

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)



ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2019

OR



TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission file number 001-27038

NUANCE COMMUNICATIONS, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

94-3156479

(I.R.S. Employer
Identification No.)

1 Wayside Road

Burlington, Massachusetts
(Address of Principal Executive Offices)

01803

(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, \$0.001 par value	NUAN	Nasdaq Stock Market LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and 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 such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Accelerated filer Smaller reporting company

Non-accelerated filer Emerging growth 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

As of March 31, 2019, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$3.4 billion based on the closing sale price as reported on the Nasdaq Global Select Market for such date.

The number of shares of the registrant's common stock, outstanding as of October 31, 2019, was 282,635,321.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be delivered to stockholders in connection with the registrant's 2020 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

NUANCE COMMUNICATIONS, INC.
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PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks, uncertainties and assumptions that, if they never materialize or if they prove incorrect, could cause our consolidated results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking, including statements pertaining to: our future revenue, cost of revenue, research and development expense, selling, general and administrative expenses, amortization of intangible assets and gross margin, earnings, cash flows and liquidity; our strategy relating to our segments; the potential of future product releases; our product development plans and investments in research and development; future acquisitions and anticipated benefits from acquisitions; international operations and localized versions of our products; our contractual commitments; our fiscal year 2020 revenue and expense expectations and legal proceedings and litigation matters. You can identify these and other forward-looking statements by the use of words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential,” “continue” or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Item 1A of this Annual Report under the heading “Risk Factors.” All forward-looking statements included in this document are based on information available to us on the date hereof. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations that may be announced or closed after the date hereof. We will not undertake and specifically decline any obligation to update any forward-looking statements, except to the extent required by law.

Item 1. *Business*

Overview

We are a pioneer and leader in conversational artificial intelligence (“AI”) innovations that bring intelligence to everyday work and life. We deliver solutions that understand, analyze, and respond to people - amplifying human intelligence to increase productivity and security. With decades of domain and AI expertise, we work with thousands of organizations globally across healthcare, financial services, telecommunications, government, and retail - to create stronger relationships and better experiences for their customers and workforce. We offer our customers high accuracy in automated speech recognition (“ASR”), natural language understanding (“NLU”) capabilities, dialog and information management, biometric speaker authentication, text-to-speech (“TTS”), and domain knowledge, along with professional services and implementation support. In addition, our solutions increasingly utilize our innovations in AI, including cognitive sciences and machine learning to create smarter, more natural experiences with technology. Using advanced analytics and algorithms, our technologies create personalized experiences and transform the way people interact with information and the technology around them. We market and sell our solutions and technologies around the world directly through a dedicated sales force, and also through a global network of resellers, including system integrators, independent software vendors, value-added resellers, distributors, hardware vendors, telecommunications carriers and e-commerce websites.

We are a global organization steeped in research and development (“R&D”). We have approximately 2,000 language scientists, developers, and engineers dedicated to continually refining our technologies and advancing our portfolio to better meet our customers’ diverse and changing needs. As of September 30, 2019, we had more than 80 international operating locations and a sales presence in more than 85 countries. Our corporate headquarters is in Burlington, Massachusetts, and our international headquarters is in Dublin, Ireland. In fiscal year 2019, our revenue was approximately \$1.8 billion.

In fiscal 2018, our Board of Directors and management undertook a comprehensive review of our long-term strategy and our business and developed a strategic plan to simplify our operations and focus on our Healthcare and Enterprise segments. In fiscal 2019, we continued to execute on this plan, including by means of the sale of the Imaging business segment, the sale of our Mobile Operator Services business, and the continued wind-down of our Devices business. On October 1, 2019, we completed the previously announced spin-off of our Automotive business segment.

Our Strategy

With the sale of our Imaging segment, the spin-off our Automotive segment, the exit of our Mobile Operator Services business and the wind-down of Devices, we are positioned to be simpler and more growth-oriented company, which enables us to prioritize and execute our conversational AI strategies on Healthcare and Enterprise. The key elements of our strategy include:

- **Transitioning to cloud-based solutions in Healthcare.** We are transitioning our Healthcare solutions to the cloud, enabling us to shift our revenue mix to a more subscription-based, higher-value recurring model. We've established Nuance as a cloud platform in all our solution areas within Healthcare. During the year, we made significant progress migrating incremental Dragon Medical on-premise customers to the cloud with Dragon Medical One (DMO). We launched the new cloud solutions, including PowerScribe One for our radiology base, and CDE One for clinical documentation improvement programs. We have created a go-to-market approach that aligns sales compensation to our cloud models, and have enabled our channel to sell Dragon Medical cloud. We also launched new Dragon Medical cloud offerings in certain international markets, including Canada, United Kingdom and Australia.
- **Expanding our Intelligent Engagement portfolio in Enterprise, with a focus on cloud.** While we maintain leadership in Voice IVR offerings, we are increasing our focus on Intelligent Engagement growth opportunities, which includes live and virtual engagement offerings, as well as Security and Biometrics. We recently launched Nuance Gatekeeper, a new cloud-native voice biometrics and authentication solution. We expanded the cloud-native stack with the roll-out of Intelligent Engagement Services for Conversational AI, Messaging, and Agent AI. These solutions offer customers more flexible integration with third-party systems and the ability to deploy across hosted, public, or private cloud. It gives large enterprises more options for deployment while making Nuance technology available to smaller organizations via the cloud model.
- **Expanding our go-to-market presence.** We are increasing sales coverage in new markets and developing new solutions to increase our customer lifetime value. In Healthcare, we are pursuing under-served markets, including community hospitals, ambulatory clinics, and surgery centers. We also are launching new solutions for specialty areas such as pediatrics, the emergency department, and surgical, as well as increasing our federal and other government customer offerings. In Enterprise, we are expanding our Intelligent Engagement solutions into our existing IVR customer base and delivering new rapid AI development tools that will allow us to increase our penetration into mid-market accounts.
- **Expanding internationally.** In Healthcare, we continue to expand our international presence in the UK, France, DACH region, Nordics, Australia, and Canada with a growing direct sales force and new offerings. In Enterprise, we continue to expand our international presence in the UK, France, Spain, Germany, Italy, Japan, Australia, New Zealand, Mexico, Brazil, Argentina, and Canada with expanded Intelligent Engagement offerings and sales focus.
- **Accelerating our innovation activities.** We are accelerating investment in research and development, with a focus on new AI products, including our development of ambient clinical intelligence ("ACI"), sub-specialty solutions, and the AI Marketplace for Diagnostic Imaging in Healthcare. In Enterprise, we launched Nuance Gatekeeper, a new cloud-native voice biometrics solution for authentication and fraud prevention across voice and digital channels and rapid AI development tools for large and mid-market enterprises. In addition, we launched Nuance Lightning Engine, within our Security Suite, which combines NLU with voice biometrics to personalize responses and validate individuals faster than before.
- **Growing through targeted acquisitions and strategic investments.** While organic growth is our priority, we also expect to selectively pursue acquisitions and investments in businesses and technologies that advance the strategies described above.

Segments

As of September 30, 2019, we had four reportable segments: Healthcare, Enterprise, Automotive, and Other. See Note 22 to the consolidated financial statements for additional information about our reportable segments. We offer our solutions and technologies to our customers in a variety of ways, including via hosted cloud-based solutions, perpetual and term software licenses, implementation and custom solution development services and maintenance and support. Our product revenues include embedded original equipment manufacturer ("OEMs") royalties, traditional perpetual licensing, term-based licensing and consumer sales. Our hosting, royalty, term license and maintenance and support revenues are recurring in nature as our customers use our products on an ongoing basis to handle their needs in medical transcription, medical coding and compliance, enterprise customer service and automotive connected services. Our professional services offer a continuing revenue stream, whether it is provided in connection with our software solutions or on a standalone basis, as we have a backlog of engagements that take time to complete.

Healthcare

Our healthcare segment provides intelligent systems that support a more natural and insightful approach to clinical documentation, freeing clinicians to spend more time caring for patients. Our healthcare solutions capture, improve, and communicate more than

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300 million patient stories each year, helping more than 500,000 clinicians in 10,000 global healthcare organizations to drive meaningful clinical and financial outcomes. Our award-winning clinical speech recognition, medical transcription, CDI, coding, quality, and medical imaging solutions provide a more complete and accurate view of patient care.

Our Healthcare segment revenues were \$950.6 million, \$984.8 million, and \$899.3 million in fiscal years 2019, 2018 and 2017, respectively. Healthcare segment revenues represented 52.0%, 53.0% and 51.1% of total segment revenue in fiscal years 2019, 2018 and 2017, respectively.

Our principal solutions for the Healthcare segment include the following:

- **Dragon Medical One:** Our cloud-based speech solution provides a consistent and personalized clinical documentation experience across solutions, platforms, and devices, regardless of physical location. Dragon Medical One allows clinicians to use their voice to securely capture the patient story and control applications more naturally and efficiently - anywhere, anytime. Dragon Medical One is HITRUST CSF-certified and uses a secure desktop app to keep data private and protected. It helps increase productivity and offers more flexibility and personalization while establishing a firm foundation for organizations to take advantage of new and future innovations, including virtual assistants and ambient clinical intelligence (“ACI”).
- **Computer-Assisted Physician Documentation (“CAPD”):** Backed by AI, our solutions give physicians in-workflow guidance to drive better data outcomes across the continuum of care. Our CAPD solutions apply workflow and knowledge automation, proven clinical strategies and point-of-care advice to capture complete and accurate documentation while improving productivity and satisfaction. We make it easier to add specificity to existing diagnoses, discover evidence of undocumented diagnoses and support various specialties and care settings. Details are extracted from patient narratives for fast and accurate translation into discrete data, while coding assistance helps capture professional charges, improve quality and reduce retrospective queries.
- **Clinical Documentation Improvement (“CDI”) and Coding:** Our comprehensive portfolio of cloud-based technologies is designed to help increase the productivity and effectiveness of CDI teams. Our clinically focused program and services deliver documentation guidance, AI-powered encounter prioritization, workflow management, denials support and analytics to drive better documentation across the care continuum. Designed with scale and reliability in mind, these solutions require lower installation, deployment and maintenance costs and are hosted on Microsoft Azure, a HITRUST CSF-certified infrastructure to support privacy, security and compliance. We provide real-time insights that promote a performance-driven program, allow peer comparisons and identify opportunities for improvement. Our Coding solutions offer cloud-based, enterprise-wide products and services that are designed to improve coder productivity and maintain the highest levels of accuracy and compliance. These solutions effectively manage and monitor the types of compliance coding challenges that can put a health system at risk for delayed and reduced reimbursement. We help manage the workflow by bringing together the tools needed to provide better visibility into key coding performance indicators. Coder productivity can be enhanced by enabling a more complete and accurate review of both inpatient and outpatient encounters that are associated with facility and professional service fees.
- **Diagnostic Solutions:** Our solutions continuously improve the efficiency and effectiveness of the radiologists’ work to improve clinical and financial outcomes across the continuum of care. Driving both speed and precision in how radiology is applied to patient care to maximize reimbursement, we reduce duplications and errors and alleviate burnout. Using AI, we help automate time-consuming, non-value-added tasks, freeing radiologists to perform more important tasks. By focusing more on integrating patients’ clinical and imaging information and collaborating better with peers, we help radiologists uplift their role within the care team.
- **Transcriptions Solutions:** These solutions offer cloud-based transcription capabilities for clinical documentation that use background speech recognition to increase Medical Language Specialists’ productivity and reduce costs. Helping organizations simplify the documentation process by offering users an automated and flexible workflow with options designed to meet a facility’s specific needs, our solutions and services offer fast, accurate, and usable documentation with more seamless and fully automated processes that can identify discrete information and securely upload data directly into the electronic health record (“EHR”). Clinicians using EHRs can accurately document entire patient encounters using a mobile device or their standard dictation methods.

The channels for distribution in the Healthcare segment utilize our direct sales force to address the market and our professional services organization to support the implementation requirements of the healthcare industry. Direct distribution is supplemented by distributors, resellers, and partnerships with a variety of healthcare IT providers. Our Healthcare customers and partners include

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Cleveland Clinic, Johns Hopkins, Partners Healthcare, Vanderbilt University Medical Center (“VUMC”), and National Health Services (“NHS”). Our partners include Cerner, Epic, MEDITECH, Microsoft, and NVIDIA.

Areas of expansion and focus for our Healthcare segment include providing customers deeper integration with our clinical documentation solutions; investing in our cloud-based offerings, operations, and network security; entering new and adjacent markets such as ambulatory care; and expanding our international capabilities. Also, we are enabling the journey to ACI through Dragon Medical One, core AI technologies, and our rich clinical knowledge base. ACI takes advantage of our cloud-based speech recognition technology and benefits from increasing levels of workflow, task, and knowledge automation.

Enterprise

Our Enterprise segment is a leading provider of AI-powered intelligent customer engagement solutions and services, which enable enterprises and contact centers to enhance and automate customer service and sales engagement.

Our market-leading Intelligent Engagement platforms powered by conversational AI are recognized and awarded by independent industry research firms like Forrester, Gartner and Opus. We are also differentiated by our ability to enable enterprises to implement voice and text-based virtual assistants and to provide automated service across voice and digital channels, as well as the ability of our solutions to seamlessly transition to agent-assisted engagement to complete a customer service request. Our intelligent self-service solutions are highly accurate and dependable, resulting in increased customer satisfaction levels while simultaneously reducing the costs associated with delivering customer service for the enterprise.

Our solutions and services portfolio now span voice biometrics, digital virtual assistant capabilities, voice, mobile, web and messaging channels, with inbound and outbound customer service and engagement in over 30 speech recognition, 100 text to speech, and 40 NLU and dialog languages.

Enterprise segment revenues were \$510.8 million, \$483.2 million, and \$474.3 million in fiscal years 2019, 2018 and 2017, respectively. Enterprise segment revenues represented 27.9%, 26.0% and 27.0% of total segment revenue in fiscal years 2019, 2018 and 2017, respectively.

Our principal solutions for the Enterprise segment include the following:

- ***IVR Voice Solutions:*** These solutions add automated customer service to phone calls into a contact center. They are integrated with interactive voice response (“IVR”) systems provided to the customer by us or by a wide range of third-party IVR and contact center vendors, who often resell our IVR Voice Solutions. Our solutions in this category include ASR, TTS, NLU and dialog engines, which are sold as perpetual licenses with maintenance and support (“M&S”), or volume-based transactional pricing. We also offer a cloud hosted IVR and voice automation platform which is largely sold direct through multi-year agreements with volume-based transactional pricing and associated professional services.
- ***Intelligent Engagement Solutions:*** We have an open, modular cloud platform that provides enterprises with the ability to implement virtual- and live-engagement across nearly all digital voice and text channels. The platform supports virtual assistant, live engagement and proactive outbound services, using our conversational AI and engagement AI capabilities. Our intelligent engagement cloud is sold both direct and through partners, and are largely multi-year agreements with volume-based transactional pricing and associated professional services.
- ***Security & Biometrics Solutions:*** These solutions enable organizations to automate the identification & verification (ID&V) of their customers using voice, face or behavioral biometrics, replacing time consuming security questions with either a simple phrase - “At Big Bank my voice is my password” or simply by having the system listen to the conversation between the customer and agent. The system also can detect potential fraud using voice biometrics in real time or in batch, providing enterprises with an effective way of preventing fraud. We license this solution via perpetual M&S, on-premise transactional and cloud transactional models.

Our Enterprise segment utilizes a hybrid go-to-market model, selling both direct and through reseller partners. Those partners include traditional IVR vendors such as Avaya, Cisco, Enghouse Interactive and Genesys; system integrators like IBM, Telstra, and Verizon Business; and specialty vendors like Verint. Thousands of organizations worldwide utilize Nuance technologies or solutions, including Fortune 1000 companies, such as Allied Irish Banks, American Airlines, Amtrak, Australian Government Department of Human Services, Barclays, Blue Cross Blue Shield, Coca-Cola, Delta Airlines, Deutsche Bank, Esurance, FedEx, HSBC, Jetstar, Royal Bank of Scotland, Santander, TD Bank, Telstra, USAA, Vision Service Plan, Virginia Credit Unit, Vodafone and Windstream.

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Areas of focus and expansion for our Enterprise segment include increasing the penetration of our full portfolio into our large existing customer base; bringing our Intelligent Engagement cloud to new customers and new international markets, especially Western Europe, Japan and Australia; launch of our security & biometrics cloud solution; and continued investment in our AI-powered solutions to ensure we retain leadership throughout our solutions.

Automotive

Our Automotive segment provides automotive manufacturers and their suppliers intuitive, personalized, branded, virtual assistants and connected services for cars that are safer, easier, and more enjoyable. Our ASR, NLU and TTS technologies and deep domain experience, integration capabilities and independence make us a preferred vendor to the world's largest automotive manufacturers and suppliers. Our automotive solutions are generally sold as on-demand models that are typically priced on a per-unit basis for multi-year service terms. We have a worldwide professional services team to provide custom solution development services and sell our technologies through a traditional perpetual software license model, including a royalty-based model. Our Automotive customers include major automotive OEMs, such as Ford, Daimler, BMW, Toyota, Fiat Chrysler, Volkswagen, and Geely.

