Nuance Communications, Inc.
Form 10-K
November 28, 2014

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

Form 10-K
(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended September 30, 2014
OR	
o	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 001-36056
NUANCE COMMUNICATIONS, INC.
(Exact name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	94-3156479 (I.R.S. Employer Identification No.)
1 Wayside Road Burlington, Massachusetts (Address of Principal Executive Offices)	01803 (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 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 þ No o

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 o No þ

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 þ No o

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 þ No o

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. þ

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

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 $4.1 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, 2014, was 321,219,621.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be delivered to stockholders in connection with the Registrant's 2015 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 2015 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 other 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 and language solutions for businesses and consumers around the world. Our solutions are used in healthcare, mobile, consumer, enterprise customer service, and imaging markets. We offer market-leading accuracy in automated speech recognition, capabilities for natural language understanding, dialog management, biometric speaker identification, text-to-speech, domain knowledge and implementation capabilities, built on our significant, long-term investments in research and development. Our solutions are primarily based on our proprietary voice and language platforms and are used every day by millions of people and thousands of businesses for tasks and services such as requesting information from a call center, web site or smartphone-based self-service solution, dictating medical records, automatically assigning billing codes based on the content of medical records, sending a text message or searching the mobile Web by voice, entering a destination into a navigation system, or working with PDF documents. We continue to develop more intuitive and comprehensive speech and natural language solutions that broaden our markets by expanding the types of solutions we offer. We offer our solutions to our customers in a variety of ways, including through products, hosting cloud-based solutions, implementation and custom solution development services and maintenance and support. Our product revenues include embedded original equipment manufacturers ("OEM") royalties, traditional enterprise perpetual licensing, term-based enterprise licensing and consumer sales. Our hosting revenues are generated through on-demand service models that typically have multi-year terms with pricing based on volume of usage, number of seats or number of devices. 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. Trends in our markets include (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 and biometric speaker identification.

We leverage our global professional services organization and our extensive network of partners to design and deploy innovative solutions for businesses and organizations around the globe. We market and sell our products 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, hardware vendors, telecommunications carriers and distributors.

We have built a world-class portfolio of intellectual property, technologies, applications and solutions through both internal development and acquisitions. We have made additional investments in 2013 to protect our patent portfolio with significant spending on patent litigation and patent prosecution activities. Although the pace of acquisitions has slowed significantly over the last several quarters, 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.

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We are organized in four segments: Healthcare, Mobile and Consumer, Enterprise, and Imaging. See Note 20 to the consolidated financial statements for additional information about our reportable segments.

Healthcare

Healthcare segment revenues were $942.7 million, $911.6 million, and $669.4 million in Fiscal 2014, 2013, and 2012, respectively. As a percentage of total segment revenue, Healthcare segment revenues represented 47.4%, 46.6% and 38.5% in Fiscal 2014, 2013, and 2012, respectively.

The healthcare industry is under significant pressure to streamline operations, reduce costs and improve patient care. In recent years, healthcare organizations such as hospitals, clinics, medical groups, physicians' offices and insurance providers have increasingly turned to improving their clinical documentation process, from capturing the physician voice to creating documentation, through the use of the information to improve the delivery of care, quality measures, coding accuracy and appropriate reimbursement.

We provide an extensive set of solutions and services that support the clinical documentation process from capturing the patient encounter with their physician, to improving clinical documentation, automated coding, revenue cycle management and other functions. Our hosted and on-premise solutions provide platforms to generate and distribute clinical documentation through the use of advanced dictation and transcription features, and allow us to deliver scalable, highly productive medical transcription solutions. Our Clintegrity suite of products offer solutions that leverage captured information with state-of-the-art coding, compliance and record management, which streamlines health information management ("HIM") processes to assist compliance and reimbursement through professional services and time-based licenses. Through Clinical Documentation Improvement ("CDI") programs, computer-assisted coding ("CAC"), and computer-assisted physician documentation ("CAPD") we bridge the gap between physicians and coders. These solutions significantly streamline speed and completeness of documentation so that providers can shorten the time between the patient visit and the payment for that visit. Our solutions should enable future innovation to transform the way healthcare providers document patient care, through improved interface with electronic medical records and extraction of clinical information to support the billing and insurance reimbursement processes. We also offer speech recognition solutions for radiology, cardiology, pathology and related specialties, that help healthcare providers dictate, edit and sign reports without manual transcription.

We utilize a focused, enterprise sales team and professional services organization to address the market and implementation requirements of the healthcare industry. Direct distribution is supplemented by distributors and partnerships with electronic medical records application and other healthcare IT providers including, but not limited to Allscripts, Cerner, Epic, GE, IBM, McKesson, Siemens and the University of Pittsburgh Medical Center ("UPMC"). In some cases, our healthcare solutions are priced under a traditional software perpetual licensing model. However, certain of our healthcare solutions, in particular our transcription solutions, are offered on an on-demand model and priced by volume of usage (such as number of lines transcribed). Our Clintegrity product line is sold under a term-licensing model, and a portion of our diagnostic solutions are also offered under this model. We continue to experience an increased preference for on-demand and term-license pricing models. Representative customers include Advocate Health Care, Adventist West, Banner Health, Carolinas HealthCare System, Cleveland Clinic, HCA, Kaiser Permanente, Mayo Clinic, Partners Healthcare System, Sharp Healthcare, Summit Health, Sutter Health, Tenet Healthcare, Trinity Health, UK NHS,Universal Health Services, U.S. Department of Veterans Affairs, UPMC, U.S. Army and WellSpan Health.

Mobile and Consumer

Mobile and Consumer segment revenues were $451.0 million, $479.2 million, and $508.3 million in Fiscal 2014, 2013, and 2012, respectively. As a percentage of total segment revenue, the Mobile and Consumer segment revenues represented 22.7%, 24.5% and 29.2% in Fiscal 2014, 2013, and 2012, respectively.

We help consumers use the powerful capabilities of their cars, phones, tablets, desktop and portable computers, televisions, smart watches, personal navigation devices and other consumer electronics by enabling the use of voice commands, text-to-speech and enhanced text input solutions to control and interact with these devices more easily and naturally, and to access the array of content and services available on the Internet. We believe our market opportunity continues to grow as more cloud-connected devices are introduced, increasing the number of systems that can connect to Nuance Cloud Services. The more powerful capabilities of these devices and the increasing scope and complexity of the solutions require us to supply a broader set of technologies. These technologies can include cloud-based speech recognition, natural language understanding, dialog management, text-to-speech, virtual assistants, voice biometrics and advanced keyboard technologies. The number and complexity of the technologies allow us to charge higher prices compared to earlier solutions. In addition, we have seen the adoption of these complex solutions in a broadening scope of settings, such as televisions, set-top boxes, e-book readers, tablet computers, wearable devices, cameras and third-party downloadable applications. Our suite of mobile solutions and connected services provides a platform for our professional services team to design, develop and deploy custom solutions on a variety of mobile devices and other consumer electronics.

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Our portfolio of mobile and consumer solutions and services includes an integrated suite of voice control and text-to-speech solutions, dictation applications, enhanced text input, mobile messaging services and emerging services such as Web search and voicemail-to-text. Our suite of Dragon general purpose desktop and portable computer dictation applications increases productivity by using speech to create documents, streamline repetitive and complex tasks, input data, complete forms and automate manual transcription processes. In particular, we have focused in recent quarters on integrating our Dragon technology and brand initiatives across mobile and consumer markets. Our Dragon desktop software licensing has been impacted by recent trends in PC sales and structural changes in the Windows software distribution channel. We have strategies in place designed to mitigate this, including expansion into an OEM distribution model and new subscription based license models.

We utilize a focused, enterprise sales team and professional services organization to address market and implementation requirements. We utilize direct distribution, supplemented by partnerships with electronics suppliers, integrators, and content providers such as Clarion, Harman International and Rovi. Our solutions are used by mobile phone, automotive, personal navigation device, computer, television and other consumer electronics manufacturers and their suppliers, including Audi, BMW, Ford, GM, HTC, Intel, LG Electronics, Mercedes Benz, Microsoft, Nintendo, Panasonic, Samsung, T-Mobile, TomTom and Toyota. Telecommunications carriers, web search companies and content providers are increasingly using our mobile search and communication solutions to offer value-added services to their subscribers and customers. Our mobile solutions are sold to automobile and device manufacturers, generally on a royalty model priced per device sold, and sometimes on a license model. When the solutions include both embedded and cloud-based technologies, pricing is typically based on per unit royalties, unit-based hosting fees and transactional hosting fees. Although we generally charge a higher price for the broader technology set needed to support the increasing scope and complexity of the latest solutions, at any given level of our technology set, we continue to see pricing pressures from our OEM partners in our mobile handset business. Our connected mobile services are sold through telecommunications carriers, voicemail system providers, smartphone application developers or directly to consumers, and generally priced on a volume of usage model (such as per subscriber or per use). We continue to see an increasing proportion of revenue from on-demand and transactional arrangements as opposed to traditional upfront licensing of our mobile products and solutions. At the end of fiscal 2014, our mobile cloud services powered handsets, cars, televisions and other mobile devices in 38 languages. Representative connected services customers and partners include Cisco, DirecTV, Rogers, Siemens, Telefonica, Telstra, Time Warner Cable, TISA, T-Mobile and Vodafone. In addition, various smartphone application stores include hundreds of applications that utilize our technology, such as our Dragon Mobile Assistant, DragonDictation, DragonGo! and Swype, as well as third party applications including Ask.com, Bon’ App, Coupons.com, Grainger, Grocery iQ, Kraft iFood App, Merriam-Webster, On-Star, PlaySay, Recipes.com, SayHi Translate, Snapguide, Sonico iTranslate, Vocre and Yellow Pages.

Our most recent versions of Dragon NaturallySpeaking for Windows and Dragon Dictate for Mac were introduced in fiscal 2014 and are currently available in eight languages. Our desktop and portable computer dictation solutions are generally sold under a traditional perpetual software license model. We utilize a combination of our global reseller network and direct sales to distribute our desktop and portable computer dictation products. Resellers include retailers such as Amazon, Best Buy and WalMart. Enterprise customers include organizations such as law firms, insurance agencies and government agencies. Representative customers include ATF, Exxon, FBI, IBM, Texas Department of Family Protective Services and Zurich Insurance Group.

Enterprise

Enterprise segment revenues were $357.1 million, $323.5 million, and $332.0 million in Fiscal 2014, 2013, and 2012, respectively. As a percentage of total segment revenue, the Enterprise segment revenues represented 18.0%, 16.5% and 19.1% in Fiscal 2014, 2013, and 2012, respectively.

To remain competitive, organizations must improve the quality of customer care while reducing costs and ensuring a positive customer experience. Increasingly, our customers are utilizing channels such as the Web and smartphone applications to meet their customer care requirements and to supplement or replace traditional call center or in person channels. Technological innovation, competitive pressures and rapid commoditization have made it increasingly important for organizations to achieve enduring market differentiation and secure customer loyalty. In this environment, organizations need to satisfy the expectations of increasingly savvy and mobile consumers who demand high levels of customer service.

