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

Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
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, 2016 was 279,217,323.

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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,	
	2016	2015	2016	2015
	(Unaudited) (In thousands, except per share amounts)			
Revenues:				
Product and licensing	$158,622	$174,451	$337,672	$344,139
Professional services and hosting	240,196	224,504	467,331	450,674
Maintenance and support	79,915	76,104	159,845	154,265
Total revenues	478,733	475,059	964,848	949,078
Cost of revenues:				
Product and licensing	20,823	23,252	44,235	47,222
Professional services and hosting	154,712	150,701	307,971	307,574
Maintenance and support	13,626	13,392	26,922	27,389
Amortization of intangible assets	16,339	15,631	31,970	30,762
Total cost of revenues	205,500	202,976	411,098	412,947
Gross profit	273,233	272,083	553,750	536,131
Operating expenses:				
Research and development	67,226	73,723	137,751	155,149
Sales and marketing	92,837	93,249	193,427	204,499
General and administrative	45,940	47,115	86,441	99,237
Amortization of intangible assets	26,448	25,328	53,481	52,155
Acquisition-related costs, net	1,225	6,523	3,705	11,279
Restructuring and other charges, net	6,652	(333)	14,540	1,895
Total operating expenses	240,328	245,605	489,345	524,214
Income from operations	32,905	26,478	64,405	11,917
Other income (expense):				
Interest income	1,616	627	2,499	1,189
Interest expense	(32,328)	(30,034)	(62,208)	(59,931)
Other income (expense), net	6	(110)	(6,795)	(895)
Income (loss) before income taxes	2,199	(3,039)	(2,099)	(47,720)
Provision for income taxes	9,245	11,059	17,012	16,873
Net loss	$(7,046)	$(14,098)	$(19,111)	$(64,593)
Net loss per share:				
Basic	$(0.02)	$(0.04)	$(0.06)	$(0.20)
Diluted	$(0.02)	$(0.04)	$(0.06)	$(0.20)
Weighted average common shares outstanding:				
Basic	298,021	322,879	303,050	322,331
Diluted	298,021	322,879	303,050	322,331

See accompanying notes.

NUANCE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
	(Unaudited) (In thousands)			
Net loss	$(7,046)	$(14,098)	$(19,111)	$(64,593)
Other comprehensive income (loss) income:				
Foreign currency translation adjustment	17,567	(49,522)	8,663	(77,740)
Pension adjustments	76	(759)	150	(734)
Unrealized gain on marketable securities	100	58	33	29
Total other comprehensive income (loss), net	17,743	(50,223)	8,846	(78,445)
Comprehensive income (loss)	$10,697	$(64,321)	$(10,265)	$(143,038)

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2016	September 30, 2015
	(Unaudited)	
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$250,690	$479,449
Marketable securities	59,345	57,237
Accounts receivable, less allowances for doubtful accounts of $10,358 and $9,184	365,996	373,162
Prepaid expenses and other current assets	91,542	76,777
Total current assets	767,573	986,625
Marketable securities	30,782	32,099
Land, building and equipment, net	189,414	186,007
Goodwill	3,394,751	3,378,334
Intangible assets, net	719,744	796,285
Other assets	154,372	148,301
Total assets	$5,256,636	$5,527,651
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term related party note payable	$125,000	$—
Current portion of long-term debt	—	4,834
Contingent and deferred acquisition payments	19,428	15,651
Accounts payable	58,789	56,581
Accrued expenses and other current liabilities	190,161	224,609
Deferred revenue	378,731	324,709
Total current liabilities	772,109	626,384
Long-term portion of debt	2,131,572	2,118,821
Deferred revenue, net of current portion	369,768	343,452
Deferred tax liabilities	110,857	104,782
Other liabilities	77,752	68,960
Total liabilities	3,462,058	3,262,399
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $0.001 par value per share; 560,000 shares authorized; 282,629 and 313,531 shares issued and 278,878 and 309,781 shares outstanding, respectively	283	314
Additional paid-in capital	3,027,542	3,149,060
Treasury stock, at cost (3,751 shares)	(16,788)	(16,788)
Accumulated other comprehensive loss	(108,099)	(116,945)
Accumulated deficit	(1,108,360)	(750,389)
Total stockholders' equity	1,794,578	2,265,252
Total liabilities and stockholders' equity	$5,256,636	$5,527,651

