Nuance Communications, Inc.
Form 10-Q
May 09, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-36056

NUANCE COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or Other jurisdiction of incorporation or organization)	94-3156479 (I.R.S. Employer Identification No.)
1 Wayside Road Burlington, Massachusetts	01803
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

The number of shares of the Registrant's Common Stock, outstanding as of April 30, 2014 was 318,607,119.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements (unaudited)

NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
	(Unaudited)			
	(In thousands, except per share amounts)			
Revenues:				
Product and licensing	$174,819	$173,065	$353,256	$369,796
Professional services and hosting	227,526	213,264	445,661	413,569
Maintenance and support	73,308	64,670	146,716	129,902
Total revenues	475,653	450,999	945,633	913,267
Cost of revenues:				
Product and licensing	25,226	22,943	50,435	49,252
Professional services and hosting	157,437	138,534	312,017	263,690
Maintenance and support	12,359	13,098	25,196	27,895
Amortization of intangible assets	15,342	16,610	30,536	32,920
Total cost of revenues	210,364	191,185	418,184	373,757
Gross profit	265,289	259,814	527,449	539,510
Operating expenses:				
Research and development	84,581	69,681	165,051	138,402
Sales and marketing	98,280	97,855	217,186	214,990
General and administrative	43,682	33,355	88,158	78,139
Amortization of intangible assets	26,571	26,001	54,043	51,427
Acquisition-related costs, net	6,802	15,448	9,600	31,181
Restructuring and other charges, net	4,719	5,062	8,556	6,729
Total operating expenses	264,635	247,402	542,594	520,868
Income (loss) from operations	654	12,412	(15,145)	18,642
Other income (expense):				
Interest income	774	405	1,193	943
Interest expense	(33,987)	(33,878)	(67,946)	(67,995)
Other expense, net	(274)	(4,113)	(3,370)	(7,421)
Loss before income taxes	(32,833)	(25,174)	(85,268)	(55,831)
Provision (benefit) from income taxes	6,394	674	9,372	(7,887)
Net loss	$(39,227)	$(25,848)	$(94,640)	$(47,944)
Net loss per share:				
Basic	$(0.12)	$(0.08)	$(0.30)	$(0.15)
Diluted	$(0.12)	$(0.08)	$(0.30)	$(0.15)
Weighted average common shares outstanding:				
Basic	316,593	315,473	315,696	314,006
Diluted	316,593	315,473	315,696	314,006

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
	Unaudited (In thousands)			
Net loss	$(39,227)	$(25,848)	$(94,640)	$(47,944)
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(1,127)	(17,972)	5,477	(10,861)
Recognition of pension loss amortization	—	33	—	166
Total other comprehensive (loss) income, net	(1,127)	(17,939)	5,477	(10,695)
Comprehensive loss	$(40,354)	$(43,787)	$(89,163)	$(58,639)

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2014 (Unaudited)	September 30, 2013
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$768,302	$808,118
Marketable securities	41,204	38,728
Accounts receivable, less allowances for doubtful accounts of $9,060 and $8,529	387,715	382,741
Prepaid expenses and other current assets	113,218	104,971
Deferred tax asset	75,339	74,969
Total current assets	1,385,778	1,409,527
Land, building and equipment, net	144,173	143,465
Goodwill	3,378,194	3,293,198
Intangible assets, net	921,653	953,278
Other assets	181,868	159,135
Total assets	$6,011,666	$5,958,603
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$251,031	$246,040
Accounts payable	57,915	91,016
Accrued expenses and other current liabilities	226,846	214,425
Deferred revenue	296,548	253,753
Total current liabilities	832,340	805,234
Long-term debt	2,117,522	2,108,091
Deferred revenue, net of current portion	208,304	160,823
Deferred tax liability	190,181	162,774
Other liabilities	64,310	83,667
Total liabilities	3,412,657	3,320,589
Commitments and contingencies (Notes 4 and 16)		
Stockholders' equity:		
Common stock, $0.001 par value; 560,000 shares authorized; 322,012 and 319,365 shares issued and 318,261 and 315,614 shares outstanding, respectively	322	319
Additional paid-in capital	3,078,024	3,017,074
Treasury stock, at cost (3,751 shares)	(16,788)	(16,788)
Accumulated other comprehensive income	12,290	6,813
Accumulated deficit	(474,839)	(369,404)
Total stockholders' equity	2,599,009	2,638,014
Total liabilities and stockholders' equity	$6,011,666	$5,958,603