We deliver a portfolio of customer service business intelligence and authentication solutions that are designed to help companies better support, understand and communicate with their customers. Our solutions include the use of technologies such as speech recognition, natural language understanding, dialog management, text-to-speech, voice biometrics, virtual assistants and analytics to automate caller identification and authorization, call steering, completion of tasks such as updates, purchases and information retrieval, and automated outbound notifications. Our solutions improve the customer experience, increase the use of self-service and enable new revenue opportunities for our customers. In addition, we offer solutions that improve customer care experiences through enhanced chat, search, FAQ and dialog functions on Web sites, as well as direct interaction with thin-client applications and virtual assistants on cell phones. Use of our voice and language processing enabled web sites and mobile customer care solutions can dramatically decrease customer care costs, in comparison to calls handled by operators.

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We have expanded our cloud-based, multi-channel portfolio, which include our speech recognition, text-to-speech, voice biometrics, natural language and dialog management technologies as differentiators in the market. We have introduced two new intelligent virtual assistant services, Nina Mobile and Nina Web, expanded our outbound customer engagement services, and implemented voice biometrics in the cloud. We have also expanded our professional services team worldwide, both to support the increased demand of our cloud services and to enhance coverage for on-premise deployments.

We complement our solutions and products with a global professional services organization that supports customers and partners with business and systems consulting project management, user-interface design, voice science, application development and business performance optimization, allowing us to deliver end-to-end speech solutions and system integration for multi-channel automated customer care.

Our solutions are used by a wide variety of enterprises in customer-service intensive sectors, including telecommunications, financial services, travel and entertainment, and government. Our speech solutions are designed to serve our global partners and customers and are available in approximately 80 languages and dialects worldwide. In addition to our own sales and professional services teams, we often work closely with industry partners, including Avaya, Cisco and Genesys, that integrate our solutions into their hardware and software platforms. Our enterprise solutions offerings include both a traditional software perpetual licensing model and an on-demand model priced by volume of usage (such as number of minutes callers use the system or number of calls completed in the system). In fiscal 2014, revenues and bookings from on-demand solutions increased significantly, as a growing proportion of customers chose our cloud-based solutions for call center, Web and mobile customer care solutions. We expect these trends to continue in fiscal 2015, especially as implementation of projects booked in fiscal 2014 begins to generate revenue. Representative customers include Bank of America, Barclays, Cigna, Citibank, Comcast, Deutsche Bank, Disney, Domino's Pizza, FedEx, OnStar, PG&E, Telecom Italia, Telefonica, T-Mobile, U.K. HM Revenue & Customs, USAA, US Airways, Verizon and Wells Fargo.

Imaging

Imaging segment revenues were $236.3 million, $243.4 million, and $228.4 million in Fiscal 2014, 2013, and 2012, respectively. As a percentage of total segment revenue, the Imaging segment revenues represented 11.9%, 12.4% and 13.1% in Fiscal 2014, 2013, and 2012, respectively.

The evolution of the Internet, email and other networks has greatly simplified the ability to share electronic documents, resulting in an ever-growing volume of documents to be used and stored. In addition, the proliferation of network and Internet connected multifunction printers has increased the need to efficiently manage printers and enforce printing policies. Our document imaging, print management and PDF solutions reduce the costs associated with paper documents through easy to use scanning, document management and electronic document routing solutions. We offer versions of our products to multifunction printer manufacturers, home offices, small businesses and enterprise customers. In addition, we offer applications that combine network scanning, network print management and PDF creation to quickly enable distribution of documents to users' desktops or to enterprise applications. Our host of services includes software development toolkits for independent software vendors.

Our imaging solutions are generally sold under a traditional perpetual software license model. We utilize a combination of our global reseller network and direct sales to distribute our imaging products. We license our software to multifunction printer manufacturers such as Brother, Canon, Dell, HP and Xerox, which bundle our solutions with multi-function devices, digital copiers, printers and scanners, on a royalty model, priced per unit sold. Representative customers include Aflac, Airbus, Amazon, Barclays, Blue Shield, Citibank, EMC, Ernst & Young, Eurostar, Franklin Templeton, HSBC, Intuit, Johnson & Johnson, JP Morgan Chase, Nationwide, Norwegian Tax Authorities, Office Depot, Phillips, PricewaterhouseCoopers, UPS and US Department of Justice.

Research and Development/Intellectual Property

In recent years, we have developed and acquired extensive technology assets, intellectual property and industry expertise in voice, language and imaging that provide us with a competitive advantage in our markets. Our technologies are based on complex algorithms which require extensive amounts of linguistic and image data, acoustic

models and recognition 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. As of September 30, 2014, our technologies are covered by approximately 3,300 patents and 1,000 patent applications. Our intellectual property, whether purchased or developed internally, is critical to our success and competitive position and, ultimately, to our market value. 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. We incurred research and development expenses of $338.5 million, $289.2 million, and $225.4 million in fiscal 2014, 2013 and 2012, respectively.

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International Operations

We have offices in a number of international locations including: Australia, Belgium, Canada, 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 administration. 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 2014, 2013 and 2012, 73%, 72% and 71% of revenue was generated in the United States and 27%, 28% and 29% of revenue was generated by our international customers, respectively.

Competition

The individual 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 products that compete in our target markets; however, currently there is no one company that competes with us in all of our product areas. 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 products is due to the broad language coverage of our offerings, including our voice and language technology, which provides recognition for approximately 80 languages and dialects and natural-sounding synthesized speech in 151 voices, and supports a broad range of hardware platforms and operating systems. Our imaging technology supports more than 120 languages for Optical Character Recognition and document handling, with up to 20 screen language choices, including Asian languages.
- Technological Superiority. Our voice, language and imaging technologies, applications and solutions are often recognized as the most innovative and proficient products in their respective categories. Our voice and language technology has industry-leading recognition accuracy and provides a natural, voice-enabled interaction with systems, devices and applications. Our imaging technology is viewed as the most accurate in the industry. Technology publications, analyst research and independent benchmarks have consistently indicated that our products rank at or above performance levels of alternative solutions.
- Broad Distribution Channels. Our ability to address the needs of specific markets, such as financial, legal, healthcare and government, and to introduce new products and solutions quickly and effectively is enhanced through our dedicated 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 (www.nuance.com).

In our segments, we compete with companies such as Adobe, Baidu, Google, M*Modal, Microsoft and 3M. In addition, a number of smaller companies in both voice and imaging offer services, technologies or products that are competitive with our technologies or solutions in some 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. 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, Baidu, Google, Microsoft 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 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, 2014, we had approximately 14,000 full-time employees, including approximately 1,000 in sales and marketing, approximately 2,000 in professional services, approximately 2,000 in research and development, approximately 1,000 in general and administrative and approximately 8,000 that provide transcription and editing services. Approximately 43 percent of our employees are based outside of the United States, approximately 50% of whom provide transcription and editing services

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and are based in India. Our employees are not represented by any labor union and are not organized under a collective bargaining agreement, and we have never experienced a work stoppage. We believe that our relationships with our employees are generally good.

Company Information

We were incorporated in 1992 as Visioneer, Inc. under the laws of the state of Delaware. In 1999, we changed our name to ScanSoft, Inc. and also changed our ticker symbol to SSFT. In October 2005, we changed our name to Nuance Communications, Inc. and in November 2005 we changed our ticker symbol to NUAN.

Our website is located at www.nuance.com. This Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and all amendments to these reports, as well as proxy statements and other information we file with or furnish to the Securities and Exchange Commission, or the SEC, are accessible free of charge on our website. We make these documents available as soon as reasonably practicable after we file them with, or furnish them to, the SEC. Our SEC filings are also available on the SEC's website at http://www.sec.gov. Alternatively, you may access any document we have filed by visiting the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Except as otherwise stated in these documents, the information contained on our website or available by hyperlink from our website is not incorporated by reference into this report or any other documents we file with or furnish to the SEC.

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 in the following risks 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 and language, we compete with AT&T, Baidu, Google, Microsoft and other smaller providers. Within healthcare, we compete with 3M, M*Modal, Optum and other smaller providers. Within imaging, we compete with ABBYY, Adobe, I.R.I.S. and NewSoft. In our enterprise business, some of our partners such as Avaya, Cisco, Intervoice and Genesys develop and market products that can be considered substitutes for our solutions. In addition, a number of smaller companies in voice, language 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, Baidu, Google and Microsoft, 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.

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Some of our customers, such as Google and Microsoft, have developed or acquired products or technologies that compete with our products and technologies. These customers may give higher priority to the sale of their competitive products or technologies. 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 this fluctuation, 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. As a result, our results of operations may not meet the expectations of securities analysts or investors in the future. If this occurs, the price of our stock would likely decline. Factors that contribute to fluctuations in operating results include the following:

- the pace of the transition to an on-demand and transactional revenue model;
- slowing sales by our distribution and fulfillment partners to their customers, which may place pressure on these partners to reduce purchases of our products;
- volume, timing and fulfillment of customer orders and receipt of royalty reports;
- 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 charges against goodwill and intangible assets;
- delayed realization of synergies resulting from our acquisitions;
- write-offs of excess or obsolete inventory and accounts receivable that are not collectible;
- 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.

Voice and language technologies may not continue to garner widespread acceptance, which could limit our ability to grow our voice and language business.

We have invested and expect to continue to invest heavily in the acquisition, development and marketing of voice and language technologies. The market for voice and language technologies is relatively new and rapidly evolving. Our ability to increase revenue and bookings in the future depends in large measure on the continuing acceptance of these technologies in general and our products in particular. The continued development of the market for our current and future voice and language solutions in general, and our solutions in particular, will also depend on:

- consumer and business demand for speech-enabled applications;
- development by third-party vendors of applications using voice and language technologies; and
- continuous improvement in voice and language technology.

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Sales of our voice and language solutions would be harmed if the market for these technologies does not continue to increase or increases slower than we expect, or if we fail to develop new technologies faster than our competitors, and consequently, our business could be harmed and we may not achieve a level of profitability necessary to successfully operate our business.

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 software engineers 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.

Security and privacy breaches may damage client relations and inhibit our growth.

The uninterrupted operation of our hosted solutions and the confidentiality and security of third-party information is critical to our business. Any failures in our security and privacy measures or policies could have a material adverse effect on our financial position and results of operations. If we are unable to protect, or our clients perceive that we are unable to protect, the security and privacy of our confidential information, our growth could be materially adversely affected. A security or privacy breach may:

- cause our clients to lose confidence in our solutions;
- harm our reputation;
- expose us to liability; and
- increase our expenses from potential remediation costs.

While we believe we use proven applications designed for data security and integrity to process electronic transactions, there can be no assurance that our use of these applications will be sufficient to address changing market conditions or the security and privacy concerns of existing and potential clients.

