Nuance Communications, Inc.
Form 10-K
November 22, 2016

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

Form 10-K
(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended September 30, 2016
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission file number 001-36056
NUANCE COMMUNICATIONS, INC.
(Exact name of Registrant as Specified in its Charter)

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

Registrant's telephone number, including area code:
(781) 565-5000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $0.001 par value	NASDAQ Stock Market LLC
Preferred share purchase rights	NASDAQ Stock Market LLC

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

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

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

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

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a 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 o No þ

The aggregate market value of the outstanding common equity held by non-affiliates of the Registrant as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately $3.9 billion based upon the last reported sales price on the Nasdaq National Market for such date. For purposes of this disclosure, shares of Common Stock held by officers and directors of the Registrant and by persons who hold more than 5% of the outstanding Common Stock have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive.

The number of shares of the Registrant's Common Stock, outstanding as of October 31, 2016, was 287,789,096.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be delivered to stockholders in connection with the Registrant's 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks, uncertainties and assumptions that, if they never materialize or if they prove incorrect, could cause our consolidated results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking, including statements pertaining to: our future revenue, cost of revenue, research and development expense, selling, general and administrative expenses, amortization of intangible assets and gross margin, earnings, cash flows and liquidity; our strategy relating to our segments; the potential of future product releases; our product development plans and investments in research and development; future acquisitions and anticipated benefits from acquisitions; international operations and localized versions of our products; our contractual commitments; our fiscal year 2017 revenue and expense expectations and legal proceedings and litigation matters. You can identify these and other forward-looking statements by the use of words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential,” “continue” or the negative of such terms, or 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 as a result of various factors, including those set forth in Item 1A of this Annual Report under the heading “Risk Factors.” All forward-looking statements included in this document are based on information available to us on the date hereof. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations that may be announced or closed after the date hereof. We will not undertake and specifically decline any obligation to update any forward-looking statements.

Item 1. Business

Overview

We are a leading provider of voice recognition and natural language understanding solutions. We work with companies around the world, from banks and hospitals to airlines, telecommunications carriers, and automotive manufacturers and suppliers, who use our solutions and technologies to create better experiences for their customers and their users by enhancing the users' interaction, increasing productivity and customer satisfaction. We offer our customers high accuracy in automated speech recognition, capabilities for natural language understanding, dialog and information management, biometric speaker authentication, text-to-speech, optical character recognition ("OCR") capabilities, and domain knowledge, along with professional services and implementation support. In addition, our solutions increasingly utilize our innovations in artificial intelligence, cognitive sciences and machine learning to create smarter, more natural experiences with technology. Using advanced analytics and algorithms, our technologies create personalized experiences and transform the way people interact with information and the technology around them. We market and sell our solutions and technologies around the world directly through a dedicated sales force, through our e-commerce website and also through a global network of resellers, including system integrators, independent software vendors, value-added resellers, distributors, hardware vendors, and telecommunications carriers.
We are a global organization steeped in research and development. We have 1,800 language scientists, developers, and engineers dedicated to continually refining our technologies and advancing our portfolio to better meet our customers’ diverse and changing needs. We have more than 45 international operating locations and a sales presence in more than 77 countries. We were incorporated under the laws of the State of Delaware in 1992 and our corporate headquarters is located in Burlington, Massachusetts, with international headquarters in Dublin, Ireland ("EMEA") and Sydney, Australia ("APAC"). In fiscal year 2016, our revenue was $1.9 billion.
Our website is located at www.nuance.com and we trade under the ticker symbol NUAN. We are not including the information contained in our website as part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, as soon as reasonably practicable after we electronically file these materials with, or otherwise furnish them to, the Securities and Exchange Commission ("SEC").

Our Strategy

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

- Maintain global leadership in all of our major markets and solutions areas. We have historically targeted markets where we benefit from strong technology, sales and vertical market differentiation. Today, we enjoy a prominent position in the markets we serve, where we are considered one of the leading providers of voice recognition and natural language

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understanding solutions. We invest considerable time and resources to ensure we maintain this position through customer satisfaction, technology leadership, deep domain experience and market specialization.

- Maintain depth in technology, intellectual property and innovation portfolio. We have built a world-class portfolio of intellectual property, technologies, applications and solutions through both internal development and acquisitions. We expect to continue to pursue opportunities to expand our assets, geographic presence, distribution network and customer base through acquisitions of other businesses and technologies. We continue to strengthen our core technologies in voice and language, and expand our offerings through research and innovations in artificial intelligence, cognitive computing and machine learning.
- Continue to expand our extensive network of global operations, distribution and services networks. We market and sell our solutions and technologies directly through a dedicated sales force, through our e-commerce website and also through a global network of resellers, including system integrators, independent software vendors, value-added resellers, distributors, hardware vendors, and telecommunications carriers. In addition, we continue to expand our presence within our markets, such as mobile operators in our Mobile segment, ambulatory markets in our Healthcare segment and new customer services channels in our Enterprise segment, and we have expanded initiatives in geographic markets such as China, Latin America and Southeast Asia.
- Continue to expand hosting and transaction-based offerings. We are focused on increasing our hosting and transaction-based offerings. Our hosting revenues are generated through on-demand models that typically have multi-year terms with pricing based on volume of usage, number of transactions, number of seats or number of devices. This pricing structure allows customers to use our products at a lower initial cost when compared to the sale of a perpetual license. This will enable us to deliver applications that our customers use, and pay for, on a repeat basis, providing us with the opportunity to enjoy the benefits of recurring revenue streams.
- Maintain significant presence and customer preference in our markets. We specialize in creating large, enterprise-class solutions that are used by many of the world’s largest companies. By combining our core technology, professional services, local presence and deep domain experience, we are able to deliver these customized offerings for our customers and partners. We have established a trusted position in numerous markets and today work with a majority of the Fortune 100 companies.
- Strengthen financial profile with improvement in revenue, earnings per share, margin, and cash flow. We are focused on improving our financial performance, by further executing upon our formal transformation program, further evolving our business toward recurring revenue models, all of which are positioning us for increased future revenue and profitability growth. In fiscal year 2015 we initiated a formal program to focus our product investments on our growth opportunities, increase our operating efficiencies, reduce costs, and further enhance shareholder value through share buybacks. Our transformation program has delivered measurable results that can be seen in our financial performance and profitability during fiscal 2016.

Business Segments and Financial Information

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

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Healthcare Segment

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

Today, more than 500,000 clinicians and 10,000 healthcare facilities worldwide leverage our solutions to improve patient care and support the physician in clinical workflow from many devices. Our Healthcare segment revenues were $973.3 million, $1,000.8 million, and $1,020.4 million in fiscal years 2016, 2015 and 2014, respectively. As a percentage of total segment revenue, Healthcare segment revenues represented 49.2%, 50.6% and 51.3% in fiscal years 2016, 2015 and 2014, respectively.

Our principal solutions for the Healthcare segment include the following:

- Transcription solutions: Enable physicians in larger and mid-sized healthcare enterprises to streamline clinical documentation with an on-demand, enterprise-wide medical transcription platform, and allow healthcare organizations to outsource transcription services. Our transcription solutions are generally offered as an on-demand model.
- Dragon Medical: Provide dictation software that empowers physicians to accurately capture and document patient care in real-time from many devices and without disrupting existing workflows. We have expanded this solution to provide clinical language understanding and cognitive intelligence that delivers real-time queries to physicians at the point of care, producing measurable clinical, financial and compliance outcomes. This software has historically been sold under a traditional perpetual software license, however it is now frequently sold as a multi-year cloud-based service.
- Clinical document improvement ("CDI") and coding solutions: Ensure patient health information is accurately documented, coded, and evaluated to provide more complete and accurate clinical documentation. These services and offerings assist organizations with regulatory compliance and coding efficiency to receive appropriate and timely reimbursement and improve quality reporting. The solutions are generally sold under a term-licensing model.
- Diagnostic solutions: Allow radiologists to easily document, collaborate, and share medical images and reports, to optimize patient care. The solutions are generally sold under a traditional perpetual license model, with accelerated transition to term-licensing and transaction-based models.
- Dragon solutions: Provide professional and personal productivity solutions to business users and consumers with the ability to use their voice to create content, reports and other documents, as well as control their computers and laptops without the use of a keyboard or mouse. This dictation software is similar to Dragon Medical and is used in markets such as law, public safety, social services, education and accessibility. Dragon solutions are sold generally through a traditional perpetual software license model and recently we have introduced an on-demand model.

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

Areas of expansion and focus for our Healthcare segment include providing customers deeper integration with our clinical documentation solutions, investing in our cloud-based products and operations, entering new and adjacent markets such as ambulatory care, and expanding our international capabilities.

Mobile Segment

Our Mobile segment provides a broad portfolio of specialized virtual assistants and connected services built on voice recognition, text-to-speech, natural language understanding, dialog, and text input technologies. Our mobile platform includes embedded and cloud-based technologies that work together through our hybrid (connected and embedded) architecture. As

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consumer demands for convenience, ease-of-use, and more personalized experiences increase, companies will need to embrace the Internet of Things ("IoT"). Our technologies help leading automotive manufacturers, consumer electronic companies and mobile and cable operators provide the consistent, connected, and more human experience their customers are looking for with the devices and technology around them, including their phones, tablets, computers, autos, wearable devices, TVs, applications, and related services.

Mobile segment revenues were $377.3 million, $391.2 million, and $363.3 million in fiscal years 2016, 2015 and 2014, respectively. As a percentage of total segment revenue, the Mobile segment revenues represented 19.1%, 19.8% and 18.3% in fiscal years 2016, 2015 and 2014, respectively.

Our principal solutions for the Mobile segment include the following:

- Automotive solutions: Provide automotive manufacturers and their suppliers intuitive, personalized, virtual assistants and connected services for cars that are safer, easier, and more enjoyable. Our deep domain experience, integration capabilities and independence make us a preferred vendor to the world’s largest automotive manufacturers and suppliers. Our automotive solutions are generally sold as on-demand models that are typically priced on a per-unit basis for multi-year service terms. We also have a worldwide professional services team to provide custom solution development services and sell our technologies through a traditional perpetual software license model, including a royalty-based model.
- Devices solutions: Provide consumer electronic manufacturers, developers, and within the broad ecosystem around the IoT, with specialized virtual assistants, virtual keyboards and connected services. Our connected solutions are sold through on-demand models that typically have multi-year terms with pricing generally based on volume. We provide custom solution development and integration services, and sell our technologies through a traditional perpetual software license model, including a royalty-based model.
- Mobile operator services: Provide mobile network operators value added services that assist in creating new, high-profit revenue streams from their subscribers, especially in emerging markets such as Latin American, India and Southeast Asia. Our mobile operator services are sold through on-demand models that typically have multi-year terms and a revenue share-based model.