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31,	
	2016	2015
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net loss	$(19,111)	$(64,593)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	115,826	114,020
Stock-based compensation	80,511	78,271
Non-cash interest expense	21,215	14,918
Deferred tax provision	3,738	6,386
Loss on extinguishment of debt	4,851	—
Other	(135)	1,427
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	22,110	16,988
Prepaid expenses and other assets	(16,765)	(13,213)
Accounts payable	2,697	1,869
Accrued expenses and other liabilities	7,334	(50,017)
Deferred revenue	78,792	109,575
Net cash provided by operating activities	301,063	215,631
Cash flows from investing activities:		
Capital expenditures	(32,235)	(30,758)
Payments for business and technology acquisitions, net of cash acquired	(27,399)	(31,891)
Purchases of marketable securities and other investments	(32,757)	(91,348)
Proceeds from sales and maturities of marketable securities and other investments	32,681	23,165
Net cash used in investing activities	(59,710)	(130,832)
Cash flows from financing activities:		
Payments of debt	(511,844)	(2,418)
Proceeds from issuance of convertible debt, net of issuance costs	663,757	—
Payments for repurchase of common stock	(574,338)	(109,838)
Payments for settlement of other share-based derivatives	—	(340)
Net payments on other long-term liabilities	(1,084)	(1,526)
Proceeds from issuance of common stock from employee stock plans	8,440	9,149
Cash used to net share settle employee equity awards	(56,973)	(46,953)
Net cash used in financing activities	(472,042)	(151,926)
Effects of exchange rate changes on cash and cash equivalents	1,930	(5,453)
Net decrease in cash and cash equivalents	(228,759)	(72,580)
Cash and cash equivalents at beginning of period	479,449	547,230
Cash and cash equivalents at end of period	$250,690	$474,650

See accompanying notes.

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

1. Organization and Presentation

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

Although we believe the disclosures in these financial statements are adequate to make the information presented not misleading, certain information in the footnote disclosures of the financial statements has been condensed or omitted where it substantially duplicates information provided in our latest audited consolidated financial statements, in accordance with the rules and regulations of the SEC. Accordingly, these financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015. The results of operations for the three and six months ended March 31, 2016, respectively, are not necessarily indicative of the results for the entire fiscal year or any future period.

We have evaluated subsequent events from March 31, 2016 through the date of the issuance of these consolidated financial statements.

2. Summary of Significant Accounting Policies

Recently Adopted Accounting Standards

Effective October 1, 2015, we early adopted, and retroactively implemented Accounting Standards Update ("ASU") No. 2015-17, "Balance Sheet Classification of Deferred Taxes." Under this new guidance, we are required to present deferred tax assets and deferred tax liabilities, and any related valuation allowances, as noncurrent on our consolidated balance sheet. The cumulative effect of the retrospecitve application of this new accounting standard as of September 30, 2015 on current and long-term deferred tax assets was a decrease of approximately $57.3 million and $0.4 million, respectively, with an offsetting adjustment to long-term deferred tax liabilities. Current deferred tax assets were included in prepaid expenses and other current assets and long-term deferred tax assets were included in other assets within our consolidated balance sheet.

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

Recasting of Prior Period Financial Information

In October 2015, we reorganized the organizational management and oversight of our Dragon Consumer ("DNS") business, which was previously reported within our Mobile segment and has now been moved into our Healthcare segment. Accordingly, the segment results in prior periods have been recast to conform to the current period segment presentation. During the second quarter of fiscal year 2016, we reclassified certain government payroll incentive credits previously reported in the general and administrative expense to research and development expense and cost of revenue. These changes had no impact on consolidated net income or cash flows in any period.

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

Recently Issued Accounting Standards

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

apply to our operations.
In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of

awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is in effective for us in the first quarter of fiscal year 2018, and early application is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-09 on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is in effective for us in the first quarter of fiscal year 2020, and early application is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Although ASU 2016-01 retains many current requirements, it significantly revises accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments and is effective for us in the first quarter of fiscal year 2019. We do not believe that ASU 2016-01 will have a material impact on our consolidated financial statements.

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

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). The amendments in the ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for us in the first quarter of fiscal year 2017, with early adoption permitted. ASU 2015-03 should be applied on a retrospective basis to each individual period presented. Upon implementation, the change in reporting debt issuance costs will require us to reclassify our deferred financing costs, which are $20.9 million and $15.7 million at March 31, 2016 and September 30, 2015, respectively, from an asset to a reduction of the reported debt balance. ASU 2015-03 will reduce our assets and liabilities but will have no impact on our shareholders' equity, results of operations or cash flows.

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

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

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service

Period" ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC 718, "Compensation - Stock Compensation," as it relates to such awards. ASU 2014-12 is effective for us in our first quarter of fiscal year 2017 with early adoption permitted using either of two methods: (i) prospective to all awards granted or modified after the effective date; or (ii) retrospective to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter, with the cumulative effect of applying ASU 2014-12 as an adjustment to the opening retained earnings balance as of the beginning of the earliest annual period presented in the financial statements. We do not believe that ASU 2014-12 will have a material impact on our consolidated financial statements.

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

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

3. Business Acquisitions

As part of our business strategy, we may acquire certain businesses and technologies primarily to expand our products and service offerings. Acquisitions of such businesses and technologies in fiscal years 2016 and 2015 have not been significant individually or in the aggregate. During fiscal year 2016, we completed a business acquisition in our Healthcare segment for total cash consideration of $27.3 million. During fiscal year 2015, we completed a business acquisition in our Mobile segment for total cash consideration of $47.6 million. The results of operations of these acquisitions have been included in our financial results since their respective acquisition dates.