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 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 and manufactured 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 United Kingdom that provide professional services. A significant portion of the development of our voice and language solutions is conducted in Canada and Germany, and a significant portion of our imaging research and development is conducted in Hungary. We also have significant research and development resources in Austria, Belgium, Italy, and United Kingdom. Accordingly, our future results could be harmed by a variety of factors associated with international sales and operations, including:

- 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 or by other countries;
- negative consequences from changes in applicable tax laws;
- difficulties in staffing and managing operations in multiple locations in many countries;
- difficulties in collecting trade accounts receivable in other countries; and
- less effective protection of intellectual property than in the United States.

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 $150.3 million and $115.2 million in fiscal 2014 and 2013, respectively, and net income of $207.1 million for the fiscal year 2012, and have a total accumulated deficit of $530.6 million as of September 30, 2014. If we are unable

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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.

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

We currently serve our customers from data center hosting facilities. Any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their on-demand services and adversely affect our renewal rates and our ability to attract new customers.

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

We are subject to federal, state and international laws relating to the collection, use, retention, disclosure, security and transfer of personally identifiable information. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between the Company and its subsidiaries, and among the Company, its subsidiaries and other parties with which we have relations. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to evolve and may be inconsistent from jurisdiction to jurisdiction. Complying with 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.

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

Our ability to realize the anticipated benefits of our acquisitions will depend on successfully integrating the acquired businesses.

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. Acquisitions of this nature involve 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;
- potential difficulty in successfully implementing, upgrading and deploying in a timely and effective manner new operational information systems and upgrades of our finance, accounting and product distribution systems;
- difficulty in incorporating acquired technology and rights into our products and technology;
- 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;
- management of geographically remote business units both in the United States and internationally;
- impairment of relationships with partners and customers;
- assumption of unknown material liabilities of acquired companies;
- accurate 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.

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We are exposed to fluctuations in foreign currency exchange rates.

Because we have international subsidiaries and distributors that operate and sell our products outside the United States, we are exposed to the risk of changes in foreign currency exchange rates. In certain circumstances, we have entered into forward exchange contracts to hedge against foreign currency fluctuations. We use these contracts to reduce our risk associated with exchange rate movements, as the gains or losses on these contracts are intended to offset any exchange rate losses or gains on the hedged transaction. We do not engage in foreign currency speculation. With our increased international presence in a number of geographic locations and with international revenue and costs projected to increase, we are exposed to changes in foreign currencies including the euro, British pound, Canadian dollar, Japanese yen, Indian rupee and Hungarian forint. Changes in the value of foreign currencies relative to the value of the U.S. dollar could adversely affect future revenue and operating results.

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

The agreement governing our senior credit facility contains, and any of our other future debt agreements 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;
- redeem capital stock or make other restricted payments;
- declare or pay dividends or make other distributions to stockholders; and
- 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, 2014, we had a total of $2,217.4 million face value of debt outstanding, $477.4 million in term loans due in August 2019, $1,050.0 million of senior notes due in 2020 and $690.0 million in convertible debentures. Investors may require us to redeem the 2031 Debentures, totaling $690.0 million in aggregate principal amount in November 2017, or sooner if the closing sale price of our common stock is more than 130% of the then current conversion price 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 will be paid in cash or shares of our common stock, at our election. We also have a $75.0 million revolving credit line available to us through August 2018. As of September 30, 2014, there were $5.8 million of letters of credit issued, but there were no other outstanding borrowings under the revolving credit line. 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 expenditures and other business activities;
- restrict us from making strategic acquisitions or exploiting business opportunities;
- 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

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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.

In addition, approximately $477.4 million of our debt outstanding as of September 30, 2014 bears interest at variable rates. If market interest rates increase, our debt service requirements will increase, which would adversely affect our results of operations and cash flows.

We have grown, and may continue to grow, through acquisitions, which could dilute our existing stockholders.

As part of our business strategy, we have in the past acquired, and expect to continue to acquire, other businesses and technologies. In connection with past acquisitions, we issued a substantial number of shares of our common stock as transaction consideration and also incurred significant 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.

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 or other form of consideration issued in connection with an acquisition as the cost of acquiring the company or business. We have allocated 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 which 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 asset 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 a five to fifteen year period. 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, 2014, we had identified intangible assets of approximately $0.9 billion, net of accumulated amortization, and goodwill of approximately $3.4 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.

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Current uncertainty in the global financial markets and the global economy may negatively affect our financial results.

Our investment portfolio, which primarily includes investments in money market funds, is generally subject to credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by the recent global financial crisis. 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.

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
- a decline in our market capitalization 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.

Tax matters may cause significant variability in our financial results.

Our businesses are subject to income taxation in the U.S., as well as in many tax jurisdictions throughout the world. Tax rates in these jurisdictions may be subject to significant change. Our effective income tax rate can vary significantly between periods due to a number of complex factors including, but not limited to: (i) projected levels of taxable income; (ii) pre-tax income being lower than anticipated in countries with lower statutory rates or higher than anticipated in countries with higher statutory rates; (iii) increases or decreases to valuation allowances recorded against deferred tax assets; (iv) tax audits conducted by various tax authorities; (v) adjustments to income taxes upon finalization of income tax returns; (vi) the ability to claim foreign tax credits; (vii) the repatriation of non-U.S. earnings for which we have not previously provided for income taxes and (viii) changes in tax law and its interpretation. If our effective tax rate increases, our operating results and cash flow could be adversely affected.

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 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.

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.

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report of management on internal control over financial reporting in their annual reports on Form 10-K that contains an assessment by management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Any failure in the effectiveness of our system of internal control over financial reporting could have a material adverse impact on our ability to

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report our financial statements in an accurate and timely manner, 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 due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact our stock price.

Risks Related to Our Intellectual Property and Technology

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 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.

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 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. Third party 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 license arrangements. Any of these could seriously harm our business.

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

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 or our stock price. While we cannot predict the individual effect that 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 during any given period of time. Moreover, companies that have experienced volatility in the market price of their stock often are subject to securities class action litigation. If we were the subject of such litigation, it could result in substantial costs and divert management's attention and resources.

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The holdings of our largest stockholder may enable them to influence matters requiring stockholder approval.

As of September 30, 2014, High River Limited Partnership, Hopper Investments LLC, Barberry Corp., Icahn Partners LP, Icahn Partners Master Fund LP, Icahn Partners Master Fund II LP, Icahn Partners Master Fund III LP, Icahn Enterprises G.P. Inc., Icahn Enterprises Holdings L.P., IPH GP LLC, Icahn Capital LP, Icahn Onshore LP, Icahn Offshore LP, and Beckton Corp. (collectively, the “Icahn Group”), beneficially owned approximately 19% of the outstanding shares of our common stock. Brett Icahn and David Schechter of the Icahn Group have been appointed as directors of the Company. Because of its large holdings of our capital stock relative to other stockholders, the Icahn Group has a strong influence over matters requiring approval by our stockholders.

Our business could be negatively affected as a result of 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.

Future sales of our common stock in the public market could adversely affect the trading price of our common stock and our ability to raise funds in new stock offerings.

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales 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. 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.

We have implemented anti-takeover provisions, which could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders.

Provisions of our certificate of incorporation, bylaws and Delaware law, as well as other organizational documents could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

- authorized “blank check” preferred stock;
- prohibiting cumulative voting in the election of directors;
- limiting the ability of stockholders to call special meetings of stockholders;
- requiring all stockholder actions to be taken at meetings of our stockholders; and
- establishing advance notice requirements for nominations of directors and for stockholder proposals.

In addition, we have adopted a stockholder rights plan, also called a poison pill, that may have the effect of discouraging or preventing a change of control by, among other things, making it uneconomical for a third party to acquire us without the consent of our Board of Directors.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, new regulations promulgated by the Securities and Exchange Commission and the rules of the Nasdaq Marketplace, are resulting in increased general and administrative expenses for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies, our business may be harmed.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Burlington, Massachusetts. As of September 30, 2014, we leased approximately 1.6 million square feet of building space, primarily in the U.S., and to a lesser extent, in Europe, Canada, Japan and the Asia-Pacific regions. In addition, we own 130,000 square feet of building space located in Melbourne, Florida. We lease research and development, and sales and support offices throughout the United States and maintain leased facilities in various countries around the world. Larger leased sites include properties located in Montreal, Quebec, Sunnyvale, California and Bangalore, India.

As of September 30, 2014, we also lease space in specialized data centers in Massachusetts, Texas, United Kingdom 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

Like many companies in the software industry, we have, from time to time, been notified of claims that we may be infringing on, or contributing to the infringement of, the intellectual property rights of others. These claims have been referred to counsel, and they are in various stages of evaluation and negotiation. If it appears necessary or desirable, we may seek licenses for these intellectual property rights. There is no assurance that licenses will be offered by all claimants, that the terms of any offered licenses will be acceptable to us or that the dispute will be resolved without litigation, which may be time consuming and expensive, and may result in injunctive relief or the payment of damages by us.

Item 4. Mine Safety Disclosures

Not applicable.

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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 2013		
First quarter	$19.99	$25.33
Second quarter	18.00	24.85
Third quarter	18.05	23.38
Fourth quarter	17.90	20.01
Fiscal 2014:		
First quarter	13.00	19.03
Second quarter	14.59	17.29
Third quarter	14.95	19.61
Fourth quarter	14.87	18.94

Holders

As of October 31, 2014, there were 736 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 stockholders 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 credit facility place restrictions on our ability to pay dividends, except for stock dividends.

Issuer Purchases of Equity Securities

On April 30, 2013, we announced a share repurchase program for up to $500 million of our outstanding shares of common stock. The plan has no expiration date. There were no repurchases under the program during the three months ended September 30, 2014. Approximately $289.2 million remained available for stock repurchases as of September 30, 2014.

For the majority of restricted stock units granted to employees, the number of shares issued on the date the restricted stock units vest is net of the minimum statutory income withholding tax requirements that we pay in cash to the applicable taxing authorities on behalf of our employees. We do not consider these transactions to be common stock repurchases.

Unregistered Sales of Equity Securities and Use of Proceeds

On June 1, 2014, we issued 234,375 shares of our common stock to International Business Machines Corporation as consideration for a collaboration agreement. The shares were issued in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended, provided by Section 4(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.