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31,	
	2014	2013
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net loss	$(94,640)	$(47,944)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	109,417	102,576
Stock-based compensation	92,159	74,913
Non-cash interest expense	19,443	19,577
Deferred tax provision (benefit)	3,446	(24,228)
Other	(5,258)	(1,102)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	6,518	30,281
Prepaid expenses and other assets	(11,695)	(11,517)
Accounts payable	(32,097)	2,147
Accrued expenses and other liabilities	(10,301)	9,501
Deferred revenue	88,190	61,830
Net cash provided by operating activities	165,182	216,034
Cash flows from investing activities:		
Capital expenditures	(24,719)	(29,588)
Payments for business and technology acquisitions, net of cash acquired	(135,537)	(474,259)
Purchases of marketable securities and other investments	(11,504)	—
Proceeds from sales and maturities of marketable securities and other investments	21,634	181
Net cash used in investing activities	(150,126)	(503,666)
Cash flows from financing activities:		
Payments of debt	(2,516)	(146,123)
Proceeds from long-term debt, net of issuance costs	—	352,392
Payments for repurchase of common stock	(26,435)	—
Payments for settlement of share-based derivatives	(5,286)	(3,801)
Payments of other long-term liabilities	(1,519)	(1,320)
Proceeds from issuance of common stock from employee stock plans	11,922	13,085
Cash used to net share settle employee equity awards	(31,047)	(49,518)
Net cash (used in) provided by financing activities	(54,881)	164,715
Effects of exchange rate changes on cash and cash equivalents	9	(1,542)
Net decrease in cash and cash equivalents	(39,816)	(124,459)
Cash and cash equivalents at beginning of period	808,118	1,129,761
Cash and cash equivalents at end of period	$768,302	$1,005,302

See accompanying notes.

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

1. Organization and Presentation

The consolidated financial statements include the accounts of Nuance Communications, Inc. (“Nuance”, “we”, or “the Company”) and our wholly-owned subsidiaries. We prepared these unaudited interim consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) for interim periods. In our opinion, these financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our financial position for the periods disclosed. Intercompany transactions have been eliminated.

We reclassified certain immaterial amounts between product and licensing revenues and maintenance and support revenues previously reported for the three and six months ended March 31, 2013. We have also reclassified certain immaterial amounts related to stock-based compensation between research and development expense, selling and marketing expense and general and administrative expense for the three and six months ended March 31, 2013. The reclassifications have no impact on earnings or cash flows provided by operations.

Although we believe the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with GAAP has been omitted. Accordingly, these financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013. Interim results are not necessarily indicative of the results that may be expected for a full year.

2. Summary of Significant Accounting Policies

Effective October 1, 2013, we implemented Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220) — Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which did not have a significant impact on our consolidated financial statements.

We have made no material changes to the significant accounting policies disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Recently Issued Accounting Standards

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" (ASU 2013-11) to provide guidance on the presentation of unrecognized tax benefits. ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for us in our first quarter of fiscal 2015 with earlier adoption permitted. ASU 2013-11 should be applied prospectively with retroactive application permitted. We do not believe that this will have a material impact on our consolidated financial statements.

3. Business Acquisitions

Fiscal 2014 Acquisitions

During fiscal 2014, we acquired several immaterial businesses in our Healthcare and Enterprise segments for total initial cash consideration of $138.3 million together with future contingent payments. In allocating the total purchase consideration for these acquisitions based on preliminary estimated fair values, we recorded $82.8 million of goodwill and $52.8 million of identifiable intangibles assets. Intangible assets acquired included customer relationships and core and completed technology with weighted average useful lives of 9.5 years. The majority of these acquisitions are treated as stock purchases, and the goodwill resulting from these acquisitions is not expected to be deductible for tax purposes.