Pro forma results of operations have not been presented because the effects of these business combinations, individually and in aggregate, were not material to our consolidated financial results.

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,	
	2016	2015	2016	2015
Transition and integration costs	$1,039	$2,756	$2,035	$6,237
Professional service fees	1,197	3,485	2,600	5,686
Acquisition-related adjustments	(1,011)	282	(930)	(644)
Total	$1,225	$6,523	$3,705	$11,279

4. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill and intangible assets for the six months ended March 31, 2016, are as follows (dollars in thousands):

	Goodwill	Intangible Assets
Balance at September 30, 2015	$3,378,334	$796,285
Acquisitions	14,422	5,590

Amortization	—	(85,451)
Effect of foreign currency translation	1,995	3,320
Balance at March 31, 2016	$3,394,751	$719,744

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

In October 2015, we reorganized the organizational management and oversight of our Dragon Consumer ("DNS") business, represented by our DNS reporting unit, which was previously reported within our Mobile segment and has now been moved into our Healthcare segment. Based on this reorganization, $67.6 million of goodwill related to our DNS reporting unit moved from our Mobile segment into our Healthcare segment during the first quarter of fiscal year 2016. As a result of this subsequent change, we performed an analysis and determined that we did not have an impairment of goodwill, nor did we have a triggering event requiring us to perform an impairment test on our DNS and Healthcare reporting units.

5. Financial Instruments and Hedging Activities

Derivatives Not Designated as Hedges

Forward Currency Contracts

We operate our business in countries throughout the world and transact business in various foreign currencies. Our foreign currency exposures typically arise from transactions denominated in currencies other than the functional currency of our operations. We have a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effect of certain foreign currency exposures. Our program is designed so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. Generally, we enter into such contracts for less than 90 days and have no cash requirements until maturity. At March 31, 2016 and September 30, 2015, we had outstanding contracts with a total notional value of $186.5 million and $138.5 million, respectively.

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

Security Price Guarantees

From time to time we enter into agreements that allow us to issue shares of our common stock as part or all of the consideration related to business acquisitions, partnering and technology acquisition activities. Some of these shares are issued subject to security price guarantees, which are accounted for as derivatives. We have determined that these instruments would not be considered equity instruments if they were freestanding. Certain of the security price guarantees require payment from either us to a third party, or from a third party to us, based upon the difference between the price of our common stock on the issue date and an average price of our common stock approximately six months following the issue date. We have also issued minimum price guarantees that may require payments from us to a third party based on the average share price of our common stock approximately six months following the issue date if our stock price falls below the minimum price guarantee. Changes in the fair value of these security price guarantees are reported in other income (expense), net in our consolidated statements of operations. We have no outstanding shares subject to security price guarantees at March 31, 2016.

The following table provides a quantitative summary of the fair value of our derivative instruments as of March 31, 2016 and September 30, 2015 (dollars in thousands):

Derivatives Not Designated as Hedges:	Balance Sheet Classification	Fair Value March 31, 2016	Fair Value September 30, 2015
Foreign currency contracts	Prepaid expenses and other current assets	$1,798	$ 260
Net fair value of non-hedge derivative instruments		$1,798	$ 260

The following tables summarize the activity of derivative instruments for the six months ended March 31, 2016 and 2015 (dollars in thousands):

Derivatives Not Designated as Hedges	Location of Gain (Loss) Recognized in Income	Three Months Ended March 31,		Six Months Ended March 31,	
		2016	2015	2016	2015
Foreign currency contracts	Other income (expense), net	$5,607	$(12,813)	$2,234	$(19,096)
Security price guarantees	Other income (expense), net	$—	$23	$—	$(539)

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

Other Financial Instruments

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

6.Fair Value Measures

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

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

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

Assets and liabilities measured at fair value on a recurring basis at March 31, 2016 and September 30, 2015 consisted of (dollars in thousands):

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds[(a)]	$150,842	$—	$—	$150,842
US government agency securities[(a)]	1,001	—	—	1,001
Time deposits[(b)]	—	51,288	—	51,288
Commercial paper, $1,769 at cost[(b)]	—	1,769	—	1,769
Corporate notes and bonds, $47,588 at cost[(b)]	—	47,577	—	47,577
Foreign currency exchange contracts[(b)]	—	1,798	—	1,798
Total assets at fair value	$151,843	$102,432	$—	$254,275
Liabilities:				
Contingent acquisition payments[(c)]	—	—	(20,825)	(20,825)
Total liabilities at fair value	$—	$—	$(20,825)	$(20,825)

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

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

(b) The fair values of our time deposits, commercial paper, corporate notes and bonds, and foreign currency exchange contracts are based on the most recent observable inputs for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable. Time deposits are generally for terms of one year or less. The commercial paper and corporate notes and bonds mature within three years and have a weighted average maturity of 1.25 years as of March 31, 2016.