	Fiscal Year Ended September 30,				
(Dollars in millions, except per share amounts)	2014	2013	2012	2011	2010
Operations:					
Total revenues	$1,923.5	$1,855.3	$1,651.5	$1,318.7	$1,118.9
Gross profit	1,079.1	1,088.7	1,046.6	818.9	709.6
(Loss) income from operations	(21.4)	48.5	126.2	52.6	32.9
(Benefit) provision for income taxes	(4.7)	18.6	(141.8)	(8.2)	18.0
Net (loss) income	$(150.3)	$(115.2)	$207.1	$38.2	$(19.1)
Net (Loss) Income Per Share Data:					
Basic	$(0.47)	$(0.37)	$0.67	$0.13	$(0.07)
Diluted	$(0.47)	$(0.37)	$0.65	$0.12	$(0.07)
Weighted average common shares outstanding:					
Basic	316.9	313.6	306.4	302.3	287.4
Diluted	316.9	313.6	320.8	316.0	287.4
Financial Position:					
Cash and cash equivalents and marketable securities	$588.2	$846.8	$1,129.8	$478.5	$550.0
Total assets	5,820.3	5,958.6	5,799.0	4,095.3	3,769.7
Long-term debt, net of current portion	2,127.4	2,108.1	1,735.8	853.0	851.0
Total deferred revenue	548.1	414.6	315.1	276.0	218.9
Total stockholders' equity	2,582.0	2,638.0	2,728.3	2,493.4	2,297.2
Selected Data and Ratios:					
Working capital	$522.5	$604.3	$736.5	$379.9	$459.2
Depreciation of property and equipment	51.7	39.8	31.7	27.6	21.6
Amortization of intangible assets	170.1	168.8	155.5	143.3	135.6
Gross margin percentage	56.1%	58.7%	63.4%	62.1%	63.4%

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.

Trends in Our Business

We are a leading provider of voice and language solutions for businesses and consumers around the world. Our solutions 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 and biometric speaker identification.

- Healthcare. Trends in our healthcare business include continuing customer preference for hosted solutions and other time-based licenses, and increasing interest in the use of mobile devices to access healthcare systems and records. We continue to see strong demand for transactions which involve the sale and delivery of both software and non-software related services or products, as well as transactions which involve the sale of multiple solutions, such as both hosted

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transcription services and Dragon Medical licenses. Although the volume processed in our hosted transcription services has steadily increased due to the expanding customer base, we have experienced some erosion in lines processed when customers adopt electronic medical record (EMR) systems, and when in some cases customers use our licensed Dragon Medical product to support input into the EMR. We believe an important trend in the healthcare market is the desire to improve efficiency in the coding and revenue cycle management process. Our solutions reduce costs by increasing automation of this important workflow, and also enable hospitals to improve documentation used to support billings. In addition to improved efficiency, there is an impending change in the industry coding standard from ICD-9 to ICD-10, which will significantly increase the number of possible codes, and therefore, increase the complexity of this process, which in turn reinforces our customers' desire for improved efficiency. We are investing to expand our product set to address the various healthcare opportunities, including deeper integration with our clinical documentation solutions, as well as expand our international capabilities, and reduce our time from contract signing to initiation of billable services.

- Mobile and Consumer. Trends in our mobile and consumer segment include device manufacturers requiring custom applications to deliver unique and differentiated products such as virtual assistants, broadening keyboard technologies to take advantage of touch screens, increasing hands-free capabilities on cell phones and in automobiles, the adoption of our technology on a broadening scope of devices, such as televisions, set-top boxes, e-book readers, tablet and laptop computers, cameras and third-party applications and away from consumer software. The more powerful capabilities of mobile devices require us to supply a broader set of technologies to support the increasing scope and complexity of the solutions. These technologies include cloud-based speech recognition, natural language understanding, dialog management, text-to-speech and enhanced text input, where the complexity of the technologies allow us to charge a higher price. Within given levels of our technology set, we have seen pricing pressures from our OEM partners in our mobile handset business. We continue to see strong demand involving the sale and delivery of both software and non-software related services, as well as products to help customers define, design and implement increasingly robust and complex custom solutions such as virtual assistants. We continue to see an increasing proportion of revenue from on-demand and transactional arrangements as opposed to traditional upfront licensing of our mobile products and solutions. Although this has a negative impact on near-term revenue, we believe this model will build stronger and more predictable revenues over time. We are investing to increase our capabilities and capacity to help device manufacturers build custom applications, to increase the capacity of our data centers, to increase the number, kinds and capacity of network services, to enable developers to access our technology, and to expand both awareness and channels for our direct-to-consumer products.

- Enterprise. Trends in our enterprise business include increasing interest in 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. In fiscal 2014, revenues and bookings from on-demand solutions increased significantly, as a growing proportion of customers chose our cloud-based solutions for call center, Web and mobile customer care solutions. We expect these trends to continue in fiscal 2015. We are investing to expand our product set to address these opportunities, to increase efficiency of our hosted applications, expand our capabilities and capacity to help customers build custom applications, and broaden our relationships with new hardware and systems integrator partners serving the market.

- Imaging. The imaging market is evolving to include more networked solutions, mobile access to networked solutions, multi-function devices, and away from packaged software. We expect to expand our traditional packaged software sales with subscription versions. We are investing to improve mobile access to our networked products, expand our distribution channels and embedding relationships, and expand our language coverage.

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, wireless and mobile networks and related corporate infrastructure to conduct business.

Strategy

In fiscal 2015, we will continue to focus on growth by providing market-leading, value-added solutions for our customers and partners through a broad set of technologies, service offerings and channel capabilities. We have increased our focus on operating efficiencies, expense and hiring discipline and acquisition synergies to improve gross margins and operating margins. We intend to continue to pursue growth through the following key elements of our strategy:

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- Extend Technology Leadership. Our solutions are recognized as among the best in their respective categories. We intend to leverage our global research and development organization, and our broad portfolio of technologies, applications and intellectual property to foster technological innovation and to maintain customer preference for our solutions. We also intend to continue to invest in our engineering resources and to seek new technological advancements that further expand the addressable markets for our solutions.
- Broaden Expertise in Vertical Markets. Businesses are increasingly turning to us for comprehensive solutions rather than for a single technology product. We intend to broaden our expertise and capabilities to continue to deliver targeted solutions for a range of industries including mobile device manufacturers, healthcare, telecommunications, financial services and government administration. We also intend to expand our global sales and professional services capabilities to help our customers and partners design, integrate and deploy innovative solutions.
- Increase Subscription and Transaction Based Recurring Revenue. We intend to increase our subscription and transaction based offerings in all of our segments. This will enable us to deliver applications that our customers use, and pay for, on a repeat basis, providing us with the opportunity to enjoy the benefits of recurring revenue streams.
- Expand Global Presence. We intend to further expand our international resources to better serve our global customers and partners and to leverage opportunities in established markets such as Europe, and also emerging markets within Asia and Latin America. We continue to add regional sales employees across geographic regions to better address demand for voice and language based solutions and services.
- Pursue Strategic Acquisitions and Partnerships. We have selectively pursued strategic acquisitions to expand our technology, solutions and resources, and to complement our organic growth. We use these acquisitions to deliver enhanced value to our customers, partners, employees and shareholders. We intend to continue to pursue acquisitions that enhance our solutions, serve specific vertical markets and strengthen our technology portfolio. We have, however, recently slowed the pace and reduced the size of acquisitions to focus our resources more on driving organic growth. We also have formed key partnerships with other important companies in our markets of interest, and intend to continue to do so in the future where it will enhance the value of our business.

Key Metrics

In evaluating the financial condition and operating performance of our business, management focuses on revenue, net (loss) income, gross margins, operating margins, cash flow from operations and deferred revenue. A summary of these key financial metrics for the fiscal year ended September 30, 2014, as compared to the fiscal year ended September 30, 2013, is as follows:

- Total revenue increased by $68.2 million to $1,923.5 million;
- Net loss increased by $35.1 million to a loss of $150.3 million;
- Gross margins decreased by 2.6 percentage points to 56.1%;
- Operating margins decreased by 3.7 percentage points to (1.1)%;
- Cash provided by operating activities for the fiscal year ended September 30, 2014 was $358.1 million, a decrease of $36.9 million from the prior fiscal year;
- Deferred revenue increased 32.2% to $548.1 million reflecting the continued shift to more long-term recurring revenue; and
- Total recurring revenue represented 63.9% and 58.6% of total revenue in fiscal 2014 and 2013, respectively. Total recurring revenue represents the sum of recurring product and licensing, on-demand, and maintenance and support revenues as well as the portion of professional services revenue that is delivered under ongoing subscription contracts.

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 period ended September 30, 2014 is as follows:

- Annualized line run-rate in our on-demand healthcare solutions increased 6% from one year ago to approximately 5.4 billion lines per year. The annualized line run-rate is determined using billed equivalent line counts in a given quarter, multiplied by four;
-

Bookings increased 27% from one year ago to $2.4 billion. Bookings growth was led by our automotive and Enterprise on-demand offerings, offset by lower bookings in our Mobile Handset and Enterprise on-premises offerings. Bookings represent the estimated gross revenue value of transactions at the time of contract execution, except for maintenance

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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 billed in the period the customer is invoiced. 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;

- Estimated three-year value of on-demand contracts increased 8% from one year ago to approximately $2.2 billion. We expect that an increasing portion of our revenue will come from on-demand services. We determine this value as of the end of the period reported, by using our best 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 best estimate is based on estimates 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; and
- Total recurring revenue represented 63.9% and 58.6% of total revenue in fiscal 2014 and 2013, respectively. Total recurring revenue represents the sum of recurring product and licensing, on-demand, and maintenance and support revenues as well as the portion of professional services revenue that is delivered under ongoing subscription contracts.

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 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Product and licensing	$711.0	$753.7	$740.7	(5.7)%	1.8%
Professional services and hosting	910.9	832.4	674.0	9.4%	23.5%
Maintenance and support	301.6	269.2	236.8	12.0%	13.7%
Total Revenues	$1,923.5	$1,855.3	$1,651.5	3.7%	12.3%
United States	$1,408.3	$1,339.7	$1,175.2	5.1%	14.0%
International	515.2	515.6	476.3	(0.1)%	8.3%
Total Revenues	$1,923.5	$1,855.3	$1,651.5	3.7%	12.3%

Fiscal 2014 Compared to Fiscal 2013

The geographic split for fiscal 2014 was 73% of total revenue in the United States and 27% internationally, as compared to 72% of total revenue in the United States and 28% internationally for the same period last year. The increase in the proportion of revenue generated domestically was primarily driven by our recent acquisitions, which are primarily located in the United States.

Fiscal 2013 Compared to Fiscal 2012

The geographic split for fiscal 2013 was 72% of total revenue in the United States and 28% internationally, as compared to 71% of total revenue in the United States and 29% internationally for the same period last year. The increase in the proportion of revenue generated domestically was primarily driven by our recent acquisitions, which are primarily located in the United States.

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 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Product and licensing revenue	$711.0	$753.7	$740.7	(5.7)%	1.8%
As a percentage of total revenues	37.0%	40.6%	44.9%		

Fiscal 2014 Compared to Fiscal 2013

Product and licensing revenue for fiscal 2014 decreased 42.7 million, as compared to fiscal 2013. The decrease consisted of a $42.6 million decrease in Mobile and Consumer revenue, a $21.8 million decrease in Enterprise revenue offset by an increase of $22.2 million in Healthcare revenue. The decrease in Mobile and Consumer revenue was driven by a $31.5 million decrease in sales of our embedded licenses, resulting from a continuing shift toward on-demand and ratable pricing models, together with a decrease of $11.5 million in Dragon desktop consumer products due to an overall weakness in desktop software sales. The decrease in Enterprise revenues was primarily driven by lower sales of on-premise solutions. The increase in Healthcare revenue, included a $13.7 million increase in sales of our Clintegrity solutions, together with an $11.3 million increase in sales of Dragon Medical licenses.

