Nuance Communications, Inc.
Form 10-Q
February 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2015
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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

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 ý No ¨

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

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	ý		Accelerated filer	¨
Non-accelerated filer	¨	(Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The number of shares of the Registrant's Common Stock, outstanding as of January 29, 2016 was 304,446,272.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements (unaudited)

NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2015	2014
	(Unaudited) (In thousands, except per share amounts)	
Revenues:		
Product and licensing	$179,050	$169,688
Professional services and hosting	227,135	226,170
Maintenance and support	79,930	78,161
Total revenues	486,115	474,019
Cost of revenues:		
Product and licensing	23,412	23,970
Professional services and hosting	153,544	157,243
Maintenance and support	13,322	14,041
Amortization of intangible assets	15,631	15,131
Total cost of revenues	205,909	210,385
Gross profit	280,206	263,634
Operating expenses:		
Research and development	71,060	82,567
Sales and marketing	100,590	111,250
General and administrative	39,655	50,567
Amortization of intangible assets	27,033	26,827
Acquisition-related costs, net	2,480	4,756
Restructuring and other charges, net	7,888	2,228
Total operating expenses	248,706	278,195
Income (loss) from operations	31,500	(14,561)
Other income (expense):		
Interest income	883	562
Interest expense	(29,880)	(29,897)
Other expense, net	(6,801)	(785)
Loss before income taxes	(4,298)	(44,681)
Provision for income taxes	7,767	5,814
Net loss	$(12,065)	$(50,495)
Net loss per share:		
Basic	$(0.04)	$(0.16)
Diluted	$(0.04)	$(0.16)
Weighted average common shares outstanding:		
Basic	307,794	321,751
Diluted	307,794	321,751

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended December 31,	
	2015	2014
	(Unaudited) (In thousands)	
Net loss	$(12,065)	$(50,495)
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(8,904)	(28,218)
Pension adjustments	74	25
Unrealized loss on marketable securities	(67)	(29)
Total other comprehensive loss, net	(8,897)	(28,222)
Comprehensive loss	$(20,962)	$(78,717)

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2015	September 30, 2015
	(Unaudited)	
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$506,653	$479,449
Marketable securities	59,783	57,237
Accounts receivable, less allowances for doubtful accounts of $9,746 and $9,184	374,333	373,162
Prepaid expenses and other current assets	93,790	76,777
Total current assets	1,034,559	986,625
Marketable securities	29,434	32,099
Land, building and equipment, net	186,719	186,007
Goodwill	3,369,953	3,378,334
Intangible assets, net	753,835	796,285
Other assets	156,128	148,301
Total assets	$5,530,628	$5,527,651
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$—	$4,834
Contingent and deferred acquisition payments	16,858	15,651
Accounts payable	48,218	56,581
Accrued expenses and other current liabilities	167,115	224,609
Deferred revenue	370,787	324,709
Total current liabilities	602,978	626,384
Long-term portion of debt	2,119,825	2,118,821
Deferred revenue, net of current portion	361,893	343,452
Deferred tax liabilities	108,571	104,782
Other liabilities	69,329	68,960
Total liabilities	3,262,596	3,262,399
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $0.001 par value per share; 560,000 shares authorized; 308,235 and 313,531 shares issued and 304,484 and 309,781 shares outstanding, respectively	308	314
Additional paid-in capital	3,271,737	3,149,060
Treasury stock, at cost (3,751 shares)	(16,788)	(16,788)
Accumulated other comprehensive loss	(125,842)	(116,945)
Accumulated deficit	(861,383)	(750,389)
Total stockholders' equity	2,268,032	2,265,252
Total liabilities and stockholders' equity	$5,530,628	$5,527,651

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31,	
	2015	2014
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net loss	$(12,065)	$(50,495)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	58,275	57,173
Stock-based compensation	42,348	47,354
Non-cash interest expense	8,636	7,379
Deferred tax (benefit) provision	(351)	1,887
Loss on extinguishment of debt	4,851	—
Other	393	(182)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(3,894)	7,243
Prepaid expenses and other assets	(20,097)	(14,658)
Accounts payable	(5,940)	(2,559)
Accrued expenses and other liabilities	305	(36,226)
Deferred revenue	68,680	78,769
Net cash provided by operating activities	141,141	95,685
Cash flows from investing activities:		
Capital expenditures	(20,555)	(16,937)
Payments for business and technology acquisitions, net of cash acquired	(674)	(8,132)
Purchases of marketable securities and other investments	(17,070)	(63,465)
Proceeds from sales and maturities of marketable securities and other investments	14,128	9,377
Net cash used in investing activities	(24,171)	(79,157)
Cash flows from financing activities:		
Payments of debt	(511,844)	(1,209)
Proceeds from issuance of convertible debt, net of issuance costs	664,605	—
Payments for repurchase of common stock	(189,580)	—
Payments for settlement of other share-based derivatives	—	(340)
Payments on other long-term liabilities	(851)	(695)
Proceeds from issuance of common stock from employee stock plans	36	177
Cash used to net share settle employee equity awards	(52,171)	(42,654)
Net cash used in financing activities	(89,805)	(44,721)
Effects of exchange rate changes on cash and cash equivalents	39	(1,195)
Net increase (decrease) in cash and cash equivalents	27,204	(29,388)
Cash and cash equivalents at beginning of period	479,449	547,230
Cash and cash equivalents at end of period	$506,653	$517,842

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Presentation

The consolidated financial statements include the accounts of Nuance Communications, Inc. (“Nuance”, “we”, or “the Company”) and our wholly-owned subsidiaries. We prepared these unaudited interim consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (the “U.S.” or the "United States") and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). The condensed consolidated financial statements reflect all adjustments that, in our opinion, are necessary to present fairly our financial position, results of operations and cash flows for the periods indicated. The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Although we believe the disclosures in these financial statements are adequate to make the information presented not misleading, certain information in the footnote disclosures of the financial statements has been condensed or omitted where it substantially duplicates information provided in our latest audited consolidated financial statements, in accordance with the rules and regulations of the SEC. Accordingly, these financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015. The results of operations for the three months ended December 31, 2015 and December 31, 2014, respectively, are not necessarily indicative of the results for the entire fiscal year or any future period.

We have evaluated subsequent events from December 31, 2015 through the date of the issuance of these consolidated financial statements and have determined that no material subsequent events have occurred that would affect the information presented in these consolidated financial statements.

2. Summary of Significant Accounting Policies

Recently Adopted Accounting Standards

Effective October 1, 2015, we retroactively implemented Accounting Standards Update ("ASU") No. 2015-17, "Balance Sheet Classification of Deferred Taxes." The cumulative effect of the change as of September 30, 2015 on current and long-term deferred tax assets was a decrease of approximately $57.3 million and $0.4 million, respectively, with an offsetting adjustment to long-term deferred tax liabilities. Current deferred tax assets are included in prepaid expenses and other current assets and long-term deferred tax assets are included in other assets within our consolidated balance sheet.

Effective October 1, 2015, we implemented ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The implementation had no impact on our consolidated financial statements.

We have made no other changes to the significant accounting policies disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Recently Issued Accounting Standards

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

In January 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Although ASU 2016-01 retains many current requirements, it significantly revises accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments and is effective for us in the first quarter of fiscal year 2019. We are currently evaluating the impact of our pending adoption of ASU 2016-01 on our consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments" ("ASU 2015-16"). The amendments in the ASU 2015-16 require an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined and sets forth new disclosure requirements related to the adjustments. ASU 2015-16 is effective for us in the first quarter of fiscal year 2017. We do not believe that ASU 2015-16 will have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). The amendments in the ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for us in the first quarter of fiscal year 2017, with early adoption permitted. ASU 2015-03 should be applied on a retrospective basis to each individual period presented. Upon implementation, the change in reporting debt issuance costs will require us to reclassify our deferred financing costs, which are $22.0 million and $15.7 million at December 31, 2015 and September 30, 2015, respectively, from an asset to a reduction of the reported debt balance. ASU 2015-03 will reduce our assets and liabilities but will have no impact on our shareholders' equity, results of operations or cash flows.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, “Amendments to the Consolidation Analysis” ("ASU 2015-02"). The amendments in ASU 2015-02 provide guidance on evaluating whether a company should consolidate certain legal entities. In accordance with the guidance, all legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for us in the first quarter of fiscal year 2017 with early adoption permitted. We do not believe that ASU 2015-02 will have a material impact on our consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"), to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for us in the first quarter of fiscal year 2017, with early adoption permitted. We do not believe that ASU 2014-15 will have a material impact on our consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC 718, "Compensation - Stock Compensation," as it relates to such awards. ASU 2014-12 is effective for us in our first quarter of fiscal year 2017 with early adoption permitted using either of two methods: (i) prospective to all awards granted or modified after the effective date; or (ii) retrospective to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter, with the cumulative effect of applying ASU 2014-12 as an adjustment to the opening retained earnings balance as of the beginning of the earliest annual period presented in the financial statements. We do not believe that ASU 2014-12 will have a material impact on our consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers: Topic 606" ("ASU 2014-09"), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for us in our first quarter of fiscal year 2019 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

3. Business Acquisitions

During the first quarter of fiscal year 2016, we did not complete any business acquisitions.

During fiscal year 2015, we acquired several immaterial businesses in our Mobile and Healthcare segments for total initial cash consideration of $47.6 million together with future contingent payments. The future contingent payments may require us to make payments up to $19.9 million as additional consideration contingent upon the achievement of specified objectives, which at closing had an estimated fair value of $17.3 million. In allocating the total purchase consideration for these acquisitions based on preliminary estimated fair values, we recorded $23.4 million of goodwill and $35.8 million of identifiable intangibles assets. Intangible assets acquired included customer relationships and core and completed technology with weighted average useful lives of 6.9 years. The most significant of these acquisitions are treated as asset purchases, and the goodwill resulting from these acquisitions is expected to be deductible for tax purposes.

NUANCE COMMUNICATIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value estimates for the assets acquired and liabilities assumed for acquisitions completed during fiscal year 2015 were based upon preliminary calculations and valuations, and our estimates and assumptions for each of these acquisitions are subject to change as we obtain additional information during the respective measurement periods (up to one year from the respective acquisition dates). The primary areas of preliminary estimates that were not yet finalized related to certain assets and liabilities acquired. There were no significant changes to the fair value estimates during the current year.

Acquisition-Related Costs, net

Acquisition-related costs include costs related to business and other acquisitions, including potential acquisitions. These costs consist of (i) transition and integration costs, including retention payments, transitional employee costs and earn-out payments treated as compensation expense, as well as the costs of integration-related activities including services provided by third-parties; (ii) professional service fees, including third party costs related to the acquisitions, 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.

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

	Three Months Ended December 31,	
	2015	2014
Transition and integration costs	$996	$3,481
Professional service fees	1,403	2,201
Acquisition-related adjustments	81	(926)
Total	$2,480	$4,756

4. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill and intangible assets for the three months ended December 31, 2015, are as follows (dollars in thousands):

	Goodwill	Intangible Assets
Balance at September 30, 2015	$3,378,334	$796,285
Amortization	—	(42,664)
Effect of foreign currency translation	(8,381)	214
Balance at December 31, 2015	$3,369,953	$753,835

In October 2015, we reorganized the organizational management and oversight of our Dragon Consumer ("DNS") business, represented by our DNS reporting unit, which was previously reported within our Mobile segment and has now been moved into our Healthcare segment. Based on this reorganization, we reallocated $67.6 million of goodwill from our Mobile segment into our Healthcare segment.