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

The following table provides a summary of changes in fair value of our Level 3 financial instruments for the three and six months ended March 31, 2016 and 2015 (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Balance at beginning of period	$16,901	$5,440	$15,961	$6,864
Earn-out liabilities established at time of acquisition	2,500	(554)	2,500	85
Payments upon settlement	(112)	(1,476)	(286)	(2,938)
Adjustments to fair value included in acquisition-related costs, net	1,536	521	2,650	(80)
Balance at end of period	$20,825	$3,931	$20,825	$3,931

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

Contingent acquisition payment liabilities are scheduled to be paid in periods through fiscal year 2019. As of March 31, 2016, we could be required to pay up to $31.6 million for contingent consideration arrangements if the specified objectives are achieved. We have determined the fair value of the liabilities for the contingent consideration based on a probability-weighted discounted cash flow analysis. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the contingent consideration liability associated with future payments was based on several factors, the most significant of which are the estimated cash flows projected from future product sales and the risk adjusted discount rate for the fair value measurement.

7. Accrued Expenses and Other Current Liabilities

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

	March 31, 2016	September 30, 2015
Compensation	$109,541	$142,150
Cost of revenue related liabilities	24,851	25,584
Accrued interest payable	15,606	11,793
Consulting and professional fees	15,000	11,939
Sales and marketing incentives	7,255	6,845
Facilities related liabilities	6,176	6,312
Sales and other taxes payable	3,477	6,026

Other	8,255	13,960
Total	$190,161	$224,609

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8. Deferred Revenue

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

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

	March 31, 2016	September 30, 2015
Current liabilities:		
Deferred maintenance revenue	$169,640	$155,967
Unearned revenue	209,091	168,742
Total current deferred revenue	$378,731	$324,709
Long-term liabilities:		
Deferred maintenance revenue	$62,416	$62,201
Unearned revenue	307,352	281,251
Total long-term deferred revenue	$369,768	$343,452

9. Restructuring and Other Charges, net

Restructuring and other charges, net include restructuring expenses together with other charges that are unusual in nature and are the result of unplanned events, and arise outside of the ordinary course of continuing operations. Restructuring expenses consist of employee severance costs and may also include charges for excess facility space and other contract termination costs. Other charges may include gains or losses on non-controlling strategic equity interests, litigation contingency reserves and gains or losses on the sale or disposition of certain non-strategic assets or product lines.

The following table sets forth accrual activity relating to restructuring reserves for the six months ended March 31, 2016 (dollars in thousands):

	Personnel	Facilities	Total
Balance at September 30, 2015	$ 635	$ 6,222	$ 6,857
Restructuring charges, net	9,549	4,884	14,433
Non-cash adjustment	(57)	545	488
Cash payments	(5,041)	(2,684)	(7,725)
Balance at March 31, 2016	$ 5,086	$ 8,967	$ 14,053

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

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

	Three Months Ended March 31,									
	2016					2015				
	Personnel	Facilities	Total Restructuring	Other Charges	Total	Personnel	Facilities	Total Restructuring	Other Charges	Total
Healthcare	$613	$8	$ 621	$ —	$621	$(81)	$—	$ (81)	$ —	$(81)
Mobile	2,729	(652)	2,077	46	2,123	(125)	(172)	(297)	—	(297)
Enterprise	(41)	2,014	1,973	—	1,973	71	—	71	—	71
Imaging	(1)	184	183	—	183	(1)	(60)	(61)	—	(61)
Corporate	1,691	—	1,691	61	1,752	35	—	35	—	35
Total	$4,991	$1,554	$ 6,545	$ 107	$6,652	$(101)	$(232)	$ (333)	$ —	$(333)

	Six Months Ended March 31,									
	2016					2015				
	Personnel	Facilities	Total Restructuring	Other Charges	Total	Personnel	Facilities	Total Restructuring	Other Charges	Total
Healthcare	$1,314	$8	$ 1,322	$ —	$1,322	$(209)	$—	$ (209)	$ —	$(209)
Mobile	4,911	(50)	4,861	46	4,907	(113)	(172)	(285)	—	(285)
Enterprise	1,043	2,034	3,077	—	3,077	289	95	384	—	384
Imaging	212	184	396	—	396	1,479	333	1,812	—	1,812
Corporate	2,069	2,708	4,777	61	4,838	193	—	193	—	193
Total	$9,549	$4,884	$ 14,433	$ 107	$14,540	$1,639	$ 256	$ 1,895	$ —	$1,895

Fiscal Year 2016

During the three and six months ended March 31, 2016, we recorded restructuring charges of $6.5 million and $14.4 million, respectively. The restructuring charges for the six months ended March 31, 2016 included $9.5 million for severance related to the reduction of approximately 200 employees as part of our initiatives to reduce costs and optimize processes. The restructuring charges also included a $4.9 million charge for the closure of certain excess facility space and other restructuring activity that totaled $0.1 million.

We expect that the remaining severance payments of $5.1 million will be substantially paid by the end of fiscal year 2016. We expect that the remaining payments of $9.0 million for the closure of excess facility space will be paid through fiscal year 2025, in accordance with the terms of the applicable leases.

