Nuance Communications, Inc.
Form 10-Q
August 09, 2018

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 quarter ended June 30, 2018
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 000-27038

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

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

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

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, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 August 2, 2018 was 286,802,911.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited) (In thousands, except per share amounts)			
Revenues:				
Professional services and hosting	$254,478	$251,488	$788,079	$763,595
Product and licensing	168,682	154,228	491,776	465,238
Maintenance and support	79,727	80,505	238,901	244,619
Total revenues	502,887	486,221	1,518,756	1,473,452
Cost of revenues:				
Professional services and hosting	166,280	169,439	519,859	498,501
Product and licensing	19,052	17,637	57,087	54,805
Maintenance and support	14,346	13,410	42,778	40,248
Amortization of intangible assets	13,760	15,727	43,896	48,487
Total cost of revenues	213,438	216,213	663,620	642,041
Gross profit	289,449	270,008	855,136	831,411
Operating expenses:				
Research and development	75,726	66,565	223,277	199,119
Sales and marketing	96,212	97,011	292,359	292,201
General and administrative	50,653	42,329	177,833	123,637
Amortization of intangible assets	24,117	29,160	69,851	84,931
Acquisition-related costs, net	4,916	7,646	12,837	22,051
Restructuring and other charges, net	9,237	13,035	32,986	39,649
Impairment of goodwill	—	—	137,907	—
Total operating expenses	260,861	255,746	947,050	761,588
Income (loss) from operations	28,588	14,262	(91,914)	69,823
Other (expense) income:				
Interest income	2,482	1,952	6,910	4,255
Interest expense	(33,849)	(40,422)	(103,785)	(116,296)
Other expense, net	(685)	(1,019)	(1,477)	(21,251)
Loss before income taxes	(3,464)	(25,227)	(190,266)	(63,469)
Provision (benefit) for income taxes	10,573	2,609	(65,404)	22,103
Net loss	$(14,037)	$(27,836)	$(124,862)	$(85,572)
Net loss per share:				
Basic	$(0.05)	$(0.10)	$(0.43)	$(0.30)
Diluted	$(0.05)	$(0.10)	$(0.43)	$(0.30)
Weighted average common shares outstanding:				
Basic	292,663	287,856	292,703	289,269
Diluted	292,663	287,856	292,703	289,269

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited) (In thousands)			
Net loss	$(14,037)	$(27,836)	$(124,862)	$(85,572)
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(25,985)	13,185	(20,374)	566
Pension adjustments	432	(250)	548	(14)
Unrealized gain (loss) on marketable securities	126	(15)	(222)	(19)
Total other comprehensive (loss) income, net	(25,427)	12,920	(20,048)	533
Comprehensive loss	$(39,464)	$(14,916)	$(144,910)	$(85,039)

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2018	September 30, 2017
	(Unaudited)	
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$331,259	$592,299
Marketable securities	154,085	251,981
Accounts receivable, less allowances for doubtful accounts of $12,319 and $14,333	396,766	395,392
Prepaid expenses and other current assets	104,157	88,269
Total current assets	986,267	1,327,941
Marketable securities	23,801	29,844
Land, building and equipment, net	172,596	176,548
Goodwill	3,510,454	3,590,608
Intangible assets, net	612,913	664,474
Other assets	140,060	142,508
Total assets	$5,446,091	$5,931,923
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$—	$376,121
Contingent and deferred acquisition payments	22,259	28,860
Accounts payable	95,109	94,604
Accrued expenses and other current liabilities	224,432	245,901
Deferred revenue	389,032	366,042
Total current liabilities	730,832	1,111,528
Long-term debt	2,323,516	2,241,283
Deferred revenue, net of current portion	482,834	423,929
Deferred tax liabilities	53,547	131,320
Other liabilities	97,447	92,481
Total liabilities	3,688,176	4,000,541
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $0.001 par value per share; 560,000 shares authorized; 291,142 and 293,938 shares issued and 287,392 and 290,187 shares outstanding, respectively	291	294
Additional paid-in capital	2,601,573	2,629,245
Treasury stock, at cost (3,751 shares)	(16,788)	(16,788)
Accumulated other comprehensive loss	(121,390)	(101,342)
Accumulated deficit	(705,771)	(580,027)
Total stockholders' equity	1,757,915	1,931,382
Total liabilities and stockholders' equity	$5,446,091	$5,931,923

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30,	
	2018	2017
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net loss	$(124,862)	$(85,572)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	161,167	174,955
Stock-based compensation	106,937	121,809
Non-cash interest expense	37,091	42,912
Deferred tax (benefit) provision	(91,118)	6,762
Loss on extinguishment of debt	—	18,565
Impairment of goodwill	137,907	—
Impairment of fixed asset	1,780	16,351
Other	894	4,259
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	2,007	28,132
Prepaid expenses and other assets	(18,695)	(14,531)
Accounts payable	(4,011)	12,209
Accrued expenses and other liabilities	1,671	(4,040)
Deferred revenue	84,255	60,552
Net cash provided by operating activities	295,023	382,363
Cash flows from investing activities:		
Capital expenditures	(38,965)	(34,033)
Payments for business and asset acquisitions, net of cash acquired (including cash payments of $5.0 million to a related party for fiscal 2018, see Note 16)	(109,225)	(110,220)
Purchases of marketable securities and other investments	(158,645)	(192,062)
Proceeds from sales and maturities of marketable securities and other investments	259,677	106,444
Net cash used in investing activities	(47,158)	(229,871)
Cash flows from financing activities:		
Repayment and redemption of debt	(331,172)	(634,055)
Proceeds from issuance of long-term debt, net of issuance costs	—	838,081
Payments for repurchase of common stock	(111,979)	(99,077)
Acquisition payments with extended payment terms	(20,769)	—
Proceeds from issuance of common stock from employee stock plans	9,361	8,682
Payments for taxes related to net share settlement of equity awards	(51,852)	(52,523)
Other financing activities	(1,075)	(424)
Net cash (used in) provided by financing activities	(507,486)	60,684
Effects of exchange rate changes on cash and cash equivalents	(1,419)	(1,202)
Net (decrease) increase in cash and cash equivalents	(261,040)	211,974
Cash and cash equivalents at beginning of period	592,299	481,620
Cash and cash equivalents at end of period	$331,259	$693,594

See accompanying notes.