Automotive segment revenues were \$306.6 million, \$279.4 million, and \$252.2 million in fiscal years 2019, 2018 and 2017, respectively. Automotive segment revenues represented 16.8%, 15.1% and 14.3% of total segment revenue in fiscal years 2019, 2018 and 2017, respectively.

In connection with our strategic business transformation, on November 19, 2018, we announced our intent to spin off our Automotive business into an independent publicly traded company through a pro rata distribution to our common stockholders. The spin-off was completed on October 1, 2019.

Other

Our Other segment includes our Subscriber Revenue Services ("SRS") and Devices businesses. Our SRS business has two components: (1) the provision of value-added services to mobile operators in India and Brazil ("Mobile Operator Services") and (2) the provision of voicemail transcription services to mobile operators in the rest of the world ("Voicemail-to-Text"). Our Devices business provides speech recognition solutions and predictive text technologies for handset devices. Within our SRS business, our Mobile Operator Services business experienced dramatic market disruptions during fiscal year 2018. In addition, the revenue of our Devices business has been declining due to the ongoing consolidation of our handset manufacturer customer base and continued erosion of our penetration of the remaining market. Therefore, during the fourth quarter of fiscal 2018, in connection with our comprehensive portfolio and business review efforts, we commenced a wind-down of our Devices and Mobile Operator Services businesses, which, when completed, will leave our Voicemail-to-Text business in our Other segment. In May 2019, we completed the sale of our Mobile Operator Services business in Brazil, and in July 2019, we completed the sale of our Mobile Operator Services business in India. The sale prices and any gains or losses were immaterial.

Other segment revenues were \$61.5 million, \$109.1 million, and \$133.8 million in fiscal years 2019, 2018 and 2017, respectively. As a percentage of total segment revenue, Other segment revenues represented 3.4%, 5.9% and 7.6% in fiscal years 2019, 2018 and 2017, respectively.

Discontinued Operations

Our previous Imaging segment provides software solutions and expertise that help professionals and organizations gain optimal control of their document and information processes by enabling customers to achieve measurable business and productivity benefits as they securely create, use and share documents. The Imaging portfolio of products and services helps business customers achieve compliance with information security policies and regulations while enabling organizations to streamline and eliminate gaps across their document work flows. Imaging revenues were \$67.4 million, \$209.4 million, and \$211.2 million in fiscal years 2019, 2018 and 2017, respectively.

On November 11, 2018, we entered into a definitive sale agreement with Project Leopard AcquireCo Limited (an affiliate of Kofax, Inc.) (the "Agreement"), pursuant to which we agreed to sell our Imaging business and associated assets. On February 1, 2019, we completed the sale of the business and received approximately \$400.0 million, after estimated transaction expenses, and subject to post-closing finalization of those adjustments as set forth in the sale agreement, Imaging's results of operations have been included within discontinued operations and its assets and liabilities within held for sale on our consolidated financial statements.

Intellectual Property

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

We continue to invest in technologies to maintain our market-leading position and to develop new applications. We rely on a portfolio of patents, copyrights, trademarks, services marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our intellectual property and proprietary rights. As of September 30, 2019, we held approximately 3,550 patents and 450 patent applications. As of October 1, 2019, following the spin-off of our Automotive business segment, we held approximately 2,450 patents and 350 patent applications. Our intellectual property is critical to our success and competitive position.

Competition

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

- **Specialized Professional Services.** Our superior technology, when coupled with the high quality and domain knowledge of our professional services organization, allows our customers and partners to place a high degree of confidence and trust in our ability to deliver results. We support our customers in designing and building powerful innovative solutions that specifically address their needs and requirements.
- **International Coverage.** The international reach of our solutions and technologies is due to the broad language coverage of our offerings, including our ASR and NLU solutions, which provide recognition for approximately 90 languages and dialects and natural-sounding synthesized speech in over 160 voices, and support a broad range of hardware platforms and operating systems.
- **Technological Superiority.** We have deep domain expertise and our conversational AI technologies, applications and solutions are often recognized as the most innovative and proficient in their respective categories. Our ASR and NLU solutions have industry-leading recognition accuracy and provide a natural, voice-enabled interaction with systems, devices and applications. Technology publications, analyst research and independent benchmarks have consistently indicated that our solutions and technologies rank at or above performance levels of alternative solutions.
- **Broad Distribution Channels.** Our ability to address the needs of specific markets, such as financial, law, healthcare and government, and to introduce new solutions and technologies quickly and effectively is provided by our direct sales force, our extensive global network of resellers, comprising system integrators, independent software vendors, value-added resellers, hardware vendors, telecommunications carriers and distributors, and our e-commerce website.

Our Healthcare segment competes primarily with Optum, 3M and other smaller providers. Our former Automotive business competed with Amazon, Google, iFlyTek and Microsoft as well as with other, smaller vendors, particularly in China. Also, some of our partners such as Avaya, Cisco, and Genesys develop and market products that might be considered substitutes for our Enterprise solutions. Additionally, a number of smaller companies in voice recognition, natural language understanding, and text input offer technologies or products that are competitive with our solutions.

Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers.

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

Employees

As of September 30, 2019, we had approximately 8,100 full-time employees, including approximately 900 in sales and marketing, approximately 2,400 in professional services, approximately 2,000 in research and development, approximately 800 in general and administrative, and approximately 2,000 who provide transcription and editing services. Approximately 62% of our employees are based outside of the United States ("U.S."), approximately 33% of whom provide transcription and editing services and are based in India.

As of October 1, 2019, after the spin-off, we had approximately 6,700 full-time employees, including approximately 800 in sales and marketing, approximately 1,900 in professional services, approximately 1,300 in research and development, and approximately 700 in general and administrative, and approximately 2,000 who provide transcription and editing services. Approximately 57% of our employees are based outside of the United States ("U.S."), approximately 42% of whom provide transcription and editing services and are based in India.

None of our employees in the U.S. is represented by a labor union. Employees of certain of our foreign subsidiaries are represented by labor unions or workers' councils. We believe that our relationships with our employees are satisfactory.

Information About Geographic Areas

We have offices in a number of international locations including Australia, Austria, Belgium, Brazil, Canada, Germany, Hungary, India, Ireland, Italy, Japan, and the United Kingdom ("U.K."). The responsibilities of our international operations include research and development, healthcare transcription and editing, customer support, sales and marketing and general and administrative. Additionally, we maintain smaller sales, services and support offices throughout the world to support our international customers and to expand international revenue opportunities.

Geographic revenue classification is based on the geographic areas in which our customers are located. For fiscal years 2019, 2018 and 2017, 75%, 75% and 72% of revenue from continuing operations was generated in the United States and 25%, 25% and 28% was generated by our international customers, respectively.

Corporate Information and Website

We were incorporated under the laws of the State of Delaware in 1992. Our website is located at www.nuance.com and we trade under the ticker symbol NUAN. We are not including the information contained in our website as part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, as soon as reasonably practicable after we electronically file these materials with, or otherwise furnish them to, the Securities and Exchange Commission ("SEC").

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below when evaluating the company and when deciding whether to invest in the company. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we do not currently believe are important to an investor may also harm our business operations. If any of the events, contingencies, circumstances or conditions described below actually occurs, our business, financial condition or our results of operations could be seriously harmed. If that happens, the trading price of our common stock could decline.

Risks Related to Our Business

The markets in which we operate are highly competitive and rapidly changing and we may be unable to compete successfully.

There are a number of companies that develop or may develop products that compete in our targeted markets. The markets for our products and services are characterized by intense competition, evolving industry and regulatory standards, emerging business and distribution models, disruptive software and hardware technology developments, short product and service life cycles, price sensitivity on the part of customers, and frequent new product introductions, including alternatives for certain of our products that offer limited functionality at significantly lower costs or free of charge. Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers. Furthermore, there has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions.

The competition in our targeted markets could adversely affect our operating results by reducing the volume of the products and solutions we license or sell or the prices we can charge. Some of our current or potential competitors have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than we do, and in certain cases may be able to include or combine their competitive products or technologies with other of their products or technologies in a manner whereby the competitive functionality is available at lower cost or free of charge within the larger offering. To the extent they do so, market acceptance and penetration of our products, and therefore our revenue and bookings, may be adversely affected. Our success depends substantially upon our ability to enhance our products and technologies and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing customer requirements and incorporate technological enhancements. If we are unable to develop or acquire new products and enhance functionalities or technologies to adapt to these changes our business will suffer.

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

Our revenue, bookings and operating results have fluctuated materially in the past and we expect such fluctuations to continue in the future. These fluctuations may cause our results of operations not to meet the expectations of securities analysts or investors which would likely cause the price of our stock to decline. Factors that may contribute to fluctuations in operating results include:

- volume, timing and fulfillment of customer orders and receipt of royalty reports;
- fluctuating sales by our channel partners to their customers;
- customers delaying their purchasing decisions in anticipation of new versions of our products;
- contractual counterparties failing to meet their contractual commitments to us;
- introduction of new products by us or our competitors;
- cybersecurity or data breaches;
- seasonality in purchasing patterns of our customers;
- reduction in the prices of our products in response to competition, market conditions or contractual obligations;
- returns and allowance charges in excess of accrued amounts;
- timing of significant marketing and sales promotions;
- impairment of goodwill or intangible assets;
- the pace of the transition to an on-demand and transactional revenue model;
- delayed realization of synergies resulting from our acquisitions;
- accounts receivable that are not collectible and write-offs of excess or obsolete inventory;
- increased expenditures incurred pursuing new product or market opportunities;
- higher than anticipated costs related to fixed-price contracts with our customers;
- change in costs due to regulatory or trade restrictions;
- expenses incurred in litigation matters, whether initiated by us or brought by third parties against us, and settlements or judgments we are required to pay in connection with disputes; and
- general economic trends as they affect the customer bases into which we sell.

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

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

Because we operate worldwide, our business is subject to risks associated with doing business internationally. We generate most of our international revenue and bookings in Europe and Asia, and we anticipate that revenue and bookings from international operations could increase in the future. In addition, some of our products are developed outside the United States and we have a large number of employees in India who provide transcription and development services, and we also have a large number of employees in Canada, Germany and the United Kingdom who provide professional services. We conduct a significant portion of the development of our voice recognition and natural language understanding solutions in Canada and Germany. We also have significant research and development resources in Austria, Belgium, Italy, and the United Kingdom. We are exposed to fluctuating exchange rates of foreign currencies including the Euro, British pound, Brazilian real, Canadian dollar, Japanese yen, and Indian rupee. Accordingly, our future results could be harmed by a variety of factors associated with international sales and operations, including:

- adverse political and economic conditions, or changes to such conditions, in a specific region or country;

- trade protection measures, including tariffs and import/export controls, imposed by the United States and/or by other countries or regional authorities such as Canada or the European Union;
- the impact on local and global economies of the United Kingdom leaving the European Union;
- changes in foreign currency exchange rates or the lack of ability to hedge certain foreign currencies;
- compliance with laws and regulations in many countries and any subsequent changes in such laws and regulations;
- geopolitical turmoil, including terrorism and war;
- changing data privacy regulations and customer requirements to locate data centers in certain jurisdictions;
- evolving restrictions on cross-border investment, including recent enhancements to the oversight by the Committee on Foreign Investment in the United States pursuant to the Foreign Investment Risk Preview Modernization Act;
- changes in applicable tax laws;
- difficulties in staffing and managing operations in multiple locations in many countries;
- longer payment cycles of foreign customers and timing of collections in foreign jurisdictions; and
- less effective protection of intellectual property outside the United States.

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

To execute our business strategy, we must attract and retain highly qualified personnel. If any of our key employees were to leave, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience. Although we have arrangements with some of our executive officers designed to promote retention, our employment relationships are generally at-will and we have had key employees leave in the past. We cannot assure you that one or more key employees will not leave in the future. In particular, we compete with many other companies for software developers with high levels of experience in designing, developing and managing software, as well as for skilled information technology, marketing, sales and operations professionals, and we may not be successful in attracting and retaining the professionals we need. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and difficulty in retaining highly skilled employees with appropriate qualifications. In particular, we have experienced a competitive hiring environment in the Greater Boston area, where we are headquartered. Many of the companies with which we compete for experienced personnel have greater resources than we do. In addition, in making employment decisions, particularly in the software industry, job candidates often consider the value of the equity incentives they are to receive in connection with their employment. If the price of our stock declines, or experiences significant volatility, our ability to attract or retain key employees will be adversely affected. We intend to continue to hire additional highly qualified personnel, including research and development and operational personnel, but may not be able to attract, assimilate or retain qualified personnel in the future. Any failure to attract, integrate, motivate and retain these employees could harm our business.

Cybersecurity and data privacy incidents or breaches may damage client relations and inhibit our growth.

The confidentiality and security of our information, and that of third parties, is critical to our business. Our services involve the transmission, use, and storage of our customers' and their customers' confidential information. We were the victim of a cybercrime in 2017, and future cybersecurity or data privacy incidents could have a material adverse effect on our results of operations and financial condition. While we maintain a broad array of information security and privacy measures, policies and practices, our networks may be breached through a variety of means, resulting in someone obtaining unauthorized access to our information, to information of our customers or their customers, or to our intellectual property; disabling or degrading service; or sabotaging systems or information. In addition, hardware, software, or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud or other forms of deceiving our employees, contractors, and vendors. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. We will continue to incur significant costs to continuously enhance our information security measures to defend against the threat of cybercrime. Any cybersecurity or data privacy incident or breach may result in:

- loss of revenue resulting from the operational disruption;
- loss of revenue or increased bad debt expense due to the inability to invoice properly or to customer dissatisfaction resulting in collection issues;
- loss of revenue due to loss of customers;
- material remediation costs to restore systems;
- material investments in new or enhanced systems in order to enhance our information security posture;
- cost of incentives offered to customers to restore confidence and maintain business relationships;
- reputational damage resulting in the failure to retain or attract customers;
- costs associated with potential litigation or governmental investigations;
- costs associated with any required notices of a data breach;

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- costs associated with the potential loss of critical business data; and
- other consequences of which we are not currently aware but will discover through the remediation process.

Our business is subject to a variety of domestic and international laws, rules, policies and other obligations including data protection, anticorruption and health care reimbursement.

We are subject to U.S. and international laws and regulations in multiple areas, including data protection, anticorruption, labor relations, tax, foreign currency, anti-competition, import, export and trade regulations, and we are subject to a complex array of federal, state and international laws relating to the collection, use, retention, disclosure, security and transfer of personally identifiable information and personal health information, with additional laws applicable in some jurisdictions where the information is collected from children. In many cases, these laws apply not only to transfers between unrelated third parties but also to transfers between us and our subsidiaries. Many jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. For instance, the European Commission adopted the European General Data Protection Regulation (the “GDPR”), which went into effect in May 2018 and China adopted a new cybersecurity law in June 2017. There is also an increase in regulation of biometric data globally, which may include voiceprints. In addition, California adopted significant new consumer privacy laws in June 2018 that will be effective beginning in January 2020. Complying with the GDPR, the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”), the Health Information Technology for Economic and Clinical Health (“HITECH”), and other requirements may cause us to incur substantial costs and may require us to change our business practices.

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

- cause our customers to lose confidence in our solutions;
- harm our reputation;
- expose us to litigation, regulatory investigations and to resulting liabilities including reimbursement of customer costs, damages penalties or fines imposed by regulatory agencies; and
- require us to incur significant expenses for remediation.

We are also subject to a variety of anticorruption laws in respect of our international operations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and the Canadian Corruption of Foreign Public Officials Act, and regulations issued by the U.S. Customs and Border Protection, the U.S. Bureau of Industry and Security, the U.S. Treasury Department’s Office of Foreign Assets Control, and various other foreign governmental agencies. We cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted. Actual or alleged violations of these laws and regulations could lead to enforcement actions and financial penalties that could result in substantial costs.

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

Because our services are complex and incorporate a variety of third-party hardware and software, our services may have errors or defects that could result in unanticipated downtime for our customers and harm to our reputation and our business. We have from time to time, found defects in our services, and new errors in our services may be detected in the future. In addition, we currently serve our customers from data center hosting facilities we directly manage and from third party public cloud facilities. Any damage to, or failure of, the systems that serve our customers in whole or in part could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay service-level agreement penalties, cause customers to terminate their on-demand services, and adversely affect our renewal rates and our ability to attract new customers.

We may be unable to fully capture the expected value from strategic transactions.