As a percentage of total revenue, product and licensing revenue decreased from 40.6% to 37.0% for the year ended September 30, 2014. This decrease was driven by lower sales of embedded licenses in our Mobile and Consumer segment, resulting from a continuing shift toward on-demand and hosting services. Within product and licensing revenue, we are also seeing more term-based, subscription and transactional pricing models, which are recognized over time. In addition, the decrease includes the impact of our recent acquisitions, which have a higher proportion of on-demand hosting revenue.

Fiscal 2013 Compared to Fiscal 2012

Product and licensing revenue for fiscal 2013 increased $13.0 million, as compared to fiscal 2012. The increase consisted of a $55.0 million increase in Healthcare revenue primarily driven by sales of our Clintegrity solutions from our recent acquisitions. This was offset by a $45.3 million decrease in Mobile and Consumer licensing revenue driven by lower sales of embedded licenses in handset and other consumer electronics resulting from continuing shift toward on-demand and ratable pricing models.

As a percentage of total revenue, product and licensing revenue decreased from 44.9% to 40.6%. This decrease is driven by lower sales of embedded licenses in handset and other consumer electronics in our Mobile and Consumer segment, resulting from a continuing shift toward on-demand and ratable pricing models. In addition, the decrease included the impact of our Healthcare acquisitions in fiscal 2012 and 2013, which have a higher proportion of on-demand hosting revenue.

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, voice message transcription, 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 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Professional services and hosting revenue	$910.9	$832.4	$674.0	9.4%	23.5%
As a percentage of total revenues	47.3%	44.9%	40.8%		

Fiscal 2014 Compared to Fiscal 2013

Professional services and hosting revenue for fiscal 2014 increased $78.5 million, as compared to fiscal 2013. The increase included a $42.6 million increase in Enterprise revenue primarily driven by our recent acquisitions. Healthcare revenue increased $18.6 million driven by a $12.1 million increase in revenues from our Clintegrity product line and a $6.4 million increase in revenues from our Clinical Documentation Solutions. The revenue increase in our Clinical Documentation Solutions included $18.1 million of revenues from acquisitions, partially offset by the negative impact from the continued erosion resulting from customers' migration to electronic medical records.

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As a percentage of total revenue, professional services and hosting revenue increased from 44.9% to 47.3% for the year ended September 30, 2014. This increase was driven by our recent Healthcare and Enterprise acquisitions, which have a higher proportion of professional services and hosting revenue. The increase also includes the continuing shift toward on-demand and hosting services in our Mobile and Consumer segment.

Fiscal 2013 Compared to Fiscal 2012

Professional services and hosting revenue for fiscal 2013 increased $158.4 million, as compared to fiscal 2012. The increase consisted of a $135.4 million increase in Healthcare revenue primarily driven by transactional volume growth in our on-demand solutions, of which $126.9 million was due to our acquisitions closed during fiscal 2012 and 2013. Mobile and Consumer revenue increased $25.9 million, including a $19.2 million increase driven by transactional volume growth in our connected mobile services, and an $8.3 million increase in professional services to support the custom design and implementation of next-generation mobile solutions in automobiles, handsets and other consumer electronics.

As a percentage of total revenue, professional services and hosting revenue increased from 40.8% to 44.9%. This increase was driven by our Healthcare acquisitions in fiscal 2012 and 2013, which have a higher proportion of on-demand hosting revenue. The increase also includes the continuing shift toward on-demand and ratable pricing models in our handset and other consumer electronics sales in our Mobile and Consumer segment.

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 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Maintenance and support revenue	$301.6	$269.2	$236.8	12.0 %	13.7 %
As a percentage of total revenues	15.7 %	14.5 %	14.3 %		

Fiscal 2014 Compared to Fiscal 2013

Maintenance and support revenue for fiscal 2014 increased $32.3 million, as compared to fiscal 2013. The increase was driven by strong maintenance renewals in all of our segments, including an increase of $11.5 million in Imaging revenue, a $10.8 million increase in Healthcare revenue driven by sales of Dragon Medical solutions, together with an increase of $8.7 million in Enterprise revenue.

Fiscal 2013 Compared to Fiscal 2012

Maintenance and support revenue for fiscal 2013 increased $32.4 million, as compared to fiscal 2012, primarily driven by a $14.8 million increase in Healthcare revenue resulting from growth in sales of our Dragon Medical solutions, a $7.9 million increase in Enterprise revenue, driven by strong maintenance renewals and licenses bookings in prior periods, and a $5.4 million increase in Imaging revenue.

COSTS AND EXPENSES

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 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Cost of product and licensing revenue	$97.6	$99.4	$74.8	(1.8)%	32.9 %
As a percentage of product and licensing revenue	13.7 %	13.2 %	10.1 %		

Fiscal 2014 Compared to Fiscal 2013

Cost of product and licensing revenue for fiscal 2014 decreased $1.8 million, as compared to fiscal 2013, primary driven by a $3.5 million reduction in Imaging costs due to lower revenues. Mobile and Consumer costs decreased $1.4 million primarily

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driven by lower sales of our Dragon desktop consumer products. The decrease in costs was offset by a $2.5 million increase in Healthcare costs primarily driven by higher sales of our Dragon Medical products and Clintegrity solutions. Gross margins decreased 0.5 percentage points, primarily driven by lower revenues from higher margin license products in our Enterprise and Mobile and Consumer businesses.

Fiscal 2013 Compared to Fiscal 2012

Cost of product and licensing revenue for fiscal 2013 increased $24.6 million, as compared to fiscal 2012, primarily due to a $23.2 million increase in cost driven by sales of our Clintegrity solutions in our healthcare segment. Gross margin decreased 3.1 percentage points primarily due to a 2.6 percentage point impact from higher costs related to our Clintegrity solutions.

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 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Cost of professional services and hosting revenue	$633.2	$550.9	$424.7	14.9 %	29.7 %
As a percentage of professional services and hosting revenue	69.5 %	66.2 %	63.0 %		

Fiscal 2014 Compared to Fiscal 2013

Cost of professional services and hosting revenue for fiscal 2014 increased $82.3 million, as compared to fiscal 2013. The increase was due to a $25.8 million increase in Healthcare costs as a result of recent acquisitions and higher transcription related costs. Mobile and Consumer costs increased $24.4 million driven by investment in our connected services infrastructure, as we continue to fund an increasing volume of large-scale engagements in our Mobile business, where the demand for advanced, cloud-based services continues to grow. Our Enterprise costs also increased $16.1 million driven by our recent acquisitions. In addition, stock-based compensation expense increased $14.1 million over the prior period. Performance-based awards and annual bonuses were lower in the prior period as a result of weaker than planned operating results. Gross margins decreased 3.3 percentage points primarily driven by investment in our connected services infrastructure in our Mobile business, as well as growth in transcription related costs in our Healthcare segment. In addition, increased stock-based compensation expense reduced gross margins by 1.6 percentage points.

Fiscal 2013 Compared to Fiscal 2012

Cost of professional services and hosting revenue for fiscal 2013 increased $126.2 million, as compared to fiscal 2012. The increase was primarily driven by a $116.3 million increase in Healthcare costs related to growth in our on-demand solutions, including the impact from our acquisitions closed during fiscal 2012 and 2013. Gross margin decreased 3.2 percentage points primarily driven by an increased proportion of revenues coming from our on-demand services, including the impact of our acquisitions, as well as growth in labor costs from our hosting and transcription services.

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 2014	Fiscal 2013	Fiscal 2012	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Cost of maintenance and support revenue	$52.6	$52.7	$45.3	(0.2)%	16.3 %

As a percentage of maintenance and support revenue	17.4 %	19.6 %	19.1 %

Fiscal 2014 Compared to Fiscal 2013

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The cost of maintenance and support revenue for the year ended September 30, 2014, as compared to the year ended September 30, 2013, was essentially flat. Gross margins increased 2.2 percentage points driven by cost improvements in all of our businesses.

Fiscal 2013 Compared to Fiscal 2012

Cost of maintenance and support revenue for fiscal 2013 increased $7.4 million, as compared to fiscal 2012. The increase was primarily due to a $5.5 million increase in costs from our acquisitions in the Healthcare and Imaging segments during the period contributing, in part, to the decrease in gross margin.

Research and Development Expense

Research and development expense primarily consists 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 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Research and development expense	$338.5	$289.2	$225.4	17.0 %	28.3 %
As a percentage of total revenues	17.6 %	15.6 %	13.6 %		

Fiscal 2014 Compared to Fiscal 2013

Research and development expense for fiscal 2014 increased $49.3 million, as compared to fiscal 2013. The increase was primarily attributable to a $35.8 million increase in compensation expense, driven by headcount growth, including additional headcount from our recent acquisitions. We have increased investment in research and development to fund cloud-based speech systems and natural language understanding advancement to extend our technology capabilities. In addition, stock-based compensation has increased $12.1 million. Performance-based awards and annual bonuses were lower in the prior year as a result of weaker than planned operating results.

Fiscal 2013 Compared to Fiscal 2012

Research and development expense for fiscal 2013 increased $63.8 million, as compared to fiscal 2012. The increase was attributable to a $43.6 million increase in compensation expense, driven by headcount growth, including additional headcount from our acquisitions during the period, together with a $2.5 million increase in stock-based compensation expense.

Sales and Marketing Expense

Sales and marketing expense includes 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 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Sales and marketing expense	$424.5	$419.7	$369.2	1.1 %	13.7 %
As a percentage of total revenues	22.1 %	22.6 %	22.4 %		

Fiscal 2014 Compared to Fiscal 2013

Sales and marketing expense for fiscal 2014 increased $4.8 million, as compared to fiscal 2013. The increase in sales and marketing expense was primarily attributable to a $14.5 million increase in compensation expense, including commission expense. The increase in compensation expense was driven primarily by headcount growth, including additional headcount from our recent acquisitions. The increase was offset by a decrease of $4.5 million in stock-based compensation expense, a decrease of $3.5 million in marketing and channel program spending and a decrease of $1.5 million in travel expenses.

Fiscal 2013 Compared to Fiscal 2012

Sales and marketing expense for fiscal 2013 increased $50.5 million, as compared to fiscal 2012. The increase was primarily attributable to a $34.2 million increase in compensation expense, including commission expense, driven primarily by headcount growth, including additional headcount from our acquisitions during the period, together with a $3.7 million increase in stock-based compensation expense. Additionally, marketing and channel program spending increased $6.9 million to drive revenue

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growth as part of demand generation activities during the holiday season in the first quarter of fiscal 2013.

General and Administrative Expense

General and administrative expense primarily consists 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):

	Fiscal 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
General and administrative expense	$184.7	$180.0	$163.3	2.6 %	10.2 %
As a percentage of total revenues	9.6 %	9.7 %	9.9 %		

Fiscal 2014 Compared to Fiscal 2013

General and administrative expense for fiscal 2014 increased $4.7 million, as compared to fiscal 2013. The increase was primarily attributable to a $12.1 million increase in stock-based compensation expense offset by lower expense of $5.5 million in professional services fees and $5.0 million in charitable contribution expense. Performance-based awards and annual bonuses were lower in the prior year as a result of weaker than planned operating results.

