

Nuance Communications, Inc.
Form 10-K
November 19, 2015

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

Form 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the fiscal year ended September 30, 2015

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the transition period from to

Commission file number 001-36056
NUANCE COMMUNICATIONS, INC.
(Exact name of Registrant as Specified in its Charter)
Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

94-3156479
(I.R.S. Employer
Identification No.)

1 Wayside Road
Burlington, Massachusetts
(Address of Principal Executive Offices)
Registrant's telephone number, including area code:
(781) 565-5000

01803
(Zip Code)

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 No

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

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

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

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

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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(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 No

The aggregate market value of the outstanding common equity held by non-affiliates of the Registrant as of the last business day of the Registrant’s most recently completed second fiscal quarter was approximately \$2.8 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, 2015, was 309,631,702.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive Proxy Statement to be delivered to stockholders in connection with the Registrant’s 2016 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 2016 revenue and expense expectations and legal proceedings and litigation matters. You can identify these and other forward-looking statements by the use of words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential,” “continue” or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Item 1A of this Annual Report under the heading “Risk Factors.” All forward-looking statements included in this document are based on information available to us on the date hereof. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations that may be announced or closed after the date hereof. We will not undertake and specifically decline any obligation to update any forward-looking statements.

Item 1. Business

Overview

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

We are a global organization steeped in research and development. We have 1,700 language scientists, developers, and engineers dedicated to continually refining our core 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 65 countries. Our corporate headquarters is located in Burlington, Massachusetts, with international headquarters in Dublin, Ireland ("EMEA") and Sydney, Australia ("APAC").

Our company has a history of developing advanced technologies. Under the laws of the state of Delaware, we were incorporated in 1992 as Visioneer, Inc., with a core business in OCR and document imaging. In 1999, we changed our name to ScanSoft, Inc. and also changed our ticker symbol to SSFT. Over the course of several years, we made strategic acquisitions and investments to complement and broaden our portfolio, including entering the speech and natural language market. In October 2005, we changed our name to Nuance Communications, Inc., and in November 2005 we changed our ticker symbol to NUAN. In fiscal year 2015, our revenue was \$1.9 billion in conjunction with strong net new bookings, attractive cash flows and improving profitability.

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Our website is located at www.nuance.com. We are not including the information contained in our website as part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, as soon as reasonably practicable after we electronically file these materials with, or otherwise furnish them to, the Securities and Exchange Commission ("SEC").

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Our Strategy

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

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

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 within our markets; such as mobile operators in our Mobile and Consumer 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 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 many of the Fortune 100 companies.

Strengthen financial profile with improvement in revenue, earnings per share, margin, cash flow. We are focused on improving our financial performance, executing upon our formal transformation program, evolving our business toward recurring revenue models, and 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 is already delivering measurable results that can be seen in our financial performance during fiscal 2015.

Business Segments and Financial Information

We are organized into four segments: Healthcare, Mobile and Consumer, 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 perpetual licenses, hosted cloud-based solutions, implementation and custom solution development services and maintenance and support. Our product revenues include embedded original equipment manufacturers ("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. 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 certified 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 and on many devices. Our Healthcare segment revenues were \$937.6 million, \$942.7 million, and \$911.6 million in fiscal years 2015, 2014, and 2013, respectively. As a percentage of total segment revenue, Healthcare segment revenues represented 47.4%, 47.4% and 46.6% in fiscal years 2015, 2014, and 2013, 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 on many devices and without disrupting existing workflows. This dictation software is generally sold under a traditional perpetual software license model, with accelerated transition to on-demand and term-licensing models.

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 on-demand models.

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 and Consumer Segment

Our Mobile and Consumer 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 consumer demands for convenience, ease-of-use, and more personalized experiences increase, companies will need to embrace the Internet of Things ("IoT"), a market forecasted to grow to \$3.0 trillion by 2020. Our technologies help leading manufacturers and 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, cars, wearable devices, TVs, applications, and services.

Mobile and Consumer segment revenues were \$454.4 million, \$441.0 million, and \$461.5 million in fiscal years 2015, 2014, and 2013, respectively. As a percentage of total segment revenue, the Mobile and Consumer segment revenues represented 23.0%, 22.2% and 23.6% in fiscal years 2015, 2014, and 2013, respectively.

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Our principal solutions for the Mobile and Consumer segment include the following:

Automotive solutions: Provide car makers intuitive, personalized, virtual assistants and connected services for connected cars that are safer, easier, and more enjoyable. 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 electronics 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.

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 in our Healthcare segment and 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 Mobile and Consumer segment utilize a direct sales force to sell to car makers, 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 and Consumer segment include: cloud and content expansion of our Automotive solutions; expansion across the IoT in our Device solutions; geographic expansion of our mobile operator services; and, the expansion of our Dragon solutions into the cloud and enterprise market.