5. Financial Instruments and Hedging Activities

Derivatives Not Designated as Hedges

Forward Currency Contracts

We operate our business in countries throughout the world and transact business in various foreign currencies. Our foreign currency exposures typically arise from transactions denominated in currencies other than the functional currency of our operations. We have a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effect of certain foreign currency exposures. Our program is designed so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. Generally, we enter into such contracts for less than 90 days and have no cash requirements until maturity. At December 31, 2015 and September 30, 2015, we had outstanding contracts with a total notional value of $137.6 million and $138.5 million, respectively.

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

Security Price Guarantees

From time to time we enter into agreements that allow us to issue shares of our common stock as part or all of the consideration related to business acquisitions, partnering and technology acquisition activities. Some of these shares are issued subject to security price guarantees, which are accounted for as derivatives. We have determined that these instruments would not be considered equity instruments if they were freestanding. Certain of the security price guarantees require payment from either us to a third party, or from a third party to us, based upon the difference between the price of our common stock on the issue date and an average price of our common stock approximately six months following the issue date. We have also issued minimum price guarantees that may require payments from us to a third party based on the average share price of our common stock approximately six months following the issue date if our stock price falls below the minimum price guarantee. Changes in the fair value of these security price guarantees are reported in other expense, net in our consolidated statements of operations. We have no outstanding shares subject to security price guarantees at December 31, 2015.

The following table provides a quantitative summary of the fair value of our derivative instruments as of December 31, 2015 and September 30, 2015 (dollars in thousands):

Derivatives Not Designated as Hedges:	Balance Sheet Classification	Fair Value December 31, 2015	September 30, 2015
Foreign currency contracts	Prepaid expenses and other current assets	$189	$260
Foreign currency contracts	Accrued expenses and other current liabilities	$(170)	$—
Net fair value of non-hedge derivative instruments		$19	$260

The following tables summarize the activity of derivative instruments for the three months ended December 31, 2015 and 2014 (dollars in thousands):

		Three Months Ended December 31,	
Derivatives Not Designated as Hedges	Location of Gain (Loss) Recognized in Income	2015	2014
Foreign currency contracts	Other expense, net	$(3,373)	$(6,283)
Security price guarantees	Other expense, net	$—	$(562)

Other Financial Instruments

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

6.Fair Value Measures

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

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

- Level 1. Quoted prices for identical assets or liabilities in active markets which we can access.
- Level 2. Observable inputs other than those described as Level 1.
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Level 3. Unobservable inputs based on the best information available, including management's estimates and assumptions.

NUANCE COMMUNICATIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2015 and September 30, 2015 consisted of (dollars in thousands):

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds[(a)]	$383,231	$—	$—	$383,231
US government agency securities[(a)]	1,000		—	1,000
Time deposits[(b)]	—	73,057	—	73,057
Commercial paper, $3,578 at cost[(b)]	—	3,578	—	3,578
Corporate notes and bonds, $45,708 at cost[(b)]	—	45,596	—	45,596
Foreign currency exchange contracts[(b)]	—	189	—	189
Total assets at fair value	$384,231	$122,420	$—	$506,651
Liabilities:				
Foreign currency exchange contracts[(b)]	$—	$(170)	$—	$(170)
Contingent acquisition payments[(c)]	—	—	(16,901)	(16,901)
Total liabilities at fair value	$—	$(170)	$(16,901)	$(17,071)

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds[(a)]	$334,404	$—	$—	$334,404
US government agency securities[(a)]	1,000	—	—	1,000
Time deposits[(b)]	—	71,453	—	71,453
Commercial paper, $3,491 at cost(b)	—	3,493	—	3,493
Corporate notes and bonds, $44,581 at cost(b)	—	44,533	—	44,533
Foreign currency exchange contracts[(b)]	—	260	—	260
Total assets at fair value	$335,404	$119,739	$—	$455,143
Liabilities:				
Contingent acquisition payments[(c)]	$—	$—	$(15,961)	$(15,961)
Total liabilities at fair value	$—	$—	$(15,961)	$(15,961)

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

(b) The fair values of our time deposits, commercial paper, corporate notes and bonds, and foreign currency exchange contracts are based on the most recent observable inputs for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable. Time deposits are generally for terms of one year or less. The commercial paper and corporate notes and bonds mature within three years and have a weighted average maturity of 1.28 years.

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

The following table provides a summary of changes in fair value of our Level 3 financial instruments for the three months ended December 31, 2015 and 2014 (dollars in thousands):

	Three Months Ended December 31,	
	2015	2014
Balance at beginning of period	$15,961	$6,864
Earn-out liabilities established at time of acquisition	—	639
Payments upon settlement	(174)	(1,462)
Adjustments to fair value included in acquisition-related costs, net	1,114	(601)
Balance at end of period	$16,901	$5,440

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

Contingent acquisition payment liabilities are scheduled to be paid in periods through fiscal year 2017. As of December 31, 2015, we could be required to pay up to $23.9 million for contingent consideration arrangements if the specified objectives are achieved. We have determined the fair value of the liabilities for the contingent consideration based on a probability-weighted discounted cash flow analysis. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the contingent consideration liability associated with future payments was based on several factors, the most significant of which are the estimated cash flows projected from future product sales and the risk adjusted discount rate for the fair value measurement.

7. Accrued Expenses and Other Current Liabilities

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

	December 31, 2015	September 30, 2015
Compensation	$86,503	$142,150
Accrued interest payable	24,164	11,793
Cost of revenue related liabilities	22,557	25,584
Sales and marketing incentives	6,832	6,845
Facilities related liabilities	6,153	6,312
Professional fees	6,142	6,874
Acquisition costs and liabilities	4,241	6,666
Sales and other taxes payable	4,121	6,026
Other	6,402	12,359
Total	$167,115	$224,609

NUANCE COMMUNICATIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Deferred Revenue

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

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

	December 31, 2015	September 30, 2015
Current liabilities:		
Deferred maintenance revenue	$162,870	$155,967
Unearned revenue	207,917	168,742
Total current deferred revenue	$370,787	$324,709
Long-term liabilities:		
Deferred maintenance revenue	$62,854	$62,201
Unearned revenue	299,039	281,251
Total long-term deferred revenue	$361,893	$343,452

9. Restructuring and Other Charges, net

Restructuring and other charges, net include restructuring expenses together with other charges 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 excess facility space and other contract termination costs. Other charges may include gains or losses on non-controlling strategic equity interests, litigation contingency reserves and gains or losses on the sale or disposition of certain non-strategic assets or product lines.

The following table sets forth accrual activity relating to restructuring reserves for the three months ended December 31, 2015 (dollars in thousands):

	Personnel	Facilities	Total
Balance at September 30, 2015	$635	$6,222	$6,857
Restructuring charges, net	4,558	3,330	7,888
Non-cash adjustment	(57)	(457)	(514)
Cash payments	(3,022)	(1,046)	(4,068)
Balance at December 31, 2015	$2,114	$8,049	$10,163

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

	Three Months Ended December 31, 2015					2014				
	Personnel	Facilities	Total Restructuring	Other Charges	Total	Personnel	Facilities	Total Restructuring	Other Charges	Total
Healthcare	$701	$—	$ 701	$—	$701	$(128)	$—	$ (128)	$—	$(128)
Mobile	2,182	602	2,784	—	2,784	12	—	12	—	12
Enterprise	1,084	20	1,104	—	1,104	218	95	313	—	313
Imaging	213	—	213	—	213	1,480	393	1,873	—	1,873
Corporate	378	2,708	3,086	—	3,086	158	—	158	—	158
Total	$4,558	$3,330	$ 7,888	$—	$7,888	$1,740	$488	$ 2,228	$—	$2,228

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Fiscal Year 2016

During the three months ended December 31, 2015, we recorded restructuring charges of $7.9 million. The restructuring charges included $4.6 million for severance related to the reduction of approximately 110 employees as part of our initiatives to reduce costs and optimize processes. The restructuring charges also included a $3.3 million charge for the closure of certain excess facility space.

We expect that the remaining severance payments of $2.1 million will be substantially paid by the end of fiscal year 2016. We expect that the remaining payments of $8.0 million for the closure of excess facility space will be paid through fiscal year 2025, in accordance with the terms of the applicable leases.

Fiscal Year 2015

During the three months ended December 31, 2014, we recorded restructuring charges of $2.2 million. The restructuring charges included $1.7 million for severance related to the reduction of approximately 60 employees that eliminated duplicative positions, and a $0.5 million charge for the closure of certain excess facility space resulting from acquisitions.

10. Debt and Credit Facilities

At December 31, 2015 and September 30, 2015, we had the following borrowing obligations (dollars in thousands):

	December 31, 2015	September 30, 2015
5.375% Senior Notes due 2020, net of unamortized premium of $3.6 million and $3.8 million, respectively. Effective interest rate 5.28%.	$1,053,622	$1,053,818
1.00% Convertible Debentures due 2035, net of unamortized discount of $179.7 million. Effective interest rate 5.62%.	496,782	—
2.75% Convertible Debentures due 2031, net of unamortized discount of $31.6 million and $39.1 million, respectively. Effective interest rate 7.43%.	363,886	394,698
1.50% Convertible Debentures due 2035, net of unamortized discount of $58.4 million and $60.5 million, respectively. Effective interest rate 5.39%.	205,535	203,373
Credit Facility, net of unamortized original issue discount of $0.8 million.	—	471,766
Total long-term debt	$2,119,825	$2,123,655
Less: current portion	—	4,834
Non-current portion of long-term debt	$2,119,825	$2,118,821

The estimated fair value of our long-term debt approximated $2,393.4 million (face value $2,385.9 million) and $2,249.1 million (face value $2,220.2 million) at December 31, 2015 and September 30, 2015, respectively. These fair value amounts represent the value at which our lenders could trade our debt within the financial markets and do not represent the settlement value of these long-term debt liabilities to us at each reporting date. The fair value of the long-term debt will continue to vary each period based on fluctuations in market interest rates, as well as changes to our credit ratings. The Senior Notes and the Convertible Debentures are traded and the fair values of each borrowing was estimated using the averages of the bid and ask trading quotes at each respective reporting date. We had no outstanding balance on the revolving credit line portion of our Credit Facility at December 31, 2015 or September 30, 2015.

5.375% Senior Notes due 2020

On August 14, 2012, we issued $700.0 million aggregate principal amount of 5.375% Senior Notes due on August 15, 2020 in a private placement. On October 22, 2012, we issued an additional $350.0 million aggregate principal amount of our 5.375% Senior Notes. The Notes bear interest at 5.375% per year, payable in cash semi-annually in arrears. The Notes are our unsecured senior obligations and are guaranteed (the "Guarantees") on an unsecured senior basis by substantially all of our direct and indirect wholly owned domestic subsidiaries (the "Subsidiary Guarantors"). The Notes and Guarantees rank equally in right of payment with all of our and the Subsidiary Guarantors' existing and future unsecured senior debt and rank senior in right of payment to all of our and the Subsidiary Guarantors' future unsecured subordinated debt. The Notes and Guarantees effectively rank junior to all secured debt of our and the Subsidiary Guarantors to the extent of the value of the collateral securing such debt and to all liabilities, including trade payables, of our subsidiaries that have not guaranteed the Notes. As of December 31, 2015 and September 30, 2015, the ending unamortized deferred debt issuance costs were $8.8 million and $9.2 million, respectively.