As part of our business strategy, we have in the past acquired and divested, and expect to continue to acquire and may divest, other businesses and technologies. We also expect to from time to time pursue other strategic transactions including divestitures, joint ventures, minority stakes and strategic alliances. Our acquisitions and divestitures have required substantial integration and management efforts, and we expect future acquisitions, divestitures and other strategic transactions to require similar efforts. Successfully realizing the benefits of acquisitions, divestitures and other strategic transactions involves a number of risks, including:

- difficulty in transitioning and integrating the operations and personnel of the acquired businesses;
- difficulty in separating the operations, personnel and systems of divested businesses;
- potential negative impact on our profitability as a result of losses that may result from a divestiture, including the loss of sales and operating income or decrease in cash flows;

- retained exposure on financial guarantee leases, real estate and other contractual, employment, pension and severance obligations of divested business, and potential liabilities that may arise under law as a result of the disposition or the subsequent failure of an acquirer;
- potential disruption of our ongoing business and distraction of management;
- difficulty in incorporating acquired products and technologies into our products and technologies;
- potential difficulties in completing projects associated with in-process research and development;
- unanticipated expenses and delays in completing acquired development projects and technology integration and upgrades;
- challenges associated with managing additional, geographically remote businesses;
- impairment of relationships with partners and customers;
- assumption of unknown material liabilities of acquired companies;
- the accuracy of revenue and bookings projections of acquired companies;
- customers delaying purchases of our products pending resolution of product integration between our existing and our newly acquired products;
- entering markets or types of businesses in which we have limited experience; and
- potential loss of key employees of the acquired business or loss of key employees of a divested business.

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

The spin-off of our Automotive business may not achieve some or all of the intended benefits and may adversely affect our business.

On October 1, 2019, we completed the spin off our Automotive business into an independent, publicly-traded company called Cerence Inc. ("Cerence"). We may not achieve the full strategic, operational and financial benefits that we anticipated from the spin-off, or such benefits may be delayed. In fact, the spin-off may adversely affect our business. Following the spin-off, we are a smaller company with a less diversified product portfolio and a narrower business focus. As a result, we may be more vulnerable to changing market conditions, which could materially and adversely affect our business, financial condition and results of operations. Although Nuance and Cerence are now two independent companies, our long joint history may cause consumers and investors to continue to associate the companies with each other, either positively or negatively. Separating the businesses may also eliminate or reduce synergies or economies of scale that existed prior to the spin-off, which could harm our business.

We may be exposed to claims and liabilities as a result of the spin-off of our Automotive business segment.

We entered into a separation and distribution agreement and various other agreements with Cerence to govern the spin-off and the relationship between the two companies going forward. These agreements provide for specific indemnity and liability obligations and could lead to disputes between us and Cerence. For example, in the Tax Matters Agreement, dated September 30, 2019, between Nuance and Cerence, Cerence agreed to indemnify Nuance for resulting taxes and related expenses if, as a result of any of Cerence's breach of certain of its representations or covenants, the spin-off and certain related reorganization transactions are determined not to qualify for non-recognition of gain or loss under Section 355 and related provisions of the Internal Revenue Code of 1986, as amended. The indemnity rights we have against Cerence under the agreements may not be sufficient to protect us, for example if our losses exceed our indemnity rights or if Cerence did not have the financial resources to meet its indemnity obligations. In addition, our indemnity obligations to Cerence may be significant, and these risks could negatively affect our results of operations and financial condition.

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

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

- costs incurred to integrate the operations of businesses we acquire, such as transitional employee expenses and employee retention, redeployment or relocation expenses;
- impairment of goodwill or intangible assets;
- amortization of intangible assets acquired;
- a reduction in the useful lives of intangible assets acquired;

- identification of or changes to assumed contingent liabilities, both income tax and non-income tax related, after our final determination of the amounts for these contingencies or the conclusion of the measurement period (generally up to one year from the acquisition date), whichever comes first;
- charges to our operating results to eliminate certain duplicative pre-merger activities, to restructure our operations or to reduce our cost structure;
- charges to our operating results arising from expenses incurred to effect the acquisition; and
- charges to our operating results due to the expensing of stock awards assumed in acquisitions.

Intangible assets are generally amortized over three to ten years. Goodwill is not subject to amortization but is subject to an impairment analysis, at least annually, which may result in an impairment charge if the carrying value exceeds its implied fair value. As of September 30, 2019, we recorded goodwill of \$3,243.5 million and intangible assets of \$356.9 million, net of accumulated amortization and impairment charges. In addition, purchase accounting limits our ability to recognize certain revenue that otherwise would have been recognized by the acquired company as an independent business. As a result, the combined company may delay revenue recognition or recognize less revenue than we and the acquired company would have recognized as independent companies.

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

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

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

For example, as more fully described in Note 6 to the accompanying consolidated financial statements, during the second quarter of fiscal year 2018, we reorganized our former Mobile business into three discrete lines of business - Automotive, Dragon TV, and Devices. In connection with this reorganization, and the review of goodwill and other intangible assets for impairment that was triggered by recent financial results and rapidly changing business conditions for our SRS business, we recorded a total of \$137.9 million of goodwill impairment charge related to the Devices and SRS businesses for the second quarter of fiscal 2018. Additionally, in connection with our comprehensive portfolio and business review efforts, management decided to commence a wind-down of our Mobile Operator Services (within our SRS business) and Devices businesses during the fourth quarter of fiscal 2018. As a result, we recorded additional impairment charges of goodwill and other intangible assets of approximately \$33.0 million. For more information, please see Note 6 of the accompanying consolidated financial statements. Future adverse changes in these or other unforeseeable factors could result in an impairment charge that would impact our results of operations and financial position in the reporting period identified.

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

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

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

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

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

We reported total net losses of \$159.9 million and \$151.0 million in fiscal years 2018 and 2017, respectively, and have a total accumulated deficit of \$293.6 million as of September 30, 2019. If we are unable to return to profitability, the market price for our stock may decline, perhaps substantially. We cannot assure you that our revenue or bookings will grow or that we will return to profitability in the future. If we do not achieve profitability, we may be required to raise additional capital to maintain or grow our operations. Additional capital, if available at all, may be highly dilutive to existing investors or contain other unfavorable terms, such as a high interest rate and restrictive covenants.

Tax matters may cause significant variability in our financial results.

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

- projected levels of taxable income;
- pre-tax income being lower than anticipated in countries with lower statutory rates or higher than anticipated in countries with higher statutory rates;
- increases or decreases to valuation allowances recorded against deferred tax assets;
- tax audits conducted and settled by various tax authorities;
- adjustments to income taxes upon finalization of income tax returns;
- the ability to claim foreign tax credits;
- the repatriation of non-U.S. earnings for which we have not previously provided for income taxes; and
- changes in tax laws and their interpretations in countries in which we are subject to taxation.

During 2014, Ireland enacted changes to the taxation of certain Irish incorporated companies effective as of January 2021. On October 5, 2015, the Organization for Economic Cooperation and Development released the Final Reports for its Action Plan on Base Erosion and Profit Shifting. The implementation of one or more of these reports in jurisdictions in which we operate, together with the 2014 enactment by Ireland, could result in an increase to our effective tax rate. In addition, in December 2017, the United States enacted the Tax Cut and Jobs Act of 2017. We expect this to continue having a material impact on our tax financial results under United States generally accepted accounting principles. Future changes in U.S. and non-U.S. tax laws and regulations could have a material effect on our results of operations in the periods in which such laws and regulations become effective as well as in future periods.

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

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

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

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

Risks Related to Our Intellectual Property and Technology

Third parties have claimed and may claim in the future that we are infringing their intellectual property, and we could be exposed to significant litigation or licensing expenses or be prevented from selling our products if such claims are successful.

From time to time, we are subject to claims and legal actions alleging that we or our customers may be infringing or contributing to the infringement of the intellectual property rights of others. We may be unaware of intellectual property rights of others that may cover some of our technologies and products. If it appears necessary or desirable, we may seek licenses for these intellectual property rights. However, we may not be able to obtain licenses from some or all claimants, the terms of any offered licenses may not be acceptable to us, and we may not be able to resolve disputes without litigation. Any litigation regarding intellectual property could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Intellectual property disputes could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from manufacturing or licensing certain of our products, cause severe disruptions to our operations or the markets in which we compete, or require us to satisfy indemnification commitments to our customers. Any of these could seriously harm our business.

Unauthorized use of our proprietary technology and intellectual property could adversely affect our business and results of operations.

Our success and competitive position depend in large part on our ability to obtain and maintain intellectual property rights protecting our products and services. We rely on a combination of patents, copyrights, trademarks, service marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our intellectual property and proprietary rights. Unauthorized parties may attempt to copy or discover aspects of our products or to obtain, license, sell or otherwise use information that we regard as proprietary. Policing unauthorized use of our products is difficult and we may not be able to protect our technology from unauthorized use. Additionally, our competitors may independently develop technologies that are substantially the same or superior to our technologies and that do not infringe our rights. In these cases, we would be unable to prevent our competitors from selling or licensing these similar or superior technologies. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States. Although the source code for our proprietary software is protected both as a trade secret and as a copyrighted work, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Litigation, regardless of the outcome, can be very expensive and can divert management efforts.

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

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

Risks Related to our Corporate Structure, Organization and Common Stock

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

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

- incur additional debt or issue guarantees;
- create liens;
- make certain investments;

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- enter into transactions with our affiliates;
- sell certain assets;
- repurchase capital stock or make other restricted payments;
- declare or pay dividends or make other distributions to stockholders; and
- merge or consolidate with any entity.

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

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

We have a significant amount of debt. As of September 30, 2019, we had \$2,137.0 million outstanding principal of debt, including \$300.0 million of senior notes due in 2024, and \$500.0 million of senior notes due in 2026, \$46.6 million of 2.75% 2031 Convertible Debentures redeemable in November 2021, \$263.9 million of 1.5% 2035 Convertible Debentures redeemable in November 2021, \$676.5 million of 1.0% 2035 Convertible Debentures redeemable in December 2022, and \$350.0 million of 1.25% 2025 Convertible Debentures redeemable in April 2025. Investors may require us to redeem these convertible debentures earlier than the dates indicated if the closing sale price of our common stock is more than 130% of the then current conversion price of the respective debentures for certain specified periods. If a holder elects to convert, we will be required to pay the principal amount in cash and any amounts payable in excess of the principal amount in cash or shares of our common stock, at our election. For example, on November 1, 2017, holders of \$331.2 million of our 2.75% 2031 Convertible Debentures exercised their rights to require us to repurchase such debentures. We also have a \$242.5 million Revolving Credit Facility under which \$5.9 million was committed to backing outstanding letters of credit issued and \$236.6 million was available for borrowing at September 30, 2019. Our debt level could have important consequences. For example, it could:

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

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

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

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

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

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

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

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

Our business could be negatively affected by the actions of activist stockholders.

In the past, certain stockholders have publicly and privately expressed concerns with our performance and with certain governance matters. Responding to actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Furthermore, any perceived uncertainties as to our future direction could result in the loss of potential business opportunities, and may make it more difficult to attract and retain qualified personnel and business partners. In addition, we have enacted certain changes to our bylaws in the past year that may weaken our ability to prevent an unsolicited takeover.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our corporate headquarters are located in Burlington, Massachusetts. As of September 30, 2019, we leased approximately 1.6 million square feet of building space, primarily in the United States, and to a lesser extent, in the Asia-Pacific regions, Europe and Canada, of which, approximately 0.4 million square feet was related to our Automotive business. Larger leased sites include properties located in: Montreal, Canada; and Bangalore, India. In addition, we own 130,000 square feet of building space located in Melbourne, Florida.

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

We believe our existing facilities and equipment are in good operating condition and are suitable for the conduct of our business.

Item 3. *Legal Proceedings*

Similar to many companies in the software industry, we are involved in a variety of claims, demands, suits, investigations and proceedings that arise from time to time relating to matters incidental to the ordinary course of our business, including actions with respect to contracts, intellectual property, employment, benefits and securities matters. We evaluate the probability of adverse outcomes and, as applicable, estimate the amount of probable losses that may result from pending matters. Probable losses that can be reasonably estimated are reflected in our consolidated financial statements. These recorded amounts are not material to our consolidated financial statements for any of the periods presented in the accompanying consolidated financial statements. While it is not possible to predict the outcome of these matters with certainty, we do not expect the results of any of these actions to have a material adverse effect on our results of operations or financial position. However, each of these matters is subject to uncertainties, the actual losses may prove to be larger or smaller than the accruals reflected in our consolidated financial statements, and we could incur judgments or enter into settlements of claims that could adversely affect our financial position, results of operations or cash flows.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

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

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol "NUAN".

As of October 31, 2019, there were 577 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial owners represented by these record holders.

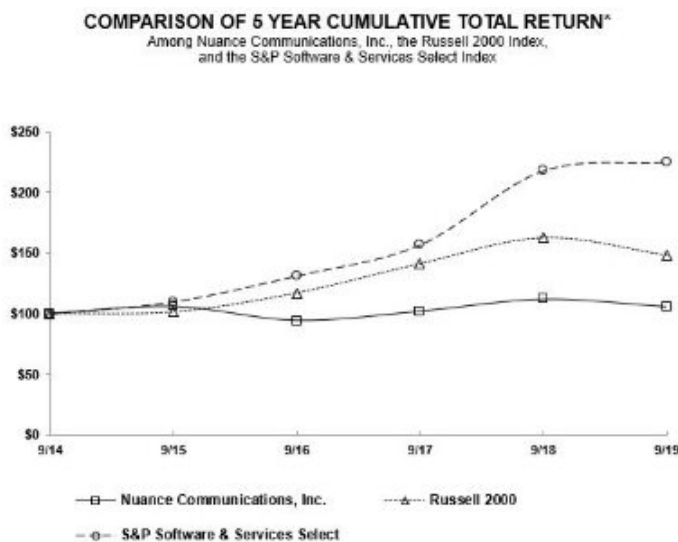
Dividend Policy

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

Stock Performance Graph

The following performance graph compares the Company's cumulative total return on its common stock between September 30, 2014 and September 30, 2019 to the cumulative total return of the Russell 2000, and to the S&P Information Technology indices assuming \$100 was invested in the Company's common stock and each of the indices upon the closing of trading on September 30, 2014 and assuming the reinvestment of dividends, if any. The Company has never declared or paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.



* \$100 invested on September 30, 2014 in stock or index, including reinvestment of dividends, for each of the fiscal years below.

	9/14	9/15	9/16	9/17	9/18	9/19
Nuance Communications, Inc.	100.00	106.20	94.06	101.98	112.36	105.81
Russell 2000	100.00	101.25	116.91	141.15	162.66	148.20
S&P Software & Services Select	100.00	109.82	131.33	156.88	218.07	225.09

Issuer Purchases of Equity Securities

The following is a summary of our share repurchases for the three months ended September 30, 2019:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program ⁽¹⁾
July 1, 2019 - July 31, 2019	—	—	—	\$ 436,384,658
August 1, 2019 - August 31, 2019	391,114	\$ 15.34	391,114	\$ 430,383,689
September 1, 2019 - September 30, 2019	—	—	—	\$ 430,383,689
Total	<u>391,114</u>		<u>391,114</u>	

⁽¹⁾ 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. On August 1, 2018, our Board of Directors approved an additional \$500.0 million under our share repurchase program. The program has no expiration date. As of September 30, 2019, approximately \$430.4 million remained available for future repurchases under the program.

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

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 6. Selected Consolidated Financial Data

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

<i>(In millions, except per share amounts)</i>	Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
	(ASC 606)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)
Continuing Operations ^(a):					
Total revenues	\$ 1,823.1	\$ 1,842.3	\$ 1,728.2	\$ 1,720.3	\$ 1,721.5
Gross profit	\$ 1,043.2	\$ 1,016.9	\$ 924.3	\$ 945.4	\$ 948.4
Income (loss) from operations	\$ 132.7	\$ (117.5)	\$ 16.5	\$ 88.1	\$ 54.9
(Benefit) provision for income taxes	\$ (88.6)	\$ (62.3)	\$ 23.7	\$ 10.2	\$ 29.4
Net income (loss) from continuing operations	\$ 114.3	\$ (184.9)	\$ (178.3)	\$ (58.7)	\$ (140.3)
Net Income (Loss) Per Share - continuing operations:					
Basic	\$ 0.40	\$ (0.63)	\$ (0.62)	\$ (0.20)	\$ (0.44)
Diluted	\$ 0.39	\$ (0.63)	\$ (0.62)	\$ (0.20)	\$ (0.44)
Weighted average common shares outstanding:					
Basic	286.3	291.3	289.3	292.1	317.0
Diluted	290.1	291.3	289.3	292.1	317.0
Financial Position:					
Cash and cash equivalents and marketable securities	\$ 764.8	\$ 473.5	\$ 874.1	\$ 608.1	\$ 568.8
Total assets	\$ 5,365.8	\$ 5,302.4	\$ 5,931.9	\$ 5,661.5	\$ 5,511.9
Total debt	\$ 1,936.4	\$ 2,185.4	\$ 2,617.4	\$ 2,433.2	\$ 2,103.1
Total deferred revenue ^(a)	\$ 701.7	\$ 765.0	\$ 670.5	\$ 615.0	\$ 555.4
Total stockholders’ equity	\$ 2,173.2	\$ 1,717.5	\$ 1,931.4	\$ 1,931.3	\$ 2,265.3
Selected Data and Ratios ^(a):					
Working capital	\$ 553.0	\$ 199.1	\$ 254.6	\$ 378.9	\$ 378.5
Depreciation of property and equipment	\$ 55.2	\$ 60.4	\$ 53.3	\$ 59.6	\$ 59.4
Amortization of intangible assets	\$ 103.6	\$ 124.9	\$ 150.7	\$ 139.8	\$ 146.7
Gross margin percentage	57.2%	55.2%	53.5%	55.0%	55.1%

^(a) Amounts exclude those related to our Imaging business, which was included in discontinued operations for all the periods presented.