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 on-premise interactive voice response ("IVR") solutions and services, and expanding into multichannel, self-service cloud solutions. Our solutions and services portfolio now span voice, mobile, web and messaging channels, with inbound, outbound, voice biometrics and digital virtual assistant capabilities.

Enterprise segment revenues were \$349.3 million, \$367.1 million, and \$341.1 million in fiscal years 2015, 2014, and 2013, respectively. As a percentage of total segment revenue, the Enterprise segment revenues represented 17.6%, 18.5% and 17.4% in fiscal years 2015, 2014, and 2013, respectively.

Our principal solutions for the Enterprise segment include the following:

OnPremise 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 include speech recognition, voice biometrics, transcription, text-to-speech, dialog and analytics products. 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 integrated solutions. Our OnPremise licensed products are primarily sold through a traditional perpetual software license model, and our OnPremise professional services are sold under project-based and multi-year managed services contracts.

OnDemand 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 OnDemand multichannel cloud leverages our speech, voice biometrics, text to speech and, and virtual assistant

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technologies, to implement intelligent, conversational self-service applications, including voice call steering and self-service, automated identification and verification, and account access, virtual chat, proactive SMS, messaging and email, and customer service for mobile device customers. Our OnDemand multichannel cloud is sold through sales models that typically have multi-year terms with pricing based on channel and/or volume of usage.

The channels for distribution in the Enterprise segment utilize 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 OnDemand multichannel cloud to international markets; sales and solution expansion for voice biometrics; and expanding our OnPremise 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 \$237.7 million, \$236.3 million, and \$243.4 million in fiscal years 2015, 2014, and 2013, respectively. As a percentage of total segment revenue, the Imaging segment revenues represented 12.0%, 11.9% and 12.4% in fiscal years 2015, 2014, and 2013, 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 and 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 utilize a combination of our 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.

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Research and Development/Intellectual Property

In recent years, 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 which require extensive amounts of acoustic models, 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. As of September 30, 2015, our technologies are covered by approximately 3,600 patents and 1,000 patent applications. Our intellectual property, whether purchased or developed internally, is critical to our success and competitive position and, ultimately, to our market value. We rely on a portfolio of patents, copyrights, trademarks, services marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our intellectual property and proprietary rights. We incurred research and development expenses of \$310.3 million, \$338.5 million, and \$289.2 million in fiscal years 2015, 2014, and 2013, respectively.

Competition

The individual markets in which we compete are highly competitive and are subject to rapid technology changes. There are a number of companies that develop or may develop solutions and technologies that compete in our target markets; however, currently there is no one company that directly competes with 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 technologies, 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 technologies 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 enhanced through 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.

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

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Employees

As of September 30, 2015, we had approximately 13,500 full-time employees, including approximately 1,100 in sales and marketing, approximately 2,000 in professional services, approximately 1,700 in research and development, approximately 700 in general and administrative and approximately 8,000 that provide transcription and editing services. Approximately 48% of our employees are based outside of the United States, approximately 63% of whom provide transcription and editing services and are based in India. None of our employees in the United States are represented by a labor union; however, 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, 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 administration. Additionally, we maintain smaller sales, services and support offices throughout the world to support our international customers and to expand international revenue opportunities.

Geographic revenue classification is based on the geographic areas in which our customers are located. For fiscal years 2015, 2014, and 2013, 73%, 73% and 72% of revenue was generated in the United States and 27%, 27% and 28% 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 AT&T, Baidu, Google, Microsoft and other smaller providers. Within healthcare, we compete with 3M, M*Modal, Optum and other smaller providers. Within imaging, we compete with ABBYY, Adobe, I.R.I.S. and NewSoft. In our enterprise business, some of our partners such as Avaya, Cisco, Interville and Genesys develop and market products that might be considered substitutes for our solutions. In addition, a number of smaller companies in voice recognition, natural language understanding, text input and imaging produce technologies or products that are in some markets competitive with our solutions. Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers. Furthermore, there has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations.

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

requirements. They may also devote greater resources to the development, promotion and sale of their products than we do, and in certain cases may be able to include or combine their competitive products or technologies with other of their products or technologies in a manner whereby the competitive functionality is available at lower cost or free of charge within the larger offering. To the extent they do so, market acceptance and penetration of our products, and therefore our revenue and bookings, may be adversely affected. Our success will depend substantially upon our ability to enhance our products and technologies and to develop and introduce, on a timely and

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cost-effective basis, new products and features that meet changing customer requirements and incorporate technological enhancements. If we are unable to develop new products and enhance functionalities or technologies to adapt to these changes, or if we are unable to realize synergies among our acquired products and technologies, our business will suffer.