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

1. Organization and Presentation
The condensed consolidated financial statements include the accounts of Nuance Communications, Inc. (“Nuance”, “we”, "our", or “the Company”) and our wholly-owned subsidiaries. We prepared the unaudited interim condensed 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 normal and recurring adjustments that, in our opinion, are necessary to present fairly our financial position, results of operations and cash flows for the periods presented. 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, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period.
Although we believe the disclosures included herein are adequate to ensure that the condensed consolidated financial statements are fairly presented, certain information and footnote disclosures to the financial statements have been condensed or omitted in accordance with the rules and regulations of the SEC. Accordingly, the condensed consolidated financial statements and the footnotes included herein should be read in conjunction with the audited financial statements and the footnotes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. The results of operations for the interim periods presented are not necessarily indicative of the results for the entire fiscal year or any future period.
2. Summary of Significant Accounting Policies
Recently Adopted Accounting Standards
In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"), which requires income tax consequences of inter-company transfers of assets other than inventory to be recognized when the transfer occurs. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. We early adopted the guidance during the first quarter of fiscal year 2018. As a result, deferred tax liabilities of $0.9 million arising from inter-company transfers in prior years were recognized and recorded against the beginning balance of accumulated deficit in the first quarter of fiscal year 2018. The adoption of the guidance did not have a material impact on our consolidated financial statements for any period presented.
Recently Issued Accounting Standards
In January 2018, the FASB issued ASU 2018-02, "Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI"), which is effective for fiscal years beginning after December 15, 2018 and interim periods therein, with early adoption permitted. The guidance gives entities the option to reclassify to retained earnings the tax effects resulting from the Tax Cuts and Jobs Act ("TCJA") related to items in AOCI. The new guidance may be applied retrospectively to each period in which the effect of the Act is recognized in the period of adoption. We do not expect the implementation to have a material impact on our consolidated financial statements.
In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which is effective for fiscal years beginning after December 15, 2017 and the interim periods therein, with early adoption permitted. The guidance requires cash flows with multiple characteristics to be classified using a three-step process, including (i) determining whether explicit guidance is applicable, (ii) separating each identifiable source or use of cash flows, and (iii) determining the predominant source or use of cash flows when the source or use of cash flows cannot be separately identifiable. The guidance will be applied retrospectively to each period presented. We do not expect the implementation to have a material impact on our consolidated financial statements.
In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term,

and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is effective for us in the first quarter of fiscal year 2020, and early application is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our consolidated financial statements, and we currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of ASU 2016-02, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption.

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

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. Based on the composition of our investment portfolio, we do not believe the adoption of ASU 2016-01 will have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 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 permits two methods of adoption: (i) retrospective to each prior reporting period presented; or (ii) retrospective with the cumulative effect of initially applying the guidance recognized at the date of initial application. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. ASU 2014-09 is effective for us beginning on October 1, 2018 and we plan to adopt ASU 2014-09 using the cumulative catch-up transition method, with a cumulative adjustment to retained earnings as opposed to retrospectively adjusting prior periods.

In the first quarter of fiscal 2017, we commenced a project to assess the potential impact of the new standard on our consolidated financial statements and related disclosures. This project also includes the assessment and enhancement of our internal processes, controls and systems to address the new standard.

While we are continuing to assess all potential impacts of ASU 2014-09, we currently believe the most significant impact relates to our accounting for arrangements that include term-based software licenses bundled with other performance obligations including (i) maintenance and support and (ii) professional services. A significant number of our Healthcare and Imaging customer contracts include term-based software licenses bundled with other performance obligations. Under current GAAP, the revenue attributable to these software licenses is recognized ratably over the term of the arrangement because vendor-specific objective evidence ("VSOE") does not exist for the undelivered maintenance and support element as it is not sold separately. Under ASU 2014-09, the requirement to have VSOE for undelivered elements to enable the separation of revenue for the delivered software licenses is eliminated. Accordingly, under the new standard we will be required to recognize term-based software revenue as control is transferred and based upon the amount proportionally allocated to the term-based software license from the contract transaction price. We do not currently expect ASU 2014-09 to have a significant effect on the timing of revenue related to our renewal maintenance, professional services and cloud offerings.

Another significant provision under ASU 2014-09 includes the capitalization and amortization of costs associated with obtaining a contract, such as sales commissions. Currently, we expense sales commissions in the period incurred. Under ASU 2014-09, direct and incremental costs to acquire a contract are capitalized and amortized over the pattern of transfer of the goods and services to which the asset relates. While we are continuing to assess the impact of this provision of ASU 2014-09, we likely will be required to capitalize a significant amount of our sales commission costs.

3. Business Acquisitions

We continue to expand our solutions and integrate our technologies in new offerings through acquisitions. A summary of our acquisition activities is as follows:

Fiscal Year 2018

For the nine months ended June 30, 2018, we completed several acquisitions in our Healthcare and Automotive segments for a total cash consideration of $113.1 million, contingent payments with a fair value of $2.0 million and effective settlement of preexisting relationship with the acquiree of $12.9 million. As a result, we recognized goodwill of $65.1 million and other intangible assets of $60.8 million, with a weighted average life of 6.0 years. Such acquisitions were not significant individually or in the aggregate to our condensed consolidated financial statements.

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

Fiscal Year 2017
For the nine months ended June 30, 2017, we completed several acquisitions in our Enterprise, Healthcare and Other segments for a total cash consideration of $73.3 million, issuance of 0.8 million shares of common stock valued at $13.4 million and contingent payments with a fair value of $8.3 million. As a result, we recognized goodwill of $62.0 million and other intangible assets of $39.1 million, with a weighted average life of 5.9 years. Such acquisitions were not significant individually or in the aggregate to our condensed consolidated financial statements.
Acquisition-Related Costs, net
Acquisition-related costs include costs related to business acquisitions. These costs consist of (i) transition and integration costs, including retention payments, transitional employee costs and earn-out payments, and other costs related to integration activities; (ii) professional service fees, including financial advisory, legal, accounting, and other outside services incurred in connection with acquisition activities, and disputes and regulatory matters related to acquired entities; and (iii) fair value adjustments to acquisition-related contingencies.
A summary of acquisition-related costs, net is as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Transition and integration costs	$5,370	$3,722	$12,799	$11,044
Professional service fees	1,254	3,905	2,705	11,896
Acquisition-related adjustments	(1,708)	19	(2,667)	(889)
Total	$4,916	$7,646	$12,837	$22,051

4. Goodwill and Intangible Assets
The changes in the carrying amount of goodwill by reportable segment for the nine months ended June 30, 2018 are as follows (dollars in thousands):

Goodwill

	Healthcare	Enterprise	Imaging	Mobile	Automotive	Other	Total
Balance as of September 30, 2017	$1,418,334	$673,472	$257,792	$1,241,010	$—	$—	$3,590,608
Acquisitions	14,936	—	—	—	50,193	—	65,129
Purchase accounting adjustments	(1,457)	—	—	2,697	—	—	1,240
Effect of foreign currency translation	(2,437)	(2,143)	(343)	5,344	(7,577)	(1,460)	(8,616)
Reorganization (Note 17)	—	11,991	—	(1,249,051)	1,080,453	156,607	—
Impairment charge [(a)]	—	—	—	—	—	(137,907)	(137,907)
Balance as of June 30, 2018	$1,429,376	$683,320	$257,449	$—	$1,123,069	$17,240	$3,510,454

(a) Represents accumulated impairment charge as of June 30, 2018.
Other Intangible Assets
The changes in the carrying amount of intangible assets for the nine months ended June 30, 2018 are as follows (dollars in thousands):

	Intangible Assets
Balance at September 30, 2017	$ 664,474
Acquisitions	61,421
	5,000

Acquisition from a related party (Note 16)		
Amortization	(113,747	)
Effect of foreign currency translation	(4,235	)
Balance as of June 30, 2018	$ 612,913	

