedures were effective.

#### Management Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and,
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of September 30, 2017, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the 2013 Internal Control-Integrated Framework ("2013 framework"). Based on the results of this assessment, management (including our Chief Executive Officer and our Chief Financial Officer) has concluded that, as of September 30, 2017, our internal control over financial reporting was effective.

The attestation report concerning the effectiveness of our internal control over financial reporting as of September 30, 2017 issued by BDO USA, LLP, an independent registered public accounting firm, appears in Item 8 of this Annual Report on Form 10-K.

#### Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the fourth quarter of fiscal 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial

reporting.

Item 9B. Other Information

None.

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PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K since we intend to file our definitive Proxy Statement for our next Annual Meeting of Stockholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Proxy Statement"), within 120 days of the end of the fiscal year covered by this report, and certain information to be included in the Proxy Statement is incorporated herein by reference.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item concerning our directors is incorporated by reference to the information set forth in the section titled "Election of Directors" in our Proxy Statement. Information required by this item concerning our executive officers is incorporated by reference to the information set forth in the section entitled "Executive Compensation, Management and Other Information" in our Proxy Statement. Information regarding Section 16 reporting compliance is incorporated by reference to the information set forth in the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement.

Our Board of Directors adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees on February 24, 2004. Our Code of Business Conduct and Ethics can be found at our website: [www.nuance.com](http://www.nuance.com). We will provide to any person without charge, upon request, a copy of our Code of Business Conduct and Ethics. Such a request should be made in writing and addressed to Investor Relations, Nuance Communications, Inc., 1 Wayside Road, Burlington, MA 01803.

To date, there have been no waivers under our Code of Business Conduct and Ethics. We will post any waivers, if and when granted, of our Code of Business Conduct and Ethics on our website at [www.nuance.com](http://www.nuance.com).

Item 11. Executive Compensation

The information required by this item regarding executive compensation is incorporated by reference to the information set forth in the section titled "Executive Compensation, Management and Other Information" in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth in the sections titled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

It is the policy of the Board that all transactions required to be reported pursuant to Item 404 of Regulation S-K be subject to approval by the Audit Committee of the Board. In furtherance of relevant NASDAQ rules and our commitment to corporate governance, the charter of the Audit Committee provides that the Audit Committee shall review and approve any proposed related party transactions including, transactions required to be reported pursuant to Item 404 of Regulation S-K for potential conflict of interest situations. The Audit Committee reviews the material facts of all transactions that require the committee's approval and either approves or disapproves of the transaction. In determining whether to approve a transaction, the Audit Committee will take into account, among other factors it deems appropriate, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances.

The additional information required by this item regarding certain relationships and related party transactions is incorporated by reference to the information set forth in the sections titled “Transactions with Related Persons” and “Corporate Governance-Board Independence” in our Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this section is incorporated by reference from the information in the section entitled “Ratification of Appointment of Independent Registered Public Accounting Firm” in our Proxy Statement.

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## PART IV

## Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as a part of this Report:

(1) Financial Statements — See Index to Financial Statements in Item 8 of this Report.

(2) Financial Statement Schedules — All schedules have been omitted as the requested information is inapplicable or the information is presented in the financial statements or related notes included as part of this Report.

(3) Exhibits — See Item 15(b) of this Report below.

(b) Exhibits.