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

Pro Forma Results

On May 31, 2013, we acquired the Technology Solutions Segment ("TGT") of the Tweddle Group for total consideration of $83.3 million in cash, including a purchase price adjustment as specified in the asset purchase agreement. TGT provides cloud-based infotainment and communications solutions to the automotive industry. The transaction was structured as an asset acquisition, and, therefore, the goodwill is expected to be deductible for tax purposes. The results of operations for TGT are included in our Mobile and Consumer segment from the acquisition date.

The following table shows unaudited pro forma results of operations as if we had acquired TGT on October 1, 2012 (dollars in thousands, except per share amounts):

	Three months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Revenue	$475,653	$453,450	$945,633	$917,813
Net loss	(39,227)	(28,799)	(94,640)	(54,462)
Net loss per share - diluted	$(0.12)	$(0.09)	$(0.30)	$(0.17)

We have not furnished pro forma financial information related to our other recent acquisitions because such information is not material, individually or in the aggregate, to our financial results. The unaudited pro forma results of operations are not necessarily indicative of the actual results that would have occurred had the transactions actually taken place at the beginning of the periods indicated.

Acquisition-Related Costs, net

Acquisition-related costs include costs related to business and other acquisitions, including potential acquisitions. These costs consist of (i) transition and integration costs, including retention payments, transitional employee costs and earn-out payments treated as compensation expense, as well as the costs of integration-related activities including services provided by third-parties; (ii) professional service fees, including third party costs related to the acquisitions, and legal and other professional service fees associated with disputes and regulatory matters related to acquired entities; and (iii) adjustments to acquisition-related items that are required to be marked to fair value each reporting period, such as contingent consideration, and other items related to acquisitions for which the measurement period has ended.

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

	Three months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Transition and integration costs	$4,590	$11,636	$8,429	$17,899
Professional service fees	2,399	3,812	5,738	13,282
Acquisition-related adjustments	(187)	—	(4,567)	—
Total	$6,802	$15,448	$9,600	$31,181

Included in acquisition-related adjustments for the six months ended March 31, 2014, is income of $7.7 million related to the elimination of a contingent liability established in the original allocation of purchase price for an acquisition closed in fiscal 2008, following the expiration of the applicable statute of limitations. As a result, we have eliminated the contingent liability, and included the adjustment in acquisition-related costs, net in our consolidated statements of operations.

4. Contingent Acquisition Payments

The fair value of any contingent consideration is established at the acquisition date and included in the total purchase price. The contingent consideration is then adjusted to fair value as an increase or decrease in current earnings included in acquisition-related costs, net in each reporting period.

In connection with certain acquisitions completed in fiscal 2014, we may be required to make up to $13.6 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. The contingent payments for these acquisitions were recorded at a total estimated fair value of $8.2 million on the applicable acquisition date, based on the probability of achieving the specified objective using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement as defined in the fair value hierarchy (see Note 7). The changes to the fair value of the contingent consideration will be recognized in acquisition-related costs, net in the consolidated statements of operations in the period in which the estimated fair value changes. In addition, there are deferred payment obligations to certain former shareholders, contingent upon their continued employment. These deferred payment obligations, totaling $6.9 million, will be recorded as compensation expense over the applicable employment period, and included in acquisition-related costs, net in our consolidated statements of operations.

In connection with our acquisition of JA Thomas in October 2012, we agreed to make deferred payments to the former shareholders of JA Thomas of up to $25.0 million in October 2014, contingent upon the continued employment of certain named executives and certain other conditions. The contingent payments will be reduced by amounts specified in the merger agreement in the event that any of the named executives terminates their employment prior to the payment date. At March 31, 2014, we have accrued $18.8 million which represents the portion of the deferred payment that is payable to the named executives that is being recognized as compensation expense over the two year employment period and included in acquisition-related costs, net in our consolidated statements of operations.

5. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill and intangible assets for the six months ended March 31, 2014, are as follows (dollars in thousands):

	Goodwill	Intangible Assets
Balance at September 30, 2013	$3,293,198	$953,278
Acquisitions	82,818	53,173
Purchase accounting adjustments	(677)	(59)
Amortization	—	(84,579)
Effect of foreign currency translation	2,855	(160)
Balance at March 31, 2014	$3,378,194	$921,653

6. Financial Instruments and Hedging Activities

Derivatives Not Designated as Hedges

Forward Currency Contracts

We operate our business in countries throughout the world and transact business in various foreign currencies. Our foreign currency exposures typically arise from transactions denominated in currencies other than the functional currency of our operations. We have a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effect of certain foreign currency exposures. Our program is designed so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. Generally we enter into contracts for less than 90 days, and at March 31, 2014 and September 30, 2013, we had outstanding contracts with a total notional value of $238.4 million and $247.8 million, respectively.