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

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

Enterprise Segment

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

Enterprise segment revenues were $387.5 million, $349.3 million, and $367.1 million in fiscal years 2016, 2015 and 2014, respectively. As a percentage of total segment revenue, the Enterprise segment revenues represented 19.6%, 17.7% and 18.5% in fiscal years 2016, 2015 and 2014, respectively.

Our principal solutions for the Enterprise segment include the following:

- On-Premise solutions and services: Provide software that is leveraged to implement automated customer service solutions that are integrated with a wide range of on-premise third-party IVR and contact center platforms. Our products and technologies include speech recognition, voice biometrics, transcription, text-to-speech, dialog and analytics. Our global professional services team leverages domain expertise to provide end-to-end services to customers and partners, including business consulting, design, development, and deployment of integrated solutions.

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

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

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

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

Imaging Segment

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

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

Imaging segment revenues were $241.6 million, $237.7 million, and $236.3 million in fiscal years 2016, 2015 and 2014, respectively. As a percentage of total segment revenue, the Imaging segment revenues represented 12.2%, 12.0% and 11.9% in fiscal years 2016, 2015 and 2014, respectively.

Our principal solutions for the Imaging segment include the following:

- MFP Scan automation solutions: Deliver scanning and document management solutions that improve productivity, drive efficiency and assist in enhancing security.
- MFP Print automation solutions: Offer printing and document management solutions to capture and automate paper to digital workflows to increase efficiency.
- PDF and OCR software: Provide intuitive technologies that enable the efficient capture, creation, and management of document workflows.

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

Areas of expansion and focus in the Imaging segment include investing to merge the scan and print technology platforms improving mobile access to our solutions and technologies, expanding our distribution channels and embedding relationships, and expanding our language coverage for OCR in order to drive a more comprehensive and compelling offering to our partners.

Research and Development/Intellectual Property

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

We continue to invest in technologies to maintain our market-leading position and to develop new applications. We rely on a portfolio of patents, copyrights, trademarks, services marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our intellectual property and proprietary rights. As of September 30, 2016, we held approximately 3,650 patents and 900 patent applications. Our intellectual property is critical to our success and competitive position. We incurred research and development expenses of $271.1 million, $306.9 million, and $333.8 million in fiscal years 2016, 2015 and 2014, respectively.

Competition

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

- Specialized Professional Services. Our superior technology, when coupled with the high quality and domain knowledge of our professional services organization, allows our customers and partners to place a high degree of confidence and trust in our ability to deliver results. We support our customers in designing and building powerful innovative applications that specifically address their needs and requirements.
- International Coverage. The international reach of our solutions and technologies is due to the broad language coverage of our offerings, including our voice recognition and natural language understanding solutions, which provide recognition for approximately 70 languages and dialects and natural-sounding synthesized speech in over 150 voices, and support a broad range of hardware platforms and operating systems. Our imaging technology supports more than 120 languages for OCR and document handling, with up to 20 screen language choices, including Asian languages.
- Technological Superiority. Our voice recognition, natural language understanding and imaging technologies, applications and solutions are often recognized as the most innovative and proficient in their respective categories. Our voice recognition and natural language understanding solutions have industry-leading recognition accuracy and provide a natural, voice-enabled interaction with systems, devices and applications. Our OCR technology in our Imaging segment is viewed as the most accurate in the industry. Technology publications, analyst research and independent benchmarks have consistently indicated that our solutions and technologies rank at or above performance levels of alternative solutions.
- Broad Distribution Channels. Our ability to address the needs of specific markets, such as financial, legal, healthcare and government, and to introduce new solutions and technologies quickly and effectively is provided by our direct sales force, our extensive global network of resellers, comprising system integrators, independent software vendors, value-added resellers, hardware vendors, telecommunications carriers and distributors, and our e-commerce website.

We compete with companies such as Adobe, Google, iFlyTek, LivePerson, M*Modal, Optum and 3M. In addition, a number of smaller companies offer solutions, technologies or products that are competitive with our solutions and technologies in the voice recognition, natural language understanding, text input and imaging markets. In certain markets, some of our partners such as Avaya, Cisco, Convergys, and Genesys develop and market products and services that might be considered substitutes for our solutions and technologies. Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers.

Some of our competitors or potential competitors, such as Adobe, Google, and 3M have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than we do.

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Employees

As of September 30, 2016, we had approximately 13,200 full-time employees, including approximately 1,200 in sales and marketing, approximately 2,700 in professional services, approximately 1,800 in research and development, approximately 700 in general and administrative and approximately 6,800 who provide transcription and editing services. Approximately 56% of our employees are based outside of the United States, approximately 58% of whom provide transcription and editing services and are based in India. None of our employees in the United States is represented by a labor union. In certain foreign subsidiaries labor unions or workers' councils represent some of our employees. We believe that our relationships with our employees are satisfactory.

Financial Information About Geographic Areas

We have offices in a number of international locations including Australia, Austria, Belgium, Brazil, Canada, China, Germany, Hungary, India, Ireland, Italy, Japan, and the United Kingdom. The responsibilities of our international operations include research and development, healthcare transcription and editing, customer support, sales and marketing and general and administrative. Additionally, we maintain smaller sales, services and support offices throughout the world to support our international customers and to expand international revenue opportunities. Geographic revenue classification is based on the geographic areas in which our customers are located. For fiscal years 2016, 2015 and 2014, 71%, 73% and 73% of revenue was generated in the United States and 29%, 27% and 27% of revenue was generated by our international customers, respectively.

Item 1A. Risk Factors

You should carefully consider the risks described below when evaluating our company and when deciding whether to invest in our company. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we do not currently believe are important to an investor may also harm our business operations. If any of the events, contingencies, circumstances or conditions described 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 Google, iFlyTek and other smaller providers. Within healthcare, we compete with M*Modal, Optum, 3M and other smaller providers. Within imaging, we compete with ABBYY and Adobe. In our enterprise business, some of our partners such as Avaya, Cisco, and Genesys develop and market products that might be considered substitutes for our solutions. In addition, a number of smaller companies in voice recognition, natural language understanding, text input and imaging produce technologies or products that are in some markets competitive with our solutions. Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers. Furthermore, there has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations.

The competition in these markets could adversely affect our operating results by reducing the volume of the products we license or the prices we can charge. Some of our current or potential competitors, such as Adobe, Google and 3M, have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging 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

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to develop new products and enhance functionalities or technologies to adapt to these changes, or if we are unable to realize synergies among our acquired products and technologies, our business will suffer.

Our operating results may fluctuate significantly from period to period, and this may cause our stock price to decline.

Our revenue, bookings and operating results have fluctuated in the past and are expected to continue to fluctuate in the future. Given these fluctuations, we believe that quarter to quarter comparisons of revenue, bookings and operating results are not necessarily meaningful or an accurate indicator of our future performance. 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:

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

Due to the foregoing factors, among others, our revenue, bookings and operating results are difficult to forecast. Our expense levels are based in significant part on our expectations of future revenue and we may not be able to reduce our expenses quickly to respond to a shortfall in projected revenue. Therefore, our failure to meet revenue expectations would seriously harm our operating results, financial condition and cash flows.

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

Because we operate worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenue and bookings from international operations could increase in the future. Most of our international revenue and bookings are generated by sales in Europe and Asia. In addition, some of our products are developed outside the United States and we have a large number of employees in India that provide transcription services. We also have a large number of employees in Canada, Germany and the United Kingdom that provide professional services. A significant portion of the development of our voice recognition and natural language understanding solutions is conducted in Canada and Germany, and a significant portion of our imaging research and development is conducted in Hungary and Canada. We also have significant research and development resources collectively 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:

- the impact on local and global economies of the United Kingdom leaving the European Union;
- changes in foreign currency exchange rates or the lack of ability to hedge certain foreign currencies;
- changes in a specific country's or region's economic conditions;

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- compliance with laws and regulations in many countries and any subsequent changes in such laws and regulations;
- geopolitical turmoil, including terrorism and war;
- trade protection measures and import or export licensing requirements imposed by the United States and/or by other countries;
- changes in applicable tax laws;
- difficulties in staffing and managing operations in multiple locations in many countries;
- longer payment cycles of foreign customers and timing of collections in foreign jurisdictions; and
- less effective protection of intellectual property than in the United States.

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

If any of our key employees were to leave, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience. Our employment relationships are generally at-will and we have had key employees leave in the past. We cannot assure you that one or more key employees will not leave in the future. We intend to continue to hire additional highly qualified personnel, including research and development and operational personnel, but may not be able to attract, assimilate or retain qualified personnel in the future. Any failure to attract, integrate, motivate and retain these employees could harm our business.

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 and personal health information. In many cases, these laws apply not only to transfers between third-parties, but also to transfers of information between us and our subsidiaries. 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. For example, in April 2016 the European Commission adopted the General Data Protection Regulation (“GDPR”). The GDPR has a two-year phase-in period. Complying with the GDPR and other emerging and changing requirements may cause us to incur substantial costs or require us to change our business practices. Noncompliance could result in penalties or significant legal liability, and could affect our ability to retain and attract customers.

Any failure by us, our 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. 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 through a variety of means resulting in someone obtaining unauthorized access to our or our customers’ information or to 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.

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

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

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

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

- difficulty in transitioning and integrating the operations and personnel of the acquired businesses;
- potential disruption of our ongoing business and distraction of management;
- difficulty in incorporating acquired products and technologies into our products and technologies;
- potential difficulties in completing projects associated with in-process research and development;
- unanticipated expenses and delays in completing acquired development projects and technology integration and upgrades;
- 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 allocate that cost to the individual assets acquired and liabilities assumed, including various identifiable intangible assets such as acquired technology, acquired trade names and acquired customer relationships based on their respective fair values. Our estimates of fair value are based upon assumptions believed to be reasonable, but 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.

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Intangible assets are generally amortized over a five to fifteen year period. Goodwill is not subject to amortization but is subject to an impairment analysis, at least annually, which may result in an impairment charge if the carrying value exceeds its implied fair value. As of September 30, 2016, we had identified intangible assets of approximately $0.8 billion, net of accumulated amortization, and goodwill of approximately $3.5 billion. In addition, purchase accounting limits our ability to recognize certain revenue that otherwise would have been recognized by the acquired company as an independent business. As a result, the combined company may delay revenue recognition or recognize less revenue than we and the acquired company would have recognized as independent companies.

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

In connection with past acquisitions, we issued a substantial number of shares of our common stock as transaction consideration, including contingent consideration, and 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.

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

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

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

We reported net losses of $12.5 million, $115.0 million and $150.3 million in fiscal years 2016, 2015 and 2014, respectively, and have a total accumulated deficit of $429.0 million as of September 30, 2016, which has been retrospectively adjusted to reflect the effect of the accounting change method of recognizing the amount paid to repurchase common shares in excess of the par value. If we are unable to return to profitability, the market price for our stock may decline, perhaps substantially. We cannot assure you that our revenue or bookings will grow or that we will return to profitability in the future. If we do not achieve profitability, we may be required to raise additional capital to maintain or grow our operations. Additional capital, if available at all, may be highly dilutive to existing investors or contain other unfavorable terms, such as a high interest rate and restrictive covenants.