## EXHIBIT INDEX

| Exhibit Index # | Exhibit Description   | Incorporated by Reference |            |         |             | Filed Herewith |
|-----------------|---|---------------------------|------------|---------|-------------|----------------|
|                 |   | Form                      | File No.   | Exhibit | Filing Date |                |
| 3.1             | <u>Amended and Restated Certificate of Incorporation of the Registrant.</u>   | 10-Q                      | 0-27038    | 3.2     | 5/11/2001   |                |
| 3.2             | <u>Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant.</u>   | 10-Q                      | 0-27038    | 3.1     | 8/9/2004    |                |
| 3.3             | <u>Certificate of Ownership and Merger.</u>   | 8-K                       | 0-27038    | 3.1     | 10/19/2005  |                |
| 3.4             | <u>Amended and Restated Bylaws of the Registrant.</u>   | 8-K                       | 0-27038    | 3.1     | 11/13/2017  |                |
| 3.5             | <u>Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant, as amended.</u>   | S-3                       | 333-142182 | 3.3     | 4/18/2007   |                |
| 3.6             | <u>Certificate of Elimination of the Series A Participating Preferred Stock.</u>  | 8-K                       | 0-27038    | 3.1     | 8/20/2013   |                |
| 3.7             | <u>Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock.</u>  | 8-K                       | 0-27038    | 3.2     | 8/20/2013   |                |
| 4.1             | Specimen Common Stock Certificate.  | 8-A                       | 0-27038    | 4.1     | 12/6/1995   |                |
| 4.2             | <u>Indenture, dated as of October 24, 2011, by and between Nuance Communications, Inc. and U.S. Bank National Association as Trustee relating to 2.75% Convertible Debentures due 2031.</u>                 | 8-K                       | 0-27038    | 4.1     | 10/24/2011  |                |
| 4.3             | <u>Indenture, dated August 14, 2012, among Nuance Communications, Inc., the guarantors party thereto and U.S. Bank National Association, relating to 5.375% Senior Notes due 2020.</u>                      | 8-K                       | 0-27038    | 4.1     | 8/14/2012   |                |
| 4.4             | <u>Preferred Shares Rights Agreement, dated as of August 19, 2013, by and between Nuance Communications, Inc. and American Stock Transfer &amp; Trust Company, LLC, as rights agent.</u>                    | 8-K                       | 0-27038    | 4.1     | 8/20/2013   |                |
| 4.5             | <u>First Amendment to Preferred Shares Rights Agreement, dated as of August 18, 2014, by and between Nuance Communications, Inc. and American Stock Transfer &amp; Trust Company, LLC, as rights agent.</u> | 8-K                       | 001-36056  | 4.2     | 8/18/2014   |                |
| 4.6             |   | 8-K                       | 001-36056  | 4.1     | 6/22/2015   |                |



Indenture, dated June 16, 2015, between Nuance Communications, Inc., and U.S. Bank National Association as Trustee, relating to 1.50% Convertible Debentures due 2035.

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| Exhibit Index # | Exhibit Description  | Incorporated by Reference |            |                     | Filed Herewith |
|-----------------|--|---------------------------|------------|---------------------|----------------|
|                 |  | Form                      | File No.   | Exhibit Filing Date |                |
| 4.7             | <u>Indenture, dated December 7, 2015, between Nuance Communications, Inc., and U.S. Bank National Association as Trustee, relating to 1.00% Senior Convertible Debentures Due 2035.</u>  | 8-K                       | 001-36056  | 4.1                 | 12/7/2015      |
| 4.8             | <u>Indenture, dated as of June 21, 2016, among Nuance Communications, Inc., the guarantors party thereto and U.S. Bank National Association as Trustee relating to 6% Senior Notes due 2024.</u>   | 8-K                       | 001-36056  | 4.1                 | 6/22/2016      |
| 10.1            | <u>Form of Indemnification Agreement.</u>  | S-8                       | 333-108767 | 10.1                | 9/12/2003      |
| 10.2            | <u>Amended and Restated 1995 Employee Stock Purchase Plan.</u>   | S-8                       | 001-36056  | 4.2                 | 2/6/2015       |
| 10.3            | <u>Nuance Communications, Inc. 2000 Stock Plan (as amended January 27, 2016)</u>   | 10-Q                      | 001-36056  | 10.1                | 5/10/2016      |
| 10.4            | <u>Form of Restricted Stock Purchase Agreement for use under Nuance Communications, Inc. 2000 Stock Plan.*</u>   | 10-K/A                    | 0-27038    | 10.17               | 12/15/2006     |
| 10.5            | <u>Form of Restricted Stock Unit Purchase Agreement for use under Nuance Communications, Inc. 2000 Stock Plan.*</u>  | 10-K/A                    | 0-27038    | 10.18               | 12/15/2006     |
| 10.6            | <u>Form of Stock Option Agreement for use under Nuance Communications, Inc. 2000 Stock Plan.*</u>  | 10-K/A                    | 0-27038    | 10.19               | 12/15/2006     |
| 10.7            | <u>Amended and Restated 1995 Directors Stock Plan.</u>   | S-8                       | 001-36056  | 4.3                 | 2/6/2015       |
| 10.8            | <u>Amended &amp; Restated Employment Agreement dated November 17, 2016 between the Registrant and Paul Ricci.*</u>   | 8-K                       | 0-27038    | 10.1                | 11/17/2016     |
| 10.9            | <u>Form of Executive Officer Employment Offer Letter*</u>  | 10-K                      | 001-36056  | 10.9                | 11/22/2016     |
| 10.10           | <u>Form of Change of Control and Severance Agreement for Executive Officers.*</u>  | 10-Q                      | 001-36056  | 10.1                | 8/9/2017       |
| 10.11           | <u>Purchase Agreement, dated as of December 1, 2015 by and between Nuance Communications, Inc. and Barclays Capital Inc. and Morgan Stanley &amp; Co. LLC as representatives of the several initial purchasers listed on Schedule I thereto.</u> | 8-K                       | 001-36056  | 10.1                | 12/2/2015      |
| 10.12           | <u>Stock Purchase Agreement, dated as of December 1, 2015 by and between Nuance Communications, Inc. and Paul Ricci.</u>   | 8-K                       | 001-36056  | 10.1                | 12/7/2015      |
| 10.13           | <u>Stock Purchase Agreement, dated March 9, 2016, by and among Nuance Communications, Inc. and the other parties thereto (collectively, the "Icahn Group").</u>  | 8-K                       | 001-36056  | 10.1                | 3/10/2016      |
| 10.14           | <u>Promissory Note issued by Nuance Communications, Inc. to Icahn Capital LP, dated March 15, 2016.</u>  | 8-K                       | 001-36056  | 10.1                | 3/15/2016      |
| 10.15           | <u>Revolving Credit Agreement, dated April 15, 2016, among Nuance Communications, Inc., the lenders</u>  | 8-K                       | 001-36056  | 10.1                | 4/19/2016      |