We have not designated these forward contracts as hedging instruments pursuant to ASC 815, Derivatives and Hedging, and accordingly, we record the fair value of these contracts at the end of each reporting period in our consolidated balance sheet, with changes in the fair value recorded in earnings as other expense, net in our consolidated statements of operations.

Security Price Guarantees

From time to time we enter into agreements that allow us to issue shares of our common stock as part or all of the consideration related to partnering and technology acquisition activities. Generally 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. 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. Changes in the fair value of these security price guarantees are reported in earnings in each period as other expense, net in our consolidated statements of operations. At March 31, 2014, we had no security price guarantees outstanding.

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

The following table provides a quantitative summary of the fair value of our derivative instruments as of March 31, 2014 and September 30, 2013 (dollars in thousands):

Derivatives Not Designated as Hedges:	Balance Sheet Classification	Fair Value March 31, 2014	September 30, 2013
Foreign currency contracts	Prepaid expenses and other current assets	$895	$2,201
Security Price Guarantees	Accrued expenses and other current liabilities	—	(1,044)
Net fair value of non-hedge derivative instruments		$895	$1,157

The following tables summarize the activity of derivative instruments for the three and six months ended March 31, 2014 and 2013 (dollars in thousands):

		Three months Ended March 31,		Six Months Ended March 31,	
Derivatives Not Designated as Hedges	Location of Gain (Loss) Recognized in Income	2014	2013	2014	2013
Foreign currency contracts	Other expense, net	$2,046	$(329)	$6,372	$(434)
Security price guarantees	Other expense, net	$(72)	$(3,015)	$(4,222)	$(5,526)

Other Financial Instruments

Financial instruments, including cash equivalents, marketable securities, accounts receivable, accounts payable, and derivative instruments, are carried in the consolidated financial statements at amounts that approximate their fair value.

The estimated fair value of our long-term debt approximated $2,483.0 million (face value $2,469.8 million) and $2,458.2 million (face value $2,472.2 million) at March 31, 2014 and September 30, 2013, respectively. These fair value amounts represent the value at which our lenders could trade our debt within the financial markets, and do not represent the settlement value of these long-term debt liabilities to us at each reporting date. The fair value of the long-term debt issues will continue to vary each period based on fluctuations in market interest rates, as well as changes to our credit ratings. The Senior Notes, the term loan portion of our Credit Facility, and the Convertible Debentures are traded and the fair values of each borrowing was estimated using the averages of the bid and ask trading quotes at each respective reporting date. We had no outstanding balance on the revolving credit line portion of our Credit Facility at March 31, 2014 and September 30, 2013.

7.Fair Value Measures

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

ASC 820, Fair Value Measures and Disclosures, establishes a value hierarchy based on three levels of inputs, of which the first two are considered observable and the third is considered unobservable:

- Level 1. Quoted prices for identical assets or liabilities in active markets which we can access.
- Level 2. Observable inputs other than those described as Level 1.
- Level 3. Unobservable inputs.

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

Items measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis at March 31, 2014 and September 30, 2013 consisted of (dollars in thousands):

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds(a)	$657,163	$—	$—	$657,163
US government agency securities(a)	1,000	—	—	1,000
Marketable securities, $41,204 at cost (b)	—	41,204	—	41,204
Foreign currency exchange contracts(b)		895	—	895
Total assets at fair value	$658,163	$42,099	$—	$700,262
Liabilities:				
Contingent earn-out(d)	$—	$—	$(8,096)	$(8,096)
Total liabilities at fair value	$—	$—	$(8,096)	$(8,096)

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds(a)	$684,697	$—	$—	$684,697
US government agency securities(a)	1,000	—	—	1,000
Marketable securities, $38,728 at cost (b)	—	38,728	—	38,728
Foreign currency exchange contracts(b)	—	2,201	—	2,201
Total assets at fair value	$685,697	$40,929	$—	$726,626
Liabilities:				
Security price guarantees(c)	$—	$(1,044)	$—	$(1,044)
Contingent earn-out(d)	—	—	(450)	(450)
Total liabilities at fair value	$—	$(1,044)	$(450)	$(1,494)

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

(b) The fair values of our time deposits, marketable securities and foreign currency exchange contracts are based on the most recent observable inputs for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable.