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

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

Tax matters may cause significant variability in our financial results.

Our businesses are subject to income taxation in the United States, as well as in many tax jurisdictions throughout the world. Tax rates in these jurisdictions may be subject to significant change. If our effective tax rate increases, our operating results and cash flow could be adversely affected. Our effective income tax rate can vary significantly between periods due to a number of complex factors including, 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;

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- 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.

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

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

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

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

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of or use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period;
- changes in our organization or management reporting structure that could result in additional reporting units, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit; and
- 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.

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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 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. 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 September 30, 2016, we had a total of $2,685.9 million face value of debt outstanding, which includes $1,050.0 million of senior notes due in 2020, $300.0 million of senior notes due in 2024, 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 $242.5 million Revolving Credit Facility under which $4.0 million was committed to backing outstanding letters of credit issued and $238.5 million was available for borrowing at September 30, 2016. Our debt level could have important consequences, for example it could:

- require us to use a large portion of our cash flow to pay principal and interest on debt, including the convertible debentures and the credit facility, which will reduce the availability of our cash flow to fund working capital, capital expenditures, acquisitions, research and development, exploiting business opportunities, and other business activities;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants related to our debt, our ability to borrow additional funds, dispose of assets or pay cash dividends.

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

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

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

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

Our investment portfolio, which includes investments in money market funds, bank deposits and a separately managed investment portfolio, is generally subject to credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by a global financial crisis or by uncertainty surrounding the United Kingdom's exit from the European Union. If the banking system or the fixed income, credit or equity markets deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected.

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

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

Our business could be negatively affected 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.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Burlington, Massachusetts. As of September 30, 2016, we leased approximately 1.4 million square feet of building space, primarily in the United States, and to a lesser extent, in Europe, Canada, Japan and the Asia-Pacific regions. Larger leased sites include properties located in: Montreal, Canada; Sunnyvale, California; and Bangalore, India. In addition, we own 130,000 square feet of building space located in Melbourne, Florida.

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

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

Item 3. Legal Proceedings

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 material neither to our consolidated financial position nor 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.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information

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

	Low	High
Fiscal Year 2015:		
First quarter	$13.69	$16.28
Second quarter	13.20	14.60
Third quarter	13.78	18.37
Fourth quarter	14.37	18.96
Fiscal Year 2016:		
First quarter	15.97	21.83
Second quarter	15.86	20.56
Third quarter	14.56	19.27
Fourth quarter	13.74	16.41

Holders

As of October 31, 2016, there were 676 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial owners represented by these record holders.

Dividend Policy

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

Issuer Purchases of Equity Securities

On April 29, 2013, our Board of Directors approved a share repurchase program for up to $500.0 million of our outstanding shares of common stock. On April 29, 2015, our Board of Directors approved an additional $500.0 million under our share repurchase program. The plan has no expiration date. There were no repurchases under the program during the three months ended September 30, 2016.

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 a number of shares equal in value to the minimum statutory income withholding tax requirements. We withhold these shares and pay the applicable withholding amounts in cash to the applicable taxing authorities on behalf of our employees. We do not consider these transactions to be common stock repurchases.

Unregistered Sales of Equity Securities and Use of Proceeds

During the fourth quarter of fiscal year 2016, we issued 403,325 shares of our common stock to our partner in a healthcare collaboration agreement as settlement for a buy-out option and 5,749,807 shares of our common stock as consideration for our acquisition of TouchCommerce, Inc. All of the preceding shares were issued in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended, provided by Section 4(a)(2) thereof because the issuance did not involve a public offering.

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Item 6. Selected Consolidated Financial Data

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

	Fiscal Year Ended September 30,				
(Dollars in millions, except per share amounts)	2016	2015	2014	2013	2012
Operations:					
Total revenues	$1,948.9	$1,931.1	$1,923.5	$1,855.3	$1,651.5
Gross profit	1,119.4	1,102.6	1,080.9	1,091.1	1,049.1
Income (loss) from operations	138.5	54.9	(21.4)	48.5	126.2
Provision (benefit) for income taxes	14.2	34.5	(4.7)	18.6	(141.8)
Net (loss) income	$(12.5)	$(115.0)	$(150.3)	$(115.2)	$207.1
Net (Loss) Income Per Share Data:					
Basic	$(0.04)	$(0.36)	$(0.47)	$(0.37)	$0.67
Diluted	$(0.04)	$(0.36)	$(0.47)	$(0.37)	$0.65
Weighted average common shares outstanding:					
Basic	292.1	317.0	316.9	313.6	306.4
Diluted	292.1	317.0	316.9	313.6	320.8
Financial Position:					
Cash and cash equivalents and marketable securities	$608.1	$568.8	$588.2	$846.8	$1,129.8
Total assets	5,661.5	5,511.9	5,738.2	5,854.1	5,685.4
Long-term debt, net of current portion	2,433.2	2,103.1	2,108.4	2,084.1	1,708.8
Total deferred revenue	736.2	668.2	548.1	414.6	315.1
Total stockholders' equity	1,931.3	2,265.3	2,582.0	2,638.0	2,728.3
Selected Data and Ratios:					
Working capital	$347.7	$360.2	$466.5	$529.3	$648.9
Depreciation of property and equipment	60.6	62.4	51.7	39.8	31.7
Amortization of intangible assets	170.9	168.3	170.1	168.8	155.5
Gross margin percentage	57.4%	57.1%	56.2%	58.8%	63.5%

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

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

Trends in Our Business

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

During the first quarter of fiscal year 2016, we reorganized the organizational management and oversight of our Dragon Consumer business, which was previously reported within our Mobile segment and has now been moved into our Healthcare segment. During the second quarter of fiscal year 2016, we reclassified certain government payroll incentive credits previously reported in the general and administrative expense to research and development expense, cost of revenue and sales and marketing.

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Accordingly, the segment results in prior periods have been recast to conform to the current period segment presentation. These changes had no impact on consolidated net income or cash flows in any period.
Confronted by dramatic increases in electronic information, consumers, business personnel and healthcare professionals must use a variety of resources to retrieve information, transcribe patient records, conduct transactions and perform other job-related functions. We believe that the power of our solutions can transform the way people use the Internet, telecommunications systems, electronic medical records ("EMR"), wireless and mobile networks and related corporate infrastructure to conduct business.

- Healthcare. Trends in our healthcare business include growing customer preference for hosted solutions and subscription-based license models and increased use of mobile devices to access healthcare systems and create clinical documentation within electronic health record systems. In addition, we experienced growing demand in bundled arrangements, combining our Dragon Medical and hosted transcription offerings. The volume processed in our hosted transcription services has continued to experience erosion as customers adopt electronic medical record systems and our Dragon Medical solutions. This decline has been partially offset by new customer wins and the increased sale of bundled arrangements of our transcription and Dragon Medical solutions. We have also experienced some decline in our licensed Dragon Medical product sales as customers shift toward Dragon Medical cloud and subscription offerings, and we expect these trends to continue into fiscal year 2017. These cloud offerings are enabling the expansion of our Dragon Medical solutions to include new clinical language understanding and artificial intelligence innovations, providing real time queries to the physician at the point of care. 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. The industry's recent shift in international classification of diseases ("ICD") from ICD-9 to ICD-10, together with evolving reimbursement reform that is increasingly focused on clinical outcomes, has increased the complexity of the clinical documentation and coding processes. This recent shift is reinforcing 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 automotive OEMs differentiating using voice and content to provide an enhanced experience for drivers; consumer electronics companies and cable operators competing to develop virtual assistant technologies for the home; geographic expansion of our mobile operator services; and, the adoption of our technology on a broadening scope of devices, such as televisions, set-top boxes, and third-party applications. The more powerful capabilities within automobiles and mobile devices require us to supply a broader portfolio of specialized virtual assistants and connected services providing voice recognition, content integration, text-to-speech, and natural language understanding capabilities. Within given levels of our technology set, we have seen growth opportunities limited by the consolidation of the handset market to a small number of customers as well as increased competition in voice recognition and natural language solutions and services sold to OEMs. We continue to see 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 more predictable revenues over time. We are investing in the expansion of the cloud capabilities and content of our automotive solutions; machine learning technologies, expansion across the IoT in our devices solutions; and go-to market strategies with mobile operators.

- 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 addition, for large enterprise businesses around the world, customer service interactions are accelerating toward more pervasive digital engagement across web, mobile and social platforms. In order to acquire and retain customers, enterprises need to be able to provide a customer service experience when and how the customer desires. This is creating a growing market opportunity for our enterprise business, and with the acquisition of TouchCommerce, Inc., which closed during the fourth quarter of fiscal year 2016, we will be able to provide an end-to-end engagement platform that merges intelligent self-service with assisted service to increase customer satisfaction, strengthen customer loyalty and improve business results. In fiscal year 2016, revenues and bookings from on-demand solutions continued to increase, as a growing proportion of customers choose our cloud-based solutions for call center, web and mobile customer care solutions. We expect these trends to continue in fiscal year 2017. We are investing to extend our technology capabilities with intelligent self-service and artificial intelligence for customer service; expand our on-demand multichannel cloud to international markets; expand our sales and solutions for voice biometrics; and expand our on-premise product and services portfolio.

- Imaging. The imaging market is evolving to include more networked solutions to multi-function printing 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 revenue, net income, gross margins, operating margins, cash flow from operations, and changes in deferred revenue. A summary of these key financial metrics is as follows:

For the fiscal year ended September 30, 2016, as compared to the fiscal year ended September 30, 2015:

- Total revenue increased by $17.8 million to $1,948.9 million;
- Net loss decreased by $102.6 million to a loss of $12.5 million;
- Gross margins increased by 0.3 percentage points to 57.4%;
- Operating margins increased by 4.3 percentage points to 7.1%;
- Cash provided by operating activities for the fiscal year ended September 30, 2016 was $565.8 million, an increase of $78.2 million from the prior fiscal year.

As of September 30, 2016, as compared to September 30, 2015:

- Total deferred revenue increased 10.2% to $736.1 million driven by growth in our on-demand automotive business in our Mobile segment as well as growth in maintenance and support contracts.