party thereto and Barclays Bank PLC as  
Administrative Agent.

10.16 Guarantee and Collateral Agreement, dated April 15,  
2016 among Nuance Communications, Inc., certain  
Nuance subsidiaries and Barclays Bank PLC as  
Administrative Agent. 8-K 001-36056 10.2 4/19/2016

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| Exhibit<br>Index # | Exhibit Description   | Incorporated by Reference |           |         | Filed<br>Herewith |
|--------------------|---|---------------------------|-----------|---------|-------------------|
|                    |   | Form                      | File No.  | Exhibit |                   |
| 10.17              | <u>Purchase Agreement, dated as of June 14, 2016, by and among Nuance Communications, Inc., the subsidiary guarantors party thereto and Morgan Stanley &amp; Co. LLC and Barclays Capital Inc., as representatives of the several initial purchasers named therein.</u>   | 8-K                       | 001-36056 | 10.1    | 6/17/2016         |
| 10.18              | <u>Transition and Severance Agreement between Nuance Communications, Inc. and Earl H. Devanny III dated August 31, 2016.</u>  | 8-K                       | 001-36056 | 10.1    | 9/7/2016          |
| 14.1               | <u>Registrant's Code of Business Conduct and Ethics</u>   |                           |           |         | X                 |
| 21.1               | <u>Subsidiaries of the Registrant.</u>  |                           |           |         | X                 |
| 23.1               | <u>Consent of BDO USA, LLP.</u>   |                           |           |         | X                 |
| 24.1               | Power of Attorney. (See Signature Page).  |                           |           |         | X                 |
| 31.1               | <u>Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a).</u>  |                           |           |         | X                 |
| 31.2               | <u>Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a).</u>  |                           |           |         | X                 |
| 32.1               | <u>Certification Pursuant to 18 U.S.C. Section 1350.</u>  |                           |           |         | X                 |
| 101                | The following materials from Nuance Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended September 30, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Loss, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements. |                           |           |         |                   |

\* Denotes management compensation plan or arrangement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

NUANCE COMMUNICATIONS, INC.

By: /s/ Paul A. Ricci  
Paul A. Ricci  
Chief Executive Officer and Chairman of the Board

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Paul A. Ricci and Daniel D. Tempesta, and each of them acting individually, as his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, and hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof. This power of attorney may be executed in counterparts.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated.

/s/ Paul A. Ricci  
Paul A. Ricci, Chief Executive Officer and

Date: 11/29/2017 Chairman of the Board  
(Principal Executive Officer)

/s/ Daniel D. Tempesta  
Daniel D. Tempesta

Date: 11/29/2017 Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

/s/ Robert J. Finocchio, Jr.

Date: 11/29/2017 Robert J. Finocchio, Jr., Director

/s/ Robert J. Frankenberg

Date: 11/29/2017 Robert J. Frankenberg, Director

/s/ William H. Janeway

Date: 11/29/2017 William H. Janeway, Director

/s/ Mark R. Laret

Date: 11/29/2017 Mark R. Laret, Director

/s/ Katharine A. Martin

Date: 11/29/2017 Katharine A. Martin, Director

/s/ Philip Quigley

Date: 11/29/2017 Philip Quigley, Director