(c) The fair values of the security price guarantees are determined using a modified Black-Scholes model, derived from observable inputs such as U.S. treasury interest rates, our common stock price, and the volatility of our common stock. The valuation model values both the put and call components of the guarantees simultaneously, with the net value of those components representing the fair value of each instrument.

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

The changes in the fair value of contingent earn-out liabilities are as follows (dollars in thousands):

	Three months Ended March 31, 2014	Six Months Ended March 31, 2014
Balance at beginning of period	$1,319	$450
Earn-out liability established at time of acquisition	7,438	8,307

Payments upon settlement	(661)	(661)
Balance at end of period	$8,096	$8,096

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

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

Contingent liabilities are scheduled to be paid in periods through fiscal 2016. As of March 31, 2014, we could be required to pay up to $18.9 million for contingent consideration arrangements if the specified objectives are achieved. We have determined the fair value of the liabilities for the contingent consideration based on a probability-weighted discounted cash flow analysis. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the contingent consideration liability associated with future payments was based on several factors, the most significant of which are the estimated cash flows projected from the future product sales and the risk adjusted discount rate for the fair value measurement.

8. Accrued Expenses and Other Current Liabilities

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

	March 31, 2014	September 30, 2013
Compensation	$106,816	$112,756
Acquisition costs and liabilities	35,412	15,722
Cost of revenue related liabilities	18,773	17,992
Accrued interest payable	15,916	15,879
Sales and other taxes payable	12,403	10,625
Sales and marketing incentives	11,531	11,681
Professional fees	10,645	17,682
Other	15,350	12,088
Total	$226,846	$214,425

9. Deferred Revenue

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

	March 31, 2014	September 30, 2013
Current Liabilities:		
Deferred maintenance revenue	$134,563	$134,213
Unearned revenue	161,985	119,540
Total current deferred revenue	$296,548	$253,753
Long-term Liabilities:		
Deferred maintenance revenue	$57,890	$51,784
Unearned revenue	150,414	109,039
Total long-term deferred revenue	$208,304	$160,823

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

The increase in unearned revenue is primarily driven by the timing of a large annual term license prepayment from a Healthcare customer that will be amortized over the one year service period, as well as an increase in Mobile deferred revenue related to growth in our automotive connected services for which the revenue recognition period extends over the service period.

10. Restructuring and Other Charges, net

Restructuring and other charges, net include restructuring expenses together with other expenses that are unusual in nature and are the result of unplanned events, and arise outside of the ordinary course of continuing operations. Restructuring expenses consist of employee severance costs and may also include charges for duplicate facilities and other contract termination costs. Other amounts may include gains or losses on non-controlling strategic equity interests, and gains or losses on sales of non-strategic assets or product lines. The following table sets forth accrual activity relating to our restructuring reserves for the six months ended March 31, 2014 (dollars in thousands):

	Personnel	Facilities	Total
Balance at September 30, 2013	$4,230	$1,191	$5,421
Restructuring charges, net	3,093	2,463	5,556
Non-cash adjustments	79	793	872
Cash payments	(5,066)	(1,563)	(6,629)
Balance at March 31, 2014	$2,336	$2,884	$5,220

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

	Three months Ended March 31,					
	2014			2013		
	Personnel	Facilities	Total	Personnel	Facilities	Total
Healthcare	$186	$—	$186	$468	$—	$468
Mobile and Consumer	(12)	—	(12)	1,444	364	1,808
Enterprise	1,568	—	1,568	1,078	—	1,078
Imaging	131	—	131	218	—	218
Corporate	(199)	45	(154)	704	—	704
Total restructuring expense	$1,674	$45	$1,719	$3,912	$364	$4,276