Fiscal 2013 Compared to Fiscal 2012

General and administrative expense for fiscal 2013 increased $16.7 million, as compared to fiscal 2012. The increase was primarily attributable to a $12.9 million increase in compensation expense, driven primarily by headcount growth including additional headcount from our acquisitions during the period. In addition, legal expense increased $11.6 million as a result of increased spending on patent litigation and patent prosecution activities. These increases were offset by a $16.1 million decrease in stock-based compensation due to less expense related to performance-based awards and bonuses resulting from lower than expected results in fiscal 2013.

Amortization of Intangible Assets

Amortization of acquired patents and core and completed technology are included in cost of revenue and the amortization of acquired customer and contractual relationships, non-compete agreements, acquired trade names and trademarks, and other intangibles are included in 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 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Cost of revenue	$61.0	$63.6	$60.0	(4.1)%	6.0 %
Operating expense	109.1	105.3	95.4	3.6 %	10.4 %
Total amortization expense	$170.1	$168.9	$155.4	0.7 %	8.7 %
As a percentage of total revenues	8.8 %	9.1 %	9.4 %		

Fiscal 2014 Compared to Fiscal 2013

Amortization of intangible assets expense for fiscal 2014 increased $1.2 million, as compared to fiscal 2013. The increase was primarily attributable to the amortization of acquired intangible assets from our acquisitions during the period that have higher relative allocations of fair value to customer relationships. The decrease in amortization of intangible assets in our cost of revenue for the year ended September 30, 2014 was primarily attributable to certain intangible assets becoming fully amortized in the period.

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Fiscal 2013 Compared to Fiscal 2012
Amortization of intangible assets expense for fiscal 2013 increased $13.5 million, as compared to fiscal 2012. The increase was primarily attributable to the amortization of acquired customer relationships from our business acquisitions during fiscal 2013 and the second half of fiscal 2012.
Based on our balance of amortizable intangible assets as of September 30, 2014, and assuming no impairment or change in useful lives, we expect amortization of intangible assets for fiscal 2015 to be approximately $162.0 million.
Acquisition-Related Costs, Net
Acquisition-related costs include those 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 treated as compensation expense, as well as the costs of integration-related services provided by third-parties; (ii) professional service fees, including third-party costs related to the acquisition, and legal and other professional service fees associated with disputes and regulatory matters related to acquired entities; and (iii) adjustments to acquisition-related items that are required to be marked to fair value each reporting period, such as contingent consideration, and other items related to acquisitions for which the measurement period has ended. Acquisition-related costs were recorded as follows (dollars in millions):

	Fiscal 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Transition and integration costs	$25.3	$28.3	$9.9	(10.6)%	185.9 %
Professional service fees	9.9	20.4	48.4	(51.5)%	(57.9)%
Acquisition-related adjustments	(11.0)	(19.0)	0.4	(42.1)%	(4,850.0)%
Total Acquisition-related costs, net	$24.2	$29.7	$58.7	(18.5)%	(49.4)%
As a percentage of total revenue	1.3 %	1.6 %	3.6 %		

Fiscal 2014 Compared to Fiscal 2013
Acquisition-related costs, net for fiscal 2014 decreased $5.5 million, as compared to fiscal 2013. Professional service fees decreased $10.5 million as a result of our strategy to slow the pace and reduce the size of acquisitions in fiscal 2014. Included in acquisition-related adjustments for the years ended September 30, 2014 and 2013, is income of $7.7 million and $19.0 million related to the elimination of contingent liabilities established in the original allocation of purchase price for acquisitions closed in fiscal 2008 and 2007, respectively, following the expiration of the applicable statute of limitations. As a result, we have eliminated these contingent liabilities, and included the adjustment in acquisition-related costs, net in our consolidated statements of operations in the applicable period.
Fiscal 2013 Compared to Fiscal 2012
Acquisition-related costs, net for fiscal 2013 decreased $29.0 million, as compared to fiscal 2012. The decrease in net expense was driven by income of $19.0 million recognized in fiscal 2013 related to the elimination of contingent liabilities established in the original allocations of purchase price for which the measurement period has ended, following the expiration of the applicable statute of limitations. In addition, professional service fees decreased $28.0 million due to lower post-acquisition legal and regulatory costs associated with acquisitions in fiscal 2013 as compared to fiscal 2012. These decreases were offset by an $18.4 million increase in transition and integration costs attributable to a $12.5 million compensation expense recognized for the contingent earn-out obligation related to our acquisition of JA Thomas, as well as post-acquisition transition costs associated with recently completed acquisitions.
Restructuring and Other Charges, Net
Restructuring and other charges, net include restructuring expenses together with other expenses that are unusual in nature and are the result of unplanned events, and arise outside of the ordinary course of continuing operations.
Restructuring expenses
consist of employee severance costs and may also include charges for duplicate facilities and other contract termination costs. Other amounts may include gains or losses on non-controlling strategic equity interests, and gains or losses on sales of non-strategic

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assets or product lines. The following table sets forth the activity relating to the restructuring accruals included in Restructuring and Other Charges, net, in fiscal 2014, 2013 and 2012 (dollars in millions):

	Personnel Related	Facilities Costs	Total
Balance at September 30, 2011	$5.1	$1.0	$6.1
Restructuring charges, net	6.7	0.4	7.1
Non-cash adjustments	—	—	—
Cash payments	(10.1)	(1.3)	(11.4)
Balance at September 30, 2012	1.7	0.1	1.8
Restructuring charges, net	15.3	1.6	16.9
Non-cash adjustments	(0.5)	—	(0.5)
Cash payments	(12.3)	(0.5)	(12.8)
Balance at September 30, 2013	4.2	1.2	5.4
Restructuring charges, net	13.3	3.2	16.5
Non-cash adjustment	—	0.8	0.8
Cash payments	(14.3)	(3.7)	(18.0)
Balance at September 30, 2014	$3.2	$1.5	$4.7

For fiscal 2014, we recorded net restructuring charges of $16.5 million, which included a $13.3 million severance charge related to the elimination of approximately 250 personnel across multiple functions, including the impact of eliminating duplicative positions resulting from acquisitions, and $3.2 million primarily resulting from the restructuring of facilities that will no longer be utilized.

For fiscal 2013, we recorded net restructuring charges of $17.2 million, which included a $14.6 million severance charge related to the elimination of approximately 300 personnel across multiple functions. In addition to the restructuring charges, we recorded a net gain of $0.8 million related to the sale of two immaterial product lines, which is included in restructuring and other charges, net in our consolidated statements of operations.

For fiscal 2012, we recorded net restructuring and other charges of $7.5 million, which included a $6.7 million severance charge related to the elimination of approximately 160 personnel across multiple functions primarily to eliminate duplicative positions resulting from acquisitions.

Other (Expense) Income

Other (expense) income consists of interest income, interest expense, gain (loss) from security price guarantee derivatives, gain (loss) from foreign exchange, and gain (loss) from other non-operating activities. The following table shows other (expense) income, in dollars and as a percentage of total revenues (dollars in millions):

	Fiscal 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Interest income	$2.3	$1.6	$2.2	43.8 %	(27.3)%
Interest expense	(132.7)	(137.8)	(85.3)	(3.7)%	61.5 %
Other (expense) income, net	(3.3)	(9.0)	22.2	(63.3)%	(140.5)%
Total other expense, net	$(133.7)	$(145.2)	$(60.9)		
As a percentage of total revenue	7.0 %	7.8 %	3.7 %		

Fiscal 2014 Compared to Fiscal 2013

Total other expense for fiscal 2014 decreased $11.5 million, as compared to fiscal 2013. The net decrease was driven by a $5.1 million decrease in interest expense and a $2.2 million decrease in the loss related to our security price guarantees as compared to the prior year.

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Fiscal 2013 Compared to Fiscal 2012

Interest expense for fiscal 2013 increased $52.5 million, as compared to fiscal 2012. The increase in interest expense was due to the issuance of $700.0 million of Senior Notes in the fourth quarter of fiscal 2012, as well as an additional $350.0 million of Senior Notes issued in the first quarter of fiscal 2013. Other (expense) income, net decreased $31.2 million from income of $22.2 million in fiscal 2012 to an expense of $9.0 million in fiscal 2013. This decrease included the impact of the fair value adjustments on our security price guarantees, which resulted in a gain of $8.0 million in fiscal 2012, as compared to a loss of $6.6 million in fiscal 2013, driven by our decreasing stock price in fiscal 2013. Also included in other (expense) income, net in fiscal 2012 was a $13.7 million gain recognized on the original non-controlling equity interest in Vlingo upon the completion of the Vlingo acquisition.

(Benefit) Provision for Income Taxes

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

	Fiscal 2014	Fiscal 2013	Fiscal 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
(Benefit) provision for income taxes	$(4.7)	$18.6	$(141.8)	(125.3)%	(113.1)%
Effective income tax rate	3.0%	(19.2)%	(217.2)%		

Our effective income tax rate is influenced by the level and mix of earnings and losses by taxing jurisdiction in combination with the applicable differences between U.S. and foreign tax rates. Accordingly, changes in the jurisdictional mix of pre-tax income in the current year can result in pre-tax income being higher or lower than the prior year in countries with lower statutory tax rates, which causes our effective income tax rate to fluctuate. The impact of such changes could be meaningful in countries with statutory income tax rates that are significantly lower than the U.S. statutory income tax rate of 35%. Our international headquarters is located in Dublin, Ireland and is our principal entity selling to customers in countries outside of North America and Japan. The right to use U.S.-owned intellectual property resides with our Irish headquarters entity. While our Ireland subsidiaries make royalty and other payments to the U.S., the majority of profits earned by the Irish entities are retained offshore to fund our future growth in Europe, the Middle East, Africa and the Asia Pacific regions. In future periods, if our foreign profits grow, we expect substantially all of our income before income taxes from foreign operations will be earned in Ireland. The statutory rate related to our Ireland profits is lower than the U.S, statutory rate and as a result we would expect our effective tax rate to decrease as profits in Ireland increase.

Fiscal 2014 Compared to Fiscal 2013

Our effective income tax rate was approximately 3.0% in fiscal 2014, compared to approximately (19.2)% in fiscal 2013. Provision for income taxes decreased $23.3 million in fiscal 2014 as compared to fiscal 2013. In fiscal 2014, we recorded a release of domestic valuation allowance totaling $31.2 million 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. In addition, the effective income tax rate in fiscal 2014 was impacted by our foreign operations which are subject to a significantly lower tax rate than the U.S. statutory tax rate, driven primarily by our subsidiaries in Ireland.