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

Interim Impairment Analysis
As more fully described in Note 17, effective the second quarter of fiscal year 2018, our Automotive business, which was previously included within our former Mobile segment, became a standalone operating segment. In addition, we moved our Dragon TV business from our former Mobile operating segment into our Enterprise operating segment. As a result of the reorganization, the original Mobile reporting unit was separated into three discrete lines of business comprised of Automotive, Dragon TV, and Devices. We assigned $1,080.5 million, $12.0 million, and $36.0 million of goodwill to Automotive, Dragon TV and Devices, respectively, based on their relative fair values as of March 31, 2018, and assessed the assigned goodwill for impairment by comparing each component’s fair value to its carrying amount. The fair values of Automotive and Dragon TV significantly exceeded their carrying amounts. However, the carrying value of Devices exceeded its fair value by $35.1 million. The standalone multi-year operating plan reflects the ongoing consolidation of our handset manufacturer customer base and continued erosion of our penetration of the remaining market. As a result, we recorded a $35.1 million goodwill impairment for the second quarter of fiscal 2018. After the impairment charge, the goodwill assigned to Devices as of March 31, 2018 was immaterial. The reorganization did not result in any impairment charge of other intangible assets.
Also during the second quarter of fiscal 2018, our Subscriber Revenue Services ("SRS") reporting unit, originally included within our former Mobile operating segment, recorded significantly lower revenue and profitability due to recent market disruptions in certain markets that we serve. Our SRS business provides value-added services to mobile operators in emerging markets, primarily in India and Brazil. These markets have experienced recent and dramatic disruption as a result of accelerated change in competition and business models for our mobile operator customers. Specifically, the rapid shift away from a model where voice, data and text are offered separately toward unlimited bundled services at considerably lower costs has significantly reduced mobile operators’ demand for our services. This reduced demand materially impacts our future expectations for SRS revenues. As a result, executive management performed an updated strategic assessment and reduced the long-term growth rates and profitability contemplated in SRS's multi-year operating plan. We concluded that these financial results coupled with the rapid market shifts being experienced in the industry were factors that represented impairment indicators, triggering a review of goodwill and indefinite-lived intangible assets for impairment during the second quarter of fiscal 2018. Based on the result of the impairment assessment, the carrying value of SRS exceeded its fair value by $94.3 million. In addition, we recorded an $8.5 million deferred tax benefit related to SRS’s goodwill, which is amortized over time for tax purposes, and therefore increased the impairment charge by the same amount. As a result, we recorded a goodwill impairment charge of $102.8 million related to SRS for the second quarter of fiscal 2018. After the impairment charge, goodwill assigned to SRS was $17.8 million as of March 31, 2018. The assessment did not result in any impairment charge of other intangible assets.

For the purpose of the goodwill impairment analysis, the carrying value of each reporting unit is determined based on the allocation of assets and liabilities to the reporting unit based on the reporting unit’s revenue and operating expenses as a percentage of our consolidated revenue and operating expenses. Certain corporate assets and liabilities that are not directly attributable to the reporting unit’s operations and would not be transferred to a hypothetical purchaser of the reporting unit are excluded from the reporting unit’s carrying amount.

The fair value of a reporting unit is generally determined using a combination of the income approach and the market approach, where the income approach is weighted 50% and the market approach 50%. The fair values of Devices and Dragon TV, however, were determined solely based upon the income approach due to the lack of comparable public companies or comparable acquisitions. For the income approach, fair value is determined based on the present value of estimated future after-tax cash flows, discounted at an appropriate risk-adjusted rate. We use our internal forecasts to estimate future after-tax cash flows and estimate the long-term growth rates based on our most recent views of the long-term outlook for each reporting unit. Actual results may differ from those assumed in our forecasts. We derive our discount rates using a capital asset pricing model and analyzing published rates for industries relevant to our reporting units to estimate the weighted average cost of capital. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in our internally developed forecasts. For the market approach, we use a valuation technique in which values are derived based on valuation multiples of comparable publicly traded companies. We assess each valuation methodology based upon the relevance and availability of the data at the time we perform the valuation and weight the methodologies appropriately.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions, all of which we believe are reasonable but nevertheless inherently uncertain. These estimates and assumptions include revenue growth rates and operating margins used to estimate future cash flows, risk-adjusted discount rates, future economic and market conditions, and the use of market comparables. Additionally, if we continue to experience lower-than-expected growth in a reporting unit or fail to sustain our profitability due to changing market dynamics, competition or technological obsolescence, it could adversely impact the long-term assumptions used in our goodwill impairment analysis. Such changes in assumptions and estimates may result in additional

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

impairment of our goodwill and/or other long-lived assets, which could materially impact our future results of operations and financial conditions. Finally, as we continue to identify and assess other initiatives to better align our segment reporting structure with our long-term strategies, any additional changes in our organizational and segment reporting structure may result in additional impairment charges of goodwill and other intangible assets.

5. Financial Instruments and Hedging Activities

Derivatives Not Designated as Hedges

Forward Currency Contracts

We utilize foreign currency forward contracts to mitigate the risks associated with changes in foreign currency exchange rates. Generally, we enter into such contracts for less than 90 days and have no cash requirements until maturity. At June 30, 2018 and September 30, 2017, we had outstanding contracts with a total notional value of $90.8 million and $69.0 million, respectively.

We did not designate any forward contracts as hedging instruments for the nine months ended June 30, 2018 or 2017. Therefore, changes in fair value of foreign currency forward contracts were recognized within other expense, net in our condensed consolidated statements of operations. The cash flows related to the settlement of forward contracts not designated as hedging instruments are included in cash flows from investing activities within our condensed consolidated statement of cash flows.

A summary of the derivative instruments is as follows (dollars in thousands):

Derivatives Not Designated as Hedges	Balance Sheet Classification	Fair Value June 30, 2018	Fair Value September 30, 2017
Foreign currency forward contracts	Prepaid expenses and other current assets	$169	$ 220
Foreign currency forward contracts	Accrued expenses and other current liabilities	(353)	(373)

A summary of loss related to the derivative instruments for the nine months ended June 30, 2018 and 2017 is as follows (dollars in thousands):

Derivatives Not Designated as Hedges	Income Statement Classification Income (loss) recognized	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Nine Months Ended June 30, 2018	Nine Months Ended June 30, 2017
Foreign currency forward contracts	Other expense, net	$(1,597)	$175	$(2,381)	$(7,885)

6. Fair Value Measurements

Fair value is defined as the price that would be received to sell 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 determination of the applicable level within the hierarchy of a particular financial asset or liability depends on the lowest level of inputs that are significant to the fair value measurement as of the measurement date as follows:

- Level 1: Quoted prices for identical assets or liabilities in active markets.
- Level 2: Observable inputs other than those described as Level 1.
- Level 3: Unobservable inputs that are supportable by little or no market activities and are based on significant assumptions and estimates.