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

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

Overview
Business Overview

We are a pioneer and leader in conversational and cognitive AI innovations that bring intelligence to everyday work and life. Our solutions and technologies can understand, analyze and respond to human language to increase productivity and amplify human intelligence. Our solutions are used by businesses in the healthcare, automotive, financial services, telecommunications and travel industries, among others. We see several trends in our markets, including (i) the growing adoption of cloud-based, connected services and highly interactive mobile applications, (ii) deeper integration of virtual assistant capabilities and services, and (iii) the continued expansion of our core technology portfolio including ASR, NLU, semantic processing, domain-specific reasoning, dialog management capabilities, AI, and voice biometric speaker authentication. We report our business in four segments, Healthcare, Enterprise, Automotive, and Other.

Trends in Our Businesses

- *Healthcare.* Customers in our healthcare segment are broadly implementing EHR systems and are working to improve clinical documentation, improve quality of care, minimize physician burnout, integrate quality measures and aid reimbursement. These trends are driving a shift towards more integrated solutions that combine both Dragon Medical cloud-based solutions and transcription services. Recently, higher demand for more integrated solutions have offset declines in legacy, hosted transcription services. Additionally, we have been able to capitalize on healthcare providers' shift towards hosted, or cloud-based solutions, and away from perpetual licenses, by adding new innovations to our Dragon Medical cloud solutions including new clinical language understanding and AI capabilities designed to increase productivity and improve clinical documentation at the point of care and within existing electronic medical work flow.
- *Enterprise.* Consumer demand for 24/7, multi-channel access to customer service from the businesses they interact with is driving demand for our AI-powered omni-channel engagement solutions. We continue to enhance our technology capabilities with intelligent self-service and AI for customer service, and to extend the market for our on-demand omni-channel enterprise solutions into international markets, expand our sales and solutions for biometrics, and expand our core products and services portfolio.
- *Automotive.* Demand for our embedded and cloud-based automotive solutions is being driven by the growth in personalized, automotive virtual assistants and connected services for cars and by auto manufacturers' desire to create a branded and personalized experience, capable of intelligently integrating users' smart phone and home device preferences and technologies.

On November 19, 2018, we announced our intent to spin off our Automotive business into an independent publicly traded company through a pro rata distribution to our common stockholders. The spin-off was completed on October 1, 2019. Effective the first quarter of fiscal year 2020, the historical results of our Automotive business will be included within discontinued operations for all the historical periods presented.

- *Other.* Our Other segment includes our SRS and Devices businesses. Our SRS business provides value-added services to mobile operators in India and Brazil ("Mobile Operator Services") and voicemail transcription services to mobile operators in the rest of the world ("Voicemail-to-Text"). Our Devices business provides speech recognition solutions and predictive text technologies for handset devices. Our Mobile Operator Services has experienced dramatic market disruptions during fiscal year 2018. Our Devices revenue has been declining due to the ongoing consolidation of our handset manufacturer customer base and continued erosion of our penetration of the remaining market. During the fourth quarter of fiscal 2018, in connection with our comprehensive portfolio and business review efforts, we commenced a wind-down of our Devices and Mobile Operator Services businesses. In May 2019, we completed the sale of our Mobile Operator Services business in Brazil, and in July 2019, we completed the sale of our Mobile Operator Services business in India. The sale prices and any gains or losses were immaterial.
- *Discontinued Operations - Imaging.* On November 11, 2018, we entered into a definitive stock purchase agreement, pursuant to which we agreed to sell our Imaging business and associated assets. On February 1, we completed the sale of the business and we received proceeds approximately \$400.0 million, net of related fees and expenses, and subject to certain customary post-closing adjustments. As a result, for fiscal years 2019, 2018, and 2017, Imaging's results of operations have been included within discontinued operations for all the historical periods presented and its assets and liabilities within held for sale in our consolidated financial statements as of September 30, 2018.

Key Metrics

Effective the first quarter of fiscal year 2019, we implemented ASC 606 using the modified retrospective approach, which requires the results for the current reporting periods be presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies in accordance with ASC 605, with a cumulative adjustment recorded to accumulated deficit.

In evaluating the financial condition and operating performance of our business, management focuses on revenue, net income, gross margins, operating margins, cash flow from operations, and changes in deferred revenue. A summary of these key financial metrics for our continuing operations is as follows:

For the fiscal year 2019, as compared to the fiscal year 2018:

- Total revenues under ASC 606 was \$1,823.1 million for the year ended September 30, 2019, as compared to \$1,842.3 million under ASC 605 for the year ended September 30, 2018;

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- Net income from continuing operations under ASC 606 for the year ended September 30, 2019 was \$114.3 million, compared to a net loss from continuing operations of \$184.9 million under ASC 605 the year ended September 30, 2018;
- Gross margins under ASC 606 for the year ended September 30, 2019 was 57.2%, compared to 55.2% under ASC 605 for the year ended September 30, 2018;
- Operating margins under ASC 606 for the year ended September 30, 2019 was 7.3%, compared to (6.4)% under ASC 605 for year ended September 30, 2018; and
- Operating cash flows from continuing operations increased by \$4.7 million to \$397.0 million for the year ended September 30, 2019, compared to \$392.3 million for the year ended September 30, 2018.

As of September 30, 2019, as compared to September 30, 2018:

- Total deferred revenue decreased by 8% to \$701.7 million, primarily as a result of the ASC 606 implementation, offset in part by the continued growth of our Automotive connected solutions and Healthcare bundled offerings.

RESULTS OF OPERATIONS

Total Revenues

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

	Fiscal Year 2019	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
	(ASC 606)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)
Professional services and hosting	\$ 1,044.7	\$ 1,082.0	\$ 1,045.7	\$ 966.6	3.5 %	8.2 %
Product and licensing	509.2	533.1	544.0	493.9	(2.0)%	10.1 %
Maintenance and support	269.2	243.7	252.6	267.7	(3.5)%	(5.6)%
Total Revenues	\$ 1,823.1	\$ 1,858.8	\$ 1,842.3	\$ 1,728.2	0.9 %	6.6 %
United States	\$ 1,367.8	\$ 1,399.9	\$ 1,374.9	\$ 1,244.9	1.8 %	10.4 %
International	455.3	458.9	467.4	483.3	(1.8)%	(3.3)%
Total Revenues	\$ 1,823.1	\$ 1,858.8	\$ 1,842.3	\$ 1,728.2	0.9 %	6.6 %

Fiscal Year 2019 compared to Fiscal Year 2018

For fiscal year 2019, the geographic split under ASC 606 was 75% of total revenues in the United States and 25% internationally. The geographic split for fiscal year 2019 under ASC 605 was 75% of total revenues in the United States and 25% internationally, as compared to 75% of total revenues in the United States and 25% internationally for fiscal year 2018.

Fiscal Year 2018 compared to Fiscal Year 2017

The geographic split for fiscal year 2018 was 75% of total revenue in the United States and 25% internationally, as compared to 72% of total revenue in the United States and 28% internationally for fiscal year 2017.

Professional Services and Hosting Revenue

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

	Fiscal Year 2019 (ASC 606)	Fiscal Year 2019 (ASC 605)	Fiscal Year 2018 (ASC 605)	Fiscal Year 2017 (ASC 605)	% Change 2019 vs. 2018 (ASC 605)	% Change 2018 vs. 2017 (ASC 605)
Hosting revenue	\$ 826.4	\$ 850.6	\$ 771.1	\$ 733.8	10.3 %	5.1%
Professional services revenue	218.3	231.3	274.6	232.7	(15.8)%	18.0%
Hosting and professional services revenue	\$ 1,044.7	\$ 1,081.9	\$ 1,045.7	\$ 966.6	3.5 %	8.2%
As a percentage of total revenues	57.3%	58.2%	56.8%	55.9%		

Fiscal Year 2019 compared to Fiscal Year 2018

Hosting revenue under ASC 606 for the year ended September 30, 2019 is \$24.3 million lower than revenue under ASC 605 for the same period, primarily as a result of the re-allocation of contract consideration to multiple performance obligations based on standalone selling prices and the timing of revenue recognition for transactions with extended payment terms. Under ASC 605, hosting revenue increased by \$79.5 million, or 10.3%, primarily due to a \$52.3 million increase in Healthcare, a \$29.8 million increase in Enterprise segment, and a \$19.5 million increase in our Automotive segment, which was partially offset by a \$22.1 million decrease in our Other segment. Healthcare hosting revenue increased primarily due to the continued growth in our Dragon Medical cloud-based solutions, offset in part by a decline in our medical transcription services. Enterprise hosting revenue increased primarily due to the strength in our omni-channel hosting solutions. Automotive hosting revenue increased primarily due to the continued market penetration of our speech recognition and infotainment platform services. Other segment hosting revenue decreased due to the wind-down of Devices and the sale of Mobile Operator Services business in Brazil and India in fiscal year 2019.

As a percentage of total revenue, hosting revenue under ASC 605 increased from 41.9% for fiscal 2018 to 45.8% for fiscal 2019.

Professional services revenue under ASC 606 for the year ended September 30, 2019 is \$13.0 million lower compared to revenue under ASC 605 for the same period, primarily due to the loss of deferred revenue upon the ASC 606 implementation as a result of change from completed contract method to the percentage of completion method. Under ASC 605, Professional services revenue decreased by \$43.3 million, or 15.8%, primarily due to a \$58.9 million decrease in Healthcare, offset in part by a \$6.5 million increase in Enterprise and a \$9.3 million increase in Automotive. Healthcare professional services revenue decreased primarily due to lower revenue from the EHR implementation and optimization services. Enterprise professional services revenue increased primarily due to higher contact center service revenue as a result of the timing of the services rendered. Automotive professional services revenue increased primarily due to the timing of the services rendered.

As a percentage of total revenue, professional services revenue under ASC 605 decreased from 14.9% for fiscal 2018 to 12.4% for fiscal 2019.

Fiscal Year 2018 compared to Fiscal Year 2017

Hosting revenue increased by \$37.3 million, or 5.1%, primarily driven by a \$41.9 million increase in Healthcare, a \$14.5 million increase in Automotive, and a \$6.7 million increase in Enterprise, offset in part by a \$25.8 million decrease in Other. Healthcare hosting revenue increased as the segment recovered from the 2017 Malware Incident throughout the year; also contributing to the increase was the continued market penetration and growth of our Dragon Medical cloud-based solutions, offset by in part by the continued erosion of our transcription services. Automotive hosting revenue increased primarily due to the continued growth in our ASR and infotainment platform services. Enterprise hosting revenue increased primarily due to the growth in our omni-channel hosting solutions. Other segment hosting revenue decreased primarily driven by the declines in both of our SRS and Devices businesses. As a percentage of total revenue, hosting revenue decreased from 42.5% for fiscal year 2017 to 41.9% for fiscal year 2018.

Professional services revenue increased by \$41.9 million, or 18.0%, primarily driven by a \$49.4 million increase in Healthcare, offset in part by a \$4.2 million decrease in Automotive. Healthcare professional services revenue increased primarily due to higher revenue from EHR implementation and optimization services. Automotive professional services revenue decreased primarily due to a shift towards connected services. As a percentage of total revenue, professional services increased from 13.5% for fiscal year 2017 to 14.9% for fiscal year 2018.

Product and Licensing Revenue

Product and licensing revenue primarily consists of sales and licenses of our technology. The following table shows product and licensing revenue, in dollars, percentage change, and as a percentage of total revenues (dollars in millions):

	Fiscal Year 2019 (ASC 606)	Fiscal Year 2019 (ASC 605)	Fiscal Year 2018 (ASC 605)	Fiscal Year 2017 (ASC 605)	% Change 2019 vs. 2018 (ASC 605)	% Change 2018 vs. 2017 (ASC 605)
Product and licensing revenue	\$ 509.2	\$ 533.1	\$ 544.0	\$ 493.9	(2.0)%	10.1%
As a percentage of total revenues	27.9%	28.7%	29.5%	28.6%		

Fiscal Year 2019 compared to Fiscal Year 2018

Product and licensing revenue under ASC 606 for the year ended September 30, 2019 is \$23.9 million lower compared to revenue under ASC 605 for the same period, primarily due to the loss of revenue as a result of the upfront recognition of term license revenue on the opening balance sheet under ASC 606. Under ASC 605, product and licensing revenue decreased by \$10.9 million, or 2.0%, primarily due to a \$23.7 million decrease in Other and a \$12.3 million decrease in Enterprise, offset in part by a \$20.7 million increase in Healthcare and a \$4.4 million increase in Automotive. Other segment product and licensing revenue decreased primarily due to the wind-down of Devices and the sale of Mobile Operator Services business in Brazil and India in fiscal year 2019. Enterprise product and licensing revenue decreased primarily due to the timing of contact center license deals signed in fiscal year 2018. Automotive product and licensing revenue increased primarily due to higher royalties from existing and new customers. Healthcare product and licensing revenue increased primarily driven by higher Dragon Medical software license revenue from international markets.

As a percentage of total revenue, product and licensing revenue under ASC 605 decreased from 29.5% for fiscal year 2018 to 28.7% for fiscal year 2019.

Fiscal Year 2018 compared to Fiscal Year 2017

Product and licensing revenue increased by \$50.1 million, or 10.1%, primarily driven by a \$16.3 million increase in Automotive, a \$14.5 million increase in Healthcare, and a \$12.8 million increase in Enterprise. Automotive product and licensing revenue increased primarily due to higher royalties from existing and new customers. Healthcare product and licensing revenue increased primarily due to higher revenue from diagnostics solutions due to recent acquisitions. Enterprise product and licensing revenue increased primarily due to higher contact center license revenue.

As a percentage of total revenue, product and licensing revenue increased from 28.6% for fiscal year 2017 to 29.5% for fiscal year 2018.

Maintenance and Support Revenue

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

	Fiscal Year 2019 (ASC 606)	Fiscal Year 2019 (ASC 605)	Fiscal Year 2018 (ASC 605)	Fiscal Year 2017 (ASC 605)	% Change 2019 vs. 2018 (ASC 605)	% Change 2018 vs. 2017 (ASC 605)
Maintenance and support revenue	\$ 269.2	\$ 243.7	\$ 252.6	\$ 267.7	(3.5)%	(5.6)%
As a percentage of total revenues	14.8%	13.1%	13.7%	15.5%		

Fiscal Year 2019 compared to Fiscal Year 2018

Maintenance and support revenue on ASC 606 basis for the year ended September 30, 2019 is \$25.5 million higher compared to revenue under ASC 605 for the same period, primarily as a result of the re-allocation of contract consideration to multiple performance obligations based on standalone selling prices. Under ASC 605, maintenance and support revenue decreased by \$8.9 million, or 3.5%, primarily due to customers' continued transition from licenses to cloud-based solutions in Healthcare.

As a percentage of total revenue, maintenance and support revenue under ASC 605 decreased from 13.7% to 13.1% for the year ended September 30, 2019.

Fiscal Year 2018 compared to Fiscal Year 2017

Maintenance and support revenue decreased by \$15.1 million, or 5.6%, primarily due to a \$18.1 million decrease in Healthcare, offset in part by a \$4.6 million increase in Enterprise. The decrease in Healthcare was primarily driven by the continuing customer

transition from product licenses to cloud-based solutions. The increase in Enterprise was primarily driven by higher volume of contact center license transactions with maintenance and support. As a percentage of total revenue, maintenance and support revenue under ASC 605 decreased from 15.5% for fiscal year 2017 to 13.7% for the fiscal year 2018.

COSTS AND EXPENSES

Cost of Hosting and Professional Services Revenue

Cost of professional services and hosting revenue primarily consists of compensation for services personnel, outside consultants and overhead, as well as the hardware, infrastructure and communications fees that support our hosting solutions. The following table shows the cost of professional services and hosting revenue, in dollars, percentage change, and as a percentage of professional services and hosting revenue (dollars in millions):

	Fiscal Year 2019	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
	(ASC 606)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)
Cost of hosting and professional services revenue	\$ 636.2	\$ 639.1	\$ 678.4	\$ 654.6	(5.8)%	3.6%
As a percentage of hosting and professional services revenue	60.9%	59.1%	64.9%	67.7%		

Fiscal Year 2019 compared to Fiscal Year 2018

Cost of hosting and professional services revenue under ASC 606 for the year ended September 30, 2019 is \$2.9 million lower than the amount under ASC 605 for the same period, primarily due to the upfront recognition of costs upon the ASC 606 implementation as a result of change from completed contract method to the percentage of completion method. Under ASC 605, cost of hosting and professional services revenue decreased by \$39.3 million, or 5.8%, primarily due to lower revenue related to EHR implementation and optimization services, offset in part by higher costs related to our Dragon Medical cloud-based software. Under ASC 605, gross margin increased by 5.8 percentage points, primarily due to lower revenue from EHR implementation and optimization services, which carries lower margins. Also contributing to the margin improvement was the favorable shift in revenue mix towards higher-margin Dragon Medical cloud-based software from lower-margin transcription services.