Fiscal 2013 Compared to Fiscal 2012

Our effective income tax rate was approximately (19.2)% in fiscal 2013, compared to approximately (217.2%) in fiscal 2012. Provision for income taxes increased $160.4 million in fiscal 2013 as compared to fiscal 2012. In fiscal 2012, we recorded a release of valuation allowance totaling $145.6 million as a result of tax benefits recorded in connection with our acquisitions during the period for which a net deferred tax liability was established in purchase accounting as well as a release of valuation allowance for which it was more likely than not that certain deferred tax assets were realizable. In fiscal 2013, no comparable benefit was recognized. During the third quarter of fiscal 2013, we determined that we had new negative evidence related to our domestic deferred tax asset recoverability assessment. This new evidence, resulting from two consecutive quarterly reductions in our earnings forecast during fiscal 2013, primarily due to the continuing shift toward on-demand and ratable product offerings and revenue streams, led us to establish a valuation allowance against our net domestic deferred tax assets. This valuation allowance was offset by the tax benefits from our current year domestic losses and credits. We also recorded a $10.4

million tax provision representing the establishment of the valuation allowance related to our net domestic deferred tax assets at the beginning of the year.
The effective income tax rate was also impacted by our foreign operations which are subject to a significantly lower tax rate than the U.S. statutory tax rate. This rate differential is driven by our subsidiaries in Ireland. In fiscal 2013, this lower foreign tax rate differential was offset by the impact of the transfer of intangible property between certain of our foreign subsidiaries with significantly different local statutory tax rates. Although the transfer of intangible property between consolidated entities did not result in any gain in the consolidated results of operations, we generated a taxable gain in certain jurisdictions. The future tax

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deductions associated with the amortization of the transferred intangibles will be generated in a jurisdiction that will not generate an offsetting tax benefit in future periods. (See Note 19 of our Notes to Consolidated Financial Statements).

SEGMENT ANALYSIS

We operate in, and report financial information for, the following four reportable segments: Healthcare, Mobile and Consumer, Enterprise and Imaging.

Segment revenues include certain revenue adjustments related to acquisitions that would otherwise have been recognized but for the purchase accounting treatment of the business combinations. Segment revenues also include revenue that we would have otherwise recognized had we not acquired intellectual property and other assets from the same customer. We include these revenues and the related cost of revenues to allow for more complete comparisons to the financial results of historical operations, forward-looking guidance and the financial results of peer companies and in assessing management performance.

Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit reflects the direct controllable costs of each segment together with an allocation of sales and corporate marketing expenses, and certain research and development project costs that benefit multiple product offerings. Segment profit represents income from operations excluding stock-based compensation, amortization of intangible assets, acquisition-related costs, net, restructuring and other charges, net, costs associated with intellectual property collaboration agreements, other income (expense), net and certain unallocated corporate expenses.

The following table presents segment results (dollars in millions):

	Fiscal 2014		Fiscal 2013		Fiscal 2012		% Change 2014 vs. 2013		% Change 2013 vs. 2012	
Segment Revenues										
Healthcare	$942.7		$911.6		$669.4		3.4	%	36.2	%
Mobile and Consumer	451.0		479.2		508.3		(5.9	)%	(5.7	)%
Enterprise	357.1		323.5		332.0		10.4	%	(2.6	)%
Imaging	236.3		243.4		228.4		(2.9	)%	6.6	%
Total segment revenues	$1,987.1		$1,957.7		$1,738.1		1.5	%	12.6	%
Less: acquisition related revenue adjustments	(63.6	)	(102.4	)	(86.6	)	(37.9	)%	18.2	%
Total revenues	$1,923.5		$1,855.3		$1,651.5		3.7	%	12.3	%
Segment Profit										
Healthcare	$340.1		$352.2		$314.9		(3.4	)%	11.8	%
Mobile and Consumer	80.3		143.0		227.6		(43.8	)%	(37.2	)%
Enterprise	83.6		78.9		90.8		6.0	%	(13.1	)%
Imaging	89.1		98.2		91.6		(9.3	)%	7.2	%
Total segment profit	$593.1		$672.3		$724.9		(11.8	)%	(7.3	)%
Segment Profit Margin										
Healthcare	36.1	%	38.6	%	47.0	%	(2.5	)	(8.4	)
Mobile and Consumer	17.8	%	29.8	%	44.8	%	(12.0	)	(15.0	)
Enterprise	23.4	%	24.4	%	27.3	%	(1.0	)	(2.9	)
Imaging	37.7	%	40.3	%	40.1	%	(2.6	)	0.2	
Total segment profit margin	29.8	%	34.3	%	41.7	%	(4.5	)	(7.4	)

Segment Revenue

Fiscal 2014 Compared to Fiscal 2013

- Healthcare segment revenue increased $31.1 million for the year ended September 30, 2014, as compared to the year ended September 30, 2013. Maintenance and support revenue increased $10.8 million driven by strong renewals related to our Dragon Medical licenses. Product and licensing revenue increased $10.6 million driven by higher sales in Dragon Medical licenses. Professional services and hosting revenue increased $9.7 million due to acquisitions adding $18.8

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million in revenue, offset by the negative impact from the continued erosion resulting from customers' migration to electronic medical records.

- Mobile and Consumer segment revenue decreased $28.2 million for the year ended September 30, 2014, as compared to the year ended September 30, 2013. Product and licensing revenue declined $44.6 million, driven primarily by a $33.1 million decrease in embedded license sales in our handset business, as our markets and customers continued to shift toward on-demand and ratable pricing models. In addition, there was an $11.5 million decrease in sales of our Dragon desktop consumer products due to an overall weakness in desktop software sales. Professional services and hosting revenue increased $15.5 million driven primarily by our recent acquisitions.

- Enterprise segment revenue increased $33.6 million for the year ended September 30, 2014, as compared to the year ended September 30, 2013. Professional services and hosting revenue increased $46.8 million driven by our recent acquisitions. Product and licensing revenue decreased $21.8 million as a result of lower sales of our on-premise solutions. Maintenance and support revenue increased $8.6 million driven by strong renewals related to our on-premise solutions.

- Imaging segment revenue decreased $7.1 million for the year ended September 30, 2014, as compared to the year ended September 30, 2013, as a result of a decrease of $19.7 million in product and licensing revenue due to lower sales of our multi-functional peripheral products as well as reduced demand for packaged software, offset by a $10.2 million increase in maintenance and support revenue.

Fiscal 2013 Compared to Fiscal 2012

- Healthcare segment revenue increased $242.2 million. Our professional services and hosting revenue increased $149.4 million, primarily due to growth in on-demand transactional volume, of which $141.3 million of the increase resulted from our acquisitions during fiscal 2012 and 2013. Our product and licensing revenues increased $78.0 million primarily driven by a $66.5 million increase in sales of our Clintegrity solutions from our recent acquisitions.
- Mobile and Consumer segment revenue decreased $29.1 million. Our product and licensing revenue declined $64.1 million, primarily driven by lower sales of embedded licenses in handset and other consumer electronics resulting from a continuing shift toward on-demand and ratable pricing models. Our professional services and hosting revenue grew $30.3 million primarily attributable to an increase of $23.4 million in on-demand revenue driven by transactional volume growth of our connected mobile services, and an $8.6 million increase in professional services to support the custom design and implementation of our next generation mobile solutions in automobiles, handsets and other consumer electronics.
- Enterprise segment revenue decreased $8.5 million. Our product and licensing revenue declined $16.0 million, driven primarily by lower product and licensing revenue in Europe. Maintenance and support revenue increased $8.1 million driven by strong maintenance renewals from license bookings in prior periods.
- Imaging segment revenue increased $15.0 million. Our product and licensing revenue grew $11.1 million primarily driven by our fiscal 2012 and 2013 acquisitions.

Segment Profit

Fiscal 2014 Compared to Fiscal 2013

- Healthcare segment profit for the year ended September 30, 2014 decreased 3.4% from the same period last year, primarily driven by increased costs from growth in sales of our on-demand solutions and increased investments in research and development. Segment profit margin decreased 2.5 percentage points, from 38.6% for the same period last year to 36.1% during the current period. The decrease in segment profit margin was primarily driven by a decrease of 1.6 percentage points in segment gross margin due to higher transcription related costs. In addition, segment profit margin decreased 1.3 percentage points due to increased investments in research and development to support innovation and new product launches.

- Mobile and Consumer segment profit for the year ended September 30, 2014 decreased 43.8% from the same period last year, primarily driven by lower product and licensing revenue, increased costs to support the growth of our on-demand services and increased investments in research and development. Segment profit margin decreased 12.0

percentage points, from 29.8% for the same period last year to 17.8% during the current period. The decrease in segment profit margin was primarily driven by a 6.7 percentage point decrease in segment gross margin as our markets and customers continued to shift from embedded to on-demand solutions, driving increased costs to deploy large custom solutions for key customers, as well as a 5.6 percentage point increase in research and development spending related to acquisitions and investments to support cloud-based speech systems and natural language understanding advancements.

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- Enterprise segment profit for the year ended September 30, 2014 increased 6.0% from the same period last year, driven by higher professional services and hosting revenues from our recent acquisitions. Segment profit margin decreased 1.0 percentage points, from 24.4% for the same period last year to 23.4% in the current period. The decrease in segment profit margin was driven by decline in segment gross margin as a result of lower product and licensing sales.

- Imaging segment profit for the year ended September 30, 2014 decreased 9.3% from the same period last year, driven by lower product and licensing sales. Segment profit margin decreased 2.6 percentage points, from 40.3% for the same period last year to of 37.7% during the current period. The decrease in segment profit margin was primarily driven by increased sales and marketing spending to support new product launches.

Fiscal 2013 Compared to Fiscal 2012

- Healthcare segment profit in fiscal 2013 increased $37.3 million, or 11.8%, over fiscal 2012, driven primarily by segment revenue growth of 36.2%, partially offset by increased costs from growth in sales of our on-demand solutions and investments in research and development. Segment profit margin declined 8.4 percentage points from 47.0% in fiscal 2012 to 38.6% in fiscal 2013. This decrease in profit margin was primarily driven by lower segment gross margin of 6.5 percentage points due to pressures in margin resulting from our acquired businesses that have a large service component, yet are not fully at scale and are at a stage that requires significant infrastructure and labor investments for deployment. In addition, profit margin decreased 1.9 percentage points due to increased investments in research in development to support innovation and product initiatives.
- Mobile and Consumer segment profit in fiscal 2013 decreased $84.6 million, or 37.2%, over fiscal 2012, primarily due to lower product and licensing revenue and increased investments in research and development. Segment profit margin declined by 15.0 percentage points, from 44.8% in fiscal 2012 to 29.8% in the current period. This decrease in margin was primarily driven by a 6.2 percentage point increase in research and development spending to fund cloud-based speech systems and natural language understanding advancements, as well as a 5.8 percentage point decrease in segment gross margin due to a shift in revenue mix from product and licensing revenue to on-demand and professional services revenue as well as the costs to deploy large solutions for key customers.