In addition to the above key financial metrics, we also focus on certain operating metrics. A summary of these key operating metrics as of and for the year ended September 30, 2016, as compared to the same period in 2015, is as follows:

- Net new bookings increased 3.6% from one year ago to $1.5 billion. The net new booking growth was led by our Healthcare and Enterprise 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 69.7% and 66.4% of total segment revenue in fiscal years 2016 and 2015, 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 healthcare on-demand solutions decreased 9.0% from one year ago to approximately 4.8 billion lines per year. The annualized line run-rate is determined using billed equivalent line counts in a given

quarter, multiplied by four; and

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- Estimated three-year value of total on-demand contracts increased 6.0% from one year ago to approximately $2.4 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 assumptions used in evaluating the contracts and determining sales compensation, adjusted for changes in estimated launch dates, actual volumes achieved and other factors deemed relevant. For contracts with an expiration date beyond three years, we include only the value expected within three years. For other contracts, we assume renewal consistent with historic renewal rates unless there is a known cancellation. Contracts are generally priced by volume of usage and typically have no or low minimum commitments. Actual revenue could vary from our estimates due to factors such as cancellations, non-renewals or volume fluctuations.

RESULTS OF OPERATIONS

Total Revenues

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

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Product and licensing	$669.2	$696.3	$711.0	(3.9)%	(2.1)%
Professional services and hosting	955.3	919.5	910.9	3.9 %	0.9 %
Maintenance and support	324.3	315.4	301.5	2.8 %	4.6 %
Total Revenues	$1,948.9	$1,931.1	$1,923.5	0.9 %	0.4 %
United States	$1,385.3	$1,407.3	$1,408.2	(1.6)%	(0.1)%
International	563.6	523.9	515.2	7.6 %	1.7 %
Total Revenues	$1,948.9	$1,931.1	$1,923.5	0.9 %	0.4 %

Fiscal Year 2016 Compared with Fiscal Year 2015

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

Fiscal Year 2015 Compared with Fiscal Year 2014

The geographic split for fiscal years 2015 and 2014 was 73% of total revenue 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):

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Product and licensing revenue	$669.2	$696.3	$711.0	(3.9)%	(2.1)%
As a percentage of total revenues	34.3 %	36.1 %	37.0 %		

Fiscal Year 2016 Compared with Fiscal Year 2015

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

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

Fiscal Year 2015 Compared with Fiscal Year 2014

The decrease in product and licensing revenue consisted of a $25.5 million decrease in our Healthcare business, partially offset by a $12.6 million increase in our Mobile business. The decrease in Healthcare revenue was driven primarily by a $14.5 million decrease in Dragon solutions sales and lower license sales of our clinical documentation solutions as we continue to see a shift toward a term-licensing model. Within our Mobile business, license sales in our automotive business increased $25.2 million, partially offset by a $10.2 million decrease in our handset solutions as the device market continues to consolidate.

As a percentage of total revenue, product and licensing revenue decreased from 37.0% to 36.1% for the year ended September 30, 2015. This decrease was primarily driven by our recent acquisitions which have a higher proportion of on-demand hosting revenue. Within product and licensing revenue, we are also seeing transition from perpetual licensing model to term-licensing model which is recognized over time.

Professional Services and Hosting Revenue

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

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Professional services and hosting revenue	$955.3	$919.5	$910.9	3.9 %	0.9 %
As a percentage of total revenues	49.0 %	47.6 %	47.4 %		

Fiscal Year 2016 Compared with Fiscal Year 2015

The increase in professional services and hosting revenue was driven by a $20.8 million increase in hosting revenue and a $15.1 million increase in professional services revenue. In our hosting business, Mobile hosting revenue grew $21.9 million primarily driven by continued trend toward cloud-based services in our automotive and devices solutions. Enterprise hosting revenue increased $19.7 million. These increases were partially offset by a $20.8 million decrease in the Healthcare hosting revenue as we continue to experience erosion in our transcription services owed in part to the growing penetration of our Dragon Medical cloud and subscription offerings. In our professional services business, the revenue increase was driven primarily by a $13.6 million increase in our Healthcare segment driven by a recent acquisition.

Fiscal Year 2015 Compared with Fiscal Year 2014

The increase in professional services and hosting revenue was driven by a $19.3 million increase in hosting revenue offset by a $10.7 million decrease in professional services revenue. In our hosting business, Mobile on-demand revenue grew $21.2 million driven by a continued trend toward cloud services in our automotive and devices solutions, as well as a recent acquisition in our mobile operator services. Enterprise on-demand revenue grew $7.3 million. These increases were offset by a $9.2 million decrease in Healthcare hosting revenue as we continue to experience some volume erosion in our transcription solutions. In our professional services business, Enterprise professional services revenue decreased $20.2 million driven by lower professional services from our on-premise solutions, partially offset by a $10.5 million increase in Healthcare professional services driven by our CDI and coding solutions.

As a percentage of total revenue, professional services and hosting revenue increased from 47.3% for the year ended September 30, 2014 to 47.6% for the year ended September 30, 2015. This increase was driven by our recent acquisitions which have a higher proportion of professional services and hosting revenue. The increase also includes the continuing shift toward on-demand and hosting services in our Mobile segment and Enterprise segment.

Maintenance and Support Revenue

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

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	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Maintenance and support revenue	$324.3	$315.4	$301.5	2.8 %	4.6 %
As a percentage of total revenues	16.6 %	16.3 %	15.7 %		

Fiscal Year 2016 Compared with Fiscal Year 2015
The increase in maintenance and support revenue was driven primarily by maintenance renewals in our Imaging segment and prior year license sales in our Healthcare segment, partially offset by a decline in maintenance renewals in our Mobile segment.

Fiscal Year 2015 Compared with Fiscal Year 2014
The increase in maintenance and support revenue was driven by strong maintenance renewals, including an increase of $11.1 million in Healthcare maintenance and support revenue and an increase of $5.9 million in Imaging maintenance and support revenue.
COSTS AND EXPENSES

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

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Cost of product and licensing revenue	$86.4	$91.8	$97.6	(5.9)%	(5.9)%
As a percentage of product and licensing revenue	12.9 %	13.2 %	13.7 %		

Fiscal Year 2016 Compared with Fiscal Year 2015
The decrease in cost of product and licensing revenue was primarily driven by lower costs in our Mobile and Healthcare segments. Gross margins increased 0.3 percentage points, primarily driven by higher revenues from higher margin license products in our Enterprise and Imaging segments.

Fiscal Year 2015 Compared to Fiscal Year 2014
This decrease in cost of product and licensing revenue was primarily driven by a $3.4 million decrease in costs within our Imaging segment. Gross margins increased 0.5 percentage points, primarily driven by higher revenues from higher margin license products in our Mobile business.
Cost of Professional Services and Hosting Revenue
Cost of professional services and hosting revenue primarily consists of compensation for services personnel, outside consultants and overhead, as well as the hardware, infrastructure and communications fees that support our hosting solutions. The following table shows the cost of professional services and hosting revenue, in dollars and as a percentage of professional services and hosting revenue (dollars in millions):

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Cost of professional services and hosting revenue	$626.2	$618.6	$631.7	1.2 %	(2.1)%
As a percentage of professional services and hosting revenue	65.5 %	67.3 %	69.3 %		

Fiscal Year 2016 Compared with Fiscal Year 2015

The increase in cost of professional services and hosting revenue was primarily driven by higher professional services compensation expense in our Healthcare segment and higher hosting services expenses in our Enterprise segment driven by recent

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

Fiscal Year 2015 Compared with Fiscal Year 2014

The decrease in cost of professional services and hosting revenue was due to a $8.4 million and a $8.1 million reduction in costs in our Enterprise and Healthcare segments, respectively, driven by lower compensation related expense and our on-going efforts to move costs to lower-cost countries during the fiscal year. These decreases were partially offset by a $3.2 million increase in costs within our Mobile business driven by investment in our connected services infrastructure. Gross margins improved 2.1 percentage points primarily driven by our cost-savings initiatives including the impact from our on-going efforts to move costs to lower-cost countries in our Healthcare business as well as higher revenues from higher margin hosting services in our Mobile business.

Cost of Maintenance and Support Revenue

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

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2015 vs. 2014	% Change 2014 vs. 2013
Cost of maintenance and support revenue	$54.1	$54.4	$52.3	(0.6)%	4.0 %
As a percentage of maintenance and support revenue	16.7 %	17.3 %	17.3 %		

Fiscal Year 2016 Compared with Fiscal Year 2015

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

Fiscal Year 2015 Compared with Fiscal Year 2014

The increase in cost of maintenance and support revenue was related to an acquisition in our Imaging segment that was completed during the fourth quarter of fiscal year 2014. Gross margins were flat.

Research and Development Expense

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

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Research and development expense	$271.1	$306.9	$333.8	(11.7)%	(8.1)%
As a percentage of total revenues	13.9 %	15.9 %	17.4 %		

Fiscal Year 2016 Compared with Fiscal Year 2015

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

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Fiscal Year 2015 Compared with Fiscal Year 2014

The decrease in research and development expense was primarily attributable to a reduction of $17.2 million in costs associated with the expiration of collaboration agreements. In addition, compensation costs, including stock-based compensation, decreased $6.5 million as we benefited from our cost-savings initiatives including the impact from our restructuring plan executed during the third quarter of fiscal year 2015 and our on-going efforts to move costs 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):

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Sales and marketing expense	$390.9	$410.9	$424.5	(4.9)%	(3.2)%
As a percentage of total revenues	20.1 %	21.3 %	22.1 %		

Fiscal Year 2016 Compared with Fiscal Year 2015

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

Fiscal Year 2015 Compared with Fiscal Year 2014

The decrease in sales and marketing expense was primarily attributable to a $19.7 million decrease in marketing and channel program spending and a $3.1 million decrease in stock-based compensation expense driven by lower headcount. These decreases were partially offset by an increase of $8.0 million in expense for exclusive commercialization rights under a collaboration agreement.

General and Administrative Expense

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

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
General and administrative expense	$168.5	$187.3	$191.3	(10.0)%	(2.1)%
As a percentage of total revenues	8.6 %	9.7 %	9.9 %		

Fiscal Year 2016 Compared with Fiscal Year 2015

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

Fiscal Year 2015 Compared with Fiscal Year 2014

The decrease in general and administrative expense was primarily attributable to a $9.5 million decrease in compensation costs, including stock-based compensation, as we benefited from our cost-savings initiatives including the impact from our restructuring plan executed during the third quarter of fiscal year 2015 as well as our on-going efforts to move costs to lower-cost countries during the fiscal year. The decrease in expense was partially offset by a $5.8 million increase in consulting and professional services fees.

Amortization of Intangible Assets

Amortization of acquired patents and core and completed technology are included in cost of revenue and the amortization of acquired customer and contractual relationships, non-compete agreements, acquired trade names and trademarks, and other intangibles are included in operating expenses. Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefits of the customer relationships are being realized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives.

Amortization expense was recorded as follows (dollars in millions):

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Cost of revenue	$62.9	$63.6	$61.0	(1.1)%	4.3 %
Operating expense	108.0	104.6	109.1	3.3 %	(4.1)%
Total amortization expense	$170.9	$168.3	$170.1	1.5 %	(1.1)%
As a percentage of total revenues	8.8 %	8.7 %	8.8 %		

Fiscal Year 2016 Compared with Fiscal Year 2015

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

Based on our balance of amortizable intangible assets as of September 30, 2016, and assuming no impairment or change in useful lives, we expect amortization of intangible assets for fiscal year 2017 to be approximately $164.0 million.