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Assets and liabilities measured at fair value on a recurring basis at June 30, 2018 and September 30, 2017 consisted of the following (dollars in thousands):

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds[(a)]	$212,545	$—	$—	$212,545
Time deposits[(b)]	—	103,995	—	103,995
Commercial paper, $60,903 at cost(b)	—	61,214	—	61,214
Corporate notes and bonds, $58,088 at cost(b)	—	57,914	—	57,914
Foreign currency exchange contracts[(b)]	—	169	—	169
Total assets at fair value	$212,545	$223,292	$—	$435,837
Liabilities:				
Foreign currency exchange contracts[(b)]	$—	$(353)	$—	$(353)
Contingent acquisition payments[(c)]	—	—	(8,035)	(8,035)
Total liabilities at fair value	$—	$(353)	$(8,035)	$(8,388)

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds[(a)]	$381,899	$—	$—	$381,899
Time deposits[(b)]	—	85,570	—	85,570
Commercial paper, $41,805 at cost[(b)]	—	41,968	—	41,968
Corporate notes and bonds, $74,150 at cost[(b)]	—	74,067	—	74,067
Foreign currency exchange contracts[(b)]	—	220	—	220
Total assets at fair value	$381,899	$201,825	$—	$583,724
Liabilities:				
Foreign currency exchange contracts[(b)]	$—	$(373)	$—	$(373)
Contingent acquisition payments[(c)]	—	—	(8,648)	(8,648)
Total liabilities at fair value	$—	$(373)	$(8,648)	$(9,021)

(a) Money market funds and time deposits with original maturity of 90 days or less are included within cash and cash equivalents in the consolidated balance sheets and are valued at quoted market prices in active markets.

(b) Time deposits, commercial paper, corporate notes and bonds, and foreign currency exchange contracts are recorded at fair market values, which are determined 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. Commercial paper and corporate notes and bonds generally mature within three years and had a weighted average maturity of 0.61 years as of June 30, 2018 and 0.72 years as of September 30, 2017.

(c) The fair values of our contingent consideration arrangements were determined using either the option pricing model with Monte Carlo simulation or the probability-weighted discounted cash flow method.

As of September 30, 2017, $80.2 million of debt securities included within marketable securities were designated as held-to-maturity investments, which had a weighted average maturity of 0.27 years and an estimated fair value of $80.4 million based on Level 2 measurements. No debt securities were designated as held-to-maturity investments as of June 30, 2018.
The estimated fair value of our long-term debt approximated $2,488.9 million (face value $2,587.0 million) as of June 30, 2018 and $2,930.9 million (face value $2,918.1 million) as of September 30, 2017 based on Level 2

measurements. The fair value of each borrowing was estimated using the average of the bid and ask trading quotes at each respective reporting date. There was no balance outstanding under our revolving credit agreement as of June 30, 2018 or September 30, 2017.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Additionally, contingent acquisition payments are recorded at fair values upon the acquisition, and remeasured in subsequent reporting periods with the changes in fair values recorded within acquisition-related costs, net. Such payments are contingent upon the achievement of specified performance targets and are valued using the option pricing model with Monte Carlo simulation or the probability-weighted discounted cash flow model.

The following table provides a summary of changes in the aggregate fair value of the contingent acquisition payments for all periods presented (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	$11,752	$6,377	$8,648	$8,240
Earn-out liabilities established at time of acquisition	1,500	5,000	2,000	8,253
Payments and foreign currency translation	(4,557)	(26)	(4,652)	(4,283)
Adjustments to fair value included in acquisition-related costs, net	(660)	—	2,039	(859)
Balance at end of period	$8,035	$11,351	$8,035	$11,351

Contingent acquisition payments are to be made in periods through fiscal year 2021. As of June 30, 2018, the maximum amount payable based on the agreements was $17.5 million if the specified performance targets are achieved.

7. Accrued Expenses and Other Current Liabilities

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

	June 30, 2018	September 30, 2017
Compensation	$133,997	$ 159,951
Cost of revenue related liabilities	25,620	20,124
Accrued interest payable	21,735	26,285
Consulting and professional fees	15,851	12,649
Facility-related liabilities	6,692	7,158
Sales and other taxes payable	6,453	3,125
Sales and marketing incentives	4,003	3,655
Other	10,081	12,954
Total	$224,432	$ 245,901

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 fees for up-front setup of the service environment; fees charged for on-demand service; 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):

	June 30, 2018	September 30, 2017
Current liabilities:		
Deferred maintenance revenue	$161,505	$ 162,958
Unearned revenue	227,527	203,084
Total current deferred revenue	$389,032	$ 366,042
Long-term liabilities:		
Deferred maintenance revenue	$61,736	$ 60,298
Unearned revenue	421,098	363,631

Total long-term deferred revenue	$482,834	$ 423,929

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

9. Restructuring and Other Charges, net

Restructuring and other charges, net include restructuring expenses together with other charges that are unusual in nature, are the result of unplanned events, or arise outside of the ordinary course of our business.

The following table sets forth accrual activity relating to restructuring reserves for the nine months ended June 30, 2018 (dollars in thousands):

	Personnel	Facilities	Total
Balance at September 30, 2017	$ 1,546	$ 9,159	$ 10,705
Restructuring charges, net	17,718	4,933	22,651
Non-cash adjustment		(998)	(998)
Cash payments	(14,460)	(4,600)	(19,060)
Balance at June 30, 2018	$ 4,804	$ 8,494	$ 13,298

While restructuring and other charges, net are excluded from our calculation of segment profit, the table below presents the restructuring and other charges, net associated with each segment (dollars in thousands):

	Three Months Ended June 30,									
	2018					2017				
	Personnel	Facilities	Total Restructuring	Other Charges	Total	Personnel	Facilities	Total Restructuring	Other Charges	Total
Healthcare	$ 377	$ —	$ 377	$ —	$ 377	$ 993	$ —	$ 993	$ 4,065	$ 5,058
Enterprise	3,412	(197)	3,215	—	3,215	1,910	2,040	3,950	—	3,950
Automotive	1,233	—	1,233	—	1,233	377	—	377	—	377
Imaging	2,725	1,170	3,895	—	3,895	43	—	43	—	43
Other	154	54	208	—	208	489	(511)	(22)	—	(22)
Corporate	1,148	893	2,041	(1,732)	309	241	25	266	3,363	3,629
Total	$ 9,049	$ 1,920	$ 10,969	$ (1,732)	$ 9,237	$ 4,053	$ 1,554	$ 5,607	$ 7,428	$ 13,035

	Nine Months Ended June 30,									
	2018					2017				
	Personnel	Facilities	Total Restructuring	Other Charges	Total	Personnel	Facilities	Total Restructuring	Other Charges	Total
Healthcare	$ 3,678	$ 25	$ 3,703	$ —	$ 3,703	$ 3,554	$ 870	$ 4,424	$ 4,065	$ 8,489
Enterprise	3,939	2,170	6,109	—	6,109	2,722	2,904	5,626	—	5,626
Automotive	2,233	—	2,233	—	2,233	1,792	—	1,792	—	1,792
Imaging	4,031	1,163	5,194	—	5,194	629	387	1,016	—	1,016
Other	1,498	624	2,122	—	2,122	2,341	(460)	1,881	10,773	12,654
Corporate	2,339	951	3,290	10,335	13,625	1,241	2,007	3,248	6,824	10,072
Total	$ 17,718	$ 4,933	$ 22,651	$ 10,335	$ 32,986	$ 12,279	$ 5,708	$ 17,987	$ 21,662	$ 39,649

Fiscal Year 2018

For the nine months ended June 30, 2018, we recorded restructuring charges of $22.7 million, which included $17.7 million related to the termination of approximately 160 employees and $4.9 million related to certain excess facilities. Of these amounts, $11.0 million was recorded for the three months ended June 30, 2018, which included $9.0 million related to employee termination and $1.9 million related to certain excess facilities. These actions were part of our strategic initiatives focused on investment rationalization, process optimization and cost reduction. We expect the remaining outstanding severance of $4.8 million to be substantially paid during fiscal year 2018, and the remaining balance of $8.5 million related to excess facilities to be paid through fiscal year 2025, in accordance with the terms of the applicable leases.