Fiscal Year 2018 compared to Fiscal Year 2017

The increase in cost of professional services and hosting revenue was primarily due to higher professional services costs in our Healthcare segment related to EHR implementation, optimization services and higher hosting costs related to the growth of our automotive connected car services, offset in part by lower costs of medical transcription services. Gross margins increased by 2.8 percentage points as our Healthcare segment recovered from the 2017 Malware Incident throughout the year. Also contributing to the margin improvement was a favorable shift in revenue mix towards higher margin Dragon Medical cloud-based software, offset in part by margin compression in our medical transcription services and the increase in EHR implementation and optimization services which carried lower margins.

Cost of Product and Licensing Revenue

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

	Fiscal Year 2019	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
	(ASC 606)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)
Cost of product and licensing revenue	\$ 73.3	\$ 67.4	\$ 56.8	\$ 54.1	18.7%	5.0%
As a percentage of product and licensing revenue	14.4%	12.7%	10.4%	11.0%		

Fiscal Year 2019 compared to Fiscal Year 2018

Cost of product and licensing revenue under ASC 606 for the year ended September 30, 2019 is \$5.9 million higher than the amount under ASC 605 for the same period, primarily due to the upfront recognition of third-party license royalties in connection with the upfront recognition of term license revenue. Under ASC 605, cost of product and licensing revenue increased by \$10.6 million, or 18.7% primarily due to higher royalty costs in Healthcare. As a result, under ASC 605, gross margin decreased by 2.3 percentage points.

Fiscal Year 2018 Compared to Fiscal Year 2017

Cost of product and licensing revenue increased by \$2.7 million, or 5.0%, primarily due to higher costs related to our clinical documentation and diagnostic solutions. Gross margins increased by 0.6 percentage points, primarily due to higher margins on Dragon Medical software license revenue.

Cost of Maintenance and Support Revenue

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

	Fiscal Year 2019	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
	(ASC 606)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)
Cost of maintenance and support revenue	\$ 33.6	\$ 33.8	\$ 39.3	\$ 37.2	(14.0)%	5.6%
As a percentage of maintenance and support revenue	12.5%	13.9%	15.6%	13.9%		

Fiscal Year 2019 compared to Fiscal Year 2018

Cost of maintenance and support revenue under ASC 606 for the year ended September 30, 2019 is \$0.2 million lower than the amount under ASC 605 for the same period, primarily due to the timing of recognition of third-party service costs. Under ASC 605, cost of maintenance and support revenue decreased by \$5.5 million, or 14.0%, primarily due to customers' continued transition from licenses to cloud-based solutions in Healthcare. Under ASC 605, gross margins increased by 1.7 percentage points, primarily driven by higher margin on Dragon Medical maintenance and support services in Healthcare.

Fiscal Year 2018 compared to Fiscal Year 2017

Cost of maintenance and support revenue increased by \$2.1 million, or 5.6%, primarily driven by higher compensation costs in Healthcare. Gross margins decreased by 1.7%, primarily due to lower margin on Dragon Medical software maintenance and support services in Healthcare.

Research and Development Expenses

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

	Fiscal Year 2019	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
	(ASC 606)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)
Research and development expenses	\$ 275.9	\$ 275.9	\$ 278.7	\$ 239.9	(1.0)%	16.2%
As a percentage of total revenues	15.1%	14.8%	15.1%	13.9%		

Fiscal Year 2019 compared to Fiscal Year 2018

R&D expense decreased by \$2.8 million, or 1.0%, primarily driven by lower compensation costs due to our recent costs saving initiatives, offset in part by our continued investment in product development and new technologies to support our long-term growth.

Fiscal Year 2018 compared to Fiscal Year 2017

R&D expenses increased by \$38.8 million, or 16.2%, primarily due to higher compensation expenses as we continue to invest in product innovation and new technologies to support our long-term growth.

Sales and Marketing Expenses

Sales and marketing expenses include salaries and benefits, commissions, advertising, direct mail, public relations, tradeshow costs and other costs of marketing programs, travel expenses associated with our sales organization and overhead. The following table shows sales and marketing expense, in dollars, percentage change, and as a percentage of total revenues (dollars in millions):

	Fiscal Year 2019	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
	(ASC 606)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)
Sales and marketing expenses	\$ 303.5	\$ 309.4	\$ 311.7	\$ 324.4	(0.8)%	(3.9)%
As a percentage of total revenues	16.6%	16.6%	16.9%	18.8%		

Fiscal Year 2019 compared to Fiscal Year 2018

Sales and marketing expense under ASC 606 for the year ended September 30, 2019 is \$5.9 million lower than the amount under ASC 605 for the same period, primarily due to the amortization of capitalized sales commission expenses over the period of benefit. Under ASC 605, sales and marketing expense decreased by \$2.3 million, or 0.8%, primarily driven by lower sales headcount as a result of ongoing portfolio review and optimization.

Fiscal Year 2018 compared to Fiscal Year 2017

Sales and marketing expenses decreased by \$12.7 million, or 3.9%, primarily driven by lower commission expenses due to recent changes in our commission plans in fiscal year 2018.

General and Administrative Expenses

General and administrative expenses primarily consist of personnel costs for administration, finance, human resources, general management, fees for external professional advisers including accountants and attorneys, and provisions for doubtful accounts.

The following table shows general and administrative expense, in dollars, percentage change, and as a percentage of total revenues (dollars in millions):

	Fiscal Year 2019	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
	(ASC 606)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)
General and administrative expenses	\$ 175.0	\$ 175.0	\$ 225.9	\$ 163.1	(22.5)%	38.5%
As a percentage of total revenues	9.6%	9.4%	12.3%	9.4%		

Fiscal Year 2019 compared to Fiscal Year 2018

General and administrative expense decreased by \$50.9 million, or 22.5%, primarily due to higher professional services costs incurred in fiscal year 2018 in connection with establishing Automotive as a separate reportable segment. Also contributing to the decrease was lower employee-related costs as a result of ongoing business review and other cost saving initiatives.

Fiscal Year 2018 compared to Fiscal Year 2017

General and administrative expenses increased by \$62.8 million, or 38.5%, primarily due to professional services fees related to evaluating strategic alternatives for certain businesses, establishing the Automotive business as a separate operating segment, and legal expenses related to enforcing our intellectual property rights.

Amortization of Intangible Assets

Amortization of acquired patents and core technology are included within cost of revenues whereas the amortization of other intangible assets, such as acquired customer relationships, trade names and trademarks, are included within operating expenses. Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefits of the customer relationships are being realized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense was recorded as follows (dollars in millions):

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
Cost of revenues	\$ 36.8	\$ 50.9	\$ 57.9	(27.6)%	(12.1)%
Operating expenses	66.7	74.0	92.8	(9.8)%	(20.3)%
Total amortization expenses	\$ 103.5	\$ 124.9	\$ 150.7	(17.1)%	(17.1)%
As a percentage of total revenues	5.7%	6.8%	8.7%		

Fiscal Year 2019 compared to Fiscal Year 2018

Amortization of intangible assets expense for fiscal year 2019 decreased by \$21.4 million, as certain intangible assets became fully amortized in fiscal years 2018 and 2019.

Fiscal Year 2018 compared to Fiscal Year 2017

Amortization of intangible assets expense for fiscal year 2018 decreased by \$25.8 million, as certain intangible assets became fully amortized in fiscal years 2017 and 2018.

Acquisition-Related Costs, Net

Acquisition-related costs, net 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, 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 the acquisition-related costs is as follows (dollars in millions):

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
Transition and integration costs	\$ 8.1	\$ 16.1	\$ 15.2	(49.4)%	5.9 %
Professional service fees	2.3	3.5	12.6	(32.7)%	(72.2)%
Acquisition-related adjustments	(1.5)	(3.4)	(0.1)	(54.8)%	3,300.0 %
Total acquisition-related costs, net	\$ 8.9	\$ 16.1	\$ 27.7	(44.7)%	(41.9)%
As a percentage of total revenue	0.5%	0.9%	1.6%		

Fiscal Year 2019 compared to Fiscal Year 2018

Acquisition-related costs, net decreased by \$7.2 million, primarily due to reduced acquisition activities during fiscal year 2019.

Fiscal Year 2018 compared to Fiscal Year 2017

Acquisition-related costs, net decreased by \$11.6 million, primarily due to reduced acquisition activities during fiscal year 2018.

Restructuring and Other Charges, Net

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):

	Personnel	Facilities	Total Restructuring Expenses	Other Charges	Total
Fiscal Year 2019					
Healthcare	\$ 4,679	\$ 191	4,870	\$ —	4,870
Enterprise	5,037	933	5,970	—	5,970
Automotive	5,159	1,706	6,865	44,453	51,318
Other	1,457	337	1,794	3,306	5,100
Corporate	3,039	764	3,803	9,404	13,207
Total fiscal year 2019	\$ 19,371	\$ 3,931	\$ 23,302	\$ 57,163	\$ 80,465
Fiscal Year 2018					
Healthcare	\$ 11,563	\$ 25	\$ 11,588	\$ —	\$ 11,588
Enterprise	4,217	2,243	6,460	—	6,460
Automotive	4,160	20	4,180	—	4,180
Other	1,473	647	2,120	7,103	9,223
Corporate	10,107	953	11,060	14,515	25,575
Total fiscal year 2018	\$ 31,520	\$ 3,888	\$ 35,408	\$ 21,618	\$ 57,026
Fiscal Year 2017					
Healthcare	\$ 4,283	\$ 870	\$ 5,153	\$ 8,758	\$ 13,911
Enterprise	2,141	3,480	5,621	—	5,621
Automotive	1,838	—	1,838	—	1,838
Other	2,954	(15)	2,939	10,773	13,712
Corporate	1,337	2,013	3,350	21,491	24,841
Total fiscal year 2017	\$ 12,553	\$ 6,348	\$ 18,901	\$ 41,022	\$ 59,923

Fiscal Year 2019

For the fiscal year 2019, we recorded restructuring charges of \$23.3 million, which included \$19.4 million related to the termination of approximately 391 employees and \$3.9 million charge related to closing 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 \$4.0 million to be substantially paid by the end of the first quarter of fiscal year 2020, and the remaining of balance of \$3.6 million for the excess facilities to be made through fiscal year 2027, in accordance with the terms of the applicable leases.

Additionally, for the year ended September 30, 2019, we recorded \$8.8 million of professional services fees related to our corporate transformational efforts, \$45.6 million costs related to the separation of our Imaging business and the stand-up of our Automotive business, and \$3.3 million accelerated depreciation related to our Mobile Operator Services, offset in part by a \$0.5 million cash receipt from insurance claims related to the malware incident that occurred in the third quarter of fiscal year 2017 (the "2017 Malware Incident").

Fiscal Year 2018

For fiscal year 2018, we recorded restructuring charges of \$35.4 million, which included \$31.5 million related to the termination of approximately 1,318 employees and \$3.9 million charge related to closing certain excess facilities, including adjustment to sublease assumptions associated with these facilities. These actions were part of our strategic initiatives focused on investment rationalization, process optimization and cost reduction.

Additionally, during fiscal year 2018, we recorded \$5.7 million for costs related to the transition agreement of our former CEO, \$4.8 million professional services fees related to assessment and establishment of our corporate transformational efforts, \$4.0 million related to our remediation and restoration effort after the 2017 Malware Incident, and fixed asset impairment charges of \$7.1 million for SRS and Devices, as more fully described in Note 6.

Fiscal Year 2017

For fiscal year 2017, we recorded restructuring charges of \$18.9 million, which included \$12.6 million related to the termination of approximately 792 terminated employees and \$6.3 million charge related to closing certain excess facilities, including adjustment to sublease assumptions associated with these facilities. These actions were part of our initiatives to reduce costs and optimize processes.

Additionally, during fiscal year 2017, we recorded \$8.1 million for costs related to the transition agreement of our former CEO, \$18.1 million of professional services fees and \$4.0 million of fixed asset and inventory write-down as a result of the 2017 Malware Incident, and an impairment charge of \$10.8 million related to an internally developed software.

Impairment of Goodwill and Other Intangible Assets

As more fully described in Note 6 of the accompanying consolidated financial statements, we recorded \$170.9 million impairment charges of goodwill and other intangible assets for Devices and Mobile Operator Services for fiscal year 2018. There was no impairment for goodwill or other intangible assets for fiscal year 2019.

Other Expenses, Net

Other expenses, net consists primarily of interest income, interest expense, foreign exchange gains (losses), and net gain (loss) from other non-operating activities. A summary of other income (expense), net is as follows (dollars in millions):

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
Interest income	\$ 13.7	\$ 9.3	\$ 6.9	46.9 %	34.7 %
Interest expense	(120.1)	(137.3)	(156.9)	(12.5)%	(12.5)%
Other expense, net	(0.5)	(1.8)	(21.2)	(70.5)%	(91.4)%
Total other expenses, net	<u>\$ (106.9)</u>	<u>\$ (129.7)</u>	<u>\$ (171.2)</u>		

Fiscal Year 2019 compared to Fiscal Year 2018

The decrease in interest expense was primarily due to the repurchase of \$150.0 million of outstanding 5.375% Senior Notes due 2020 in September 2018, and the redemption of the \$331.2 million then outstanding 2.75% convertible debentures in November 2017. Additionally, in March 2019, we redeemed \$300.0 million of our 5.375% Senior Notes due 2020 with the net proceeds from the sale of Imaging.

Fiscal Year 2018 compared to Fiscal Year 2017

The decrease in interest expense was primarily due to the repurchase of \$331.2 million of our outstanding 2.75% convertible debentures in November 2017. Other expense, net decreased by \$19.4 million primarily due to an \$18.6 million loss on extinguishment of debt resulting from the repurchase of our 2020 Senior Notes in fiscal year 2017.

(Benefit) Provision for Income Taxes

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

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
(Benefit) provision for income taxes	\$ (88.6)	\$ (62.3)	\$ 23.7	42.2%	(363.3)%
Effective income tax rate	<u>(344.1)%</u>	<u>25.2%</u>	<u>(15.3)%</u>		

Fiscal Year 2019 compared to Fiscal Year 2018

The effective income tax rate in fiscal year 2019 differs from the U.S. federal statutory rate of 21.0% primarily due to a net tax benefit of \$112.1 million related to intangible property transfers, partially offset by an uncertain tax position. The net tax benefit is also partially offset by a base erosion and anti-abuse tax ("BEAT") expense of \$11.2 million and a GILTI tax expense of \$7.5 million. As part of the restructuring for the spin-off of our Automotive business, the Company recognized an \$896.8 million gross

U.S. capital loss with a potential tax benefit of \$188.3 million. We believe that it is not more likely than not that the tax benefit from the U.S. capital loss will be realized. As a result, we recorded a full valuation allowance against the capital loss.

Benefit for income taxes increased by \$26.3 million in fiscal year 2019, primarily due to a net tax benefit of \$112.1 million related to the intangible property transfers in fiscal year 2019, offset in part by the deferred tax benefit of \$87.1 million related to the Tax Cuts and Jobs Act ("TCJA") in fiscal year 2018.

Fiscal Year 2018 compared to Fiscal Year 2017

Our effective income tax rate was 25.2% in fiscal year 2018, compared to (15.3%) in fiscal year 2017. The effective income tax rate of 25.2% in fiscal year 2018 differed from the U.S. statutory rate, primarily due to the net tax benefits resulting from the TCJA remeasurement of deferred tax assets and liabilities at the lower enacted rate, and our foreign earnings being subject to lower tax rates, offset by in part by additional valuation allowance related to current period losses, the tax effect of goodwill impairment charges that are not deductible, and the provision for the deemed repatriation of foreign cash and earnings. The effective tax rate of (15.3%) in fiscal year 2017 differed from the U.S. statutory rate, primarily due to additional valuation allowance related to current period losses in the United States and an increase in deferred tax liabilities related to goodwill, partially offset by our earnings in foreign operations that are subject to significantly lower tax rates than the U.S. statutory tax rate.

Provision for income taxes decreased by \$86.0 million in fiscal year 2018, primarily due to the lower valuation allowance provided related to the losses incurred for the current fiscal year, the net tax benefits resulting from the TCJA remeasurement of deferred tax assets and liabilities at the lower enacted rate, offset in part by the tax effect of goodwill impairment charges that are not deductible, and the provision for the deemed repatriation of foreign cash and earnings.

Net Income from Discontinued Operations

As more fully described in Note 4 to the accompanying consolidated financial statements, on November 11, 2018, we entered into a definitive sale agreement, pursuant to which we agreed to sell our Imaging business and associated assets for a total cash consideration of approximately \$400.0 million. The transaction closed on February 1, 2019. Imaging's results of operations have been included within discontinued operations for all historical periods presented.