Fiscal Year 2015

During the six months ended March 31, 2015, we recorded restructuring charges of $1.9 million. The restructuring charges included $1.6 million for severance related to the reduction of approximately 60 employees that eliminated duplicative positions, and a $0.3 million charge for the closure of certain excess facility space resulting from acquisitions.

10. Debt and Credit Facilities

Short-term Related Party Note Payable

In March 2016, our Board of Directors approved a repurchase agreement with Icahn Partners LP, Icahn Partners Master Fund LP and High River Limited Partnership (collectively, the “Icahn Group”) to repurchase 26.3 million shares of our common stock from the Icahn Group at a price of $19.00 per share, for a total purchase price of $500.0 million (the “Repurchase”). At the closing of the Repurchase, we paid $375.0 million in cash and issued a promissory note in the amount of approximately $125.0 million. The promissory note bears interest at a rate per annum equal to approximately 2.64% and has a maturity date of June 13, 2016. On April 15, 2016, we fully repaid the promissory note.

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

Long-term Debt

At March 31, 2016 and September 30, 2015, we had the following long-term borrowing obligations (dollars in thousands):

	March 31, 2016	September 30, 2015
5.375% Senior Notes due 2020, net of unamortized premium of $3.4 million and $3.8 million, respectively. Effective interest rate 5.28%.	$1,053,800	$1,053,818
1.00% Convertible Debentures due 2035, net of unamortized discount of $174.4 million. Effective interest rate 5.62%.	502,098	—
2.75% Convertible Debentures due 2031, net of unamortized discount of $27.6 million and $39.1 million, respectively. Effective interest rate 7.43%.	367,953	394,698
1.50% Convertible Debentures due 2035, net of unamortized discount of $56.2 million and $60.5 million, respectively. Effective interest rate 5.39%.	207,721	203,373
Credit Facility, net of unamortized original issue discount of $0.8 million.	—	471,766
Total long-term debt	$2,131,572	$2,123,655
Less: current portion	—	4,834
Non-current portion of long-term debt	$2,131,572	$2,118,821

The estimated fair value of our long-term debt approximated $2,378.3 million (face value $2,385.9 million) and $2,249.1 million (face value $2,220.2 million) at March 31, 2016 and September 30, 2015, respectively. These fair value amounts represent the value at which our lenders could trade our debt within the financial markets and do not represent the settlement value of these long-term debt liabilities to us at each reporting date. The fair value of the long-term debt will continue to vary each period based on fluctuations in market interest rates, as well as changes to our credit ratings. The Senior Notes and the Convertible Debentures are traded and the fair values of each borrowing was estimated using the averages of the bid and ask trading quotes at each respective reporting date. We had no outstanding balance on the revolving credit agreement portion of our Credit Facility at March 31, 2016 or September 30, 2015.

5.375% Senior Notes due 2020

On August 14, 2012, we issued $700.0 million aggregate principal amount of 5.375% Senior Notes due on August 15, 2020 in a private placement. On October 22, 2012, we issued an additional $350.0 million aggregate principal amount of our 5.375% Senior Notes. The Notes bear interest at 5.375% per year, payable in cash semi-annually in arrears. The Notes are our unsecured senior obligations and are guaranteed (the “Guarantees”) on an unsecured senior basis by substantially all of our direct and indirect wholly owned domestic subsidiaries (the “Subsidiary Guarantors”). The Notes and Guarantees rank equally in right of payment with all of our and the Subsidiary Guarantors' existing and future unsecured senior debt and rank senior in right of payment to all of our and the Subsidiary Guarantors' future unsecured subordinated debt. The Notes and Guarantees effectively rank junior to all secured debt of our and the Subsidiary Guarantors to the extent of the value of the collateral securing such debt and to all liabilities, including trade payables, of our subsidiaries that have not guaranteed the Notes. As of March 31, 2016 and September 30, 2015, the ending unamortized deferred debt issuance costs were $8.3 million and $9.2 million, respectively.

1.0% Convertible Debentures due 2035

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

We account separately for the liability and equity components of the 1.0% 2035 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature and record the remainder in stockholders' equity. At issuance, we allocated $495.4 million to long-term debt, and $181.1 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through December 2022. As of March 31, 2016, the ending unamortized deferred debt issuance costs were $8.9 million.