Additionally, for the nine months ended June 30, 2018, we recorded a $5.7 million expense related to the transition agreement of our former CEO and a $7.2 million expense related to our remediation and restoration efforts after the malware incident that occurred in the third quarter of fiscal year 2017 (the "2017 Malware Incident"), offset in part by a $2.5 million income related to cash receipt from insurance claims related to the 2017 Malware Incident. For the three months ended June 30, 2018, we recorded a $2.5 million income related to cash receipt from insurance claims related to the 2017 Malware Incident and a $1.1 million expense related to the CEO transition. The cash payments associated with the CEO transition agreement are expected to be made through fiscal year 2020.

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Fiscal Year 2017

For the nine months ended June 30, 2017, we recorded restructuring charges of $18.0 million, which included $12.3 million related to the termination of approximately 300 employees and $5.7 million related to certain excess facilities. Of these amounts, $5.6 million was recorded for the three months ended June 30, 2017, which included $4.1 million related to employee termination and $1.6 million related to certain excess facilities. These actions were part of our strategic initiatives focused on process optimization and cost reduction.

Additionally, for the nine months ended June 30, 2017, we recorded $5.8 million related to the transition agreement of our former CEO, $10.8 million of non-cash impairment charge related to an internally developed software, and $5.2 million professional services fees and fixed asset impairment related to the 2017 Malware Incident. Of these amounts, $2.3 million related to the CEO transition and $5.2 million professional services fees and fixed asset impairment related to the 2017 Malware Incident were recorded for the three months ended June 30, 2017.

10. Debt

As of June 30, 2018 and September 30, 2017, we had the following borrowing obligations (dollars in thousands):

	June 30, 2018	September 30, 2017
5.625% Senior Notes due 2026, net of deferred issuance costs of $5.2 million and $5.7 million, respectively. Effective interest rate 5.625%.	$494,755	$ 494,298
5.375% Senior Notes due 2020, net of unamortized premium of $0.7 million and $1.0 million, respectively, and deferred issuance costs of $1.7 million and $2.3 million, respectively. Effective interest rate 5.375%.	448,989	448,630
6.000% Senior Notes due 2024, net of deferred issuance costs of $1.8 million and $2.1 million, respectively. Effective interest rate 6.000%.	298,143	297,910
1.00% Convertible Debentures due 2035, net of unamortized discount of $123.0 million and $140.9 million, respectively, and deferred issuance costs of $5.9 million and $6.9 million, respectively. Effective interest rate 5.622%.	547,526	528,690
2.75% Convertible Debentures due 2031, net of unamortized discount of $1.5 million and deferred issuance costs of $0.1 million as of September 30, 2017. Effective interest rate 7.432%.	46,568	376,121
1.25% Convertible Debentures due 2025, net of unamortized discount of $85.0 million and $92.7 million, respectively, and deferred issuance costs of $3.8 million and $4.3 million, respectively. Effective interest rate 5.578%.	261,106	253,054
1.50% Convertible Debentures due 2035, net of unamortized discount of $35.3 million and $42.5 million, respectively, and deferred issuance costs of $1.2 million and $1.5 million, respectively. Effective interest rate 5.394%.	227,355	219,875
Deferred issuance costs related to our Revolving Credit Facility	(926)	(1,174)
Total debt	2,323,516	2,617,404
Less: current portion	—	376,121
Total long-term debt	$2,323,516	$ 2,241,283

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The following table summarizes the maturities of our borrowing obligations as of June 30, 2018 (dollars in thousands):

Fiscal Year	Convertible Debentures[1]	Senior Notes	Total
2018	$ —	$—	$—
2019	—	—	—
2020	—	450,000	450,000
2021	—	—	—
2022	310,463	—	310,463
Thereafter	1,026,488	800,000	1,826,488
Total before unamortized discount	1,336,951	1,250,000	2,586,951
Less: unamortized discount and issuance costs	(254,396)	(9,039)	(263,435)
Total long-term debt	$ 1,082,555	$ 1,240,961	$ 2,323,516

(1) Pursuant to the terms of each convertible instrument, holders have the right to redeem the debt on specific dates prior to maturity. The repayment schedule above assumes that payment is due on the next redemption date after June 30, 2018.

5.625% Senior Notes due 2026

In December 2016, we issued $500.0 million aggregate principal amount of 5.625% Senior Notes due on December 15, 2026 (the "2026 Senior Notes") in a private placement. The proceeds from the 2026 Senior Notes were approximately $495.0 million, net of issuance costs, and we used the proceeds to repurchase a portion of our 2020 Senior Notes. The 2026 Senior Notes bear interest at 5.625% per year, payable in cash semi-annually in arrears, beginning on June 15, 2017.

The 2026 Senior Notes are unsecured senior obligations and are guaranteed on an unsecured senior basis by certain of our domestic subsidiaries ("Subsidiary Guarantors"). The 2026 Senior Notes and the guarantees rank equally in right of payment with all of our and the Subsidiary Guarantors’ existing and future unsecured senior debt and rank senior in right of payment to all of our and the Subsidiary Guarantors’ future unsecured subordinated debt. The 2026 Senior Notes and guarantees effectively rank junior to all our secured debt and that of the Subsidiary Guarantors to the extent of the value of the collateral securing such debt and to all liabilities, including trade payables, of our subsidiaries that have not guaranteed the 2026 Senior Notes.

At any time before December 15, 2021, we may redeem all or a portion of the 2026 Senior Notes at a redemption price equal to 100% of the aggregate principal amount of the 2026 Senior Notes to be redeemed, plus a “make-whole” premium and accrued and unpaid interest to, but excluding, the redemption date. At any time on or after December 15, 2021, we may redeem all or a portion of the 2026 Senior Notes at certain redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date.

5.375% Senior Notes due 2020

In August 2012, we issued $700.0 million aggregate principal amount of 5.375% Senior Notes due on August 15, 2020 in a private placement. In October 2012, we issued an additional $350.0 million aggregate principal amount of our 5.375% Senior Notes (collectively the “2020 Senior Notes”). The 2020 Senior Notes bear interest at 5.375% per year, payable in cash semi-annually in arrears. The 2020 Senior Notes are our unsecured senior obligations and are guaranteed on an unsecured senior basis by certain of our domestic subsidiaries, ("the Subsidiary Guarantors"). The 2020 Senior 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 2020 Senior 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 2020 Senior Notes.

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In January 2017, we repurchased $600.0 million in aggregate principal amount of our 2020 Senior Notes using cash and cash equivalents and the net proceeds from our 2026 Senior Notes issued in December 2016. In January 2017, we recorded an extinguishment loss of $18.6 million. In accordance with the authoritative guidance for debt instruments, a loss on extinguishment is equal to the difference between the reacquisition price and the net carrying amount of the extinguished debt, including any unamortized debt discount or issuance costs. Following this activity, $450.0 million in aggregate principal amount of our 2020 Senior Notes remains outstanding.