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1.0% Convertible Debentures due 2035

In December 2015, we issued $676.5 million in aggregate principal amount of 1.0% Senior Convertible Debentures due in 2035 (the “1.0% 2035 Debentures”). Total proceeds, net of debt issuance costs, were $664.6 million, and we used a portion to repurchase $38.3 million in aggregate principal on our 2.75% Senior Convertible Debentures due in 2031 (the “2031 Debentures”) and to repay the aggregate principal balance of $472.5 million on our term loan under the amended and restated credit agreement. The 1.0% 2035 Debentures bear interest at 1.0% per year, payable in cash semi-annually in arrears, beginning on June 15, 2016. In addition to ordinary interest and default additional interest, beginning with the semi-annual interest period commencing on December 15, 2022, contingent interest will accrue during any regular semi-annual interest period where the average trading price of our 1.0% 2035 Debentures for the ten trading day period immediately preceding the first day of such semi-annual period is greater than or equal to $1,200 per $1,000 principal amount of our 1.0% 2035 Debentures, in which case, contingent interest will accrue at a rate of 0.50% per annum of such average trading price. The 1.0% 2035 Debentures mature on December 15, 2035, subject to the right of the holders to require us to redeem the 1.0% 2035 Debentures on December 15, 2022, 2027, or 2032. The 1.0% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.0% 2035 Debentures. The 1.0% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries.

We account separately for the liability and equity components of the 1.0% 2035 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature and record the remainder in stockholders’ equity. At issuance, we allocated $495.4 million to long-term debt, and $181.1 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through December 2022. As of December 31, 2015, the ending unamortized deferred debt issuance costs were $9.2 million.

If converted, the principal amount of the 1.0% 2035 Debentures is payable in cash and any amounts payable in excess of the principal amount, will (based on an initial conversion rate, which represents an initial conversion price of approximately $27.22 per share, subject to adjustment) be paid in cash or shares of our common stock, at our election, only in the following circumstances and to the following extent: (i) prior to June 15, 2035, on any date during any fiscal quarter beginning after March 31, 2016 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for $1,000 principal amount of the 1.0% 2035 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 1.0% 2035 Debentures; or (iv) at the option of the holder at any time on or after June 15, 2035. Additionally, we may redeem the 1.0% 2035 Debentures, in whole or in part, on or after December 20, 2022 for cash at a price equal to 100% of the principal amount of the 1.0% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. Each holder shall have the right, at such holder’s option, to require us to repurchase all or any portion of the 1.0% 2035 Debentures held by such holder on December 15, 2022, December 15, 2027, or December 15, 2032 at par plus accrued and unpaid interest. If we undergo a fundamental change or non-stock change of control (as described in the indenture for the 1.0% 2035 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the 1.0% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of December 31, 2015, none of the conversion criteria were met for the 1.0% 2035 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

2.75% Convertible Debentures due 2031

In December 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to repurchase $38.3 million in aggregate principal with proceeds received from the issuance of our 1.0% 2035 Debentures. In accordance with the authoritative guidance for convertible debt instruments, a loss on extinguishment is equal to the difference between the reacquisition price and the net carrying amount of the extinguished debt for our 2031 Debentures, including any unamortized debt discount or issuance costs. Upon repurchase we recorded an extinguishment loss of $2.4 million in other expense, net, in the accompanying consolidated statements of operations. Following the repayment, $395.5 million in aggregate principal amount of our 2031 Debentures remain outstanding. The 2031 Debentures bear interest at 2.75% per year, payable in cash semi-annually in arrears. The 2031 Debentures mature on November 1, 2031, subject to the right of the holders to require us to redeem

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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. The aggregate debt discount of $89.7 million is being amortized to interest expense using the effective interest rate method through November 2017. As of December 31, 2015 and September 30, 2015, the ending unamortized deferred debt issuance costs were $1.9 million and $2.3 million, respectively. As of December 31, 2015 and September 30, 2015, none of the conversion criteria were met for the 2031 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

1.5% Convertible Debentures due 2035

In June 2015, we issued $263.9 million in aggregate principal amount of 1.5% Senior Convertible Debentures due in 2035 (the “1.5% 2035 Debentures”). The 1.5% 2035 Debentures were issued at 97.09% of the principal amount, which resulted in a discount of $7.7 million. The 1.5% 2035 Debentures bear interest at 1.5% per year, payable in cash semi-annually in arrears, beginning on November 1, 2015. The 1.5% 2035 Debentures mature on November 1, 2035, subject to the right of the holders to require us to redeem the 1.5% 2035 Debentures on November 1, 2021, 2026, or 2031. The 1.5% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.5% 2035 Debentures. The 1.5% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries. The aggregate debt discount of $63.0 million is being amortized to interest expense using the effective interest rate method through November 2021. As of December 31, 2015 and September 30, 2015, the ending unamortized deferred debt issuance costs were $2.2 million and $2.3 million, respectively. As of December 31, 2015 and September 30, 2015, none of the conversion criteria were met for the 1.5% 2035 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

Credit Facility

The amended and restated credit agreement, entered into on August 7, 2013, includes a term loan and a $75.0 million revolving credit line, inclusive of any issued letters of credit (together, the "Credit Facility"). In December 2015, we repaid the aggregate principal balance of $472.5 million on the term loan with proceeds received from the issuance of our 1.0% 2035 Debentures. The revolving credit line terminates on August 7, 2018. We recorded a loss of $2.5 million on the extinguishment, representing the unamortized debt discount and issuance costs, in other expense, net, in the accompanying consolidated statements of operations. As of December 31, 2015, there were $6.2 million of letters of credit issued, and there were no other outstanding borrowings under the revolving credit line.

Under the terms of the Credit Facility, interest is payable periodically at a rate equal to the applicable margin plus, at our option, either (a) the base rate which is the corporate base rate of Morgan Stanley, the Administrative Agent, or (b) LIBOR (equal to (i) the British Bankers’ Association Interest Settlement Rates for deposits in U.S. dollars divided by (ii) one minus the statutory reserves applicable to such borrowing). The applicable margin for the borrowings at December 31, 2015 is as follows:

Description	Base Rate Margin		LIBOR Margin	
Revolving facility due August 2018	0.50% - 0.75%	(a)	1.50% - 1.75%	(a)

(a) The margin is determined based on our net leverage ratio at the date the interest rates are reset on the revolving credit line.

We are required to pay a commitment fee for unutilized commitments under the revolving credit facility at a rate ranging from 0.250% to 0.375% per annum, based upon our net leverage ratio. As of December 31, 2015, the commitment fee rate was 0.375%.

The Credit Facility contains covenants including, among other things, covenants that restrict our ability and those of our subsidiaries to incur certain additional indebtedness or issue guarantees, create or permit liens on assets, enter into sale-leaseback transactions, make loans or investments, sell assets, make certain acquisitions, pay dividends, repurchase stock, or merge or consolidate with any entity, and enter into certain transactions with affiliates. The agreement also contains events of default, including failure to make payments of principal or interest, failure to observe covenants, breaches of representations and warranties, defaults under certain other material indebtedness, failure to satisfy material judgments, a change of control and certain insolvency events. As of December 31, 2015, we were in compliance with the covenants under the Credit Facility. The covenants on our other long-term debt are less restrictive, and as of December 31, 2015, we were in compliance with the requirements of our other long-term debt.

Our obligations under the Credit Facility are unconditionally guaranteed by, subject to certain exceptions, each of our existing and future direct and indirect wholly-owned domestic subsidiaries. The Credit Facility and the guarantees thereof are secured by first priority liens and security interests in the following: 100% of the capital stock of substantially all of our domestic subsidiaries and 65% of the outstanding voting equity interests and 100% of the non-voting equity interests of first-tier foreign subsidiaries, all our material tangible and intangible assets and those of the guarantors, and any present and future intercompany debt. We may voluntarily prepay borrowings under the Credit Facility without premium or penalty other than breakage costs, as defined with respect to LIBOR-based loans.

11. Stockholders' Equity

Share Repurchases

On April 29, 2013, our Board of Directors approved a share repurchase program for up to $500.0 million of our outstanding shares of common stock. On April 29, 2015, our Board of Directors approved an additional $500.0 million under our share repurchase program. We repurchased 8.9 million shares for $188.7 million during the three months ended December 31, 2015. This includes the repurchase of 1.0 million shares owned directly or indirectly by our Chief Executive Officer, comprised of 649,649 outstanding shares and 800,000 vested stock options with a net share equivalent of 350,351 shares, for an aggregate purchase price of $21.4 million. Since the commencement of the program, we have repurchased 40.2 million shares for $698.7 million. Approximately $301.3 million remained available for share repurchases as of December 31, 2015 pursuant to our share repurchase program. Under the terms of the share repurchase program, we expect to continue to repurchase shares from time to time through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated stock repurchase transactions, or any combination of such methods. The timing and the amount of any purchases will be determined by management based on an evaluation of market conditions, capital allocation alternatives, and other factors. The share repurchase program does not require us to acquire any specific number of shares and may be modified, suspended, extended or terminated by us at any time without prior notice.

12. Net Loss Per Share

As of December 31, 2015 and 2014, diluted weighted average common shares outstanding is equal to basic weighted average common shares due to our net loss position. Common equivalent shares are excluded from the computation of diluted net loss per share if their effect is anti-dilutive. Potentially dilutive common equivalent shares aggregating to 10.0 million and 13.8 million shares for the three months ended December 31, 2015 and 2014, respectively, have been excluded from the computation of diluted net loss per share because their inclusion would be anti-dilutive.

13. Stock-Based Compensation

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

	Three Months Ended December 31,	
	2015	2014
Cost of product and licensing	$122	$87
Cost of professional services and hosting	7,757	7,623
Cost of maintenance and support	1,068	943
Research and development	9,933	10,509
Selling and marketing	12,837	12,534
General and administrative	10,631	15,658
Total	$42,348	$47,354

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Stock Options

The table below summarizes activity relating to stock options for the three months ended December 31, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value[a]
Outstanding at September 30, 2015	2,923,989	$14.01		
Exercised/Repurchased[b]	(807,949)	$11.93		
Expired	(2,873)	$10.97		
Outstanding at December 31, 2015	2,113,167	$14.81	1.4 years	$10.7 million
Exercisable at December 31, 2015	2,113,030	$14.81	1.4 years	$10.7 million
Exercisable at December 31, 2014	3,608,477	$13.66	2.1 years	$4.7 million

(a) The aggregate intrinsic value in this table was calculated based on the positive difference, if any, between the closing market price of our common stock on December 31, 2015 ($19.89) and the exercise price of the underlying options.

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

The weighted-average intrinsic value of stock options exercised during the three months ended December 31, 2015 and 2014 was $7.6 million and $1.0 million, respectively.