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

2.75% Convertible Debentures due 2031

In December 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to repurchase $38.3 million in aggregate principal with proceeds received from the issuance of our 1.0% 2035 Debentures. In accordance with the authoritative guidance for convertible debt instruments, a loss on extinguishment is equal to the difference between the reacquisition price and the net carrying amount of the extinguished debt for our 2031 Debentures, including any unamortized debt discount or issuance costs. Upon repurchase we recorded an extinguishment loss of $2.4 million in other income (expense), net, in the accompanying consolidated statements of operations. Following the repayment, $395.5 million in aggregate principal amount of our 2031 Debentures remain outstanding. The 2031 Debentures bear interest at 2.75% per year, payable in cash semi-annually in arrears. The 2031 Debentures mature on November 1, 2031, subject to the right of the holders to require us to redeem the 2031 Debentures on November 1, 2017, 2021, and 2026. The 2031 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 2031 Debentures. The 2031 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries. The aggregate debt discount of $89.7 million is being amortized to interest expense using the effective interest rate method through November 2017. As of March 31, 2016 and September 30, 2015, the ending unamortized deferred debt issuance costs were $1.6 million and $2.3 million, respectively. As of March 31, 2016 and

September 30, 2015, none of the conversion criteria were met for the 2031 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

1.5% Convertible Debentures due 2035

In June 2015, we issued $263.9 million in aggregate principal amount of 1.5% Senior Convertible Debentures due in 2035 (the “1.5% 2035 Debentures”). The 1.5% 2035 Debentures were issued at 97.09% of the principal amount, which resulted in a discount of $7.7 million. The 1.5% 2035 Debentures bear interest at 1.5% per year, payable in cash semi-annually in arrears, beginning on November 1, 2015. The 1.5% 2035 Debentures mature on November 1, 2035, subject to the right of the holders to require us to redeem the 1.5% 2035 Debentures on November 1, 2021, 2026, or 2031. The 1.5% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.5% 2035 Debentures.

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The 1.5% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries. The aggregate debt discount of $63.0 million is being amortized to interest expense using the effective interest rate method through November 2021. As of March 31, 2016 and September 30, 2015, the ending unamortized deferred debt issuance costs were $2.1 million and $2.3 million, respectively. As of March 31, 2016 and September 30, 2015, none of the conversion criteria were met for the 1.5% 2035 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

Credit Facility

The amended and restated credit agreement, entered into on August 7, 2013, includes a term loan and a $75.0 million revolving credit agreement, inclusive of any issued letters of credit (together, the "Credit Facility"). In December 2015, we repaid the aggregate principal balance of $472.5 million on the term loan with proceeds received from the issuance of our 1.0% 2035 Debentures. The revolving credit agreement terminates on August 7, 2018. We recorded a loss of $2.5 million on the extinguishment, representing the unamortized debt discount and issuance costs, in other income (expense), net, in the accompanying consolidated statements of operations. As of March 31, 2016, there were $6.3 million of letters of credit issued, and there were no other outstanding borrowings under the revolving credit agreement.

Under the terms of the Credit Facility, interest is payable periodically at a rate equal to the applicable margin plus, at our option, either (a) the base rate which is the corporate base rate of Morgan Stanley, the Administrative Agent, or (b) LIBOR (equal to (i) the British Bankers' Association Interest Settlement Rates for deposits in U.S. dollars divided by (ii) one minus the statutory reserves applicable to such borrowing). The applicable margin for the borrowings at March 31, 2016 is as follows:

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

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

We are required to pay a commitment fee for unutilized commitments under the revolving credit facility at a rate ranging from 0.250% to 0.375% per annum, based upon our net leverage ratio. As of March 31, 2016, the commitment fee rate was 0.375%.

The Credit Facility contains covenants including, among other things, covenants that restrict our ability and those of our subsidiaries to incur certain additional indebtedness or issue guarantees, create or permit liens on assets, enter into sale-leaseback transactions, make loans or investments, sell assets, make certain acquisitions, pay dividends, repurchase stock, or merge or consolidate with any entity, and enter into certain transactions with affiliates. The agreement also contains events of default, including failure to make payments of principal or interest, failure to observe covenants, breaches of representations and warranties, defaults under certain other material indebtedness, failure to satisfy material judgments, a change of control and certain insolvency events. As of March 31, 2016, we were in compliance with the covenants under the Credit Facility. The covenants on our other long-term debt are less restrictive, and as of March 31, 2016, we were in compliance with the requirements of our other long-term debt.

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

Revolving Credit Facility

On April 15, 2016, we entered into a credit agreement that provides for a $242.5 million revolving credit line, including letters of credit (together, the “Revolving Credit Facility”). The Revolving Credit Facility matures on April 15, 2021. Any amounts outstanding under the Credit Facility will bear interest, at either (i) LIBOR plus an applicable margin of 1.50% or 1.75%, or (ii) the alternative base rate plus an applicable margin of 0.50% or 0.75%. The Revolving Credit Facility is secured by substantially all assets of ours and certain of our domestic subsidiaries. The Revolving Credit Facility contains customary affirmative and negative covenants and conditions to borrowing, as well as customary events of default. In connection with entering into the Revolving Credit Facility, we terminated our prior $75.0 million revolving credit agreement.

11. Stockholders' Equity

Share Repurchases

On April 29, 2013, our Board of Directors approved a share repurchase program for up to $500.0 million of our outstanding shares of common stock. On April 29, 2015, our Board of Directors approved an additional $500.0 million under our share repurchase program. We repurchased 9.4 million shares for $197.5 million during the six months ended March 31, 2016, including 1.0 million shares repurchased from our Chief Executive Officer. Since the commencement of the program, we have repurchased 40.7 million shares for $707.5 million. Approximately $292.5 million remained available for share repurchases as of March 31, 2016 pursuant to our share repurchase program. Under the terms of the share repurchase program, we have the ability to repurchase shares from time to time through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated 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. We expect the repurchase of shares under the program to be limited in the foreseeable future. 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.