As more fully described in Note 23 to the accompanying consolidated financial statements, on October 1, 2019, we completed the previously announced spin-off of our Automotive business as an independent public company. Effective the first quarter of fiscal year 2020, the historical results of our Automotive business will be included within discontinued operations for all the historical periods presented.

SEGMENT ANALYSIS

As more fully described in Note 4, the results of our Imaging segment, previously a reportable segment, have been included within discontinued operations due to the completion of the sale on February 1, 2019. As a result, effective the first quarter of fiscal year 2019, we changed our corporate overhead allocation methodology to re-allocate the stranded costs related to our Imaging business to the remaining operating segments included within continuing operations. Our segment presentation for fiscal years 2019, 2018, and 2017 have been restated to reflect the re-allocation of stranded costs. Stranded costs of \$7.0 million for fiscal years 2019, \$7.8 million for 2018, and \$7.1 million 2017, have been included within total segment profits and re-allocated to Healthcare, Enterprise, Automotive, and Other, respectively. As a result, segment information for fiscal years 2018 and 2017 have been recast to reflect the above changes in segment reporting structure.

For further details of financial information about our operating segments, see Note 22 to the accompanying consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. The following table presents certain financial information about our operating segments (dollars in millions):

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	Fiscal Year 2019	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
	(ASC 606)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)	(ASC 605)
Segment Revenues ^(a)						
Healthcare	\$ 950.6	\$ 984.4	\$ 984.8	\$ 899.3	— %	9.5 %
Enterprise	510.8	507.4	483.2	474.3	5.0 %	1.9 %
Automotive	306.6	312.7	279.4	252.2	11.9 %	10.8 %
Other	61.5	61.8	109.1	133.8	(43.3)%	(18.5)%
Total segment revenues	1,829.5	1,866.3	1,856.5	1,759.6	0.5 %	5.5 %
Less: acquisition related revenue adjustments	(6.3)	(7.5)	(14.2)	(31.5)	(46.8)%	(54.9)%
Total revenues	\$ 1,823.2	\$ 1,858.8	\$ 1,842.3	\$ 1,728.1	0.9 %	6.6 %
Segment Profit						
Healthcare	\$ 337.5	\$ 364.5	\$ 326.7	\$ 257.8	11.6 %	26.7 %
Enterprise	141.5	141.8	140.5	133.9	1.0 %	4.9 %
Automotive	110.6	116.3	109.1	118.2	6.6 %	(7.7)%
Other	23.4	23.9	28.0	41.2	(14.7)%	(32.0)%
Total segment profit	\$ 613.0	\$ 646.5	\$ 604.3	\$ 551.1	7.0 %	9.7 %
Segment Profit Margin						
Healthcare	35.5%	37.0%	33.2%	28.7%	3.9	4.5
Enterprise	27.7%	28.0%	29.1%	28.2%	(1.1)	0.9
Automotive	36.1%	37.2%	39.1%	46.9%	(1.8)	(7.8)
Other	38.1%	38.7%	25.7%	30.8%	13.0	(5.1)
Total segment profit margin	33.5%	34.6%	32.5%	31.3%	2.1	1.2

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

Segment Revenues

Fiscal Year 2019 compared to Fiscal Year 2018

- *Healthcare* segment revenue for the year ended September 30, 2019 reflected the up-front recognition of term license revenue from Clintegrity, Dragon Medical, and Diagnostic solutions under ASC 606. Under ASC 605, Healthcare segment revenue decreased by \$0.4 million or 0.0%, primarily driven by:
 - Revenue from Dragon Medical cloud offerings increased by \$74.6 million, or 54.0%, to \$212.7 million for fiscal year 2019 from \$138.1 million for fiscal year 2018, primarily due to the continued market penetration and customer transition to our cloud-based offering.
 - Revenue from transcription services decreased by \$43.0 million, or 16.3%, to \$220.5 million for fiscal year 2019 from \$263.5 million for fiscal year 2018, primarily due to the continued erosion of our medical transcription services revenue and customer's transition to Dragon Medical cloud-based software.
 - Professional services revenue decreased by \$59.1 million or 40.8%, to \$85.8 million for fiscal year 2019 from \$144.9 million for fiscal year 2018, primarily driven by lower revenue from EHR implementation and optimization services.
- *Enterprise* segment revenue for the year ended September 30, 2019 reflected the allocation of contract consideration to multiple performance obligations based on standalone selling prices, and the up-front recognition of term license revenue and related costs under ASC 606. Under ASC 605, Enterprise segment revenue increased by \$24.2 million, or 5.0%, primarily due to the growth in our omni-channel hosting solutions.
- *Automotive* segment revenue for the year ended September 30, 2019 reflected the allocation of contract consideration to multiple performance obligations based on standalone selling prices under ASC 606. Under ASC 605, Automotive segment revenue increased by \$33.3 million, or 11.9%, primarily due to higher royalties and hosting revenue driven by the continued growth in our speech recognition and infotainment platform services.

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- *Other* segment revenue for the year ended September 30, 2019 reflected the allocation of contract consideration to multiple performance obligations based on standalone selling prices under ASC 606. Under ASC 605, *Other* segment revenue decreased by \$47.3 million, or 43.3%, primarily due to the wind-down of *Devices* and the sale of *Mobile Operator Services* business in *Brazil* and *India* in fiscal year 2019.

Fiscal Year 2018 compared to Fiscal Year 2017

- *Healthcare* segment revenues increased by \$85.5 million, or 9.5%, primarily driven by:
 - Revenue from *Dragon Medical* cloud offerings increased by \$74.0 million, or 115.5%, to \$138.1 million for fiscal year 2018 from \$64.1 million for fiscal year 2017, primarily due to the continued market penetration and customer transition to our cloud-based offering, as well as the revenue loss in fiscal year 2017 due to the *Malware Incident*.
 - Revenue from transcription services decreased by \$50.6 million, or 16.1%, to \$263.5 million for fiscal year 2018 from \$314.1 million for fiscal year 2017, primarily due to the continued erosion of our medical transcription services revenue and customer's transition to *Dragon Medical* cloud-based software.
 - Professional services revenue increased by \$49.0 million or 51.0%, to \$144.9 million for fiscal year 2018 from \$96.0 million for fiscal year 2017, primarily driven by higher revenue from *EHR* implementation and optimization services.
- *Enterprise* segment revenues increased by \$8.9 million, or 1.9%, during fiscal year 2018 primarily due to higher contact center license and services revenue, offset in part by lower revenue from our inbound and outbound on-demand solutions.
- *Automotive* segment revenues increased by \$27.2 million, or 10.8%, during fiscal year 2018 primarily due to higher royalties and revenues from our hosting solutions driven by continued growth in our *ASR* and infotainment platform services.
- *Other* segment revenue decreased by \$24.7 million, or 18.5%, primarily due to the accelerated declines in both *SRS* and *Devices* businesses during fiscal year 2018. The decline in *SRS* was primarily due to the recent market disruptions in *India* and *Brazil*. These markets have experienced a dramatic recent disruption as a result of accelerated change in competition and business models for our *SRS* mobile operator customers, which has reduced demand for our services. The decline in our *Devices* business was primarily due to the ongoing consolidation of our handset manufacturer customer base, as well as continued erosion of our penetration of the remaining market.

As more fully described in Note 4 to the accompanying consolidated financial statements, during the fourth quarter of fiscal 2018, in connection with our comprehensive portfolio and business review efforts, we commenced a wind-down of our *Devices* and *Mobile Operator Services* businesses.

Segment Profit

Fiscal Year 2019 compared to Fiscal Year 2018

- *Healthcare* segment profit for the year ended September 30, 2019 reflected the upfront recognition of term license revenue and related costs for *Clintegrity*, *Dragon Medical*, and *Diagnostic* solutions under ASC 606. Under ASC 605, *Healthcare* segment profit increased by \$37.8 million, or 11.6%, primarily due to higher gross margin. The gross margin improvement was primarily due to a favorable shift in mix to higher margin *Dragon Medical* cloud-based solution from lower margin medical transcription services, and lower revenue from *EHR* implementation and optimization services which carried lower margins. As a result, segment profit margin under ASC 605 increased by 3.9 percentage points to 37.0%.
- *Enterprise* segment profit for the year ended September 30, 2019 reflected the allocation of contract consideration to multiple performance obligations based on standalone selling prices and the up-front recognition of term license revenue and related costs under ASC 606. Under ASC 605, *Enterprise* segment profit increased by \$1.4 million, or 1.0%, primarily due to higher segment revenue and lower sales and marketing expense, offset in part by lower gross margin. Gross margin decline was primarily due to lower licensing revenue, which carries higher margins. The decrease in sales and marketing expenses was primarily due to lower compensation expenses. As a result, segment profit margin under ASC 605 decreased by 1.1 percentage points to 28.0%.
- *Automotive* segment profit for the year ended September 30, 2019 reflected the allocation of contract consideration to multiple performance obligations based on standalone selling prices and the upfront recognition of term license costs under ASC 606. Under ASC 605, *Automotive* segment profit increased by \$7.2 million, or 6.6%, primarily due to higher revenue, offset in part by lower gross margin, and higher operating expenses. Lower gross margin was primarily driven by the continued pricing

shift from up-front professional services to per unit license and hosting revenue. Higher operating expenses was primarily driven by higher sales commission expense and our continued investment in R&D. As a result, segment profit margin under ASC 605 decreased by 1.8 percentage points to 37.2%.

- *Other* segment profit for the year ended September 30, 2019 reflected the allocation of contract consideration to multiple performance obligations based on standalone selling prices and the upfront recognition of term license costs under ASC 606. Under ASC 605, *Other* segment profit decreased by \$4.1 million, or 14.7%, primarily driven by our costs saving initiatives related to the wind-down of our Devices and Mobile Operator Services businesses, offset in part by lower segment revenue.

Fiscal Year 2018 compared to Fiscal Year 2017

- Healthcare segment profit increased by \$68.8 million, or 26.7%, primarily due to higher segment revenue and higher gross margin. Healthcare operating results for fiscal year 2017 was negatively impacted by the 2017 Malware Incident. The gross margin for fiscal year 2018 reflected a favorable shift in revenue mix towards higher margin Dragon Medical cloud-based offerings, offset in part by the increase in EHR implementation and optimization services which carried lower margins. As a result, segment profit margin increased by 4.5 percentage points, to 33.2% for fiscal year 2018.
- Enterprise segment profit increased by \$6.6 million, or 4.9%, primarily due to higher segment revenue, offset in part by lower gross margin. The lower gross margin was primarily due to higher infrastructure costs and increased headcount to support future growth. As a result, segment profit margin increased by 0.9 percentage points to 29.1% for fiscal year 2018 from 28.2% for fiscal year 2017.
- Automotive segment profit decreased by \$9.1 million, or 7.7%, primarily due to lower gross margin and higher R&D expenses, offset in part by higher revenue. The lower gross margin was primarily driven by increased professional services headcount to support implementation of our connected solutions across existing and new customer base. The higher R&D expense was primarily driven by our increased investment in new technologies. As a result, segment profit margin decreased by 7.8 percentage points to 39.1% for fiscal year 2018 from 46.9% for fiscal year 2017.
- Other segment profit decreased by \$13.2 million, or 32.0%, primarily due to lower revenue and the margin compression in SRS and Devices. Segment profit margin declined primarily due to lower revenues and relatively fixed costs and expenses structure. As more fully described in Note 4 to the accompanying consolidated financial statements, during the fourth quarter of fiscal 2018, in connection with our comprehensive portfolio and business review efforts, we commenced a wind-down of our Devices and Mobile Operator Services businesses.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We had cash and cash equivalents and marketable securities of \$764.8 million as of September 30, 2019, an increase of \$291.3 million from \$473.5 million as of September 30, 2018. Our working capital, defined as total current assets for continuing operations less total current operating liabilities of continuing operations, was \$553.0 million as of September 30, 2019, compared to \$199.1 million as of September 30, 2018. The increase in our working capital was primarily due to the proceeds from the sale of Imaging and the adoption of ASC 606. We had \$236.6 million available for borrowing under our revolving credit facility as of September 30, 2019. We believe that our existing sources of liquidity are sufficient to support our operating needs, capital requirements and any debt service requirements for the next twelve months.

Cash and cash equivalents and marketable securities held by our international operations totaled \$135.9 million as of September 30, 2019 and \$112.8 million as of September 30, 2018. We utilize a variety of financing strategies to ensure that our worldwide cash is available to meet our liquidity needs. We expect the cash held overseas to be permanently invested in our international operations, and our U.S. operation to be funded through its own operating cash flows, cash and marketable securities within the U.S., and if necessary, borrowing under our revolving credit facility.

Imaging Sale and Automotive Spin-Off

On February 1, 2019, we completed the sale of our Imaging business and received approximately \$400 million in cash, after estimated transaction expenses, and subject to post-closing finalization of the adjustments set forth in the Agreement. As a result, we recorded a gain of \$102.4 million, which is included within net income from discontinued operations. There are a number of working capital and other adjustments under the Agreement and related ancillary agreements. The post-closing adjustments under the Agreement did not have a material impact on our consolidated financial statements. Additionally, in March 2019, we redeemed \$300.0 million of our 5.375% Senior Notes due 2020 with the net proceeds from the sale.

On November 19, 2018, we announced our intent to spin off our Automotive business into an independent publicly traded company through a pro rata distribution to our common stockholders. The spin-off was completed on October 1, 2019.

In connection with the spin-off of our Automotive business, we issued a notice to all holders on September 5, 2019, pursuant to which, the holders had the right to convert all or any portion of their debentures at the aforementioned conversion ratio until the close of business on October 1, 2019. As of September 30, 2019, the net carrying amounts of the convertible notes were included within the current portion of long-term debt. Upon the conclusion of the conversion period on October 1, 2019, none of the holders exercised their right to convert. As a result, the net carrying amounts of the convertible notes were reclassified back to long-term debt.

Additionally, on August 30, 2019, we issued a conditional notice of full redemption pursuant to the indenture governing its 2024 Senior Notes, which was conditioned upon the incurrence of indebtedness by Cerence. On October 1, 2019, we redeemed all the \$300.0 million outstanding principal amount of the 2024 Senior Notes for \$313.5 million, plus accrued and unpaid interest of \$4.5 million. As a result of the redemption, we will record a \$15.0 million loss on extinguishment of debt for the first quarter of fiscal year 2020, including a \$13.5 million redemption premium and a \$1.5 million write-off of unamortized debt issuance costs.

For the year ended September 30, 2019, we incurred approximately \$47.0 million to effect the separation of our Imaging business and the separation and stand-up of our Automotive business.

Net cash provided by operating activities

Fiscal Year 2019 compared to Fiscal Year 2018

Cash provided by operating activities for fiscal year 2019 was \$401.4 million, a decrease of \$43.1 million from \$444.4 million for fiscal year 2018. The net decrease was primarily due to:

- A decrease of \$74.7 million from changes in deferred revenue. Deferred revenue had a positive effect of \$22.3 million on operating cash flows for the year ended September 30, 2019, as compared to \$97.0 million for the year ended September 30, 2018, primarily due to the ASC 606 implementation using the modified retrospective approach in the current period;
- A decrease of \$47.8 million from operating cash flows from discontinued operations; offset in part by,
- An increase of \$56.6 million due to higher income before non-cash charges;
- An increase of \$22.8 million due to favorable changes in working capital, primarily due to the timing of cash payments.

Fiscal Year 2018 Compared to Fiscal Year 2017

Cash provided by operating activities for fiscal year 2018 was \$392.3 million, an increase of \$91.4 million, or 30%, from \$300.8 million for fiscal year 2017. The net increase was primarily due to:

- An increase of \$33.0 million driven by favorable changes in working capital excluding deferred revenue, primarily due to the timing of billing and collections; and
- An increase of cash inflows of \$45.9 million from deferred revenue. Deferred revenue contributed cash inflow of \$97.0 million in fiscal year 2018, as compared to \$51.0 million in fiscal year 2017, primarily driven by continued growth of our Automotive connected solutions and bundled offerings within our Healthcare segment.

Net cash provided by (used in) investing activities

Fiscal Year 2019 compared to Fiscal Year 2018

Cash provided by investing activities for fiscal year 2019 was \$296.0 million, an increase of \$333.3 million from \$37.3 million used for fiscal year 2018. The net increase was primarily due to:

- Net proceeds of \$407.0 million from the dispositions of businesses, net of transaction fees;
- A decrease of \$89.3 million in payments for business and asset acquisitions;
- A decrease of \$4.7 million in capital expenditures; offset in part by,
- A decrease of \$167.7 million in net proceeds from the sale and purchase of marketable securities and other investments.

Fiscal Year 2018 Compared to Fiscal Year 2017

Cash used in investing activities for fiscal year 2018 was \$37.3 million, a decrease of \$296.9 million, or 89%, from \$334.2 million for fiscal year 2017. The net decrease was primarily due to:

- An increase of \$280.3 million in net proceeds from the sale and purchase of marketable securities and other investments; and
- A decrease of \$13.0 million in capital expenditures.