Fiscal Year 2015 Compared with Fiscal Year 2014

Amortization of intangible assets expense for fiscal year 2015 decreased $1.8 million, as compared to fiscal year 2014. The decrease in amortization of intangible assets during fiscal year 2015 was primarily attributable to certain intangible assets becoming fully amortized in the period, partially offset by an increase in amortization 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 and expenses, including financial advisory, legal, accounting, and other outside services incurred in connection with acquisition activities, and disputes and regulatory matters related to acquired entities; and (iii) 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, such as gains or losses on settlements of pre-acquisition contingencies.

Acquisition-related costs were recorded as follows (dollars in millions):

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Transition and integration costs	$6.1	$10.1	$25.3	(39.6)%	(60.1)%
Professional service fees	10.9	8.4	9.9	29.8 %	(15.2)%
Acquisition-related adjustments	0.2	(4.1)	(11.0)	(104.9)%	(62.7)%
Total Acquisition-related costs, net	$17.2	$14.4	$24.2	19.4 %	(40.5)%
As a percentage of total revenue	0.9 %	0.7 %	1.3 %		

Fiscal Year 2016 Compared with Fiscal Year 2015

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

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Fiscal Year 2015 Compared with Fiscal Year 2014

Acquisition-related costs, net for fiscal year 2015 decreased $9.8 million, as compared to fiscal year 2014. Fiscal year 2014 transition and integration costs include acquisition related contingent payments that were accounted for as compensation expense. In addition, fiscal year 2014 acquisition-related adjustments includes income of $7.7 million related to the elimination of contingent liabilities established in the original allocation of purchase price for acquisitions closed in fiscal years 2008 and 2007 following the expiration of the applicable statute of limitations.

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 fiscal years 2016, 2015 and 2014 are as follows (dollars in thousands):

	Personnel	Facilities	Total Restructuring	Other Charges	Total
Fiscal Year 2016					
Healthcare	$ 3,531	$ 1,398	$ 4,929	$ —	$ 4,929
Mobile	5,837	1,557	7,394	(486)	6,908
Enterprise	1,214	2,782	3,996	—	3,996
Imaging	284	478	762	—	762
Corporate	2,267	5,391	7,658	971	8,629
Total fiscal year 2016	$ 13,133	$ 11,606	$ 24,739	$ 485	$ 25,224
Fiscal Year 2015					
Healthcare	$ 452	$ 636	$ 1,088	$ —	$ 1,088
Mobile	2,960	2,863	5,823	3,322	9,145
Enterprise	1,144	95	1,239	—	1,239
Imaging	2,047	1,814	3,861	—	3,861
Corporate	1,868	4,168	6,036	2,300	8,336
Total fiscal year 2015	$ 8,471	$ 9,576	$ 18,047	$ 5,622	$ 23,669
Fiscal Year 2014					
Healthcare	$ 2,357	$ 11	$ 2,368	$ (78)	$ 2,290
Mobile	1,447	622	2,069	—	2,069
Enterprise	5,557	—	5,557	—	5,557
Imaging	2,733	107	2,840	—	2,840
Corporate	1,224	2,463	3,687	3,000	6,687
Total fiscal year 2014	$ 13,318	$ 3,203	$ 16,521	$ 2,922	$ 19,443

Fiscal Year 2016

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

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

Fiscal Year 2015

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

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

Fiscal Year 2014

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

In addition, during fiscal year 2014, we have recorded certain other charges that totaled $2.9 million primarily for litigation contingency reserves.

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):

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Interest income	$4.4	$2.6	$2.3	69.2 %	13.0 %
Interest expense	(132.7)	(118.6)	(132.7)	11.9 %	(10.6)%
Other expense, net	(8.5)	(19.5)	(3.3)	(56.4)%	490.9 %
Total other expense, net	$(136.8)	$(135.4)	$(133.7)		
As a percentage of total revenue	7.0 %	7.0 %	6.9 %		

Fiscal Year 2016 Compared with Fiscal Year 2015

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

Fiscal Year 2015 Compared with Fiscal Year 2014

Total other expense for fiscal year 2015 increased $1.8 million, as compared to fiscal year 2014. The net increase in expense was driven by a $17.7 million loss on extinguishment of debt resulting from the partial exchange of our 2031 debentures in fiscal year 2015, offset by the reduction in interest expense due to the redemption of the $250.0 million 2.75% convertible debentures in the fourth quarter of fiscal year 2014.

Provision (Benefit) for Income Taxes

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

Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014

Provision (benefit) for income taxes	$14.2	$34.5	$(4.7)	(58.9)%	(838.5)%
Effective income tax rate	816.4 %	(42.9)%	3.0 %		

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

Fiscal Year 2016 Compared with Fiscal Year 2015

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

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

Fiscal Year 2015 Compared with Fiscal Year 2014

Our effective income tax rate was approximately (42.9)% in fiscal year 2015, compared to approximately 3.0% in fiscal year 2014. Provision for income taxes increased $39.2 million in fiscal year 2015 as compared to fiscal year 2014 due to a non-recurring release of domestic valuation allowance totaling $31.2 million recorded in fiscal year 2014 in connection with our recording of acquired deferred tax liabilities established in purchase accounting. In addition, our mix of pre-tax income in each year impacts our provision for income taxes.

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.

During the first quarter of fiscal year 2016, we reorganized the organizational management and oversight of our Dragon Consumer business, which was previously reported within our Mobile segment and has now been moved into our Healthcare segment. During the second quarter of fiscal year 2016, we reclassified certain government payroll incentive credits previously reported in the general and administrative expense to research and development expense, cost of revenue and sales and marketing. Accordingly, the segment results in prior periods have been recast to conform to the current period segment reporting presentation.

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

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	% Change 2016 vs. 2015	% Change 2015 vs. 2014
Segment Revenues[a]					
Healthcare	$973.3	$1,000.8	$1,020.4	(2.7)%	(1.9)%
Mobile	377.3	391.2	363.3	(3.6)%	7.7 %
Enterprise	387.5	349.3	367.1	10.9 %	(4.8)%
Imaging	241.6	237.7	236.3	1.6 %	0.6 %
Total segment revenues	$1,979.6	$1,979.1	$1,987.1	— %	(0.4)%
Less: acquisition related revenue adjustments	(30.7)	(47.9)	(63.6)	(36.0)%	(24.7)%
Total revenues	$1,948.9	$1,931.1	$1,923.5	0.9 %	0.4 %
Segment Profit					
Healthcare	$313.5	$343.4	$346.6	(8.7)%	(0.9)%
Mobile	133.4	108.2	73.0	23.2 %	48.2 %
Enterprise	130.0	94.4	91.0	37.8 %	3.7 %
Imaging	100.8	89.3	89.1	12.9 %	0.3 %
Total segment profit	$677.6	$635.3	$599.7	6.7 %	5.9 %
Segment Profit Margin					
Healthcare	32.2 %	34.3 %	34.0 %	(2.1)	0.3
Mobile	35.4 %	27.7 %	20.1 %	7.7	7.6
Enterprise	33.5 %	27.0 %	24.8 %	6.5	2.2
Imaging	41.7 %	37.6 %	37.7 %	4.2	(0.1)
Total segment profit margin	34.2 %	32.1 %	30.2 %	2.1	1.9

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

Segment Revenues

Fiscal Year 2016 Compared with Fiscal Year 2015

- Healthcare segment revenues decreased $27.5 million for the year ended September 30, 2016, as compared to the year ended September 30, 2015. Product and licensing revenues decreased $24.8 million driven by lower revenues from our licensed Dragon Medical product sales as we transition from perpetual to cloud and subscription models. Professional services and hosting revenues decreased $8.4 million primarily driven by a decrease of $21.7 million in hosting revenues as we continue to experience some erosion of revenue in our transcription services owed in part to the growing penetration of our Dragon Medical cloud and subscription offerings, partially offset by an increase of $13.2 million in professional services primarily from a recent acquisition. Maintenance and support revenues increased $5.8 million driven by prior year license sales.
- Mobile segment revenues decreased $14.0 million for the year ended September 30, 2016, as compared to the year ended September 30, 2015. Product and licensing revenues decreased $25.5 million and maintenance and support revenue decreased $5.0 million, owing to a decline in handset revenues from deterioration in mature markets, partially offset by the growth in recurring product and licensing revenue in our automotive business. Professional services and hosting revenues increased $16.5 million driven primarily by a continued trend toward cloud-based services in our automotive and devices solutions.
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Enterprise segment revenues increased $38.1 million for the year ended September 30, 2016, as compared to the year ended September 30, 2015. Professional services and hosting revenues increased $23.3 million driven by higher on-demand revenue. Product and licensing revenues increased $14.0 million with strong on-premise solutions sales during the period.

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

Fiscal Year 2015 Compared with Fiscal Year 2014

- Healthcare segment revenues decreased $19.6 million for the year ended September 30, 2015, as compared to the year ended September 30, 2014. Maintenance and support revenue increased $11.1 million driven by strong renewals in Dragon Medical. Product and licensing revenue decreased $29.7 million driven by lower revenue from our Dragon Medical solutions as we continue to see a shift toward a term-licensing model and decreased sales from Dragon desktop consumer solutions. Professional services and hosting revenue decreased $1.0 million primarily driven by an increase of $7.3 million in professional services from both of our CDI and coding solutions and Diagnostic solutions, offset by a $8.3 million decrease in hosting revenue as we continue to experience some erosion of revenue in our transcription services.
- Mobile segment revenues increased $27.9 million for the year ended September 30, 2015, as compared to the year ended September 30, 2014. Professional services and hosting revenue increased $18.7 million driven primarily by growth in our mobile connected services. Product and licensing revenue increased $12.6 million driven by sales increase of automotive business. Maintenance and support revenue decreased $3.4 million resulting from a decrease in sales of our embedded licenses as the device market continues to consolidate.
- Enterprise segment revenues decreased $17.8 million for the year ended September 30, 2015, as compared to the year ended September 30, 2014. Professional services and hosting revenues decreased $17.5 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 $1.4 million for the year ended September 30, 2015, as compared to the year ended September 30, 2014, primarily driven by revenues from a recent acquisition, partially offset by continued declines in our desktop product sales.

Segment Profit

Fiscal Year 2016 Compared with Fiscal Year 2015

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

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

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

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

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Fiscal Year 2015 Compared with Fiscal Year 2014

- Healthcare segment profit for the year ended September 30, 2015 decreased 0.9% from the same period last year, primarily driven by increased research and development. Segment profit margin increased 0.3 percentage points, from 34.0% for the same period last year to 34.3% during the current period. The increase in segment profit margin was primarily driven by a 1.0 percentage point margin improvement resulting from lower sales and marketing expense offset by a decrease of 0.7 percentage points in margin due to increased research and development spending driven by incremental costs associated with a collaboration agreement.