Restricted Units

Restricted units are not included in issued and outstanding common stock until the shares are vested and released. The purchase price for vested restricted units is $0.001 per share. The table below summarizes activity relating to restricted units for the three months ended December 31, 2015:

	Number of Shares Underlying Restricted Units — Contingent Awards	Number of Shares Underlying Restricted Units — Time-Based Awards
Outstanding at September 30, 2015	4,700,210	7,007,839
Granted	1,665,708	4,066,597
Earned/released	(2,210,095)	(3,399,555)
Forfeited	(276,357)	(121,663)
Outstanding at December 31, 2015	3,879,466	7,553,218
Weighted average remaining recognition period of outstanding restricted units	1.9 years	1.7 years
Unearned stock-based compensation expense of outstanding restricted units	$74.6 million	$84.2 million
Aggregate intrinsic value of outstanding restricted units[a]	$77.2 million	$150.3 million

(a) The aggregate intrinsic value in this table was calculated based on the positive difference between the closing market price of our common stock on December 31, 2015 ($19.89) and the purchase price of the underlying Restricted Units.

A summary of weighted-average grant-date fair value for awards granted and intrinsic value of all restricted units vested during the periods noted is as follows:

	Three Months Ended December 31,	
	2015	2014
Weighted-average grant-date fair value per share	$20.40	$14.95
Total intrinsic value of shares vested (in millions)	$115.6	$97.1

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Restricted Stock Awards

Restricted stock awards are included in the issued and outstanding common stock at the date of grant. The table below summarizes activity related to restricted stock awards for the three months ended December 31, 2015:

	Number of Shares Underlying Restricted Stock	Weighted Average Grant Date Fair Value
Outstanding at September 30, 2015	250,000	$15.71
Vested	(250,000)	$15.71
Outstanding at December 31, 2015	—	$—

The weighted-average intrinsic value of restricted stock awards vested during the three months ended December 31, 2015 and 2014 was $4.3 million and $3.9 million, respectively.

14. Income Taxes

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

	Three Months Ended December 31,	
	2015	2014
Domestic	$(29,002)	$(63,710)
Foreign	24,704	19,029
Loss before income taxes	$(4,298)	$(44,681)

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

	Three Months Ended December 31,	
	2015	2014
Domestic	$4,537	$3,789
Foreign	3,230	2,025
Provision for income taxes	$7,767	$5,814
Effective tax rate	(180.7)%	(13.0)%

The effective income tax rate was (180.7)% and (13.0)% for the three months ended December 31, 2015 and 2014, respectively. Our current effective income tax rate differs from the U.S. federal statutory rate of 35% primarily due to current period losses in the United States that require an additional valuation allowance that provide no benefit to the provision and an increase to indefinite lived deferred tax liabilities, partially offset by our earnings in foreign operations that are subject to a significantly lower tax rate than the U.S. statutory tax rate, driven primarily by our subsidiaries in Ireland.

Effective October 1, 2015, we implemented ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes." The cumulative effect of the change as of September 30, 2015 on current and long-term deferred tax assets was a decrease of approximately $57.3 million and $0.4 million, respectively, with an offsetting adjustment to long-term deferred tax liabilities. Current deferred tax assets are included in prepaid expenses and other current assets and long-term deferred tax assets are included in other assets within our consolidated balance sheet.

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

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At December 31, 2015 and September 30, 2015, we had gross tax effected unrecognized tax benefits of $22.6 million and $22.2 million, respectively, and is included in other long-term liabilities. If these benefits were recognized, they would impact our effective tax rate. We do not expect a significant change in the amount of unrecognized tax benefits within the next 12 months.

15. Commitments and Contingencies

Litigation and Other Claims

Similar to many companies in the software industry, we are involved in a variety of claims, demands, suits, investigations and proceedings that arise from time to time relating to matters incidental to the ordinary course of our business, including actions with respect to contracts, intellectual property, employment, benefits and securities matters. We have estimated the amount of probable losses that may result from all currently pending matters, and such amounts are reflected in our consolidated financial statements. These recorded amounts are not material to our consolidated financial position or results of operations and no additional material losses related to these pending matters are reasonably possible. While it is not possible to predict the outcome of these matters with certainty, we do not expect the results of any of these actions to have a material adverse effect on our results of operations or financial position. However, each of these matters is subject to uncertainties, the actual losses may prove to be larger or smaller than the accruals reflected in our consolidated financial statements, and we could incur judgments or enter into settlements of claims that could adversely affect our financial position, results of operations or cash flows.

Guarantees and Other

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

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

16. Segment and Geographic Information

We operate in, and report financial information for, the following four reportable segments: Healthcare, Mobile, Enterprise, and Imaging. Segment profit is an important measure used for evaluating performance and for decision-making purposes and 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 (loss) 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 expense, net and certain unallocated corporate expenses. We believe that these adjustments allow for more complete comparisons to the financial results of the historical operations.

In October 2015, we reorganized the organizational management and oversight of our DNS business, which was previously reported within our Mobile segment and has now been moved into our Healthcare segment. In addition, we renamed our Mobile and Consumer segment to Mobile segment. Accordingly, the segment results in prior periods have been reclassified to conform to the current period segment reporting presentation.

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We do not track our assets by operating segment. Consequently, it is not practical to show assets by operating segment nor depreciation by operating segment. The following table presents segment results along with a reconciliation of segment profit to loss before income taxes (dollars in thousands):

	Three Months Ended December 31,	
	2015	2014
Segment revenues[(a)]:		
Healthcare	$248,084	$250,810
Mobile	96,403	87,516
Enterprise	88,776	90,643
Imaging	61,607	60,061
Total segment revenues	494,870	489,030
Less: acquisition related revenues adjustments	(8,755)	(15,011)
Total consolidated revenues	486,115	474,019
Segment profit:		
Healthcare	81,107	78,264
Mobile	33,519	11,707
Enterprise	25,733	24,732
Imaging	26,985	19,928
Total segment profit	167,344	134,631
Corporate expenses and other, net	(29,875)	(35,668)
Acquisition-related revenues and cost of revenues adjustment	(8,589)	(14,290)
Stock-based compensation	(42,348)	(47,354)
Amortization of intangible assets	(42,664)	(41,958)
Acquisition-related costs, net	(2,480)	(4,756)
Restructuring and other charges, net	(7,888)	(2,228)
Costs associated with IP collaboration agreements	(2,000)	(2,938)
Other expense, net	(35,798)	(30,120)
Loss before income taxes	$(4,298)	$(44,681)

(a) Segment revenues differ from reported revenues due to certain revenue adjustments related to acquisitions that will not be fully recognized in accordance with authoritative guidance for the purchase accounting of business combinations. Segment revenues also include revenue that the business would have otherwise recognized had we not acquired intellectual property and other assets from the same customer. These revenues are included to allow for more complete comparisons to the financial results of historical operations and in evaluating management performance.

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

	Three Months Ended December 31,	
	2015	2014
United States	$355,814	$347,674
International	130,301	126,345
Total revenues	$486,115	$474,019

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Item 2. 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 condensed consolidated financial statements.

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q including the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosure About Market Risk” under Items 2 and 3, respectively, of Part I of this report, and the sections entitled “Legal Proceedings” and “Risk Factors,” under Items 1 and 1A, respectively, of Part II of this report, 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. These forward-looking statements include predictions regarding:

- our future bookings, revenues, cost of revenues, research and development expenses, selling, general and administrative expenses, amortization of intangible assets and gross margin;
- our strategy relating to our segments;
- our transformation program to reduce costs and optimize processes;
- market trends;
- technological advancements;
- the potential of future product releases;
- our product development plans and the timing, amount and impact of investments in research and development;
- future acquisitions, and anticipated benefits from acquisitions;
- international operations and localized versions of our products; and
- the conduct, timing and outcome of 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 o 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 for many reasons, including the risks described in Item 1A — “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q.

You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

OVERVIEW

Business Overview

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

In October 2015, we reorganized the organizational management and oversight of our DNS business, which was previously reported within our Mobile segment and has now been moved into our Healthcare segment. In addition, we renamed our Mobile and Consumer segment to Mobile segment. Accordingly, the segment results in prior periods have been reclassified to conform to the current period segment reporting presentation.

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.

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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 transcription services and Dragon Medical licenses. The volume processed in our hosted transcription services has experienced some erosion in lines processed when customers adopt EMR systems, and when in some cases customers use our licensed Dragon Medical product to support input into the EMR, which has been partially offset by expansion in our customer base. 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. There is an ongoing 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 opportunities, including deeper integration with our clinical documentation solutions; investing in our cloud-based products and operations; entering new and adjacent markets such as ambulatory care; and expanding our international capabilities.

Mobile. Trends in our mobile business 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 portfolio of specialized virtual assistants and connected services built on voice recognition, text-to-speech, natural language understanding, dialog and 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 growth opportunities limited by the consolidation of this market to a small number of customers as well as increased competition in voice recognition and natural language technologies and services sold to device OEMs. 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 perpetual 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 expand the cloud capabilities and content of our Automotive solutions; expansion across the IoT in our Device solutions; and, geographic expansion of our mobile operator services.

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 year 2015, 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 year 2016. We are investing to extend our technology capabilities with intelligent self-service and AI for customer service; expand our OnDemand multichannel cloud to international markets; expand our sales and solution for voice biometrics; and expand our OnPremise product and services portfolio.

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

Key Metrics

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

For the three months ended December 31, 2015, as compared to the three months ended December 31, 2014:

- Total revenues increased by $12.1 million to $486.1 million;
- Net loss decreased by $38.4 million to a loss of $12.1 million;

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- Gross margins increased by 2.0 percentage points to 57.6%;
- Operating margins increased by 9.6 percentage points to 6.5%; and
- Cash provided by operating activities increased $45.5 million to $141.1 million.

As of December 31, 2015, as compared to December 31, 2014:

- Total deferred revenue increased 18.0% from $621.1 million to $732.7 million driven by growth in our on-demand and maintenance and support contracts primarily from our automotive business in our Mobile segment.

In addition to the above key financial metrics, we also focus on certain operating metrics. A summary of these key operating metrics for the period ended December 31, 2015, as compared to the period ended December 31, 2014, is as follows:

- Net new bookings increased 1.6% from one year ago to $308.7 million. The net new bookings growth benefited from strong bookings performance in our Enterprise and Mobile segments.

Bookings represent the estimated gross revenue value of transactions at the time of contract execution, except for maintenance and support offerings. For fixed price contracts, the bookings value represents the gross total contract value. For contracts where revenue is based on transaction volume, the bookings value represents the contract price multiplied by the estimated future transaction volume during the contract term, whether or not such transaction volumes are guaranteed under a minimum commitment clause. Actual results could be different than our initial estimate. The maintenance and support bookings value represents the amounts the customer is invoiced in the period. Because of the inherent estimates required to determine bookings and the fact that the actual resultant revenue may differ from our initial bookings estimates, we consider bookings one indicator of potential future revenue and not as an arithmetic measure of backlog.

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

- Segment recurring revenue represented 67.2% and 65.8% of total segment revenue for three months ended December 31, 2015 and December 31, 2014, respectively. Segment 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 delivered under ongoing contracts. Recurring product and licensing revenue comprises term-based and ratable licenses as well as revenues from royalty arrangements;
- Annualized line run-rate in our on-demand healthcare solutions decreased 5% from one year ago to approximately 5.1 billion lines per year. The annualized line run-rate is determined using billed equivalent line counts in a given quarter, multiplied by four; and
- Estimated three-year value of total on-demand contracts increased 1% from one year ago to approximately $2.2 billion. We determine this value as of the end of the period reported, by using our estimate of three years of anticipated future revenue streams under signed on-demand contracts then in place, whether or not they are guaranteed through a minimum commitment clause. Our estimate is based on 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.