Net cash (used in) provided by financing activities

Fiscal Year 2019 compared to Fiscal Year 2018

Cash used in financing activities for fiscal year 2019 was \$452.0 million, a decrease of \$228.3 million from \$680.3 million for fiscal year 2018. The net decrease was primarily due to:

- A decrease of \$181.2 million in repayment and redemption of debt. During fiscal year 2019, we redeemed \$300.0 million in aggregate principal of our 5.375% Senior Notes due 2020 with the net proceeds from the sale of Imaging. During fiscal year 2018, we redeemed approximately \$331.2 million in aggregate principal of the 2.75% 2031 Debentures, and repurchased \$150.0 million in aggregate principal amount of our 2020 Senior Notes.
- A decrease of \$24.8 million related to acquisition payments with extended payment terms;
- A decrease of \$6.0 million related to payments for taxes related to net share settlement of equity awards;
- A decrease of \$9.2 million for share repurchases; offset in part by,
- An increase of \$9.9 million due to the proceeds from sale of noncontrolling interests in a subsidiary.

Fiscal Year 2018 Compared to Fiscal Year 2017

Cash used by financing activities for fiscal year 2018 was \$680.3 million, an increase of \$747.4 million, or 1,115%, from cash provided by financing activities of \$67.1 million for fiscal year 2017. The net increase was primarily due to:

- A decrease in cash inflows of \$837.5 million from debt issuance. During fiscal year 2017, the cash inflows from debt activities includes \$495.0 million net proceeds from the issuance of 5.625% Senior Notes due 2026; and \$343.6 million net proceeds from the issuance of our 1.25% 2025 Convertible Debentures;
- An increase in cash outflows of \$37.0 million related to share repurchases; and

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- An increase in cash outflows of \$24.8 million related to acquisition payments with extended payment terms, offset in part by,
- A decrease in cash outflows of \$152.9 million from the redemption and repayment of debt. During fiscal year 2018, we redeemed approximately \$331.2 million in aggregate principal of the 2.75% 2031 Debentures, and repurchased \$150.0 million in aggregate principal of our 2020 Senior Notes. During fiscal year 2017, we repurchased \$600.0 million in aggregate principal of our 2020 Senior Notes and \$17.8 million in aggregate principal of our 2031 Convertible Debentures.

Debt

For a detailed description of the terms and restrictions of the debt and revolving credit facility, see Note 10 to the accompanying consolidated financial statements.

We expect to incur cash interest payment of \$49.0 million in fiscal year 2020, based on the outstanding balance as of September 30, 2019, giving effect to the redemption of the 2024 Senior Notes discussed above. We expect to fund our debt service requirements through existing sources of liquidity and our operating cash flows.

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. On August 1, 2018, our Board of Directors approved additional \$500.0 million under our share repurchase program. 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.

We repurchased 8.2 million shares, 9.7 million shares and 5.8 million shares for \$126.9 million, \$136.1 million and \$99.1 million during the fiscal years ended September 30, 2019, 2018 and 2017, respectively, under the program. Since the commencement of the program, we have repurchased 64.3 million shares for \$1,070.0 million. Approximately \$430.4 million remained available for share repurchases as of September 30, 2019 pursuant to our share repurchase program.

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

The following table outlines our contractual payment obligations for continuing operations as of September 30, 2019 (dollars in millions):

Contractual Obligations	Payments Due by Fiscal Year Ended September 30,				
	Total	2020	2021 and 2022	2023 and 2024	Thereafter
Convertible Debentures ⁽¹⁾	\$ 1,337.0	\$ —	\$ 310.5	\$ 676.5	\$ 350.0
Senior Notes ⁽²⁾	800.0	—	—	300.0	500.0
Interest payable on long-term debt ⁽³⁾	344.0	62.5	120.2	98.2	63.1
Letter of Credit ⁽⁴⁾	5.9	5.9	—	—	—
Lease obligations and other liabilities:					
Operating leases ⁽⁵⁾	164.2	34.3	52.1	29.5	48.3
Operating leases under restructuring	16.7	5.0	4.6	3.9	3.2
Purchase commitments for inventory, property and equipment ⁽⁶⁾	45.3	34.5	10.8	—	—
Total contractual cash obligations	\$ 2,713.1	\$ 142.2	\$ 498.2	\$ 1,108.1	\$ 964.6

⁽¹⁾ The repayment schedule above assumes that payment is due on the first mandatory redemption date after September 30, 2019. As more fully described below, as of September 30, 2019, the holders had the right to convert all or any portion of their debentures until the close of business on October 1, 2019. As a result, the net carrying amounts of our convertible notes were included in current liabilities as of September 30, 2019. Upon the conclusion of the conversion period on October 1, 2019, none of the holders exercised their right to convert. As a result, the net carrying amounts of the convertible notes were reclassified back to long-term debt.

⁽²⁾ The repayment schedule reflects all the senior notes outstanding as of September 30, 2019. As more fully described below, on October 1, 2019, we redeemed all of the \$300 million outstanding principal of the 2024 Senior Notes.

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- (3) Interest per annum is due and payable semi-annually and is determined based on the outstanding principal as of September 30, 2019, the stated interest rate of each debt instrument and the assumed redemption dates discussed above.
- (4) Letters of Credit are in place primarily to secure future operating lease payments.
- (5) Obligations include contractual lease commitments related to facilities that have subsequently been subleased. As of September 30, 2019, we have subleased certain facilities with total sublease income of \$15.2 million through fiscal year 2027.
- (6) These amounts include non-cancelable purchase commitments for property and equipment as well as inventory in the normal course of business to fulfill customer backlog.

As of September 30, 2019, \$85.6 million of the unrecognized tax benefits, if recognized, would impact our effective income tax rate. In fiscal year 2019, there was an increase in unrecognized tax benefits of \$58.9 million related to intangible property transfers. Within the next 12 months, we expect the unrecognized tax benefits to decrease by \$56.6 million as it is transferred to Cerence as part of the spin-off on October 1, 2019. We recognized interest and penalties related to uncertain tax positions in our provision for income taxes of \$1.9 million, \$1.3 million, and \$2.0 million during fiscal years 2019, 2018, and 2017, respectively. We recorded interest and penalties of \$12.7 million and \$10.8 million as of September 30, 2019 and 2018, respectively.

Contingent Liabilities and Commitments

Certain acquisition payments to selling stockholders were contingent upon the achievement of pre-determined performance targets over a period of time after the acquisition. Such contingent payments were recorded at estimated fair values upon the acquisition and re-measured in subsequent reporting periods. As of September 30, 2019, we may be required to pay the selling stockholders up to \$4.8 million contingent upon achieving specified performance goals, including the achievement of future bookings and sales targets related to the products of the acquired entities. In addition, certain deferred compensation payments to selling stockholders contingent upon their continued employment after the acquisition were recorded as compensation expense over the requisite service period. Additionally, as of September 30, 2019, the remaining deferred payment obligations of \$18.1 million to certain former stockholders, which are contingent upon their continued employment, will be recognized ratably as compensation expense over the remaining requisite service periods.

Financial Instruments

We use financial instruments to manage our foreign exchange risk. We operate our business in countries throughout the world and transact business in various foreign currencies. Our foreign currency exposures typically arise from transactions denominated in currencies other than the functional currency of our operations. We have a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effect of certain foreign currency exposures. Our program is designed so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. Generally, we enter into such contracts for less than 90 days and have no cash requirements until maturity. At September 30, 2019 and 2018, we had outstanding contracts with a total notional value of \$189.6 million and \$117.1 million, respectively.

Defined Benefit Plans

We sponsor certain defined benefit plans that are offered primarily by certain of our foreign subsidiaries. Many of these plans were assumed through our acquisitions or are required by local regulatory requirements. We may deposit funds for these plans with insurance companies, third party trustees, or into government-managed accounts consistent with local regulatory requirements, as applicable. Our total defined benefit plan pension (income) expenses were \$(0.1) million, \$(0.3) million and \$0.4 million for fiscal years 2019, 2018 and 2017, respectively. The aggregate projected benefit obligation as of September 30, 2019 and September 30, 2018 was \$39.9 million and \$34.7 million, respectively. The aggregate net liability of our defined benefit plans as of September 30, 2019 and September 30, 2018 was \$16.8 million and \$11.1 million, respectively.

Off-Balance Sheet Arrangements

Through September 30, 2019, we have not entered into any off-balance sheet arrangements or material transactions with unconsolidated entities or other persons.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

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

We believe the following critical accounting policies most significantly affect the portrayal of our financial condition and results of operations and require our most difficult and subjective judgments.

Revenue Recognition

We derive revenue from the following sources: (1) hosting services, (2) software licenses, including royalties, (3) M&S, (4) professional services, and (5) sale of hardware. Revenue is reported net of applicable sales and use tax, value-added tax and other transaction taxes imposed on the related transaction including mandatory government charges that are passed through to our customers. We account for a contract when both parties have approved and committed to the contract, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and the collectibility of the consideration is probable.

The majority of our arrangements with customers typically contain multiple products and services. We account for individual products and services separately if they are distinct--that is, if a product or service is separately identifiable from other items in the contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer.

In fiscal year 2019, we implemented ASC 606 using the modified retrospective approach, which requires the results for the current reporting periods be presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies in accordance with ASC 605, with a cumulative adjustment recorded to accumulated deficit. We currently recognize revenue after applying the following five steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract, including whether they are distinct within the context of the contract;
- determination of the transaction price, including the constraint on variable consideration;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, performance obligations are satisfied.

We allocate the transaction price of the arrangement based on the relative estimated standalone selling price ("SSP") of each distinct performance obligation. In determining SSP, we maximize observable inputs and consider a number of data points, including:

- the pricing of standalone sales (in the instances where available);
- the pricing established by management when setting prices for deliverables that are intended to be sold on a standalone basis;
- contractually stated prices for deliverables that are intended to be sold on a standalone basis; and
- other pricing factors, such as the geographical region in which the products are sold and expected discounts based on the customer size and type.

We only include estimated amounts of variable consideration in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. We reduce transaction prices for estimated returns and other allowances that represent variable consideration under ASC 606, which we estimate based on historical return experience and other relevant factors, and record a reduction to revenue and accounts receivable. Other forms of contingent revenue or variable consideration are infrequent.

Revenue is recognized when control of these products and services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

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We assess the timing of the transfer of products or services to the customer as compared to the timing of payments to determine whether a significant financing component exists. In accordance with the practical expedient in ASC 606-10-32-18, we do not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less. If the difference in timing arises for reasons other than the provision of finance to either the customer or us, no financing component is deemed to exist. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our services, not to receive or provide financing from or to customers. We do not consider set-up fees nor other upfront fees paid by our customers to represent a financing component.

Certain products are sold through distributors or resellers. Certain distributors and resellers have been granted right of return and selling incentives which are accounted for as variable consideration when estimating the amount of revenue to be recognized. Returns and credits are estimated at the contract inception and updated at the end of each reporting period as additional information becomes available. In accordance with the practical expedient in ASC 606-10-10-4, we apply a portfolio approach to estimate the variable consideration associated with this group of customers.

Reimbursements for out-of-pocket costs generally include, but are not limited to, costs related to transportation, lodging and meals. Revenue from reimbursed out-of-pocket costs is accounted for as variable consideration.

Shipping and handling activities are not considered a contract performance obligation. We record shipping and handling costs billed to customers as revenue with offsetting costs recorded as cost of revenue.

Performance Obligations

Hosting

Hosting services, which allow our customers to use the hosted software over the contract period without taking possession of the software, are provided on a usage basis as consumed or on a fixed fee subscription basis. Our hosting contract terms generally range from one to five years.

As each day of providing services is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided, we have determined that our hosting services arrangements are a single performance obligation comprised of a series of distinct services. These services include variable consideration, which is typically a function of usage. We recognize revenue as each distinct service period is performed (i.e., recognized as incurred).

Subscription basis revenue represents a single promise to stand-ready to provide access to our hosting services. Revenue is recognized over time on a ratable basis over the hosting contract term, which generally ranges from one to five years.

Software Licenses

On-premise software licenses sold with non-distinct professional services to customize and/or integrate the underlying software are accounted for as a combined performance obligation. Revenue from the combined performance obligation is recognized over time based upon the progress towards completion of the project, which is measured based on the labor hours already incurred to date as compared to the total estimated labor hours.

Revenue from distinct on-premise software licenses, which do not require professional services to customize and/or integrate the software license, is recognized at the point in time when the software is made available to the customer and control is transferred.

Revenue from software licenses sold on a royalty basis, where the license of intellectual property is the predominant item to which the royalty relates, is recognized in the period the usage occurs in accordance with the practical expedient in ASC 606-10-55-65(A).

Maintenance and Support

Our M&S contracts generally include telephone support and the right to receive unspecified upgrades and updates on a when-and-if available basis. M&S revenue is recognized over time on a ratable basis over the contract period because we transfer control evenly by providing a stand-ready service.

Professional Services

Revenue from distinct professional services, including training, is recognized over time based upon the progress towards completion of the project, which is measured based on the labor hours already incurred to date as compared to the total estimated labor hours.

Hardware

Hardware revenue is recognized at the point in time when control is transferred to the customer, which is typically upon delivery.

Significant Judgments

Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Our license contracts often include professional services to customize and/or integrate the licenses into the customer's environment. Judgment is required to determine whether the license is considered distinct and accounted for separately, or not distinct and accounted for together with professional services.

Judgments are required to determine the SSP for each distinct performance obligation. When SSP is directly observable, we estimate SSP based upon the historical transaction prices, adjusted for geographic considerations, customer classes, and customer relationship profiles. In instances where SSP is not directly observable, we determine SSP using information that may include market conditions and other observable inputs. We may have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we may use information such as the size of the customer and geographic region in determining SSP. Determining SSP for performance obligations which we never sell separately also requires significant judgment. In estimating the SSP, we consider the likely price that would have resulted from established pricing practices had the deliverable been offered separately and the prices a customer would likely be willing to pay.

From time to time, we may enter into arrangements with third party suppliers to resell products or services. In such cases, we evaluate whether we are the principal (i.e. report revenues on a gross basis) or agent (i.e. report revenues on a net basis). In doing so, we first evaluate whether we control the good or service before it is transferred to the customer. If we control the good or service before it is transferred to the customer, we are the principal; if not, we are the agent. Generally, we control a promised good or service before transferring that good or service to the customer and act as the principal to the transaction. Determining whether we control the good or service before it is transferred to the customer may require judgment.

Goodwill Impairment Analysis

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill and intangible assets with indefinite lives are not amortized, but rather the carrying amounts of these assets are assessed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Goodwill is tested for impairment annually on July 1, the first day of the fourth quarter of the fiscal year. In fiscal year 2017, we elected to early adopt ASU 2017-04, "Simplifying the Test for Goodwill Impairment" for its annual goodwill impairment test. ASU 2017-04 removes Step 2 of the goodwill impairment test requiring a hypothetical purchase price allocation. Goodwill impairment, if any, is determined by comparing the reporting unit's fair value to its carrying value. An impairment loss is recognized in an amount equal to the excess of the reporting unit's carrying value over its fair value, up to the amount of goodwill allocated to the reporting unit. There is no goodwill impairment for fiscal years 2019 and 2018. See Note 5 to the accompanying consolidated financial statements for the impairment losses recorded in fiscal year 2018.

For the purpose of testing goodwill for impairment, all goodwill acquired in a business combination is assigned to one or more reporting units. A reporting unit represents an operating segment or a component within an operating segment for which discrete financial information is available and is regularly reviewed by segment management for performance assessment and resource allocation. Components of similar economic characteristics are aggregated into one reporting unit for the purpose of goodwill impairment assessment. Reporting units are identified annually and re-assessed periodically for recent acquisitions or any changes in segment reporting structure.

Corporate assets and liabilities are allocated to each reporting unit based on the reporting unit's revenue, total operating expenses or operating income as a percentage of the consolidated amounts. Corporate debt and other financial liabilities that are not directly attributable to the reporting unit's operations and would not be transferred to hypothetical purchasers of the reporting units are excluded from a 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. 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 adjust the discount rates for 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.

Intangible Assets and long-lived Asset groups

Long-lived assets with definite lives are tested for impairment whenever events or changes in circumstances indicate the carrying value of a specific asset or asset group may not be recoverable. We assess the recoverability of long-lived assets with definite-lives at the asset group level. Asset groups are determined based upon the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. When the asset group is also a reporting unit, goodwill assigned to the reporting unit is also included in the carrying amount of the asset group. For the purpose of the recoverability test, we compare the total undiscounted future cash flows from the use and disposition of the assets with its net carrying amount. When the carrying value of the asset group exceeds the undiscounted future cash flows, the asset group is deemed to be impaired. The amount of the impairment loss represents the excess of the asset or asset group's carrying value over its estimated fair value, which is generally determined based upon the present value of estimated future pre-tax cash flows that a market participant would expect from use and disposition of the long-lived asset or asset group. See Note 5 for the impairment charges recorded in fiscal year 2018.