- Mobile segment profit for the year ended September 30, 2015 increased 48.2% from the same period last year, primarily driven by increased revenues and lower operating expenses. Segment profit margin increased 7.6 percentage points, from 20.1% for the same period last year to 27.7% during the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 3.7 percentage points related to decreased research and development spending, 1.9 percentage points related to lower sales and marketing expenses, and 1.8 percentage points in gross margin improvement.

- Enterprise segment profit for the year ended September 30, 2015 increased 3.7% from the same period last year, driven by lower operating expense partially offset by impact from lower revenues. Segment profit margin increased 2.2 percentage points, from 24.8% for the same period last year to 27.0% in the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 0.9 percentage point due to higher segment gross margins, 0.9 percentage point due to lower sales and marketing expenses and 0.4 percentage point due to decreased research and development spending.

- Imaging segment profit for the year ended September 30, 2015 increased 0.3% from the same period last year, driven by improved gross profit partially offset by higher sales and marketing expenses. Segment profit margin decreased 0.1 percentage point, from 37.7% for the same period last year to of 37.6% during the current period.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and marketable securities totaled $608.1 million as of September 30, 2016, an increase of $39.3 million as compared to $568.8 million as of September 30, 2015. Our working capital was $347.7 million as of September 30, 2016 compared to $360.2 million of working capital as of September 30, 2015. As of September 30, 2016, our total accumulated deficit was $429.0 million. We do not expect our accumulated deficit to impact our future ability to operate the business given our cash and strong operating cash flow positions.

Cash and cash equivalents and marketable securities held by our international operations totaled $116.5 million and $164.2 million at September 30, 2016 and 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 have authorized the repatriation of $250.0 million foreign earnings previously considered indefinitely reinvested to fund the Board approved share repurchase transaction from the Icahn Group, of which $189.0 million was repatriated in fiscal year 2016 and $61.0 million remains available for repatriation in the future. This one-time event does not change our ability or intent to indefinitely reinvest unremitted earnings of our foreign subsidiaries and we expect the cash held overseas will continue to be used for our international operations. 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 additional funds beyond the above expectation for this one-time repurchase transaction from the Icahn Group.

As we begin fiscal year 2017, our plans incorporate the use of $100.0 million in cash to repurchase shares of our common stock and $100.0 million in cash to repurchase or call outstanding debt securities. Our actual actions will depend upon various factors, foremost among them being our share price, interest rates, organic and inorganic investment opportunities, and our cash flow generation.

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

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Cash provided by operating activities

Fiscal Year 2016 Compared with Fiscal Year 2015

Cash provided by operating activities for fiscal year 2016 was $565.8 million, an increase of $78.2 million, or 16%, as compared to cash provided by operating activities of $487.6 million for fiscal year 2015. The net increase was primarily driven by the following factors:

- An increase of $56.2 million in cash flows resulting from a lower net loss, exclusive of non-cash adjustment items;
- An increase of $95.4 million in cash flows generated by changes in working capital excluding deferred revenue; and
- Partially offset by a decrease in cash inflows of $73.4 million from deferred revenue. Deferred revenue contributed cash inflow of $61.7 million in fiscal year 2016, as compared to $135.2 million in fiscal year 2015. The deferred revenue growth in fiscal year 2016 was driven primarily by our on-demand automotive business in our Mobile segment as well as growth in maintenance and support contracts.

Fiscal Year 2015 Compared to Fiscal Year 2014

Cash provided by operating activities for fiscal year 2015 was $487.6 million, an increase of $129.5 million, or 36%, as compared to cash provided by operating activities of $358.1 million for fiscal year 2014. The net increase was primarily driven by the following factors:

- An increase of $94.8 million in cash flows resulting from a lower net loss, exclusive of non-cash adjustment items;
- An increase of $41.3 million in cash flows generated by changes in working capital excluding deferred revenue. The increase in cash inflows was driven cash generation from accounts receivables due to 9 days of DSO improvement; and
- Offset by a decrease in cash inflows of $6.7 million from deferred revenue. Deferred revenue continues to grow contributing cash inflow of $135.2 million in fiscal year 2015, as compared to $141.8 million in fiscal year 2014. The deferred revenue growth in fiscal year 2015 was driven primarily by mobile connected services and maintenance and support contracts.

Cash used in investing activities

Fiscal Year 2016 Compared with Fiscal Year 2015

Cash used in investing activities for fiscal year 2016 was $263.0 million, an increase of $56.9 million, or 28%, as compared to cash used in investing activities of $206.1 million for fiscal year 2015. The net increase was primarily driven by the following factors:

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

Fiscal Year 2015 Compared to Fiscal Year 2014

Cash used in investing activities for fiscal year 2015 was $206.1 million, a decrease of $104.9 million, or 34%, as compared to cash used in investing activities of $311.0 million for fiscal year 2014. The net decrease was primarily driven by the following factors:

- A decrease in cash outflows of $169.7 million for business and technology acquisitions;
- An increase in cash inflows of $18.9 million from the sales and maturities of marketable securities and other investments; and
- Offset by an increase in cash outflows of $86.1 million for purchases of marketable securities and other investments.

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Cash used in financing activities

Fiscal Year 2016 Compared with Fiscal Year 2015

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

- An increase in cash inflows of $297.0 million from the new senior note debt issuance in June 2016. We issued $300.0 million aggregate principal amount of 6.000% Senior Notes due on July 1, 2024 in a private placement, net of issuance costs;
- An increase in net cash inflows of $151.9 million from the new convertible debt issuance net of the repayment of long-term debt. The fiscal year 2016 activity included proceeds of $663.8 million, net of issuance costs, from the issuance of our 1.0% 2035 Debentures offset by the repurchase of $38.3 million in aggregate principal on our 2.75% Senior Convertible Debentures due in 2031 (the “2031 Debentures”) and repayment of the aggregate principal balance of $472.5 million on our term loan under the amended and restated credit agreement. The fiscal year 2015 activity included extinguishment on part of our 2031 Debentures for $256.2 million in exchange for $263.9 million of our new 1.5% 2035 Debentures;
- A decrease in cash outflows of $99.7 million related to our share repurchase program. We repurchased 9.4 million shares of our common stock for total cash outflows of $198.6 million in fiscal year 2016 as compared to 19.8 million shares of our common stock for total cash outflows of $298.3 million in fiscal year 2015;
- Partially offset by an increase in cash outflows of $500.9 million related to the repurchase of 26.3 million shares of our common stock from the Icahn Group, inclusive of fees associated with the transaction; and
- An increase in cash outflows of $11.1 million as a result of higher cash payments required to net share settle employee equity awards due to an increase in the intrinsic value of shares vested during fiscal year 2016 as compared to fiscal year 2015.

Fiscal Year 2015 Compared to Fiscal Year 2014

Cash used in financing activities for fiscal year 2015 was $341.2 million, an increase of $34.0 million, or 11%, as compared to cash used in financing activities of $307.2 million for fiscal year 2014. The net increase was primarily driven by the following factors:

- An increase in cash outflows of $271.8 million related to our share repurchase program. We repurchased 19.8 million shares of our common stock for total cash outflows of $298.3 million in fiscal year 2015 as compared to 1.6 million shares of our common stock for total cash outflows of $26.5 million in fiscal year 2014;
- An increase in cash outflows of $17.4 million as a result of higher cash payments required to net share settle employee equity awards due to an increase in vesting during fiscal year 2015 as compared to fiscal year 2014;
- An increase in cash outflows of $6.0 million for the payment of long-term debt. The fiscal year 2015 activity included extinguishment on part of our 2031 Debentures for $256.2 million in exchange for $263.9 million of our 1.5% 2035 Debentures. The fiscal year 2014 activity included the redemption of the 2027 Debentures for $250.0 million; and
- Offset by an increase in cash inflows of $253.2 million from the issuance of the 1.5% 2035 Debentures, net of issuance costs in fiscal year 2015.

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

The Notes are our unsecured senior obligations and are guaranteed (the “Guarantees”) on an unsecured senior basis by certain

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

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

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

6.0% Senior Notes due 2024

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

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

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

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

1.0% Convertible Debentures due 2035

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

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

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

2.75% Convertible Debentures due 2031

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

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

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

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

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day period following any five consecutive trading-day period in which the trading price for $1,000 principal amount of the 2031 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 2031 Debentures; or (iv) at the option of the holder at any time on or after May 1, 2031. Additionally, we may redeem the 2031 Debentures, in whole or in part, on or after November 6, 2017 at par plus accrued and unpaid interest. Each holder shall have the right, at such holder's option, to require us to repurchase all or any portion of the 2031 Debentures held by such holder on November 1, 2017, November 1, 2021, and November 1, 2026 at par plus accrued and unpaid interest. If we undergo a fundamental change (as described in the indenture for the 2031 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of September 30, 2016 and 2015, no conversion triggers were met. If the conversion triggers were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.
1.50% Convertible Debentures due 2035
In June 2015, we issued $263.9 million in aggregate principal amount of 1.50% Senior Convertible Debentures due in 2035 (the “1.5% 2035 Debentures”) in exchange for $256.2 million in aggregate principal amount of our 2031 Debentures. Total proceeds, net of issuance costs, were $253.2 million. The 1.5% 2035 Debentures were issued at 97.09% of the principal amount, which resulted in a discount of $7.7 million. The 1.5% 2035 Debentures bear interest at 1.50% per year, payable in cash semi-annually in arrears, beginning on November 1, 2015. In addition to ordinary interest and default additional interest, beginning with the semi-annual interest period commencing on November 1, 2021, contingent interest will accrue during any regular semi-annual interest period where the average trading price of our 1.5% 2035 Debentures for the ten trading day period immediately preceding the first day of such semi-annual period is greater than or equal to $1,200 per $1,000 principal amount of our 1.5% 2035 Debentures, in which case, contingent interest will accrue at a rate of 0.50% per annum of such average trading price. The 1.5% 2035 Debentures mature on November 1, 2035, subject to the right of the holders to require us to redeem the 1.5% 2035 Debentures on November 1, 2021, 2026, or 2031. The 1.5% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.5% 2035 Debentures. The 1.5% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries.
We account separately for the liability and equity components of the 1.5% 2035 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. At issuance, we allocated $208.6 million to long-term debt, and $55.3 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through November 2021.
If converted, the principal amount of the 1.5% 2035 Debentures is payable in cash and any amounts payable in excess of the principal amount, will (based on an initial conversion rate, which represents an initial conversion price of approximately $23.26 per share, subject to adjustment) be paid in cash or shares of our common stock, at our election, only in the following circumstances and to the following extent: (i) prior to May 1, 2035, on any date during any fiscal quarter beginning after September 30, 2015 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for $1,000 principal amount of the 1.5% 2035 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 1.5% 2035 Debentures; or (iv) at the option of the holder at any time on or after May 1, 2035. Additionally, we may redeem the 1.5% 2035 Debentures, in whole or in part, on or after November 5, 2021 for cash at a price equal to 100% of the principal amount of the 1.5% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. Each holder shall have the right, at such holder’s option, to require us to repurchase all or any portion of the 1.5% 2035 Debentures held by such holder on November 1, 2021, November 1, 2026, or

November 1, 2031 at par plus accrued and unpaid interest. Upon repurchase, we will pay the principal amount in cash and any amounts payable in excess of the principal amount will be paid in cash or shares of our common stock, at our election, with the exception that we may not elect to pay cash in lieu of more than 80% of the number of our common shares we would be obligated to deliver. If we undergo a fundamental change (as described in the indenture for the 1.5% 2035 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the 1.5% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of September 30, 2016 and 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.