At any time on or after August 15, 2018, we may redeem any or all or a portion of the 2020 Senior Notes at a redemption price equal to 100% of the aggregate principal amount, plus any accrued and unpaid interest to, but excluding, the redemption date.

On August 1, 2018, our Board of Directors authorized the repayment of $150 million of our 2020 Senior Notes, which is expected to be made in September 2018.

6.0% Senior Notes due 2024

In June 2016, we issued $300.0 million aggregate principal amount of 6.0% Senior Notes due on July 1, 2024 (the "2024 Senior Notes") in a private placement. The proceeds from the 2024 Senior Notes were approximately $297.5 million, net of issuance costs. The 2024 Senior Notes bear interest at 6.0% per year, payable in cash semi-annually in arrears. The 2024 Senior Notes are unsecured senior obligations and are guaranteed on an unsecured senior basis by our Subsidiary Guarantors. The 2024 Senior Notes and the guarantees rank equally in right of payment with all of our and the Subsidiary Guarantors' existing and future unsecured senior debt, and rank senior in right of payment to all of our and the Subsidiary Guarantors' future unsecured subordinated debt. The 2024 Senior Notes and guarantees effectively rank junior to all our secured debt and that of the Subsidiary Guarantors to the extent of the value of the collateral securing such debt and to all liabilities, including trade payables, of our subsidiaries that have not guaranteed the 2024 Senior Notes.

At any time before July 1, 2019, we may redeem all or a portion of the 2024 Senior Notes at a redemption price equal to100% of the aggregate principal amount of the 2024 Senior Notes to be redeemed, plus a "make-whole" premium and accrued and unpaid interest to, but excluding, the redemption date. At any time on or after July 1, 2019, we may redeem all or a portion of the 2024 Senior Notes at certain redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date.

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") in a private placement. We used a portion of the proceeds to repurchase $38.3 million in aggregate principal on our 2.75% Senior Convertible Debentures due in 2031 and to repay the aggregate principal balance of $472.5 million on the term loan. Upon the repurchase and repayment of debts in December 2015, we recorded an extinguishment loss of $4.9 million in other expense, net, in the accompanying consolidated statements of operations. The 1.0% 2035 Debentures bear interest at 1.0% per year, payable in cash semi-annually in arrears. 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. The initial conversion price is approximately $27.22 per share. 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 June 30, 2018, 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 October 2011, we issued $690.0 million in aggregate principal amount of 2.75% Senior Convertible Debentures due in 2031 (the "2031 Debentures") in a private placement. 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 initial conversion price is approximately $32.30 per share. At issuance, we allocated $533.6 million to long-term debt, and $156.4 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through November 2017.

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In June 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to exchange, in a private placement, $256.2 million in aggregate principal amount of our 2031 Debentures for approximately $263.9 million in aggregate principal amount of our 1.5% 2035 Debentures. 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 March 2017, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to repurchase $17.8 million in aggregate principal with proceeds received from the issuance of our 1.25% Senior Convertible Debentures issued in March 2017. Following these activities, $377.7 million in aggregate principal amount of our 2031 Debentures remained outstanding as of September 30, 2017, which was included within the total current liabilities.

In November 2017, holders of approximately $331.2 million in aggregate principal amount of the outstanding 2031 Debentures exercised their right to require us to repurchase such debentures. Following the repurchase, $46.6 million in aggregate principal amount of the 2031 Debentures remains outstanding. On or after November 6, 2017, we have the right to call for redemption of some or all of the remaining outstanding 2031 Debentures.

1.25% Convertible Debentures due 2025

In March 2017, we issued $350.0 million in aggregate principal amount of 1.25% Senior Convertible Debentures due in 2025 (the “1.25% 2025 Debentures”) in a private placement. The proceeds were approximately $343.6 million, net of issuance costs. We used a portion of the proceeds to repurchase 5.8 million shares of our common stock for $99.1 million and $17.8 million in aggregate principal on our 2031 Debentures. We used the remaining net proceeds, together with cash on hand to redeem and retire $331.2 million of our outstanding 2031 Debentures in November 2017. The 1.25% 2025 Debentures bear interest at 1.25% per year, payable in cash semi-annually in arrears, beginning on October 1, 2017. The 1.25% 2025 Debentures mature on April 1, 2025. The 1.25% 2025 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 1.25% 2025 Debentures. The 1.25% 2025 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries.

We account separately for the liability and equity components of the 1.25% 2025 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 $252.1 million to long-term debt, and $97.9 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through April 1, 2025.

If converted, the principal amount of the 1.25% 2025 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 $22.22 per share, subject to adjustment under certain circumstances) 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 October 1, 2024, on any date during any fiscal quarter beginning after June 30, 2017 (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) at any time on or after October 1, 2024, (iii) during the five consecutive business-day period immediately following any five consecutive trading-day period in which the trading price for $1,000 principal amount of the 1.25% 2025 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; or (iv) upon the occurrence of specified corporate transactions, as described in the indenture for the 1.25% 2025 Debentures. We may not redeem the 1.25% 2025 Debentures prior to the maturity date. If we undergo a fundamental change or non-stock change of control (as described in the indenture for the 1.25% 2025 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

1.25% 2025 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of June 30, 2018, none of the conversion criteria were met for the 1.25% 2025 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.

1.50% Convertible Debentures due 2035

In June 2015, we issued $263.9 million in aggregate principal amount of 1.50% Senior Convertible Debentures due in 2035 (the "1.5% 2035 Debentures") in exchange for $256.2 million in aggregate principal amount of our 2031 Debentures. The 1.5% 2035 Debentures were issued at 97.09% of the principal amount, which resulted in a discount of $7.7 million. The 1.5% 2035 Debentures bear interest at 1.50% per year, payable in cash semi-annually in arrears. The 1.5% 2035 Debentures mature on November 1, 2035,

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subject to the right of the holders to require us to redeem the 1.5% 2035 Debentures on November 1, 2021, 2026, or 2031. The 1.5% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.5% 2035 Debentures. The 1.5% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries. The initial conversion price is approximately $23.26 per share. At issuance, we allocated $208.6 million to long-term debt, and $55.3 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through November 2021. As of June 30, 2018, 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.

Revolving Credit Facility

Our revolving credit agreement (the "Revolving Credit Facility"), which expires on April 15, 2021, provides for aggregate borrowing commitments of $242.5 million, including the revolving facility loans, the swingline loans and issuance of letters of credit. As of June 30, 2018, after taking into account the outstanding letters of credit of $6.8 million, we had $235.7 million available for borrowing under the Revolving Credit Facility. The borrowing outstanding under the Revolving Credit Facility bears 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 our assets. The Revolving Credit Facility contains customary affirmative and negative covenants and conditions to borrowing, as well as customary events of default. As of June 30, 2018, we are in compliance with all the debt covenants.