	Six Months Ended March 31,					
	2014			2013		
	Personnel	Facilities	Total	Personnel	Facilities	Total
Healthcare	$400	$—	$400	$1,121	$558	$1,679
Mobile and Consumer	190	—	190	2,543	364	2,907
Enterprise	1,745	—	1,745	1,078	—	1,078
Imaging	131	—	131	1,040	—	1,040
Corporate	627	2,463	3,090	847	—	847
Total restructuring expense	$3,093	$2,463	$5,556	$6,629	$922	$7,551

For the six months ended March 31, 2014, we recorded net restructuring charges of $5.6 million, which included a $3.1 million severance charge related to the elimination of approximately 60 personnel across multiple functions including the impact of eliminating duplicative positions resulting from acquisitions, and $2.5 million primarily resulting from the restructuring of a facility that will no longer be utilized.

In addition to the restructuring charges, we have recorded certain other charges (credits) that are the result of unplanned events, and arose outside of the ordinary course of continuing operations, including litigation contingency reserves and the disposition of certain non-core product lines. For the three and six months ended March 31, 2014, other charges totaled $3.0 million. For the three and six months ended March 31, 2013, other charges (credits) totaled $0.8 million and ($0.8) million, respectively.

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11. Debt and Credit Facilities

At March 31, 2014 and September 30, 2013, we had the following borrowing obligations (dollars in thousands):

	March 31, 2014	September 30, 2013
5.375% Senior Notes due 2020, net of unamortized premium of $5.0 million and $5.4 million, respectively. Effective interest rate 5.28%.	$1,054,993	$1,055,385
2.75% Convertible Debentures due 2031, net of unamortized discount of $101.4 million and $113.5 million, respectively. Effective interest rate 7.43%.	588,646	576,524
2.75% Convertible Debentures due 2027, net of unamortized discount of $3.8 million and $8.8 million, respectively. Effective interest rate 7.30%.	246,187	241,206
Credit Facility, net of unamortized discount of $1.1 million and $1.2 million, respectively.	478,727	481,016
Total long-term debt	$2,368,553	$2,354,131
Less: current portion	251,031	246,040
Non-current portion of long-term debt	$2,117,522	$2,108,091

2.75% Convertible Debentures due 2031

As of March 31, 2014 and September 30, 2013, none of the conversion criteria were met for the 2031 Debentures. If the conversion criteria were met, we could be required to repay all or some of the principal amount in cash prior to maturity.

2.75% Convertible Debentures due 2027

The 2027 Debentures may be redeemed at the holders option in August 2014. As a result, we have classified the obligation in current liabilities at March 31, 2014 and September 30, 2013.

Credit Facility

The Credit Facility includes a term loan and a $75 million revolving credit line, including letters of credit. The term loan matures on August 7, 2019 and the revolving credit line matures on August 7, 2018. As of March 31, 2014, there were $5.8 million of letters of credit issued, and there were no other outstanding borrowings under the revolving credit line.

Under terms of the amended and restated credit agreement, interest is payable monthly at a rate equal to the applicable margin plus, at our option, either (a) the base rate which is the corporate base rate of Morgan Stanley, the Administrative Agent, or (b) LIBOR (equal to (i) the British Bankers' Association Interest Settlement Rates for deposits in U.S. dollars divided by (ii) one minus the statutory reserves applicable to such borrowing). The applicable margin for the borrowings at March 31, 2014 is as follows:

Description	Base Rate Margin	LIBOR Margin
Term loans maturing August 2019	1.75%	2.75%
Revolving facility due August 2018	0.50% - 0.75% (a)	1.50% - 1.75% (a)

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

At March 31, 2014, the applicable margin for the term loans was 2.75%, with an effective rate of 2.91%, on the outstanding balance of $479.8 million maturing in August 2019. We are required to pay a commitment fee for unutilized commitments under the revolving credit facility at a rate ranging from 0.375% to 0.50% per annum, based upon our net leverage ratio. As of March 31, 2014, the commitment fee rate was 0.375%.