Related Party Share Repurchases

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

In March 2016, our Board of Directors approved a repurchase agreement with the Icahn Group to repurchase 26.3 million shares of our common stock at a price of $19.00 per share, which approximated fair value of our common stock on the day of the Repurchase, for a total purchase price of $500.0 million. At the closing of the Repurchase, we paid $375.0 million in cash and issued a promissory note in the amount of approximately $125.0 million. The promissory note bears interest at a rate per annum equal to approximately 2.64% and has a maturity date of June 13, 2016. On April 15, 2016, we fully repaid the promissory note. Immediately prior to the Repurchase, the Icahn Group owned approximately 60.8 million shares, or approximately 20%, of our outstanding common stock. Based on publicly available information, as of March 15, 2016 the Icahn Group's holdings of our common stock was approximately 30.1 million shares, or 9.9% of our outstanding common stock. In connection with the Repurchase, David Schechter and Brett Icahn, the Icahn Group representatives on our Board of Directors, resigned from our Board of Directors.

12. Net Loss Per Share

As of March 31, 2016 and 2015, diluted weighted average common shares outstanding is equal to basic weighted average common shares due to our net loss position. Common equivalent shares are excluded from the computation of diluted net loss per share if their effect is anti-dilutive. Potentially dilutive common equivalent shares aggregating to 8.4 million and 9.7 million shares for the three months ended March 31, 2016 and 2015, respectively, and 9.0 million and 11.2 million shares for the six months ended March 31, 2016 and 2015, respectively, have been excluded from the computation of diluted net loss per share because their inclusion would be anti-dilutive.

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13. Stock-Based Compensation

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Cost of product and licensing	$122	$96	$244	$183
Cost of professional services and hosting	7,757	4,729	15,514	12,352
Cost of maintenance and support	923	631	1,991	1,574
Research and development	7,967	6,668	17,900	17,177
Selling and marketing	10,460	7,882	23,297	20,416
General and administrative	10,934	10,911	21,565	26,569
Total	$38,163	$30,917	$80,511	$78,271

Stock Options

The table below summarizes activity relating to stock options for the six months ended March 31, 2016:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value[a]
Outstanding at September 30, 2015	2,923,989	$ 14.01		
Exercised/Repurchased[b]	(944,421)	$ 12.03		
Expired	(3,103)	$ 10.97		
Outstanding at March 31, 2016	1,976,465	$ 14.97	1.2 years	$7.4 million
Exercisable at March 31, 2016	1,976,456	$ 14.97	1.2 years	$7.4 million
Exercisable at March 31, 2015	3,592,132	$ 13.71	1.8 years	$4.7 million

(a) The aggregate intrinsic value in this table was calculated based on the positive difference, if any, between the closing market price of our common stock on March 31, 2016 ($18.69) and the exercise price of the underlying options.

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

The weighted-average intrinsic value of stock options exercised during the six months ended March 31, 2016 and 2015 was $8.5 million and $1.2 million, respectively.

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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, 2016:

	Number of Shares Underlying Restricted Units — Contingent Awards	Number of Shares Underlying Restricted Units — Time-Based Awards
Outstanding at September 30, 2015	4,700,210	7,007,839
Granted	1,935,656	4,736,678
Earned/released	(2,210,095)	(4,273,840)
Forfeited	(317,357)	(441,739)
Outstanding at March 31, 2016	4,108,414	7,028,938
Weighted average remaining recognition period of outstanding restricted units	1.7 years	1.6 years
Unearned stock-based compensation expense of outstanding restricted units	$70.4 million	$75.2 million
Aggregate intrinsic value of outstanding restricted units[a]	$76.8 million	$131.5 million

(a) The aggregate intrinsic value in this table was calculated based on the positive difference between the closing market price of our common stock on March 31, 2016 ($18.69) and the purchase price of the underlying Restricted Units.

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

	Six Months Ended March 31,	
	2016	2015
Weighted-average grant-date fair value per share	$20.14	$14.87
Total intrinsic value of shares vested (in millions)	$132.1	$110.9

Restricted Stock Awards

Restricted stock awards are included in the issued and outstanding common stock at the date of grant. The table below summarizes activity related to restricted stock awards for the six months ended March 31, 2016:

	Number of Shares Underlying Restricted Stock	Weighted Average Grant Date Fair Value
Outstanding at September 30, 2015	250,000	$ 15.71
Vested	(250,000)	$ 15.71
Outstanding at March 31, 2016	—	$ —

The weighted-average intrinsic value of restricted stock awards vested during the six months ended March 31, 2016 and 2015 was $4.3 million and $3.9 million, respectively.