- Enterprise segment profit in fiscal 2013 decreased $11.9 million, or 13.1%, over fiscal 2012, driven primarily by lower product and licensing revenue in Europe and higher selling expenses. Segment profit margin decreased 2.9 percentage points from 27.3% in fiscal 2012 to 24.4% in fiscal 2013. This decrease in margin was primarily driven by higher sales and marketing expenses, which reduced margins by 3.5 percentage points, offset by gross margin improvement of 0.7 percentage points due to cost-saving measures during the period.
- Imaging segment profit in fiscal 2013 increased $6.6 million, or 7.2%, over fiscal 2012, driven primarily by growth in revenue from our acquisitions in fiscal 2012 and 2013. Segment profit margin of 40.3% in 2013 was relatively flat as compared to fiscal 2012.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and marketable securities totaled $588.2 million as of September 30, 2014, a decrease of $258.6 million as compared to $846.8 million as of September 30, 2013. Our working capital at September 30, 2014 was $522.5 million compared to $604.3 million of working capital at September 30, 2013. Cash and cash equivalents and marketable securities held by our international operations totaled $71.5 million and $65.8 million at September 30, 2014 and 2013, respectively. We expect the cash held overseas will continue to be used for our international operations and therefore do not anticipate repatriating these funds. If we were to repatriate these amounts, we do not believe that the resulting withholding taxes payable would have a material impact on our liquidity. As of September 30, 2014, our total accumulated deficit was $530.6 million. We do not expect our accumulated deficit to impact our future ability to operate the business given our strong cash and operating cash flow positions. We believe our current cash and cash equivalents are sufficient to meet our operating needs for at least the next twelve months.

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Cash provided by operating activities

Fiscal 2014 Compared to Fiscal 2013

Cash provided by operating activities for fiscal 2014 was $358.1 million, a decrease of $36.9 million, or 9%, as compared to cash provided by operating activities of $395.0 million for fiscal 2013. The net decrease was primarily driven by the following factors:

- A decrease of $13.3 million in cash flows resulting from higher net loss, exclusive of non-cash adjustment items;
- A decrease of $80.7 million in cash flows generated by changes in working capital excluding deferred revenue; and
- Offset by an increase in cash flows of $57.2 million from an overall increase in deferred revenue. The increase in deferred revenue was primarily attributable to continued growth in new mobile on-demand service offerings where a portion of the fees are collected upfront, and recognized as revenue over the life of the contract. Healthcare deferred revenue has also increased reflecting the shift to term-based licenses.

Fiscal 2013 Compared to Fiscal 2012

Cash provided by operating activities for fiscal 2013 was $395.0 million, a decrease of $78.0 million, or 16%, as compared to cash provided by operating activities of $473.0 million for fiscal 2012. The net decrease was primarily driven by the following factors:

- A decrease of $158.5 million in cash flows resulting from higher net loss, exclusive of non-cash adjustment items which includes a decrease in deferred tax benefit of $149.1 million driven by the change in our valuation allowance;
- Offset by an increase of $35.6 million in cash flows generated by changes in working capital excluding deferred revenue; and
- An increase in cash flows of $45.0 million from an overall increase in deferred revenue. The increase in deferred revenue was primarily attributable to continued growth in Imaging and Healthcare maintenance and support arrangements, new mobile on-demand service offerings where a portion of the fees are collected upfront, and the emergence of Healthcare term and subscription software arrangements that are recognized ratably.

Cash used in investing activities

Fiscal 2014 Compared to Fiscal 2013

Cash used in investing activities for fiscal 2014 was $311.0 million, a decrease of $383.0 million, or 55%, as compared to cash used in investing activities of $693.9 million for fiscal 2013. The net decrease was primarily driven by the following factors:

- A decrease in cash outflows of $354.7 million for business and technology acquisitions; and
- Offset by an increase in cash outflows of $23.2 million from purchases of marketable securities and other investments and an increase in cash inflows of $56.2 million from the sales and maturities of marketable securities and other investments.

Fiscal 2013 Compared to Fiscal 2012

Cash used in investing activities for fiscal 2013 was $693.9 million, a decrease of $230.6 million, or 25%, as compared to cash used in investing activities of $924.5 million for fiscal 2012. The net decrease was primarily driven by the following factors:

- A decrease in cash outflows of $277.3 million for business and technology acquisitions;
- A decrease in cash outflows of $7.3 million for capital expenditures; and
- Offset by an increase in cash outflows of $24.3 million from purchases of marketable securities and other investments and a reduction in cash inflows of $23.0 million from the sales and maturities of marketable securities and other investments.

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Cash used in financing activities

Fiscal 2014 Compared to Fiscal 2013

Cash used in financing activities for fiscal 2014 was $307.2 million, an increase of $286.5 million, or 1,387%, as compared to cash used in financing activities of $20.7 million for fiscal 2013. The net increase was primarily driven by the following factors:

- A decrease in cash inflows of $625.2 million from proceeds of debt issuances. Fiscal 2013 activities included proceeds of $351.7 million of Senior Notes due in 2020 issued in the first quarter of fiscal 2013 together with $277.1 million related to the amendment of our Credit Facility in August 2013;
- Offset by a decrease in cash outflows of $170.6 million for the payment of long-term debt. The fiscal 2014 activity included the redemption of the 2027 Debentures for $250.0 million. Fiscal 2013 activities included payments of $277.1 million related to the amendment of our Credit Facility in August 2013 and $143.5 million related to on our term loan in October 2012;
- A decrease in cash outflows of $157.9 million related to our share repurchase program. We repurchased 1.6 million shares of our common stock for total cash outflows of $26.5 million in fiscal 2014 as compared to 9.8 million shares of our common stock for total cash outflows of $184.4 million in fiscal 2013.
- A decrease in cash outflows of $20.4 million as a result of lower cash payments required to net share settle employee equity awards, due to our lower stock price during fiscal 2014 as compared to fiscal 2013.

Fiscal 2013 Compared to Fiscal 2012

Cash used in financing activities for fiscal 2013 was $20.7 million, a decrease of $1,153.7 million, or 102%, as compared to cash provided by financing activities of $1,133.0 million for fiscal 2012. The net decrease was primarily driven by the following factors:

- A decrease in cash inflows of $739.8 million from proceeds of debt issuances. Fiscal 2012 activities included cash inflows of $689.1 million from the issuance of the Senior Notes due in 2020, as well as $676.1 million from the issuance of the 2031 Debentures, net of issuance costs and original issue discount. Fiscal 2013 activities included proceeds of $351.7 million of Senior Notes due in 2020 issued in the first quarter of fiscal 2013 together with $277.1 million related to the amendment of our Credit Facility in August 2013;
- An increase in cash outflows of $419.0 million for the payment of long-term debt, which includes $277.1 million related to the amendment of our Credit Facility in August 2013 and the October 2012 payment of $143.5 million on our term loan;
- An increase in cash outflows of $10.6 million as a result of higher cash payments required to net share settle employee equity awards, due to an increase in vesting activities during fiscal 2013 as compared to fiscal 2012; and
- Offset by a decrease in cash outflows of $15.6 million related to our share repurchase program. We repurchased 9.8 million shares of our common stock for total cash outflows of $184.4 million in fiscal 2013 as compared to our repurchase of 8.5 million shares of our common stock for total cash outflows of $200.0 million in fiscal 2012.

Credit Facilities and Debt

5.375% Senior Notes due 2020

On October 22, 2012, we issued an additional $350.0 million aggregate principal amount of our 5.375% Senior Notes due 2020 (the "Notes"). The Notes were issued pursuant to an indenture agreement dated August 14, 2012, relating to our existing $700 million aggregate principal amount of 5.375% Senior Notes due in 2020, issued in the fourth quarter of fiscal 2012. Total proceeds received, net of issuance costs, were $351.7 million. On October 31, 2012, we used $143.5 million of the net proceeds to pay the term loans under the Credit Facility originally maturing in March 2013.

On August 14, 2012, we issued $700 million aggregate principal amount of 5.375% Senior Notes due on August 15, 2020, in a private placement. The net proceeds from the Notes were approximately $689.1 million, net of issuance costs. The Notes bear interest at 5.375% per year, payable in cash semi-annually in arrears. The ending unamortized deferred debt issuance costs at September 30, 2014 and 2013 were $11.1 million and $13.0 million, respectively.

The Notes are the unsecured senior obligations of the Company and are guaranteed (the “Guarantees”) on an unsecured senior basis by substantially all of the Company's direct and indirect wholly owned domestic subsidiaries (the “Subsidiary Guarantors”).

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The Notes and Guarantees rank equally in right of payment with all of the Company's and the Subsidiary Guarantors' existing and future unsecured senior debt and rank senior in right of payment to all of the Company's and the Subsidiary Guarantors' future unsecured subordinated debt. The Notes and Guarantees effectively rank junior to all secured debt of the Company and the Subsidiary Guarantors to the extent of the value of the collateral securing such debt and to all liabilities, including trade payables, of the Company's subsidiaries that have not guaranteed the Notes.
At any time before August 15, 2016, we may redeem all or a portion of the Notes at a redemption price equal to 100% of the aggregate principal amount of the 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 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. At any time and from time to time before August 15, 2015, we may redeem up to 35% of the aggregate outstanding principal amount of the Notes with the net cash proceeds received by the Company from certain equity offerings at a price equal to 105.375%, plus accrued and unpaid interest to, but excluding, the redemption date, provided that the redemption occurs no later than the 120 days after the closing of the related equity offering, and at least 50% of the original aggregate principal amount of the Notes remains outstanding immediately thereafter.
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.
2.75% Convertible Debentures due in 2031
On October 24, 2011, we sold $690 million of 2.75% Convertible Debentures due in 2031 (the "2031 Debentures") in a private placement. Total proceeds, net of debt issuance costs, were $676.1 million. The 2031 Debentures bear interest at 2.75% per year, payable in cash semiannually 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.
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 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, 2014, 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.
Credit Facility

On August 7, 2013, we entered into an amendment agreement to amend and restate our existing amended and restated credit agreement, as previously amended. The credit agreement was originally dated March 31, 2006, and was amended and restated on April 5, 2007, and further amended and restated on July 7, 2011, and includes a term loan and a $75 million revolving credit line including letters of credit (together, the "Credit Facility"). Of the $483.4 million outstanding term loans originally due March 31, 2016, existing Lenders representing $333.2 million have elected to extend the maturity to August 7, 2019 and the balance of the term loans have been assigned to new lenders who have also agreed to the extended maturity date. The extended term loans bear interest, at our option, at a base rate determined in accordance with the amended and restated credit agreement, plus a spread of 1.75%, or a LIBOR rate plus a spread of 2.75%. Also, under terms of the amendment, the maturity date of our $75 million revolving credit facility has been extended from March 31, 2015 to August 7, 2018. The extended revolving loans bear interest, at our option,

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at a base rate determined in accordance with the Amended and Restated Credit Agreement, plus a spread of 0.50% to 0.75%, or a LIBOR rate plus a spread of 1.50% to 1.75%, in each case determined based on our consolidated net leverage ratio. As of September 30, 2