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RESULTS OF OPERATIONS

Total Revenues

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

	Three Months Ended December 31, 2015	2014	Dollar Change	Percent Change
Product and licensing	$179.1	$169.7	$9.4	5.5 %
Professional services and hosting	227.1	226.2	0.9	0.4 %
Maintenance and support	79.9	78.2	1.7	2.2 %
Total Revenues	$486.1	$474.0	$12.1	2.6 %
United States	$355.8	$347.7	$8.1	2.3 %
International	130.3	126.3	4.0	3.2 %
Total Revenues	$486.1	$474.0	$12.1	2.6 %

The geographic split for the three months ended December 31, 2015 and 2014, was 73% of total revenues in the United States and 27% internationally. International revenue was negatively impacted by weakening foreign currencies offset by an increase in revenue driven by an acquisition in fiscal year 2015.

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):

	Three Months Ended December 31, 2015	2014	Dollar Change	Percent Change
Product and licensing revenue	$179.1	$169.7	$9.4	5.5 %
As a percentage of total revenue	36.8 %	35.8 %		

Three months ended December 31, 2015 compared with three months ended December 31, 2014

The increase in revenue consisted of a $3.5 million increase in our Imaging business, and a $3.0 million increase in each of our Healthcare and Mobile businesses. The revenue increase in our Imaging business was led by strong sales in our MFP products. The revenue increase in Healthcare business was led by higher license sales of our clinical documentation solutions offset by lower sales of Dragon desktop consumer products. Within our Mobile business, license sales were higher in our automotive and devices businesses.

Professional Services and Hosting Revenue

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

	Three Months Ended December 31, 2015	2014	Dollar Change	Percent Change
Professional services and hosting revenue	$227.1	$226.2	$0.9	0.4 %
As a percentage of total revenue	46.7 %	47.7 %		

Three months ended December 31, 2015 compared with three months ended December 31, 2014

The increase in revenue was primarily driven by a $6.1 million increase in hosting revenue, offset by a $5.1 million decrease in professional services revenue. In our hosting business, Mobile on-demand revenue grew $10.0 million primarily driven by a recent acquisition in our mobile operator services as well as a continued trend toward cloud services in our automotive and devices solutions. This increase in on-demand revenue was partially offset by a $5.2

million decrease in the Healthcare hosting revenue

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as we continue to experience some volume erosion in our transcription services. In our professional services business, the decrease in revenue was driven by lower professional services from our Mobile and Enterprise businesses.

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):

	Three Months Ended December 31, 2015	2014	Dollar Change	Percent Change
Maintenance and support revenue	$79.9	$78.2	$1.7	2.2 %
As a percentage of total revenue	16.4 %	16.5 %		

Three months ended December 31, 2015 compared with three months ended December 31, 2014

The increase in revenue was driven primarily by maintenance renewals in our Imaging and Healthcare businesses.

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):

	Three Months Ended December 31, 2015	2014	Dollar Change	Percent Change
Cost of product and licensing revenue	$23.4	$24.0	$(0.6)	(2.5)%
As a percentage of product and licensing revenue	13.1 %	14.1 %		

Three months ended December 31, 2015 compared with three months ended December 31, 2014

The decrease in expense was primary driven by lower hardware cost in our Mobile segment. Gross margins increased 1.0 percentage points, primarily driven by higher revenues from higher margin license products in our Mobile and Imaging businesses.

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):

	Three Months Ended December 31, 2015	2014	Dollar Change	Percent Change
Cost of professional services and hosting revenue	$153.5	$157.2	$(3.7)	(2.4)%
As a percentage of professional services and hosting revenue	67.6 %	69.5 %		

Three months ended December 31, 2015 compared with three months ended December 31, 2014

The decrease in expense was primary driven by a $2.5 million reduction in costs as a result of lower transcription services revenue within the Healthcare segment. Gross margins increased 1.9 percentage points primarily driven by margin expansion in our cloud-based services as well as higher revenues from higher margin hosting services in our Mobile business.

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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 the cost of maintenance and support revenue, in dollars and as a percentage of maintenance and support revenue (dollars in millions):

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Dollar Change	Percent Change
Cost of maintenance and support revenue	$13.3	$14.0	$(0.7)	(5.0)%
As a percentage of maintenance and support revenue	16.6 %	17.9 %		

Three months ended December 31, 2015 compared with three months ended December 31, 2014

The decrease in expense was primarily driven by lower compensation related expense. Gross margins increased 1.3 percentage points primarily driven by cost improvement in our Healthcare and Imaging businesses.

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):

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Dollar Change	Percent Change
Research and development expense	$71.1	$82.6	$(11.5)	(13.9)%
As a percentage of total revenue	14.6 %	17.4 %		

Three months ended December 31, 2015 compared with three months ended December 31, 2014

The decrease in expense was primarily attributable to a reduction of $8.5 million in compensation costs, including stock-based compensation, as we benefited from our cost-savings initiatives including our restructuring plans executed during fiscal year 2015 and our on-going efforts to move costs and activities to lower-cost countries during the fiscal year.

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):

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Dollar Change	Percent Change
Sales and marketing expense	$100.6	$111.3	$(10.7)	(9.6)%
As a percentage of total revenue	20.7 %	23.5 %		

Three months ended December 31, 2015 compared with three months ended December 31, 2014

The decrease in expense was primarily attributable to a $4.5 million decrease in marketing and channel program spending and a decrease of $3.8 million in compensation costs, including stock-based compensation expense, as we benefited from our cost-saving initiatives including our restructuring plan executed during the period.

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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):

	Three Months Ended December 31, 2015	2014	Dollar Change	Percent Change
General and administrative expense	$39.7	$50.6	$(10.9)	(21.5)%
As a percentage of total revenue	8.2 %	10.7 %		

Three months ended December 31, 2015 compared with three months ended December 31, 2014

The decrease in expense was primarily attributable to a $7.6 million decrease in compensation costs, including stock-based compensation, as we benefited from our cost-savings initiatives including the impact from our restructuring plans executed during the fiscal year 2015 as well as our on-going efforts to move costs and activities to lower-cost countries during the fiscal year. In addition, consulting and professional services fees decreased $5.2 million.

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):

	Three Months Ended December 31, 2015	2014	Dollar Change	Percent Change
Cost of revenue	$15.6	$15.1	$0.5	3.3 %
Operating expenses	27.0	26.8	0.2	0.7 %
Total amortization expense	$42.7	$42.0	$0.7	1.7 %
As a percentage of total revenue	8.8 %	8.9 %		

The increase in total amortization of intangible assets for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014, was primarily attributable to acquired patent and technology assets during fiscal year 2015.

Acquisition-Related Costs, Net

Acquisition-related costs include costs related to business and other acquisitions, including potential acquisitions. These costs consist of (i) transition and integration costs, including retention payments, transitional employee costs and earn-out payments treated as compensation expense, as well as the costs of integration-related activities including 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):

	Three Months Ended December 31, 2015	2014	Dollar Change	Percent Change
Transition and integration costs	$1.0	$3.5	$(2.5)	(71.4)%
Professional service fees	1.4	2.2	(0.8)	(36.4)%

Acquisition-related adjustments	0.1	(0.9)	1.0	(111.1)%
Total acquisition-related costs, net	$2.5	$4.8	$(2.3)	(47.9)%
As a percentage of total revenue	0.5 %	1.0 %		

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Included in transition and integration costs for the three months ended December 31, 2014, is $2.3 million related to employee transition costs for an acquisition closed in fiscal year 2014.

Restructuring and Other Charges, Net

Restructuring and other charges, net include restructuring expenses together with other charges 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 excess facility space and other contract termination costs. Other charges may include gains or losses on non-controlling strategic equity interests, litigation contingency reserves and gains or losses on the sale or disposition of certain non-strategic assets or product lines.

Restructuring and other charges, net by component and segment for the three months ended December 31, 2015 are as follows (dollars in thousands):

	Three Months Ended December 31,									
	2015					2014				
	Personnel	Facilities	Total Restructuring	Other Charges	Total	Personnel	Facilities	Total Restructuring	Other Charges	Total
Healthcare	$701	$—	$ 701	$—	$701	$(128)	$—	$ (128)	$—	$(128)
Mobile	2,182	602	2,784	—	2,784	12	—	12	—	12
Enterprise	1,084	20	1,104	—	1,104	218	95	313	—	313
Imaging	213	—	213	—	213	1,480	393	1,873	—	1,873
Corporate	378	2,708	3,086	—	3,086	158	—	158	—	158
Total	$4,558	$3,330	$ 7,888	$—	$7,888	$1,740	$488	$ 2,228	$—	$2,228

During the three months ended December 31, 2015, we recorded restructuring charges of $7.9 million. The restructuring charges included $4.6 million for severance related to the reduction of approximately 110 employees as part of our initiatives to reduce costs and optimize processes. The restructuring charges also included a $3.3 million charge for the closure of certain excess facility space.

During the three months ended December 31, 2014, we recorded restructuring charges of $2.2 million. The restructuring charges included $1.7 million for severance related to the reduction of approximately 60 employees that eliminated duplicative positions, and a $0.5 million charge for the closure of certain excess facility space resulting from acquisitions.

Other Expense, Net

Other expense, net 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, net, in dollars and as a percentage of total revenues (dollars in millions):

	Three Months Ended December 31,		Dollar Change	Percent Change
	2015	2014		
Interest income	$0.9	$0.6	$0.3	50.0 %
Interest expense	(29.9)	(29.9)	—	— %
Other expense, net	(6.8)	(0.8)	(6.0)	750.0 %
Total other expense, net	$(35.8)	$(30.1)	$(5.7)	18.9 %
As a percentage of total revenue	7.4 %	6.4 %		

For the three months ended December 31, 2015, as compared to the three months ended December 31, 2014, other expense, net increased by $6.0 million, primarily related to extinguishment losses of $2.5 million and $2.4 million related to the repayment of the aggregate principal balance on the term loan and the repurchase of $38.3 million in aggregate principal of the 2031 Debentures, respectively, during the three months ended December 31, 2015.

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Provision for Income Taxes

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

	Three Months Ended December 31,		Dollar Change	Percent Change
	2015	2014		
Provision for income taxes	$7.8	$5.8	$2.0	34.5 %
Effective income tax rate	(180.7)%	(13.0)%		

The effective income tax rate was (180.7)% and (13.0)% for the three months ended December 31, 2015 and 2014, respectively. Our current effective income tax rate differs from the U.S. federal statutory rate of 35% primarily due to current period losses in the United States that require an additional valuation allowance that provide no benefit to the provision and an increase to indefinite lived deferred tax liabilities, partially offset by our earnings in foreign operations that are subject to a significantly lower tax rate than the U.S. statutory tax rate, driven primarily by our subsidiaries in Ireland.

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

SEGMENT ANALYSIS

We operate in, and report financial information for, the following four reportable segments: Healthcare, Mobile, Enterprise, and Imaging. Segment profit is an important measure used for evaluating performance and for decision-making purposes and 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 (loss) 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 expense, net and certain unallocated corporate expenses. We believe that these adjustments allow for more complete comparisons to the financial results of the historical operations.

In October 2015, we reorganized the organizational management and oversight of our DNS business, which was previously reported within our Mobile segment and has now been moved into our Healthcare segment. In addition, we renamed our Mobile and Consumer segment to Mobile segment. Accordingly, the segment results in prior periods have been reclassified to conform to the current period segment reporting presentation.