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Revolving Credit Facility

In April 2016, we entered into a credit agreement that provides for a $242.5 million revolving credit line, including letters of credit (together, the “Revolving Credit Facility”). The Revolving Credit Facility matures on April 15, 2021. As of September 30, 2016, issued letters of credit in the aggregate amount of $4.0 million were treated as issued and outstanding when calculating the borrowing availability under the Revolving Credit Facility. As of September 30, 2016, we had $238.5 million available for additional borrowing under the Revolving Credit Facility. Any amounts outstanding under the Revolving Credit Facility will bear interest, at either (i) LIBOR plus an applicable margin of 1.50% or 1.75%, or (ii) the alternative base rate plus an applicable margin of 0.50% or 0.75%. The Revolving Credit Facility is secured by substantially all assets of ours and our Subsidiary Guarantors. The Revolving Credit Facility contains customary affirmative and negative covenants and conditions to borrowing, as well as customary events of default.

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 agreement, 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. 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. In connection with entering into the Revolving Credit Facility on April 15, 2016, we terminated our $75.0 million revolving credit agreement.

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 9.4 million shares for $197.5 million during the fiscal year ended September 30, 2016 under the program. These shares were retired upon repurchase. Since the commencement of the program, we have repurchased 40.7 million shares for $707.5 million, including 1.0 million shares repurchased from our Chief Executive Officer in fiscal year 2016. Approximately $292.5 million remained available for share repurchases as of September 30, 2016 pursuant to our share repurchase program. Under the terms of the share repurchase program, we have the ability to repurchase shares from time to time through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, or any combination of such methods. The share repurchase program does not require us to acquire any specific number of shares and may be modified, suspended, extended or terminated by us at any time without prior notice. The timing and the amount of any purchases will be determined by management based on an evaluation of market conditions, capital allocation alternatives, and other factors.

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

In March 2016, our Board of Directors approved a repurchase agreement with the Icahn Group to repurchase 26.3 million shares of our common stock at a price of $19.00 per share, for a total purchase price of $500.0 million.

During fiscal year 2016, we changed our method of recognizing the amount paid to repurchase common shares in excess of the par value. Historically we allocated any excess of cost over par value between accumulated deficit and additional paid-in capital. Under our new method of accounting, we recognize any excess of cost over par value in additional paid-in capital. The resulting reclassification is not considered material as there is no impact to total shareholders’ equity and only represents a reclassification between individual equity line items. Accordingly, the financial data for all periods presented has been retrospectively adjusted to reflect the effect of this accounting change. The cumulative effect of the change on additional paid-in capital as of September 30, 2016, 2015, 2014 and 2013 was a decrease of approximately $672.7 million, $333.8 million, $229.0 million and $218.2 million, respectively, with an offsetting adjustment to accumulated deficit.

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

Contractual Obligations

The following table outlines our contractual payment obligations as of September 30, 2016 (dollars in millions):

	Payments Due by Fiscal Year Ended September 30,				
Contractual Obligations	Total	2017	2018 and 2019	2020 and 2021	Thereafter
Convertible Debentures[1]	1,335.9	—	395.5	—	940.4
Senior Notes	1,350.0	—	—	1,050.0	300.0
Interest payable on long-term debt[2]	452.2	96.4	175.8	113.9	66.1
Letter of Credit[3]	4.0	3.1	0.9	—	—
Lease obligations and other liabilities:					
Operating leases	172.0	23.7	36.7	26.9	84.7
Operating leases under restructuring[4]	57.6	10.4	15.8	11.3	20.1
Purchase commitments for inventory, property and equipment[5]	5.1	5.1	—	—	—
Total contractual cash obligations	$3,376.8	$138.7	$624.7	$1,202.1	$ 1,411.3

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

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

(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 September 30, 2016, we have subleased certain of the facilities with total sublease income of $58.1 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 September 30, 2016 was $27.3 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 agree to make contingent cash payments to the selling shareholders of the acquired companies as deferred acquisition consideration or upon the achievement of specified objectives. As of September 30, 2016, we may be required to make up to $20.1 million of deferred acquisition consideration upon the conclusion of an indemnity period in November 2017. As of September 30, 2016, we may be required to make up to $17.2 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 $20.5 million as of September 30, 2016, are recorded as compensation expense over the applicable employment period.

Financial Instruments

We use financial instruments to manage our foreign exchange risk. We operate our business in countries throughout the world and transact business in various foreign currencies. Our foreign currency exposures typically arise from transactions denominated in currencies other than the functional currency of our operations. We have a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effect of certain foreign currency exposures. Our program is designed so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. Generally, we enter

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into such contracts for less than 90 days and have no cash requirements until maturity. At September 30, 2016 and 2015, we had outstanding contracts with a total notional value of $215.2 million and $138.5 million, respectively.
From time to time we enter into agreements that allow us to issue shares of our common stock as part or all of the consideration related to business acquisitions, partnering and technology acquisition activities. Some of these shares are issued subject to security price guarantees, which are accounted for as derivatives. We have determined that these instruments would not be considered equity instruments if they were freestanding. Certain of the security price guarantees require payment from either us to a third party, or from a third party to us, based upon the difference between the price of our common stock on the issue date and an average price of our common stock approximately six months following the issue date. We have also issued minimum price guarantees that may require payments from us to a third party based on the average share price of our common stock approximately six months following the issue date if our stock price falls below the minimum price guarantee. Changes in the fair value of these security price guarantees are reported in other expense, net in our consolidated statements of operations. We have no outstanding shares subject to security price guarantees at September 30, 2016. During the years ended September 30, 2015 and 2014, we recorded $0.2 million and $4.4 million, respectively, of losses associated with these contracts and we paid cash totaling $0.3 million and $5.3 million, respectively, upon the settlement of the agreements.

Pension Plans

We sponsor certain defined benefit pension plans that are offered primarily by certain of our foreign subsidiaries. Many of these plans were assumed through our acquisitions or are required by local regulatory requirements. We may deposit funds for these plans with insurance companies, third party trustees, or into government-managed accounts consistent with local regulatory requirements, as applicable. Our total defined benefit plan pension expenses were $0.1 million, $0.3 million and $0.2 million for fiscal years 2016, 2015 and 2014, respectively. The aggregate projected benefit obligation and aggregate net liability of our defined benefit plans as of September 30, 2016 was $32.1 million and $8.2 million, respectively, and as of September 30, 2015 was $35.5 million and $7.3 million, respectively.

Off-Balance Sheet Arrangements

Through September 30, 2016, we have not entered into any off-balance sheet arrangements or material transactions with unconsolidated entities or other persons.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, our estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the business combination date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. For adjustments to provisional amounts that are identified during the purchase price allocation period, we recognize the adjustment in the reporting period in which the adjustment amounts are determined. Subsequent to the purchase price allocation period any adjustment to assets acquired or liabilities assumed is included in operating results in the period in which the adjustment is determined.

Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:

- future expected cash flows from software license sales, support agreements, consulting contracts, hosting services, other customer contracts and acquired developed technologies and patents;
-

expected costs to develop in-process research and development projects into commercially viable products and the estimated cash flows from the projects when completed;

- the acquired company's brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio; and
- discount rates.

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

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

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

Goodwill, Intangible and Other Long-Lived Assets and Impairment Assessments. We have significant long-lived tangible and intangible assets, including goodwill with indefinite lives, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The most significant finite-lived tangible and intangible assets are customer relationships, licensed technology, patents and core technology, completed technology, fixed assets and trade names. All finite-lived intangible assets are amortized over the estimated economic lives of the assets, generally using the straight-line method except where the pattern of the expected economic benefit is readily identifiable, primarily customer relationship intangibles, whereby amortization follows that pattern. The values of intangible assets determined in connection with a business combination, with the exception of goodwill, were initially determined by a risk-adjusted, discounted cash flow approach. Goodwill and intangible assets with indefinite lives are not amortized, but rather the carrying amounts of these assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Goodwill is tested for impairment based on a comparison of the fair value of our reporting units to their recorded carrying values. The test consists of a two-step process. The first step is the comparison of the fair value to the carrying value of the reporting unit to determine if the carrying value exceeds the fair value. The second step measures the amount of an impairment loss and is only performed if the carrying value exceeds the fair value of the reporting unit. Our annual impairment assessment date is July 1 of each fiscal year. As of July 1, 2016 we had six reporting units based on the level of information provided to, and review thereof, by our segment management. We continuously evaluate our operating segments and one level below our operating segments to determine the correct reporting units for our goodwill impairment testing. Factors we consider important, which 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; and
- a decline in our market capitalization below net book value.

We determine fair values for each of the reporting units based on consideration of the income approach, the market comparable approach and the market transaction approach. For purposes of the income approach, fair value is determined based on the present value of estimated future after-tax cash flows, discounted at an appropriate risk adjusted rate. We use our internal forecasts to estimate future after-tax cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlook for each reporting unit, which we believe are consistent with other market participants. Actual results may differ from those assumed in our forecasts. We derive our discount rates using a capital asset pricing model and analyzing published rates for industries relevant to our reporting units to estimate the weighted average cost of capital. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in our internally developed forecasts. Discount rates used in our reporting unit valuations ranged from 9.5% to 14.5%. For purposes of the market approach, we use a valuation technique in which values are derived based on market prices of comparable publicly traded companies. We also use a market based valuation technique in which values are determined based on relevant observable information generated by market transactions involving comparable businesses. Compared to the market approach, the income approach more closely aligns each reporting unit valuation to our business profile, including geographic markets served and product offerings. Required rates of return, along with uncertainty inherent in the forecasts of future cash flows, are reflected in the selection of the discount rate. Equally important, under this approach, reasonably likely scenarios and associated sensitivities can be developed for alternative future states that may not be reflected in an observable market price. A market approach allows for comparison to actual market transactions and multiples. It can be somewhat more limited in its application because the population of potential comparable entities is often limited to publicly-traded companies where the characteristics of the comparative business and ours can be significantly different, market data is usually not available for divisions within larger conglomerates or non-public subsidiaries that could otherwise qualify as comparable, and the specific circumstances surrounding a market transaction (e.g., synergies between the parties, terms and conditions of the transaction, etc.) may be different or irrelevant with respect to our business. It can also be difficult, under certain market conditions, to identify orderly transactions between market participants in similar businesses. We assess each valuation methodology based upon the relevance and availability of the data at the time we perform the valuation and weight the methodologies appropriately.