11. Stockholders' Equity

Share Repurchases

On April 29, 2013, our Board of Directors approved a share repurchase program for up to $500.0 million, which was increased by $500.0 million on April 29, 2015. Under the terms of the share repurchase program, we have the ability to repurchase shares 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 share repurchase program does not require us to acquire any specific number of shares and may be modified, suspended, extended or terminated by us at any time without prior notice. The timing and the amount of any purchases will be determined by management based on an evaluation of market conditions, capital allocation alternatives, and other factors.

For the three and nine months ended June 30, 2018, we repurchased 8.1 million shares of our common stock for $112.0 million under the program. For the nine months ended June 30, 2017, we repurchased 5.8 million shares of our common stock for $99.1 million under the program. Since the commencement of the program, we have repurchased an aggregate of 54.6 million shares for $918.6 million. The amount paid in excess of par value is recognized in additional paid in capital. Shares were retired upon repurchase. As of June 30, 2018, approximately $81.4 million remained available for future repurchases under the program.

On August 1, 2018, our Board of Directors approved an additional $500.0 million under our share repurchase program. Since the beginning of the fourth quarter of fiscal year 2018, we have repurchased approximately 1.1 million shares of our common stock for approximately $16.0 million.

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12. Net Loss Per Share

The following table sets forth the computation for basic and diluted net loss per share (dollars in thousands, except per share amounts):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	$(14,037)	$(27,836)	$(124,862)	$(85,572)
Denominator:				
Weighted average common shares outstanding — Basic	292,663	287,856	292,703	289,269
Dilutive effect of employee stock compensation plans [a]	—	—	—	—
Weighted average common shares outstanding — Diluted	292,663	287,856	292,703	289,269
Net loss per share:				
Basic	$(0.05)	$(0.10)	$(0.43)	$(0.30)
Diluted	$(0.05)	$(0.10)	$(0.43)	$(0.30)
Anti-dilutive equity instruments excluded from the calculation	4,408	2,797	3,838	3,792
Contingently issuable awards excluded from the calculation [b]	1,975	4,687	1,801	3,856

[a] For all periods presented, there is no dilutive effect of equity instruments as the impact of these items is anti-dilutive due to the net loss incurred.

[b] Contingently issuable awards were excluded from the determination of dilutive net income per share as the conditions were not met at the end of the reporting period.

13. Stock-Based Compensation

On February 28, 2018, our shareholders approved amendments to the Company’s amended and restated 2000 Stock Plan (the “Amended and Restated 2000 Stock Plan”). The Amended and Restated 2000 Stock Plan (i) increases the number of shares issuable by 6,400,000 to 82,250,000 shares; (ii) prohibits the payment of dividends relating to unvested awards unless and until such awards become vested; and (iii) prohibits shares that are withheld for taxes or to pay the exercise price of options or stock appreciation rights, or that are reacquired on the open market or otherwise using cash from option exercises, from becoming available for future grant under the Amended and Restated 2000 Stock Plan.

As of June 30, 2018, we had 13.4 million shares available for future grants under the Amended and Restated 2000 Stock Plan. We recognize stock-based compensation expenses over the requisite service periods. Our share-based awards are classified within equity. The amounts included in the condensed consolidated statements of operations related to stock-based compensation are as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Cost of professional services and hosting	$6,861	$8,385	$20,590	$24,875
Cost of product and licensing	114	104	492	298
Cost of maintenance and support	952	1,130	3,041	3,117
Research and development	8,224	9,610	26,316	26,498
Sales and marketing	9,491	11,981	28,533	34,968
General and administrative	9,560	11,121	27,965	32,053
Total	$35,202	$42,331	$106,937	$121,809

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Stock Options

The table below summarizes activities related to stock options for the nine months ended June 30, 2018:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value[(a)]
Outstanding at September 30, 2017	23,807	$ 15.39		
Exercised	(2,963)	$ 2.61		
Expired	(340)	$ 19.86		
Outstanding at June 30, 2018	20,504	$ 17.16	2.5 years	$0.1 million
Exercisable at June 30, 2018	20,504	$ 17.16	2.5 years	$0.1 million
Exercisable at June 30, 2017	25,936	$ 15.78	2.8 years	$0.1 million

(a) The aggregate intrinsic value in this table represents any excess of the closing market price of our common stock as of June 30, 2018 ($13.89) over the exercise price of the underlying options.

The aggregate intrinsic value of stock options exercised during the nine months ended June 30, 2018 and 2017 was $0.04 million and $3.6 million, respectively.

Restricted Units

Restricted units are not included in issued and outstanding common stock until the shares are vested and released. The purchase price for vested restricted units is $0.001 per share. The table below summarizes activities relating to restricted units for the nine months ended June 30, 2018:

	Number of Shares Underlying Restricted Units — Contingent Awards	Number of Shares Underlying Restricted Units — Time-Based Awards
Outstanding at September 30, 2017	5,043,931	6,477,164
Granted	2,125,737	6,577,172
Earned/released	(2,092,862)	(5,221,720)
Forfeited	(1,541,975)	(737,603)
Outstanding at June 30, 2018	3,534,831	7,095,013
Weighted average remaining recognition period of outstanding restricted units	1.2 years	1.8 years
Unrecognized stock-based compensation expense of outstanding restricted units	$36.6 million	$75.6 million
Aggregate intrinsic value of outstanding restricted units[(a)]	$49.1 million	$98.6 million

(a) The aggregate intrinsic value in this table represents any excess of the closing market price of our common stock as of June 30, 2018 ($13.89) over the purchase price of the underlying restricted units.

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

Nine Months
Ended June 30,

	2018	2017
Weighted-average grant-date fair value per share	$15.76	$16.10
Total intrinsic value of shares vested (in millions)	$115.3	$119.2

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14. Income Taxes

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Domestic	$(40,764)	$(58,871)	$(160,716)	$(148,257)
Foreign	37,300	33,644	(29,550)	84,788
Loss before income taxes	$(3,464)	$(25,227)	$(190,266)	$(63,469)

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Domestic	$206	$(3,029)	$(75,463)	$5,952
Foreign	10,367	5,638	10,059	16,151
Provision (benefit) for income taxes	$10,573	$2,609	$(65,404)	$22,103
Effective tax rate	(305.2)%	(10.3)%	34.4%	(34.8)%

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. The TCJA significantly revises the U.S. corporate income tax by, among other things, lowering corporate income tax rates, implementing a hybrid territorial tax system, and imposing a mandatory one-time repatriation tax on foreign cash and earnings.

As a result of the TCJA, we remeasured certain deferred tax assets and liabilities at the lower rates and recorded approximately $87.0 million of tax benefits for the nine months ended June 30, 2018, which also reflected a benefit of $0.5 million for the three months ended June 30, 2018 as we revised our estimates of the timing and amounts of the temporary differences. Additionally, we recorded a $2.0 million provision for the deemed repatriation of foreign cash and earnings for the nine months ended June 30, 2018.

The provisional amounts above were based upon the estimates of (i) temporary differences at the end of the upcoming tax year, (ii) the timing the temporary differences are expected to reverse, (iii) foreign earnings and profits, and (iv) foreign income taxes. The assessment is incomplete as of June 30, 2018. As our assessment is ongoing, these amounts may materially change as we revise our assumptions and estimates based on new information available to us, changes in our interpretations, additional guidance to be issued, and actions we may take as a result of the TCJA. We are still evaluating the full impact of other provisions of the TCJA, which may materially increase or decrease our income tax provision. The assessment is expected to be completed no later than the first quarter of fiscal year 2019.