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

	Three Months Ended December 31, 2015	2014	Change	Percent Change
Segment Revenues[a]:				
Healthcare	$248.1	$250.8	$(2.7)	(1.1)%
Mobile	96.4	87.5	8.9	10.2%
Enterprise	88.8	90.6	(1.8)	(2.0)%
Imaging	61.6	60.1	1.5	2.5%
Total segment revenues	$494.9	$489.0	$5.9	1.2%
Less: acquisition related revenues adjustments	(8.8)	(15.0)	6.2	(41.3)%
Total revenues	$486.1	$474.0	$12.1	2.6%
Segment Profit:				
Healthcare	$81.1	$78.3	$2.8	3.6%
Mobile	33.5	11.7	21.8	186.3%
Enterprise	25.7	24.7	1.0	4.0%
Imaging	27.0	19.9	7.1	35.7%
Total segment profit	$167.3	$134.6	$32.7	24.3%
Segment Profit Margin				
Healthcare	32.7%	31.2%	1.5	
Mobile	34.8%	13.4%	21.4	
Enterprise	28.9%	27.3%	1.6	
Imaging	43.8%	33.1%	10.7	
Total segment profit margin	33.8%	27.5%	6.3	

(a) Segment revenues differ from reported revenues due to certain revenue adjustments related to acquisitions that will not be fully recognized in accordance with authoritative guidance for the purchase accounting of business combinations. Segment revenues also include revenue that the business would have otherwise recognized had we not acquired intellectual property and other assets from the same customer. These revenues are included to allow for more complete comparisons to the financial results of historical operations and in evaluating management performance.

Segment Revenue

Three months ended December 31, 2015

- Healthcare segment revenues decreased $2.7 million for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014. Professional services and hosting revenues decreased $6.9 million primarily driven by a decrease of $5.5 million in hosting revenues as we continue to experience some erosion of revenue in our transcription services. Product and licensing revenues increased $3.0 million driven by higher revenues from our clinical documentation solutions offset by lower sales of Dragon desktop consumer products. Maintenance and support revenues increased $1.1 million driven by strong renewals in our CDI and coding solutions.

- Mobile segment revenues increased $8.9 million for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014. Professional services and hosting revenues increased by $7.0 million driven primarily by growth in our on-demand mobile connected services. Product and licensing revenues increased $3.0 million from our automotive and devices businesses. Maintenance and support revenue decreased $1.1 million.

- Enterprise segment revenues decreased $1.8 million for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014. Professional services and hosting revenues decreased $0.8 million and maintenance and support revenue decreased $0.9 million driven by lower sales in customer care on-premise implementations which has been challenged by customers' growing preference for on-demand implementation.

- Imaging segment revenues increased $1.5 million for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014, primarily driven by strong maintenance and support renewals in our multi-functional peripheral products.

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Segment Profit

Three months ended December 31, 2015

- Healthcare segment profit for the three months ended December 31, 2015 increased 3.6% from the same period last year, primarily driven by lower sales and marketing expenses partially offset by increased research and development spending. Segment profit margin increased 1.5 percentage points, from 31.2% for the same period last year to 32.7% during the current period. The increase in segment profit margin was primarily driven by our cost savings initiatives with improvements of 1.4 percentage points related to lower sales and marketing expenses. Gross margin improved 0.6 percentage point driven by higher product and licensing revenue. These increases in profit margin were partially offset by a decrease of 0.4 percentage point related to increased research and development spending driven by continued investments to support innovation and new product launches.
- Mobile segment profit for the three months ended December 31, 2015 increased 186.3% from the same period last year, primarily driven by lower operating expenses together with increased revenues for the period. Segment profit margin increased 21.4 percentage points, from 13.4% for the same period last year to 34.8% during the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 12.2 percentage points related to decreased research and development spending, 4.9 percentage point in gross margin improvement, and 4.3 percentage points related to lower sales and marketing expenses.
- Enterprise segment profit for the three months ended December 31, 2015 increased 4.0% from the same period last year, driven by lower operating expense. Segment profit margin increased 1.6 percentage points, from 27.3% for the same period last year to 28.9% in the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 1.3 percentage points due to decreased research and development spending and 0.4 percentage point due to lower sales and marketing expenses.
- Imaging segment profit for the three months ended December 31, 2015 increased 35.7% from the same period last year, primarily driven by lower expenses together with increased revenues for the period. Segment profit margin increased 10.7 percentage points, from 33.1% for the same period last year to 43.8% during the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 7.1 percentage points due to lower sales and marketing expenses, 2.0 percentage points due to improved gross margin, and 1.5 percentage points due to decreased research and development spending.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and marketable securities totaled $595.9 million as of December 31, 2015, an increase of $27.1 million as compared to $568.8 million as of September 30, 2015. Our working capital was $431.6 million as of December 31, 2015, as compared to $360.2 million as of September 30, 2015. As of December 31, 2015, our total accumulated deficit was $861.4 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.

Cash and cash equivalents and marketable securities held by our international operations totaled $219.6 million and $164.2 million at December 31, 2015 and September 30, 2015, respectively. We utilize a variety of financing strategies to ensure that our worldwide cash is available in the locations in which it is needed. We expect the cash held overseas will continue to be used for our international operations, and that we will meet U.S. liquidity needs through future cash flows, use of U.S. cash balances, external borrowings, or some combination of these sources and therefore do not anticipate repatriating these funds.

We believe our current cash and cash equivalents and marketable securities are sufficient to meet our operating needs for at least the next twelve months.

Cash Provided by Operating Activities

Cash provided by operating activities for the three months ended December 31, 2015 was $141.1 million, an increase of $45.5 million, as compared to cash provided by operating activities of $95.7 million for the three months ended December 31, 2014. The net increase was primarily driven by the following factors:

- An increase in cash flows of $39.0 million resulting from lower net loss, exclusive of non-cash adjustment items;
- An increase of $16.6 million in cash flows generated by changes in working capital excluding deferred revenue; and
- Offset by a decrease in cash flows of $10.1 million from deferred revenue. Deferred revenue continues to grow contributing cash inflow of $68.7 million for the three months ended December 31, 2015, as compared to $78.8

million for the three months ended December 31, 2014. The deferred revenue growth in the three months ended December 31, 2015 was driven primarily by Healthcare term licenses, mobile connected services and maintenance and support contracts.

Cash Used in Investing Activities

Cash used in investing activities for the three months ended December 31, 2015 was $24.2 million, a decrease of $55.0 million, as compared to cash used in investing activities of $79.2 million for the three months ended December 31, 2014. The net decrease was primarily driven by the following factors:

- A decrease in cash outflows of $46.4 million for purchases of marketable securities; and

- A decrease in cash outflows of $7.5 million for business and technology acquisitions.

Cash Used in Financing Activities

Cash used in financing activities for the three months ended December 31, 2015 was $89.8 million, an increase of $45.1 million, as compared to cash used in financing activities of $44.7 million for the three months ended December 31, 2014. The net increase was primarily driven by the following factors:

- An increase in cash outflows of $189.6 million related to our share repurchase program. During the three months ended December 31, 2015, we repurchased 8.9 million shares of our common stock for total cash outflows of $189.6 million as compared to no repurchased shares of our common stock during the same period in the prior year; and

- An increase in cash outflows of $9.5 million as a result of higher cash payments required to net share settle employee equity awards, due to an increase in vesting value as a result of higher stock price during the three months ended December 31, 2015 as compared to the same period in the prior year; and

- Offset by an increase in net cash inflows of $154.0 million from the new convertible debt issuance net of the repayment of long-term debt. The activity during the three months ended December 31, 2015 included proceeds of $664.6 million, net of debt issuance costs, from the issuance of our 1.0% Senior Convertible Debentures due in 2035 (the “1.0% 2035 Debentures”) offset by the repurchase of $38.3 million in aggregate principal on our 2.75% Senior Convertible Debentures due in 2031 (the “2031 Debentures”) and to repay the aggregate principal balance of $472.5 million on our term loan under the amended and restated credit agreement.

Debt and Credit Facilities

5.375% Senior Notes due 2020

On August 14, 2012, we issued $700.0 million aggregate principal amount of 5.375% Senior Notes due on August 15, 2020 in a private placement. On October 22, 2012, we issued an additional $350.0 million aggregate principal amount of our 5.375% Senior Notes. The Notes bear interest at 5.375% per year, payable in cash semi-annually in arrears. The Notes are our unsecured senior obligations and are guaranteed (the “Guarantees”) on an unsecured senior basis by substantially all of our direct and indirect wholly owned domestic subsidiaries (the “Subsidiary Guarantors”). The Notes and Guarantees rank equally in right of payment with all of our and the Subsidiary Guarantors' existing and future unsecured senior debt and rank senior in right of payment to all of our and the Subsidiary Guarantors' future unsecured subordinated debt. The Notes and Guarantees effectively rank junior to all secured debt of our and the Subsidiary Guarantors to the extent of the value of the collateral securing such debt and to all liabilities, including trade payables, of our subsidiaries that have not guaranteed the Notes. As of December 31, 2015 and September 30, 2015, the ending unamortized deferred debt issuance costs were $8.8 million and $9.2 million, respectively.

1.0% Convertible Debentures due 2035

In December 2015, we issued $676.5 million in aggregate principal amount of 1.0% 2035 Debentures. Total proceeds, net of debt issuance costs, were $664.6 million, and we used a portion to repurchase $38.3 million in aggregate principal on our 2031 Debentures and to repay the aggregate principal balance of $472.5 million on our term loan under the amended and restated credit agreement. The 1.0% 2035 Debentures bear interest at 1.0% per year, payable in cash semi-annually in arrears, beginning on June 15, 2016. In addition to ordinary interest and default additional interest, beginning with the semi-annual interest period commencing on December 15, 2022, contingent interest will accrue during any regular semi-annual interest period where the average trading price of our 1.0% 2035 Debentures for the ten trading day period immediately preceding the first day of such semi-annual period is greater than or equal to $1,200 per $1,000 principal amount of our 1.0% 2035 Debentures, in which case, contingent interest will accrue at a rate of 0.50% per annum of such average trading price. The 1.0% 2035 Debentures mature on December 15, 2035, subject to the right of the holders to require us to redeem the 1.0% 2035 Debentures on December 15, 2022, 2027, or 2032. The 1.0% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and

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future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.0% 2035 Debentures. The 1.0% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries.

We account separately for the liability and equity components of the 1.0% 2035 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature and record the remainder in stockholders' equity. At issuance, we allocated $495.4 million to long-term debt, and $181.1 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through December 2022. As of December 31, 2015, the ending unamortized deferred debt issuance costs were $9.2 million.