The carrying values of the reporting units were determined based on an allocation of our assets and liabilities, through specific allocation of certain assets and liabilities, to the reporting units and an apportionment method based on relative size of the reporting units' revenues and operating expenses compared to our total revenues and operating expenses. Goodwill was initially allocated to our reporting units based on the relative fair value of the units at the date we implemented the current reporting unit structure. Goodwill subsequently acquired through acquisitions is allocated to the applicable reporting unit based upon the relative fair value of the acquired business. Certain corporate assets and liabilities that are not instrumental to the reporting units' operations and would not be transferred to hypothetical purchasers of the reporting units were excluded from the reporting units' carrying values.

As of our annual impairment assessment date for fiscal year 2016, our estimated fair values of our reporting units exceeded their carrying values and we concluded, based on the first step of the process, that there was no impairment of goodwill. The fair value substantially exceeded the carrying value by more than 120% for each of our reporting units, with the exception of our Mobile and Dragon Consumer ("DNS") reporting units. The fair value exceeded the carrying value of our Mobile reporting unit by approximately 18%. Goodwill allocated to our Mobile reporting unit is approximately $1.1 billion as of July 1, 2016 and September 30, 2016. Our Mobile reporting unit, specifically our handset business, has experienced a decline in fair value as a result of weakening handset revenues from a deterioration in mature markets. The operating plans and projections, which are the basis for the reporting unit fair value, anticipate these weakening conditions for the handset business and include continued revenue growth from cloud-based services in our automotive business and revenue from TV solutions and IoT are expected to offset this weakness in handset revenue over time. The fair value exceeded the carrying value of our DNS reporting unit by approximately 15%. Goodwill allocated to our DNS reporting unit is approximately $66.8 million as of July 1, 2016 and September 30, 2016. Our DNS reporting unit has experienced a decline in fair value as a result of a weakening revenue stream from sales of our dictation software to business users and consumers due to an overall weakness in desktop software sales. The operating plans and projections, which are the basis for the reporting unit fair value, anticipate these weakening conditions.

Determining the fair value of a reporting unit or asset group involves the use of significant estimates and assumptions, which we believe to be reasonable, that are unpredictable and inherently uncertain. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, our ability to launch new product and new market penetrations, and determination of appropriate market comparables. Significant adverse changes in our future revenues and/or operating margins, significant degradation in the enterprise values of comparable companies for our reporting units, changes in our organization or management reporting structure, as well as other events and circumstances, including but not limited to technological advances, increased competition and changing economic or market conditions, could result in (a) shorter estimated useful lives, (b) changes to reporting units or asset groups, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit, and/or (c) other changes in previous assumptions or estimates, could result in the determination that all or a portion of our goodwill is impaired that could materially impact future results of operations and financial position in the reporting period identified.

We periodically review long-lived assets other than goodwill for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of those assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded carrying value for the asset or asset group. Asset groups utilized in this analysis are identified as the lowest level grouping of assets for which largely independent cash flows can be identified. If impairment is indicated, the asset or asset group is written down to its estimated fair value.

Accounting for Stock-Based Compensation. We account for share-based awards to employees and directors, including grants of employee stock options, purchases under employee stock purchase plans, and restricted awards through recognition of the fair value of the share-based awards as a charge against earnings in the form of stock-based compensation expense. We recognize stock-based compensation expense over the requisite service period, net of estimated forfeitures. We recognize benefits from stock-based compensation in equity using the with-and-without approach for the utilization of tax attributes. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected dividends, share price volatility and the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

Income Taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not after consideration of all available evidence. As the income tax returns are not due and filed until after the completion of our annual financial reporting requirements, the amounts recorded for the current period reflect estimates for the tax-based activity for the period. In addition, estimates are often required with respect to, among other things, the appropriate

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state and foreign income tax rates to use, the potential utilization of operating loss carry-forwards and valuation allowances required, if any, for tax assets that may not be realizable in the future. Tax laws and tax rates vary substantially in these jurisdictions, and are subject to change given the political and economic climate. We report and pay income tax based on operational results and applicable law. Our tax provision contemplates tax rates currently in effect to determine both our current and deferred tax provisions.

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

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

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal years in which those temporary differences are expected to be recovered or settled. With respect to earnings expected to be indefinitely reinvested offshore, we do not accrue tax for the repatriation of such foreign earnings.

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

As of September 30, 2016, we have $110.2 million of valuation allowances recorded against all U.S. deferred tax assets and certain foreign deferred tax assets. If we are subsequently able to utilize all or a portion of the deferred tax assets for which the remaining valuation allowance has been established, then we may be required to recognize these deferred tax assets through the reduction of the valuation allowance which could result in a material benefit to our results of operations in the period in which the benefit is determined.

We establish reserves for tax uncertainties that reflect the use of the comprehensive model for the recognition and measurement of uncertain tax positions. Under the comprehensive model, when the minimum threshold for recognition is not met, no tax benefit can be recorded. When the minimum threshold for recognition is met, a tax position is recorded as the largest amount that is more than fifty percent likely of being realized upon ultimate settlement.

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

RECENTLY ADOPTED ACCOUNTING STANDARDS

In fiscal year 2016, we early adopted, and retroactively implemented Accounting Standards Update ("ASU") No. 2015-17, "Balance Sheet Classification of Deferred Taxes." Under this new guidance, we are required to present deferred tax assets and deferred tax liabilities, and any related valuation allowances, as noncurrent on our consolidated balance sheet. 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, and had no impact on our shareholders' equity, results of operations or cash flows. Current deferred tax assets were included in prepaid expenses and other current assets and long-term deferred tax assets were included in other assets within our consolidated balance sheet.

In fiscal year 2016, we implemented ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." Under this new guidance, we are required to change the criteria for determining which disposals

can be presented as discontinued operations and requires enhanced disclosures. The implementation had no impact on our consolidated financial statements.
In fiscal year 2016, we early adopted, and retroactively implemented ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." Under this new guidance, we are required to present debt issuance costs as a direct deduction from the related debt liability on our consolidated balance sheet. The cumulative effect of the change as of September 30, 2015 on other assets was a decrease of approximately $15.7 million with an offsetting adjustment to long-term portion of debt, and had no impact on our shareholders' equity, results of operations or cash flows.
In fiscal year 2016, we early adopted 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 set forth new disclosure requirements related to the adjustments. The implementation had no impact on our consolidated financial statements.
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 August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASC 2016-15"), which provides guidance on the classification of certain specific cash flow issues including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. The standard requires the use of a retrospective approach to all periods presented, but may be applied prospectively if retrospective application would be impracticable. ASU 2016-15 is effective for us in the first quarter of fiscal year 2019, and early application is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-15 on our consolidated financial statements.
In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for us in the first quarter of fiscal year 2018, and early application is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-09 on our consolidated financial statements.
In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is effective for us in the first quarter of fiscal year 2020, and early application is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our consolidated financial statements.
In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Although ASU 2016-01 retains many current requirements, it significantly revises accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments and is effective for us in the first quarter of fiscal year 2019. We do not believe that ASU 2016-01 will have a material impact on our consolidated financial statements.
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

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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.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Exchange Rate Sensitivity

We are exposed to changes in foreign currency exchange rates. Any foreign currency transaction, defined as a transaction denominated in a currency other than the local functional currency, will be reported in the functional currency at the applicable exchange rate in effect at the time of the transaction. A change in the value of the functional currency compared to the foreign currency of the transaction will have either a positive or negative impact on our financial position and results of operations.
Assets and liabilities of our foreign entities are translated into U.S. dollars at exchange rates in effect at the balance sheet date and income and expense items are translated at average rates for the applicable period. Therefore, the change in the value of the U.S. dollar compared to foreign currencies will have either a positive or negative effect on our financial position and results of operations. Historically, our primary exposure has related to transactions denominated in the euro, British pound, Brazilian real, Canadian dollar, Japanese yen, Indian rupee and Hungarian forint.
A hypothetical change of 10% in appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2016 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 $215.2 million at September 30, 2016. 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.

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Interest Rate Sensitivity
We are exposed to interest rate risk as a result of our cash and cash equivalents and marketable securities.
At September 30, 2016, we held approximately $608.1 million of cash and cash equivalents and marketable securities consisting of cash, money-market funds, bank deposits and a separately managed investment portfolio. Assuming a one percentage point increase in interest rates, our interest income on our investments classified as cash and cash equivalents and marketable securities would increase by approximately $4.6 million per annum, based on the September 30, 2016 reported balances of our investment accounts.
At September 30, 2016, we had no outstanding debt exposed to variable interest rates.
Equity Price Risk
We are exposed to equity price risk as a result of security price guarantees that we enter into from time to time. Generally, these price guarantees are for a period of six months or less, and require payment from either us to a third party, or from the third party to us, based upon changes in our stock price during the contract term. As of September 30, 2016, 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 as the market price of our common stock increases and will decrease as the market price of our common stock decreases. The fair market values of these debentures will generally increase as interest rates fall and decrease as interest rates rise. The market value and interest rate changes affect the fair market values of these debentures, but do not impact our financial position, results of operations or cash flows due to the fixed nature of the debt obligations. However, increases in the value of our common stock above the stated trigger price for each issuance for a specified period of time may provide the holders of these debentures the right to convert each bond using a conversion ratio and payment method as defined in the debenture agreement.

Our debentures trade in the financial markets, and the fair value at September 30, 2016 was $398.2 million for the 2031 Debentures, based on an average of the bid and ask prices on that day. The conversion value on September 30, 2016 was approximately $177.6 million. A 10% increase in the stock price over the September 30, 2016 closing price of $14.50 would cause an estimated $0.6 million increase to the fair value and a $17.8 million increase to the conversion value of the debentures. The fair value at September 30, 2016 was $247.7 million for the 1.5% 2035 Debentures, based on an average of the bid and ask prices on that day. The conversion value on September 30, 2016 was approximately $164.5 million. A 10% increase in the stock price over the September 30, 2016 closing price of $14.50 would cause an estimated $8.8 million increase to the fair value and a $16.4 million increase to the conversion value of the debentures.The fair value at September 30, 2016 was $589.6 million for the 1.0% 2035 Debentures, based on an average of the bid and ask prices on that day. The conversion value on September 30, 2016 was approximately $360.2 million. A 10% increase in the stock price over the September 30, 2016 closing price of $14.50 would cause an estimated $18.9 million increase to the fair value and a $36.0 million increase to the conversion value of the debentures.

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Item 8. Financial Statements and Supplementary Data

Nuance Communications, Inc. Consolidated Financial Statements

NUANCE COMMUNICATIONS, INC.

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