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

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

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

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

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

- changes in foreign currency exchange rates or the lack of ability to hedge certain foreign currencies;
- changes in a specific country's or region's economic conditions;

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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;
• negative consequences from changes in applicable tax laws;
• difficulties in staffing and managing operations in multiple locations in many countries;
• longer payment cycles of foreign customers and timing of collections in foreign jurisdictions; and
• less effective protection of intellectual property than in the United States.

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

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

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

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

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

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

We currently serve our customers from our and 3rd party data center hosting facilities. Any damage to, or failure of, our systems in whole or in part could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their on-demand services and adversely affect our renewal rates and our ability to attract new customers.

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

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

us to change our business practices. Noncompliance could result in penalties or significant legal liability, and could affect our ability to retain and attract customers.

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

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

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

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

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

We reported net losses of \$115.0 million, \$150.3 million and \$115.2 million in fiscal years 2015, 2014 and 2013, respectively, and have a total accumulated deficit of \$750.4 million as of September 30, 2015. If we are unable to return to profitability, the market price for our stock may decline, perhaps substantially. We cannot assure you that our revenue or bookings will grow or that we will return to profitability in the future. If we do not achieve profitability, we may be required to raise additional capital to maintain or grow our operations. Additional capital, if available at all, may be highly dilutive to existing investors or contain other unfavorable terms, such as a high interest rate and/or restrictive covenants.

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

Our prior acquisitions required, and our recently completed acquisitions continue to require, substantial integration and management efforts, and we expect future acquisitions to require similar efforts. Acquisitions of this nature involve a number of risks, including:

- difficulty in transitioning and integrating the operations and personnel of the acquired businesses;
- potential disruption of our ongoing business and distraction of management;
- potential difficulty in successfully implementing, upgrading and deploying in a timely and effective manner new operational information systems and upgrades of our finance, accounting and product distribution systems;
- difficulty in incorporating acquired technology into our products and technology;
- potential difficulties in completing projects associated with in-process research and development;
- unanticipated expenses and delays in completing acquired development projects and technology integration and upgrades;
- management of geographically remote business units both in the United States and internationally;
- impairment of relationships with partners and customers;
- assumption of unknown material liabilities of acquired companies;
- inaccurate projection of revenue and bookings plans of the acquired entity in the due diligence process;
- customers delaying purchases of our products pending resolution of product integration between our existing and our newly acquired products;
- entering markets or types of businesses in which we have limited experience; and
- potential loss of key employees of the acquired business.

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

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

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

- costs incurred to combine the operations of businesses we acquire, such as transitional employee expenses and employee retention, redeployment or relocation expenses;

- impairment of goodwill or intangible assets;

- amortization of intangible assets acquired;

- a reduction in the useful lives of intangible assets acquired;

- identification of or changes to assumed contingent liabilities, both income tax and non-income tax related, after our final determination of the amounts for these contingencies or the conclusion of the measurement period (generally up to one year from the acquisition date), whichever comes first;

- charges to our operating results to eliminate certain duplicative pre-merger activities, to restructure our operations or to reduce our cost structure;

- charges to our operating results resulting from expenses incurred to effect the acquisition; and

- charges to our operating results due to the expensing of certain stock awards assumed in an acquisition.

Intangible assets are generally amortized over a five to fifteen year period. Goodwill is not subject to amortization but is subject to an impairment analysis, at least annually, which may result in an impairment charge if the carrying value exceeds its implied fair value. As of September 30, 2015, we had identified intangible assets of approximately \$0.8 billion, net of accumulated amortization, and goodwill of approximately \$3.4 billion. In addition, purchase accounting limits our ability to recognize certain revenue that otherwise would have been recognized by the acquired company as an independent business. As a result, the combined company may delay revenue recognition or recognize less revenue than we and the acquired company would have recognized as independent companies.

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

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

Tax matters may cause significant variability in our financial results.

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

- projected levels of taxable income;

- pre-tax income being lower than anticipated in countries with lower statutory rates or higher than anticipated in countries with higher statutory rates;

- increases or decreases to valuation allowances recorded against deferred tax assets;

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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.

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report of management on internal control over financial reporting in their annual reports on Form 10-K that contains an assessment by management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Any failure in the effectiveness of our system of internal control over financial reporting could have a material adverse impact on our ability to report our financial statements in an accurate and timely manner, could subject us to regulatory actions, civil or criminal penalties, shareholder litigation, or loss of customer confidence, which could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact our stock price. Impairment of our intangible assets could result in significant charges that would adversely impact our future operating results.

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

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

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

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

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

have violated the terms of our government contracts.

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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. Third party intellectual property disputes could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from manufacturing or licensing certain of our products, cause severe disruptions to our operations or the markets in which we compete, or require us to satisfy indemnification commitments with our customers including contractual provisions under various arrangements. Any of these could seriously harm our business.