The Credit Facility contains the most restrictive covenants of our long-term debt, including, among other things, covenants that restrict our ability and those of our subsidiaries to incur certain additional indebtedness or issue guarantees, create or permit liens on assets, enter into sale-leaseback transactions, make loans or investments, sell assets, make certain acquisitions, pay dividends, repurchase stock, or merge or consolidate with any entity, and enter into certain transactions with affiliates. The agreement also contains events of default, including failure to make payments of principal or interest, failure to observe covenants, breaches of representations and warranties, defaults under certain other material indebtedness, failure to satisfy material judgments, a change of control and certain insolvency events. As of March 31, 2014, we were in compliance with the covenants under the Credit Facility.

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The covenants on our other long-term debt are less restrictive, and as of March 31, 2014, we were in compliance with the requirements of our other long-term debt.

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

The Credit Facility includes a provision for an annual excess cash flow sweep, as defined in the agreement, payable in the first quarter of each fiscal year, based on the excess cash flow generated in the previous fiscal year. No excess cash flow sweep was required in the first quarter of fiscal 2014 as no excess cash flow, as defined in the agreement was generated in fiscal 2013. At the current time, we are unable to predict the amount of the outstanding principal, if any, that we may be required to repay in future fiscal years pursuant to the excess cash flow sweep provisions.

12. Stockholders' Equity

Stock Repurchases

On April 29, 2013, our Board of Directors approved a share repurchase program for up to $500 million of our outstanding shares of common stock. Approximately $289.2 million remained available for stock repurchases as of March 31, 2014 pursuant to our stock repurchase program. We repurchased 0.5 million shares for $6.8 million and 1.6 million shares for $26.4 million during the three and six months ended March 31, 2014, respectively. Under the terms of the repurchase program, we expect to continue to repurchase shares from time to time through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated stock repurchase transactions, or any combination of such methods. The timing and the amount of any purchases will be determined by management based on an evaluation of market conditions, capital allocation alternatives, and other factors. The share repurchase program does not require us to acquire any specific number of shares and may be modified, suspended, extended or terminated by us at any time without prior notice.

13. Net Loss Per Share

Common equivalent shares are excluded from the computation of diluted net loss per share if their effect is anti-dilutive. Potentially dilutive common equivalent shares aggregating to 12.5 million and 14.1 million shares for the three months ended March 31, 2014 and 2013, respectively, and 13.1 million and 14.4 million shares for the six months ended March 31, 2014 and 2013, respectively, have been excluded from the computation of diluted net loss per share because their inclusion would be anti-dilutive.

14. Stock-Based Compensation

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

	Three months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Cost of product and licensing	$697	$168	$962	$353
Cost of professional services and hosting	7,199	4,489	13,818	6,892

Cost of maintenance and support	406	430	1,190	2,533
Research and development	10,455	4,977	20,743	13,837
Selling and marketing	10,210	12,033	25,454	28,880
General and administrative	15,953	7,545	29,992	22,418
Total	$44,920	$29,642	$92,159	$74,913

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Stock Options

The table below summarizes activity relating to stock options for the six months ended March 31, 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value(a)	
Outstanding at September 30, 2013	4,184,158	$13.08			
Granted	100,000	$15.19			
Exercised	(275,953)	$8.66			
Forfeited	(1,051)	$18.90			
Expired	(4,832)	$17.18			
Outstanding at March 31, 2014	4,002,322	$13.43	2.7 years	$15.2	million
Exercisable at March 31, 2014	3,919,399	$13.39	2.6 years	$15.0	million
Exercisable at March 31, 2013	5,404,645	$11.77	2.8 years	$45.5	million

(a) The aggregate intrinsic value in this table was calculated based on the positive difference, if any, between the closing market value of our common stock on March 31, 2014 ($17.17) and the exercise price of the underlying options.

The weighted-average intrinsic value of stock options exercised during the six months ended March 31, 2014 and 2013 was $2.1 million and $10.1 million, respectively.

Restricted Units

Restricted Units are not included in issued and outstanding common stock until the shares are vested and released. The purchase price for vested Restricted Units is $0.001 per share. The table below summarizes activity relating to Restricted Units for the six months ended March 31, 2014:

	Number of Shares Underlying Restricted Units — Contingent Awards	Number of Shares Underlying Restricted Units — Time-Based Awards
Outstanding at September 30, 2013	5,587,181	9,095,424
Granted	2,560,869	6,106,420
Earned/released		