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14. Income Taxes

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Domestic	$(33,691)	$(37,225)	$(62,693)	$(100,935)
Foreign	35,890	34,186	60,594	53,215
Income (loss) before income taxes	$2,199	$(3,039)	$(2,099)	$(47,720)

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Domestic	$5,021	$5,832	$9,559	$9,634
Foreign	4,224	5,227	7,453	7,239
Provision for income taxes	$9,245	$11,059	$17,012	$16,873
Effective tax rate	420.4 %	(363.9)%	(810.5)%	(35.4)%

The effective income tax rate was 420.4% and (810.5)% for the three and six months ended March 31, 2016, respectively. Our current effective income tax rate differs from the U.S. federal statutory rate of 35% primarily due to current period losses in the United States that require an additional valuation allowance that provide no benefit to the provision and an increase to indefinite lived deferred tax liabilities, partially offset by our earnings in foreign operations that are subject to a significantly lower tax rate than the U.S. statutory tax rate, driven primarily by our subsidiaries in Ireland.

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

In March 2016, our Board of Directors approved a repurchase agreement with the Icahn Group to repurchase 26.3 million shares of our common stock at a price of $19.00 per share, for a total purchase price of $500.0 million. The Repurchase was funded with domestic and foreign cash. The Repurchase was initiated by the Icahn Group in January 2016 and was a one-time, unforeseen event prior to the initiation. We expect to repatriate up to $250.0 million of foreign earnings previously considered indefinitely reinvested to fund the Repurchase. As a result of the Repurchase, in the three and six months ended March 31, 2016 we recorded a $1.0 million increase to our provision for income taxes, net of benefit from the use of U.S. Federal net operating losses and credit carryforwards. This one-time event does not change our ability or intent to indefinitely reinvest unremitted earnings of our foreign subsidiaries.

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

At March 31, 2016 and September 30, 2015, we had gross tax effected unrecognized tax benefits of $23.6 million and $22.2 million, respectively, and is included in other long-term liabilities. If these benefits were recognized, they would impact our effective tax rate. We do not expect a significant change in the amount of unrecognized tax benefits within the next 12 months.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. Commitments and Contingencies

Litigation and Other Claims

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

Guarantees and Other

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

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

16. Segment and Geographic Information

We operate in, and report financial information for, the following four reportable segments: Healthcare, Mobile, Enterprise, and Imaging. Segment profit is an important measure used for evaluating performance and for decision-making purposes and reflects the direct controllable costs of each segment together with an allocation of sales and corporate marketing expenses, and certain research and development project costs that benefit multiple product offerings. Segment profit represents income from operations excluding stock-based compensation, amortization of intangible assets, acquisition-related costs, net, restructuring and other charges, net, costs associated with intellectual property collaboration agreements, other expense, net and certain unallocated corporate expenses. We believe that these adjustments allow for more complete comparisons to the financial results of the historical operations.

In October 2015, we reorganized the organizational management and oversight of our Dragon Consumer ("DNS") business, which was previously reported within our Mobile segment and has now been moved into our Healthcare segment. In addition, we renamed our Mobile and Consumer segment to Mobile segment. During the second quarter of fiscal year 2016, we reclassified certain government payroll incentive credits previously reported in the general and administrative expense to research and development expense and cost of revenue. Accordingly, the segment results in prior periods have been recast to conform to the current period segment reporting presentation.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Segment revenues[(a)]:				
Healthcare	$244,391	$243,328	$492,475	$494,138
Mobile	91,835	101,967	188,238	189,483
Enterprise	94,443	83,302	183,219	173,945
Imaging	56,744	59,466	118,351	119,527
Total segment revenues	487,413	488,063	982,283	977,093
Less: acquisition related revenues adjustments	(8,680)	(13,004)	(17,435)	(28,015)
Total consolidated revenues	478,733	475,059	964,848	949,078
Segment profit:				
Healthcare	78,382	82,847	159,611	161,247
Mobile	33,448	31,859	67,212	44,367
Enterprise	34,059	19,615	60,270	44,964
Imaging	22,192	22,080	49,177	42,008
Total segment profit	168,081	156,401	336,270	292,586
Corporate expenses and other, net	(35,878)	(36,831)	(66,598)	(74,053)
Acquisition-related revenues and cost of revenues adjustment	(8,471)	(12,088)	(17,060)	(26,378)
Stock-based compensation	(38,163)	(30,917)	(80,511)	(78,271)
Amortization of intangible assets	(42,787)	(40,959)	(85,451)	(82,917)
Acquisition-related costs, net	(1,225)	(6,523)	(3,705)	(11,279)
Restructuring and other charges, net	(6,652)	333	(14,540)	(1,895)
Costs associated with IP collaboration agreements	(2,000)	(2,938)	(4,000)	(5,876)
Other expense, net	(30,706)	(29,517)	(66,504)	(59,637)
Income (loss) before income taxes	$2,199	$(3,039)	$(2,099)	$(47,720)

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
United States	$338,710	$352,448	$694,524	$700,122
International	140,023			