Our software products may have bugs, which could result in delayed or lost revenue and bookings, expensive correction, liability to our customers and claims against us.

Complex software products such as ours may contain errors, defects or bugs. Defects in the solutions or products that we develop and sell to our customers could require expensive corrections and result in delayed or lost revenue and bookings, adverse customer reaction and negative publicity about us or our products and services. Customers who are not satisfied with any of our products may also bring claims against us for damages, which, even if unsuccessful, would likely be time-consuming to defend, and could result in costly litigation and payment of damages. Such claims could harm our reputation, financial results and competitive position.

Risks Related to our Corporate Structure, Organization and Common Stock

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

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

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

repurchase capital stock or make other restricted payments;
declare or pay dividends or make other distributions to stockholders; and
merge or consolidate with any entity.

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

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

We have a significant amount of debt. As of September 30, 2015, we had a total of \$2,220.2 million face value of debt outstanding, \$472.5 million in term loans due in August 2019, \$1,050.0 million of senior notes due in August 2020 and \$697.7 million in convertible debentures. Investors may require us to redeem the 2031 Debentures or 2035 Debentures, totaling \$433.8 million and \$263.9 million, respectively, in aggregate principal amount in November 2017 or November 2021, respectively, or sooner if the closing sale price of our common stock is more than 130% of the then current conversion price for certain specified periods. If a holder elects to convert, we will be required to pay the principal amount in cash and any amounts payable in excess of the principal amount will be paid in cash or shares of our common stock, at our election. We also have a \$75.0 million revolving credit line available to us through August 2018. As of September 30, 2015, there were \$6.3 million of letters of credit issued, but there were no other outstanding borrowings under the revolving credit line. Our debt level could have important consequences, for example it could:

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

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

In addition, approximately \$472.5 million of our debt outstanding as of September 30, 2015 bears interest at variable rates. If market interest rates increase, our debt service requirements will increase, which would adversely affect our results of operations and cash flows.

Current uncertainty in the global financial markets and the global economy may negatively affect our financial results. Our investment portfolio, which primarily includes investments in money market funds, is generally subject to credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by the recent global financial crisis. If the banking system or the fixed income, credit or equity markets deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected.

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

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

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

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

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

As of September 30, 2015, High River Limited Partnership, Hopper Investments LLC, Barberry Corp., Icahn Partners LP, Icahn Partners Master Fund LP, Icahn Partners Master Fund II LP, Icahn Partners Master Fund III LP, Icahn Enterprises G.P. Inc., Icahn Enterprises Holdings L.P., IPH GP LLC, Icahn Capital LP, Icahn Onshore LP, Icahn Offshore LP, and Beckton Corp. (collectively, the "Icahn Group"), beneficially owned approximately 19.6% of the outstanding shares of our common stock. Brett Icahn and David Schechter of the Icahn Group have been appointed as directors of the Company. Because of its large holdings of our capital stock relative to other stockholders, the Icahn Group has a strong influence over matters requiring approval by our stockholders.

Our business could be negatively affected as a result of the actions of activist stockholders.

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

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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, 2015, we leased approximately 1.8 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. In addition, we own 130,000 square feet of building space located in Melbourne, Florida. We lease research and development, and sales and support offices throughout the United States and maintain leased facilities in various countries around the world. Larger leased sites include properties located in Montreal, Quebec, Sunnyvale, California and Bangalore, India.

We also include in the total square feet leased space in specialized data centers in Massachusetts, Texas, 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 not material 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 2014:		
First quarter	\$13.00	\$19.03
Second quarter	14.59	17.29
Third quarter	14.95	19.61
Fourth quarter	14.87	18.94
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

Holders

As of October 31, 2015, there were 699 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividend Policy

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

Issuer Purchases of Equity Securities

The following is a summary of our fourth quarter share repurchases (in thousands, except per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program ⁽¹⁾
July 1, 2015 - July 31, 2015	1,606	\$17.23	1,606	\$518,847
August 1, 2015 - August 31, 2015	1,107	\$17.31	1,107	\$499,688
September 1, 2015 - September 30, 2015	577	\$16.84	577	\$489,967
Total	3,290		3,290	

⁽¹⁾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.

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

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Unregistered Sales of Equity Securities and Use of Proceeds

On November 12, 2014, we issued 288,148 shares for our common stock as a settlement of a contingent earn-out obligation. On June 1, 2014, we issued 234,375 shares of our common stock to International Business Machines Corporation as consideration for a collaboration agreement. On September 6, 2013, Warburg Pincus converted 3,562,238 shares of Series B Preferred Stock into an equivalent number of common shares. On August 15, 2013, we issued 934,960 shares of our common