If converted, the principal amount of the 1.0% 2035 Debentures is payable in cash and any amounts payable in excess of the principal amount, will (based on an initial conversion rate, which represents an initial conversion price of approximately $27.22 per share, subject to adjustment) be paid in cash or shares of our common stock, at our election, only in the following circumstances and to the following extent: (i) prior to June 15, 2035, on any date during any fiscal quarter beginning after March 31, 2016 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for $1,000 principal amount of the 1.0% 2035 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 1.0% 2035 Debentures; or (iv) at the option of the holder at any time on or after June 15, 2035. Additionally, we may redeem the 1.0% 2035 Debentures, in whole or in part, on or after December 20, 2022 for cash at a price equal to 100% of the principal amount of the 1.0% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. Each holder shall have the right, at such holder's option, to require us to repurchase all or any portion of the 1.0% 2035 Debentures held by such holder on December 15, 2022, December 15, 2027, or December 15, 2032 at par plus accrued and unpaid interest. If we undergo a fundamental change or non-stock change of control (as described in the indenture for the 1.0% 2035 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the 1.0% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of December 31, 2015, none of the conversion criteria were met for the 1.0% 2035 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

2.75% Convertible Debentures due 2031

In December 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to repurchase $38.3 million in aggregate principal with proceeds received from the issuance of our 1.0% 2035 Debentures. In accordance with the authoritative guidance for convertible debt instruments, a loss on extinguishment is equal to the difference between the reacquisition price and the net carrying amount of the extinguished debt for our 2031 Debentures, including any unamortized debt discount or issuance costs. Upon repurchase we recorded an extinguishment loss of $2.4 million in other expense, net, in the accompanying consolidated statements of operations. Following the repayment, $395.5 million in aggregate principal amount of our 2031 Debentures remain outstanding. The 2031 Debentures bear interest at 2.75% per year, payable in cash semi-annually in arrears. The 2031 Debentures mature on November 1, 2031, subject to the right of the holders to require us to redeem the 2031 Debentures on November 1, 2017, 2021, and 2026. The 2031 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 2031 Debentures. The 2031 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries. The aggregate debt discount of $89.7 million is being amortized to interest expense using the effective interest rate method through November 2017. As of December 31, 2015 and September 30, 2015, the ending unamortized deferred debt issuance costs were $1.9 million and $2.3 million, respectively. As of December 31, 2015 and September 30, 2015, none of the conversion criteria were met for the 2031 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

1.5% Convertible Debentures due 2035

In June 2015, we issued $263.9 million in aggregate principal amount of 1.5% Senior Convertible Debentures due in 2035 (the "1.5% 2035 Debentures"). The 1.5% 2035 Debentures were issued at 97.09% of the principal amount, which resulted in a discount of $7.7 million. The 1.5% 2035 Debentures bear interest at 1.5% per year, payable in cash semi-annually in arrears, beginning on November 1, 2015. The 1.5% 2035 Debentures mature on November 1, 2035, subject to the right of the holders to require us to redeem the 1.5% 2035 Debentures on November 1, 2021, 2026, or 2031. The 1.5% 2035 Debentures are general

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senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.5% 2035 Debentures. The 1.5% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries. The aggregate debt discount of $63.0 million is being amortized to interest expense using the effective interest rate method through November 2021. As of December 31, 2015 and September 30, 2015, the ending unamortized deferred debt issuance costs were $2.2 million and $2.3 million, respectively. As of December 31, 2015 and September 30, 2015, none of the conversion criteria were met for the 1.5% 2035 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

Credit Facility

The amended and restated credit agreement, entered into on August 7, 2013, includes a term loan and a $75.0 million revolving credit line, inclusive of any issued letters of credit (together, the "Credit Facility"). In December 2015, we repaid the aggregate principal balance of $472.5 million on the term loan with proceeds received from the issuance of our 1.0% 2035 Debentures. The revolving credit line terminates on August 7, 2018. We recorded a loss of $2.5 million on the extinguishment, representing the unamortized debt discount and issuance costs, in other expense, net, in the accompanying consolidated statements of operations. As of December 31, 2015, there were $6.2 million of letters of credit issued, and there were no other outstanding borrowings under the revolving credit line.

Under the terms of the Credit Facility, interest is payable periodically at a rate equal to the applicable margin plus, at our option, either (a) the base rate which is the corporate base rate of Morgan Stanley, the Administrative Agent, or (b) LIBOR (equal to (i) the British Bankers' Association Interest Settlement Rates for deposits in U.S. dollars divided by (ii) one minus the statutory reserves applicable to such borrowing). The applicable margin for the borrowings at December 31, 2015 is as follows:

Description	Base Rate Margin	LIBOR Margin
Revolving facility due August 2018	0.50% - 0.75% (a)	1.50% - 1.75% (a)

(a) The margin is determined based on our net leverage ratio at the date the interest rates are reset on the revolving credit line.

We are required to pay a commitment fee for unutilized commitments under the revolving credit facility at a rate ranging from 0.250% to 0.375% per annum, based upon our net leverage ratio. As of December 31, 2015, the commitment fee rate was 0.375%.

The Credit Facility contains covenants including, among other things, covenants that restrict our ability and those of our subsidiaries to incur certain additional indebtedness or issue guarantees, create or permit liens on assets, enter into sale-leaseback transactions, make loans or investments, sell assets, make certain acquisitions, pay dividends, repurchase stock, or merge or consolidate with any entity, and enter into certain transactions with affiliates. The agreement also contains events of default, including failure to make payments of principal or interest, failure to observe covenants, breaches of representations and warranties, defaults under certain other material indebtedness, failure to satisfy material judgments, a change of control and certain insolvency events. As of December 31, 2015, we were in compliance with the covenants under the Credit Facility. The covenants on our other long-term debt are less restrictive, and as of December 31, 2015, we were in compliance with the requirements of our other long-term debt.

Our obligations under the Credit Facility are unconditionally guaranteed by, subject to certain exceptions, each of our existing and future direct and indirect wholly-owned domestic subsidiaries. The Credit Facility and the guarantees thereof are secured by first priority liens and security interests in the following: 100% of the capital stock of substantially all of our domestic subsidiaries and 65% of the outstanding voting equity interests and 100% of the non-voting equity interests of first-tier foreign subsidiaries, all our material tangible and intangible assets and those of the guarantors, and any present and future intercompany debt. We may voluntarily prepay borrowings under the Credit Facility without premium or penalty other than breakage costs, as defined with respect to LIBOR-based loans.

Share Repurchase Program

On April 29, 2013, our Board of Directors approved a share repurchase program for up to $500.0 million of our outstanding shares of common stock. On April 29, 2015, our Board of Directors approved an additional $500.0 million under our share repurchase program. We repurchased 8.9 million shares for $188.7 million during the three months ended December 31, 2015. This includes the repurchase of 1.0 million shares owned directly or indirectly by our Chief Executive Officer, comprised of 649,649 outstanding shares and 800,000 vested stock options with a net share equivalent of 350,351 shares, for an aggregate purchase price of $21.4 million. Since the commencement of the program, we have repurchased 40.2 million shares for $698.7 million. Approximately $301.3 million remained available for share repurchases as of December 31, 2015 pursuant to our share repurchase program. Under the terms of the share repurchase program, we expect to continue to repurchase shares from time to

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

Off-Balance Sheet Arrangements, Contractual Obligations

Contractual Obligations

The following table outlines our contractual payment obligations (dollars in millions):

	Payments Due by Fiscal Year Ended September 30,				
Contractual Obligations	Total	2016	2017 and 2018	2019 and 2020	Thereafter
Convertible Debentures[1]	1,335.9	—	395.5	—	940.4
Senior Notes	1,050.0	—	—	1,050.0	—
Interest payable on long-term debt[2]	375.4	71.4	160.7	126.5	16.8
Letter of Credit[3]	6.2	—	6.2	—	—
Lease obligations and other liabilities:					
Operating leases	208.1	26.3	52.8	31.5	97.5
Operating leases under restructuring[4]	52.4	6.0	13.3	8.9	24.2
Purchase Commitments for inventory, property and equipment[5]	10.1	10.1	—	—	—
Total contractual cash obligations	3,038.1	113.8	628.5	1,216.9	1,078.9

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

(2) Interest is due and payable semi-annually under 1.0% 2035 Debentures at a rate of 1.0%, under 2031 Debentures at a rate of 2.75%, and under 1.5% 2035 Debentures at a rate of 1.5%. Interest is due and payable semi-annually on the Senior Notes at a rate of 5.375%.

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

(4) Obligations include contractual lease commitments related to facilities that were part of restructuring plans. As of December 31, 2015, we have subleased certain of the facilities with total sublease income of $52.5 million through fiscal year 2025.

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

The gross liability for unrecognized tax benefits as of December 31, 2015 was $22.6 million. We do not expect a significant change in the amount of unrecognized tax benefits within the next 12 months. We estimate that none of this amount will be paid within the next year and we are currently unable to reasonably estimate the timing of payments for the remainder of the liability.

Contingent Liabilities and Commitments

In connection with certain acquisitions, we may be required to make up to $23.9 million of additional payments to the selling shareholders contingent upon the achievement of specified objectives, including the achievement of future bookings and sales targets related to the products of the acquired entities. In addition, there are deferred payment obligations to certain former shareholders, contingent upon their continued employment. These deferred payment obligations, totaling $4.7 million, are recorded as compensation expense over the applicable employment period.

Off-Balance Sheet Arrangements

Through December 31, 2015, we have not entered into any off-balance sheet arrangements or material transactions with unconsolidated entities or other persons.

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CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates, assumptions and judgments, including those related to: revenue recognition; allowance for doubtful accounts and sales returns; accounting for deferred costs; accounting for internally developed software; the valuation of goodwill and intangible assets; accounting for business combinations, including contingent consideration; accounting for stock-based compensation; accounting for derivative instruments; accounting for income taxes and related valuation allowances; and loss contingencies. Our management bases its estimates on historical experience, market participant fair value considerations, projected future cash flows and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Information about those accounting policies we deem to be critical to our financial reporting may be found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015. Based on events occurring subsequent to September 30, 2015, we are updating certain of the Critical Accounting Policies, Judgments and Estimates.

RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

Refer to Note 2 to the unaudited consolidated financial statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Exchange Rate Sensitivity

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

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

A hypothetical change of 10% in appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2015 would not have a material impact on our revenue, operating results or cash flows in the coming year.

Periodically, we enter into forward exchange contracts to hedge against foreign currency fluctuations. These contracts may or may not be designated as cash flow hedges for accounting purposes. We have in place a program which primarily uses forward contracts to offset the risks associated with foreign currency exposures that arise from transactions denominated in currencies other than the functional currencies of our worldwide operations. The program is designed so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts. The outstanding contracts are not designated as accounting hedges and generally are for periods less than 90 days. The notional contract amount of outstanding foreign currency exchange contracts not designated as cash flow hedges was $137.6 million at December 31, 2015. Based on the nature of the transactions for which the contracts were purchased, a hypothetical change of 10% in exchange rates would not have a material impact on our financial results.

Interest Rate Sensitivity

We are exposed to interest rate risk as a result of our significant cash and cash equivalents and marketable securities. At December 31, 2015, we held approximately $595.9 million of cash and cash equivalents and marketable securities primarily consisting of cash and money-market funds. Due to the low current market yields and the short-term nature of our investments, a hypothetical change in market rates of one percentage point would not have a material effect on the fair value of our portfolio. Assuming a one percentage point increase in interest rates, our interest income on our investments classified as cash and cash equivalents and marketable securities would increase by approximately $5.1 million per annum, based on the December 31, 2015 reported balances of our investment accounts.

At December 31, 2015, we had no outstanding debt exposed to variable interest rates.

Equity Price Risk

We are exposed to equity price risk as a result of security price guarantees that we enter into from time to time. Generally, these price guarantees are for a period of six months or less, and require payment from either us to a third party, or from the third party to us, based upon changes in our stock price during the contract term. As of December 31, 2015, we have no security price guarantees outstanding.