In addition, as more fully described in Note 4, in connection with the impairment charge of SRS's goodwill, we recognized a tax benefit of $8.5 million related to the portion of deductible goodwill in Brazil for the three and nine months ended June 30, 2018.

The effective tax rate for the nine months ended June 30, 2018 reflects the impact of the TCJA discussed above. For other periods presented, the effective income tax rates differ from the U.S. federal statutory rate of 25% for fiscal year 2018 and 35% for fiscal year 2017 primarily due to current period losses in the United States that require an additional valuation allowance and accordingly provide no benefit to the provision as well as an increase to indefinite lived deferred tax liabilities. This is 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.

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 at times actions with respect to contracts, intellectual property, employment, benefits and securities matters. At each balance sheet date we evaluate contingent liabilities associated with these matters in accordance with ASC 450 “Contingencies.” If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgments are required for the determination of probability and the range of the outcomes, and

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estimates are based only on the best information available at the time. Due to the inherent uncertainties involved in claims and legal proceedings and in estimating losses that may arise, actual outcomes may differ from our estimates. Contingencies deemed not probable or for which losses were not estimable in one period may become probable, or losses may become estimable in later periods, which may have a material impact on our results of operations and financial position. As of June 30, 2018, accrued losses were not material to our condensed consolidated financial statements, and we do not expect any pending matter to have a material impact on our condensed consolidated financial statements.

Guarantees and Other

We include indemnification provisions in the contracts we enter 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 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. Related Party Transaction

In January 2018, we entered into a software and license agreement (the "License Agreement") with Magnet Systems, Inc. ("Magnet"). A member of the Magnet board of directors also served on our board of directors at the time of the transaction. Pursuant to the License Agreement, Magnet granted Nuance a perpetual software license to certain technology for a one-time payment of $5.0 million in cash, with $3.5 million paid immediately upon the effective date of the License Agreement and $1.5 million payable upon the earlier of (i) the 120-day period following the effective date of the License Agreement or (ii) signature of a statement of work for the engineering services described below. Additionally, we entered into a service agreement (the "Service Agreement") with Magnet, pursuant to which, Magnet will provide engineering services to assist in integrating the licensed technology into certain of our Enterprise solutions. Based upon the statement of work signed on April 19, 2018, total fees under the Service Agreement should not exceed $2.0 million and are payable within thirty days after receipt of each invoice for services performed and accepted in accordance with the terms of the Service Agreement.

17. Segment and Geographic Information

During the first quarter of fiscal year 2018, we commenced a reorganization of our segment reporting structure to allow our Chief Operating Decision Maker ("CODM") greater focus on implementing strategic initiatives and identifying future investment opportunities. During the second quarter of fiscal year 2018, we established our Automotive business as a separate operating segment. Additionally, we moved our Dragon TV business from our former Mobile operating segment into our Enterprise operating segment to consolidate our telecommunications market resources. Finally, our SRS business and our Devices business, originally included within our former Mobile operating segment, are now presented within our Other segment. As a result, segment information for the three and

nine months ended June 30, 2018 and 2017 has been recast to reflect the new segment reporting structure.
Our CODM regularly reviews segment revenues and segment profits for performance evaluation and resources allocation. Segment revenues include certain acquisition-related adjustments for revenues that would otherwise have been recognized without the acquisition. Segment profits reflect controllable costs directly related to each segment and the allocation of certain corporate expenses such as, corporate sales and marketing expenses and research and development project costs that benefit multiple segments. Certain items such as stock-based compensation, amortization of intangible assets, acquisition-related costs, net, restructuring and other charges, net, other expenses, net and certain unallocated corporate expenses are excluded from segment profits, which allow for more meaningful comparisons to the financial results of the historical operations for performance evaluation and resources allocation by our CODM.

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- The Healthcare segment is primarily engaged in providing clinical speech and clinical language understanding solutions that improve the clinical documentation process, from capturing the complete patient record to improving clinical documentation and quality measures for reimbursement.
- The Enterprise segment is primarily engaged in using speech, natural language understanding, and artificial intelligence to provide automated customer solutions and services for voice, mobile, web and messaging channels.
- The Automotive segment is primarily engaged in providing automotive manufacturers and their suppliers branded and personalized virtual assistants and connected car services built on our voice recognition and natural language understanding technologies.
- The Imaging segment is primarily engaged in software solutions and expertise that help professionals and organizations to gain optimal control of their document and information processes through scanning and print management.
- The Other segment includes our SRS business and our Devices business. Our SRS business provides value-added services to mobile operators in emerging markets, primarily in India and Brazil. Our Devices business provides speech recognition solutions and predictive text technologies to handset devices.

We do not track our assets by segment. Consequently, it is not practical to show assets or depreciation by segment.
The following table presents segment results along with a reconciliation of segment profit to loss before income taxes (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Segment revenues:				
Healthcare	$236,195	$232,641	$742,970	$710,315
Enterprise	119,596	114,106	352,862	351,611
Automotive	73,754	63,100	204,202	183,699
Imaging	54,245	49,404	158,808	154,541
Other	22,240	36,373	74,327	102,574
Total segment revenues	506,030	495,624	1,533,169	1,502,740
Less: acquisition-related revenues adjustments	(3,143)	(9,403)	(14,413)	(29,288)
Total revenues	502,887	486,221	1,518,756	1,473,452
Segment profit:				
Healthcare	77,687	70,457	242,456	232,353
Enterprise	33,066	32,420	96,517	102,686
Automotive	28,166	30,748	80,248	87,690
Imaging	18,544	16,943	46,443	53,029
Other	3,086	12,679	12,591	33,109
Total segment profit	160,549	163,247	478,255	508,867
Corporate expenses and other, net	(41,586)	(31,683)	(151,342)	(92,829)
Acquisition-related revenues	(3,143)	(9,403)	(14,413)	(29,288)
Stock-based compensation	(35,202)	(42,331)	(106,937)	(121,809)
Amortization of intangible assets	(37,877)	(44,887)	(113,747)	(133,418)
Acquisition-related costs, net	(4,916)	(7,646)	(12,837)	(22,051)
Restructuring and other charges, net	(9,237)	(13,035)	(32,986)	(39,649)
Impairment of goodwill	—	—	(137,907)	—
Other expenses, net	(32,052)	(39,489)	(98,352)	(133,292)
Loss before income taxes	$(3,464)	$(25,227)	$(190,266)	$(63,469)

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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 June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
United States	$362,796	$341,826	$1,094,695	$1,043,933
International	140,091	144,395	424,061	429,519
Total revenues	$502,887	$486,221	$1,518,756	$1,473,452

18. Supplemental Cash Flow Information

Cash paid for Interest and Income Taxes:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Interest paid	$22,536	$24,481	$71,244	$70,363
Income taxes paid	$3,139	$2,211	$11,972	$10,847

Non-Cash Investing and Financing Activities:

From time to time, we issue shares of our common stock in connection with our business and asset acquisitions, including shares issued as payment for acquisitions, shares initially held in escrow, and shares issued as payment for contingent consideration, as more fully described in Note 3.

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