2031 Debentures, 1.5% 2035 Debentures, and 1.0% 2035 Debentures

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

Our debentures trade in the financial markets, and the fair value at December 31, 2015 was $403.1 million for the 2031 Debentures, based on an average of the bid and ask prices for the issuances on that day. This compares to conversion values on December 31, 2015 of approximately $243.6 million. A 10% increase in the stock price over the December 31, 2015 closing price of $19.89 would have an estimated $6.9 million increase to the fair value and a $24.4 million increase to the conversion value of the debentures. The fair value at December 31, 2015 was $284.7 million for the 1.5% 2035 Debentures, based on an average of the bid and ask prices for the issuances on that day. This compares to conversion values on December 31, 2015 of approximately $225.7 million. A 10% increase in the stock price over the December 31, 2015 closing price of $19.89 would have an estimated $17.1 million increase to the fair value and a $22.6 million increase to the conversion value of the debentures. The fair value at December 31, 2015 was $649.7 million for the 1.0% 2035 Debentures, based on an average of the bid and ask prices for the issuances on that day. This compares to conversion values on December 31, 2015 of approximately $494.3 million. A 10% increase in the stock price over the December 31, 2015 closing price of $19.89 would have an estimated $33.7 million increase to the fair value and a $49.4 million increase to the conversion value of the debentures.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision of, and with the participation of, management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to meet the requirements of Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal controls over financial reporting identified in connection with the evaluation as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information
Item 1.Legal Proceedings
This information is included in Note 15, Commitments and Contingencies, in the accompanying notes to unaudited consolidated financial statements and is incorporated herein by reference from Item 1 of Part I.

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 recognition and natural language understanding, 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 might be considered substitutes for our solutions. In addition, a number of smaller companies in voice recognition, natural language understanding, text input and imaging produce technologies or products that are in some markets competitive with our solutions. Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers. Furthermore, there has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations.
The competition in these markets could adversely affect our operating results by reducing the volume of the products we license or the prices we can charge. Some of our current or potential competitors, such as 3M, Adobe, 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, and in certain cases may be able to include or combine their competitive products or technologies with other of their products or technologies in a manner whereby the competitive functionality is available at lower cost or free of charge within the larger offering. To the extent they do so, 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;

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- 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.

A significant portion of our revenue and bookings are derived, and a significant portion of our research and development activities are based, outside the United States. Our results could be harmed by economic, political, regulatory, foreign currency fluctuations and other risks associated with these international regions.

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

- changes in foreign currency exchange rates or the lack of ability to hedge certain foreign currencies;
- changes in a specific country's or region's economic conditions;
- compliance with laws and regulations in many countries and any subsequent changes in such laws and regulations;
- geopolitical turmoil, including terrorism and war;
- trade protection measures and import or export licensing requirements imposed by the United States and/or by other countries;
- negative consequences from changes in applicable tax laws;
- difficulties in staffing and managing operations in multiple locations in many countries;
- longer payment cycles of foreign customers and timing of collections in foreign jurisdictions; and
- less effective protection of intellectual property than in the United States.

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

We have been designing and executing a formal transformation program to focus our product investments on our growth opportunities, increase our operating efficiencies, reduce costs, and further enhance shareholder value through share buybacks. The design of this program requires numerous assumptions and estimates that are unpredictable and inherently uncertain. There can be no assurance that we will be successful in designing and/or executing this transformation program or be able to realize any of the anticipated benefits of this program, within the expected timeframes, or at all. Additionally, if we are not successful in strategically aligning our product portfolio, the activity of such businesses may dilute our earnings and we may not be able to achieve the anticipated benefits of this program. As a result, our financial results may not meet our or the expectations of securities analysts or investors in the future and our business could be harmed.

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.

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

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

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

We currently serve our customers from our and 3rd party data center hosting facilities. Any damage to, or failure of, our systems in whole or in part could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay 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 domestic 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 us and our subsidiaries, and among us, our subsidiaries and other parties with which we have relations. Many 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, and could affect our ability to retain and attract customers.

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.

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

The confidentiality and security of our and third party information is critical to our business. Our services involve the transmission, use, and storage of customers' and their customer's confidential information, and a failure of our security or privacy measures or policies could have a material adverse effect on our financial operation and results of operations. These measures may be breached as a result of third-party action, through a variety of means resulting in someone obtaining unauthorized access to our or our customers' information or our intellectual property. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security or privacy breach may:

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

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 $115.0 million, $150.3 million and $115.2 million in fiscal years 2015, 2014 and 2013, respectively, and have a total accumulated deficit of $861.4 million as of December 31, 2015. If we are unable to return to profitability, the market price for our stock may decline, perhaps substantially. We cannot assure you that our revenue or bookings will grow or that we will return to profitability in the future. If we do not achieve profitability, we may be required to raise additional capital to maintain or grow our operations. Additional capital, if available at all, may be highly dilutive to existing investors or contain other unfavorable terms, such as a high interest rate and restrictive covenants.

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 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.

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 assets acquired;
- identification of or changes to assumed contingent liabilities, both income tax and non-income tax related, after our final determination of the amounts for these contingencies or the conclusion of the measurement period (generally up to one year from the acquisition date), whichever comes first;
- charges to our operating results to eliminate certain duplicative pre-merger activities, to restructure our operations or to reduce our cost structure;
- charges to our operating results resulting from expenses incurred to effect the acquisition; and
- charges to our operating results due to the expensing of certain stock awards assumed in an acquisition.

Intangible assets are generally amortized over 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 December 31, 2015, we had identified intangible assets of approximately $0.8 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.

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, including contingent 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.

Tax matters may cause significant variability in our financial results.

Our businesses are subject to income taxation in the United States, as well as in many tax jurisdictions throughout the world. Tax rates in these jurisdictions may be subject to significant change. If our effective tax rate increases, our operating results and cash flow could be adversely affected. Our effective income tax rate can vary significantly between periods due to a number of complex factors including, but not limited to:

- projected levels of taxable income;
- pre-tax income being lower than anticipated in countries with lower statutory rates or higher than anticipated in countries with higher statutory rates;
- increases or decreases to valuation allowances recorded against deferred tax assets;
- tax audits conducted and settled by various tax authorities;
- adjustments to income taxes upon finalization of income tax returns;
- the ability to claim foreign tax credits;
- the repatriation of non-U.S. earnings for which we have not previously provided for income taxes; and
- changes in tax laws and their interpretations in countries in which we are subject to taxation.

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

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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 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.
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.
Our sales to government clients subject us to risks, including early termination, audits, investigations, sanctions and penalties.
We derive a portion of our revenues and bookings from contracts with the United States government, as well as various state and local governments, and their respective agencies. Government contracts are generally subject to oversight, including audits and investigations which could identify violations of these agreements. Government contract violations could result in a range of consequences including, but not limited to, contract price adjustments, civil and criminal penalties, contract termination, forfeiture of profit and/or suspension of payment, and suspension or debarment from future government contracts. We could also suffer serious harm to our reputation if we were found to have violated the terms of our government contracts.
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 or discover aspects of our products or to obtain, license, sell or otherwise use information that we regard as proprietary. Policing unauthorized use of our products is difficult and we may not be able to protect our technology from unauthorized use. Additionally, our

competitors may independently develop technologies that are substantially the same or superior to our technologies and that do not infringe our rights. In these cases, we would be unable to prevent our competitors

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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 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

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

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

- incur additional debt or issue guarantees;
- create liens;
- make certain investments;
- enter into transactions with our affiliates;
- sell certain assets;
- repurchase capital stock or make other restricted payments;
- declare or pay dividends or make other distributions to stockholders; and
- merge or consolidate with any entity.

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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 December 31, 2015, we had a total of $2,385.9 million face value of debt outstanding, $1,050.0 million of senior notes due in 2020 and $1,335.9 million in convertible debentures. Investors may require us to redeem the 2031 Debentures, 1.5% 2035 Debentures, or 1.0% 2035 Debentures totaling $395.5 million, $263.9 million, and $676.5 million, respectively, in aggregate principal amount in November 2017, November 2021, or December 2022, respectively, 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 December 31, 2015, there were $6.2 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, exploiting business opportunities, and other business activities;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants related to our debt, our ability to borrow additional funds, dispose of assets or pay cash dividends.

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

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.

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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.

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 or contingent consideration. We may continue to issue equity securities for future acquisitions, which would dilute existing stockholders, perhaps significantly depending on the terms of such acquisitions. No prediction can be made as to the effect, if any, that future sales of shares of common stock, or the availability of shares of common stock for future sale, will have on the trading price of our common stock.

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

As of December 31, 2015, 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 19.6% 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following is a summary of our share repurchases for the three months ended December 31, 2015 (in thousands, except per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program(1)
October 1, 2015 - October 31, 2015	335	$16.96	335	$484,283
November 1, 2015 - November 30, 2015	158	$17.24	158	$481,555
December 1, 2015 - December 31, 2015(2)	8,445	$21.35	8,445	$301,264
Total	8,938		8,938	

[1] On April 30, 2013, we announced a share repurchase program for up to $500.0 million of our outstanding shares of common stock. On April 29, 2015, our Board of Directors approved an additional $500.0 million under our share repurchase program. The plan has no expiration date.
[2] We repurchased 1.0 million shares owned directly or indirectly by our Chief Executive Officer, comprised of 649,649 outstanding shares and 800,000 vested stock options with a net share equivalent of 350,351 shares, for an aggregate purchase price of $21.4 million.

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.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed on the Exhibit Index are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Burlington, Commonwealth of Massachusetts, on February 9, 2016.

Nuance Communications, Inc.

By: /s/ Daniel D. Tempesta
Daniel D. Tempesta
Executive Vice President and Chief Financial Officer

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EXHIBIT INDEX

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	000-27038	3.2	5/11/2001	
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	000-27038	3.1	8/9/2004	
3.3	Certificate of Ownership and Merger.	8-K	000-27038	3.1	10/19/2005	
3.4	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant.	S-3	333-142182	3.3	4/18/2007	
3.5	Amended and Restated Bylaws of the Registrant.	8-K	000-27038	3.1	11/13/2007	
3.6	Certificate of Elimination of the Series A Participating Preferred Stock	8-K	000-27038	3.1	8/20/2013	
3.7	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock	8-K	000-27038	3.2	8/20/2013	
4.9	Indenture with U.S. Bank National Association, as trustee, dated as of December 7, 2015	8-K	001-36056	4.1	12/7/2015	
4.10	Form of 1.00% Senior Convertible Debenture due 2035 (contained in Exhibit 4.9)	8-K	001-36056	4.2	12/7/2015	
10.29	Purchase Agreement, dated as of December 1, 2015 by and between Nuance Communications, Inc. and Barclays Capital Inc. and Morgan Stanley & Co. LLC as representatives of the several initial purchasers listed on Schedule I thereto	8-K	001-36056	10.1	12/7/2015	
10.30	Stock Purchase Agreement, dated as of December 1, 2015 by and between Nuance Communications, Inc. and Paul Ricci	8-K	001-36056	10.1	12/7/2015	
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a).					X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a).					X
32.1	Certification Pursuant to 18 U.S.C. Section 1350.					X
101	The following materials from Nuance Communications, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Loss, (iii) the Consolidated Balance Sheets, (iv) the					X

Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

* Denotes management compensatory plan or arrangement