Income Taxes

Deferred Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not after consideration of all available evidence. As the income tax returns are not due and filed until after the completion of our annual financial reporting requirements, the amounts recorded for the current period reflect estimates for the tax-based activity for the period. In addition, estimates are often required with respect to, among other things, the appropriate state and foreign income tax rates to use, the potential utilization of operating loss carry-forwards and valuation allowances required, if any, for tax assets that may not be realizable in the future. Tax laws and tax rates vary substantially in these jurisdictions, and are subject to change given the political and economic climate. We report and pay income tax based on operational results and applicable law. Our tax provision contemplates tax rates currently in effect to determine both our current and deferred tax provisions.

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

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

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

Valuation Allowance

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

As of September 30, 2019, we have \$303.4 million of valuation allowances recorded against all U.S. deferred tax assets and certain foreign deferred tax assets. If we are subsequently able to utilize all or a portion of the deferred tax assets for which the remaining valuation allowance has been established, then we may be required to recognize these deferred tax assets through the reduction of the valuation allowance which could result in a material benefit to our results of operations in the period in which the benefit is determined.

Uncertain Tax Positions

We operate in multiple jurisdictions through wholly-owned subsidiaries and our global structure is complex. The estimates of our uncertain tax positions involve judgments and assessment of the potential tax implications related to legal entity restructuring,

intercompany transfer and acquisition or divestiture. We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

Our tax positions are subject to audit by taxing authorities across multiple global jurisdictions and the resolution of such audits may span multiple years. Tax law is complex and often subject to varied interpretations, accordingly, the ultimate outcome with respect to taxes we may owe may differ from the amounts recognized.

RECENTLY ADOPTED ACCOUNTING STANDARDS

See Note 2 to the accompanying consolidated financial statements for a description of recently adopted accounting standards.

ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED

See Note 2 to the accompanying consolidated financial statements for a description of certain issued accounting standards that have not been adopted and may impact our financial statements in future reporting periods.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

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

Exchange Rate Sensitivity

We are exposed to changes in foreign currency exchange rates. Any foreign currency transaction, defined as a transaction denominated in a currency other than the local functional currency, will be reported in the functional currency at the applicable exchange rate in effect at the time of the transaction. A change in the value of the functional currency compared to the foreign currency of the transaction will have either a positive or negative impact on our financial position and results of operations.

Assets and liabilities of our foreign entities are translated into U.S. dollars at exchange rates in effect at the balance sheet date and income and expense items are translated at average rates for the applicable period. Therefore, the change in the value of the U.S. dollar compared to foreign currencies will have either a positive or negative effect on our financial position and results of operations. Historically, our primary exposure has related to transactions denominated in the euro, British pound, Brazilian real, Canadian dollar, Japanese yen, and Indian rupee.

Periodically, we enter into forward exchange contracts to hedge against foreign exchange rate fluctuations. As of September 30, 2019, we had not designated any contracts as fair value or cash flow hedges. The contracts generally have a maturity of less than 90 days. As of September 30, 2019, the notional contract amount of outstanding foreign currency exchange contracts was \$189.6 million.

Interest Rate Sensitivity

We are exposed to interest rate risk as a result of our cash and cash equivalents and marketable securities.

At September 30, 2019, we held approximately \$764.8 million of cash and cash equivalents and marketable securities consisting of cash, money-market funds, bank deposits and a separately managed investment portfolio. Assuming a one percentage point increase in interest rates, our interest income on our investments classified as cash and cash equivalents and marketable securities would increase by approximately \$7.6 million per annum, based on the September 30, 2019 reported balances of our investment accounts.

At September 30, 2019, we had no outstanding debt exposed to variable interest rates.

Convertible Debentures

The fair values of our convertible debentures are dependent on the price and volatility of our common stock as well as movements in interest rates. The fair market values of these debentures will generally increase as the market price of our common stock increases and will decrease as the market price of our common stock decreases. The fair market values of these debentures will generally increase as interest rates fall and decrease as interest rates rise. The market value and interest rate changes affect the fair market values of these debentures, but do not impact our financial position, results of operations or cash flows due to the fixed nature of the debt obligations. However, increases in the value of our common stock above the stated trigger price for each issuance for a specified period of time may provide the holders of these debentures the right to convert each bond using a conversion ratio and payment method as defined in the debenture agreement.

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The following tables summarizes the fair value and conversion value of our convertible debentures, and the estimated increase in the fair value and conversion value with a hypothetical 10% increase in the stock price of \$16.31 as of September 30, 2019 (dollars in millions):

	September 30, 2019			
	Fair value	Conversion value	Increase to fair value	Increase to conversion value
2.75% 2031 Debentures	\$45.2	\$23.5	\$0.6	\$2.4
1.5% 2035 Debentures	\$264.8	\$185.1	\$5.0	\$18.5
1.0% 2035 Debentures	\$641.8	\$405.3	\$12.5	\$40.5
1.25 % 2025 Debentures	\$346.9	\$256.9	\$18.7	\$25.7

Item 8. *Financial Statements and Supplementary Data*

Nuance Communications, Inc. Consolidated Financial Statements

**NUANCE COMMUNICATIONS, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Nuance Communications, Inc.
Boston, MA

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Nuance Communications, Inc. (the "Company") and subsidiaries as of September 30, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at September 30, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of September 30, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated November 26, 2019 expressed an unqualified opinion thereon.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenues and certain contract costs in fiscal 2019 due to the adoption of Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("ASC 606").

Auto Segment Spin-off

As discussed in Note 23 to the consolidated financial statements, on October 1, 2019, the Company completed the spin-off of its Auto segment (now known as Cerence Inc.) through the distribution of the shares of Cerence Inc. to the Company's shareholders. The operating results of Cerence, Inc. and its subsidiaries will be reclassified as discontinued operations in the quarter ending December 31, 2019.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or were required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial

statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Adoption of ASC 606 Revenue from Contracts with Customers

As described in Note 2 to the Company's consolidated financial statements, the Company adopted ASC 606 on October 1, 2018 using the modified retrospective approach with a cumulative adjustment to retained earnings. Upon adoption on October 1, 2018, the Company recorded a decrease to the accumulated deficit of approximately \$233 million, net of tax.

We identified the adoption of ASC 606 as a critical audit matter. The Company's processes related to the adoption of ASC 606 included the following: (i) evaluating the new accounting standard and establishing new policies and practices, (ii) identifying and evaluating completeness and accuracy of relevant historical data for open contracts at the date of adoption, (iii) implementing and configuring the new revenue management system including relevant controls and testing the related inputs and outputs from the system, (iv) analyzing historical data using the new revenue management system, and (v) recording the impact of the adoption. Auditing the Company's adoption was challenging and complex due to the effort required to analyze the effect of ASC 606 on the Company's significant number of open revenue contracts upon adoption as part of the Company's implementation using the modified retrospective approach.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the design and testing operating effectiveness of controls relating to management's adoption of ASC 606 including controls over: (i) evaluating the impact of the new accounting standard, (ii) evaluating the completeness and accuracy of relevant historical data for open contracts at the date of adoption, (iii) assessing the results and recording the impact of the adoption, and (iv) evaluating the design and testing the operating effectiveness of certain IT general controls relating to management's implementation of the new revenue management system.
- Evaluating management's accounting policies and practices, including the reasonableness of management's judgments and assumptions related to: (i) evaluation of performance obligations and whether they are distinct or non-distinct, (ii) consideration of income tax implications, and (iii) capitalization of contract costs including commissions.
- Utilizing BDO technical specialists to assist in evaluating the technical merits of management's accounting policies used as a basis of management's ASC 606 adoption.
- Testing of a sample of revenue contracts and underlying order documents recorded by management to evaluate proper processing within the new revenue management system.
- Testing the completeness and accuracy of relevant inputs and outputs used in the adoption of ASC 606, identification of performance obligations and determination of standalone selling prices.

Determination of Distinct Performance Obligations in Customer Revenue Contracts

As described in Note 2 to the Company's consolidated financial statements, the Company adopted ASC 606 on October 1, 2018. The Company derives revenue from the following sources: (i) hosting services, (ii) software licenses, including royalties, (iii) M&S, (iv) professional services, and (v) sale of hardware. The Company enters into contracts with its customers, which frequently contain multiple performance obligations. The Company accounts for individual products and services separately if they are distinct, that is, if a product or service is separately identifiable from other items in the contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer.

We identified the determination of distinct performance obligations as a critical audit matter. Significant judgment can be required to determine the performance obligations in a contract and whether they are distinct. Auditing these aspects involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the design and testing operating effectiveness of certain controls relating to management's identification and assessment of distinct performance obligations in customer revenue contracts.
- Evaluating management's accounting policies and practices including the reasonableness of management's judgments and assumptions relating to the evaluation of performance obligations and whether they are distinct or non-distinct.

- Testing a sample of revenue contracts and underlying order documents to evaluate management’s identification of distinct performance obligations in revenue contracts.

Uncertain Tax Positions

As described in Note 20 to the Company’s consolidated financial statements, the Company’s total uncertain tax positions (“UTPs”) for the fiscal year ended September 30, 2019 were \$85.6 million. The Company operates in multiple jurisdictions through its wholly-owned subsidiaries and its global structure is complex. The Company’s tax positions are subject to audit by taxing authorities across multiple global jurisdictions and the resolution of such audits may span multiple years. Tax law is complex and often subject to varied interpretations, accordingly, the ultimate outcome with respect to taxes the Company may owe may differ from the amounts recognized.

We identified the assessment of uncertain tax positions as a critical audit matter. The Company’s tax provision processes related to the UTPs involved significant management judgment in the assessment of the potential tax implications related to legal entity restructuring, intercompany transfers and acquisition or divestiture. Auditing these aspects involved especially challenging auditor judgment due to the nature and extent of auditor judgement required in evaluating the Company’s interpretation of, and compliance with global tax laws across its multiple subsidiaries, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the design and testing the operating effectiveness of controls relating to management’s assessment of: (i) completeness and accuracy of the identified uncertain tax positions, (ii) evaluation of the technical merits of positions, and (iii) reasonableness of assumptions used in the determinations.
- Evaluating management’s judgments and assessing the reasonableness of assumptions used in determining the units of account, recognition, measurement, and technical merits of UTPs.
- Assessing management’s application of new and updated regulatory and legislative guidance in various jurisdictions and evaluating implications on the Company’s UTPs due to changes in legal structure of certain subsidiaries.
- Utilizing BDO Tax and valuation specialists to assist in evaluating technical merits, reasonableness of management’s judgments and assumptions used in UTPs calculations and the overall reasonableness of conclusions reached.

/s/ BDO USA, LLP

BDO USA, LLP

BDO USA, LLP
Boston, MA
November 26, 2019

We have served as the Company's auditor since 2004.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Nuance Communications, Inc.
Burlington, Massachusetts

Opinion on Internal Control over Financial Reporting

We have audited Nuance Communication, Inc.'s (the "Company's") internal control over financial reporting as of September 30, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of September 30, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2019, and the related notes and our report dated November 26, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

BDO USA, LLP

Boston, MA
November 26, 2019

NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended September 30,		
	2019	2018	2017
	(ASC 606)	(ASC 605)	(ASC 605)
(In thousands, except per share amounts)			
Revenues:			
Hosting and professional services	\$ 1,044,670	\$ 1,045,722	\$ 966,566
Product and licensing	509,226	544,019	493,911
Maintenance and support	269,196	252,557	267,698
Total revenues	<u>1,823,092</u>	<u>1,842,298</u>	<u>1,728,175</u>
Cost of revenues:			
Hosting and professional services	636,189	678,378	654,599
Product and licensing	73,333	56,799	54,104
Maintenance and support	33,564	39,324	37,243
Amortization of intangible assets	36,833	50,886	57,892
Total cost of revenues	<u>779,919</u>	<u>825,387</u>	<u>803,838</u>
Gross profit	<u>1,043,173</u>	<u>1,016,911</u>	<u>924,337</u>
Operating expenses:			
Research and development	275,886	278,735	239,925
Sales and marketing	303,503	311,712	324,370
General and administrative	175,008	225,884	163,065
Amortization of intangible assets	66,730	73,997	92,839
Acquisition-related costs, net	8,909	16,093	27,708
Restructuring and other charges, net	80,465	57,026	59,923
Impairment of goodwill and other intangible assets	—	170,941	—
Total operating expenses	<u>910,501</u>	<u>1,134,388</u>	<u>907,830</u>
Income (loss) from operations	132,672	(117,477)	16,507
Other income (expense):			
Interest income	13,705	9,327	6,922
Interest expense	(120,095)	(137,253)	(156,889)
Other expense, net	(538)	(1,821)	(21,210)
Income (loss) before income taxes	<u>25,744</u>	<u>(247,224)</u>	<u>(154,670)</u>
(Benefit) provision for income taxes	(88,594)	(62,320)	23,671
Net income (loss) from continuing operations	<u>114,338</u>	<u>(184,904)</u>	<u>(178,341)</u>
Net income from discontinued operations	99,472	24,976	27,345
Net income (loss)	<u>\$ 213,810</u>	<u>\$ (159,928)</u>	<u>\$ (150,996)</u>
Net income (loss) per common share - basic:			
Continuing operations	\$ 0.40	\$ (0.63)	\$ (0.62)
Discontinued operations	0.35	0.08	0.10
Total net income (loss) per basic common share	<u>\$ 0.75</u>	<u>\$ (0.55)</u>	<u>\$ (0.52)</u>
Net income (loss) per common share - diluted:			
Continuing operations	\$ 0.39	\$ (0.63)	\$ (0.62)
Discontinued operations	0.35	0.08	0.10
Total net income (loss) per diluted common share	<u>\$ 0.74</u>	<u>\$ (0.55)</u>	<u>\$ (0.52)</u>
Weighted average common shares outstanding:			
Basic	<u>286,347</u>	<u>291,318</u>	<u>289,348</u>
Diluted	<u>290,125</u>	<u>291,318</u>	<u>289,348</u>

See accompanying notes.

NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended September 30,		
	2019	2018	2017
	(ASC 606)	(ASC 605)	(ASC 605)
	(In thousands)		
Net income (loss)	\$ 213,810	\$ (159,928)	\$ (150,996)
Other comprehensive (loss) income:			
Foreign currency translation adjustment	(11,993)	(23,973)	13,027
Reclassification of currency translation differences into earnings as a result of business disposition	5,605	—	—
Pension adjustments	(3,768)	2,644	1,774
Unrealized gains (losses) on marketable securities	246	(192)	(9)
Total other comprehensive (loss) income, net	(9,910)	(21,521)	14,792
Comprehensive income (loss)	<u>\$ 203,900</u>	<u>\$ (181,449)</u>	<u>\$ (136,204)</u>

See accompanying notes.

**NUANCE COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS**

	September 30, 2019	September 30, 2018
	(ASC 606)	(ASC 605)
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 560,961	\$ 315,963
Marketable securities	186,555	135,579
Accounts receivable, less allowances for doubtful accounts of \$10,662 and \$9,823	308,601	347,873
Prepaid expenses and other current assets	199,096	94,814
Current assets held for sale	—	34,402
Total current assets	1,255,213	928,631
Marketable securities	17,287	21,932
Land, buildings and equipment, net	141,316	153,452
Goodwill	3,243,464	3,247,105
Intangible assets, net	356,932	450,001
Other assets	351,581	141,761
Long-term assets held for sale	—	359,497
Total assets	\$ 5,365,793	\$ 5,302,379
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	1,142,870	—
Contingent and deferred acquisition payments	17,470	14,211
Accounts payable	104,865	80,912
Accrued expenses and other current liabilities	276,999	269,339
Deferred revenue	302,872	330,689
Current liabilities held for sale	—	69,013
Total current liabilities	1,845,076	764,164
Long-term debt	793,536	2,185,361
Deferred revenue, net of current portion	398,834	434,316
Deferred tax liabilities	54,216	49,931
Other liabilities	100,981	93,593
Long-term liabilities held for sale	—	57,518
Total liabilities	3,192,643	3,584,883
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Common stock, \$0.001 par value per share; 560,000 shares authorized; 289,680 and 291,504 shares issued and 285,930 and 287,753 shares outstanding, respectively	290	291
Additional paid-in capital	2,597,889	2,597,693
Treasury stock, at cost (3,751 shares)	(16,788)	(16,788)
Accumulated other comprehensive loss	(132,773)	(122,863)
Accumulated deficit	(293,612)	(740,837)
Total Nuance Communications, Inc. stockholders' equity	2,155,006	1,717,496
Noncontrolling interests	18,144	—
Total stockholders' equity	2,173,150	1,717,496
Total liabilities and stockholders' equity	\$ 5,365,793	\$ 5,302,379

See accompanying notes.

NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Noncontrolling Interests	Total Stockholders' Equity
	Shares	Amount		Shares	Amount				
Balance at September 30, 2016	291,384	\$ 291	\$2,492,992	3,751	\$(16,788)	\$ (116,134)	\$ (429,031)	\$ —	\$ 1,931,330
Issuance of common stock under employee stock plans	10,709	11	17,372	—	—	—	—	—	17,383
Cancellation of restricted stock, and repurchase of common stock at cost for employee tax withholding	(3,377)	(3)	(55,129)	—	—	—	—	—	(55,132)
Stock-based compensation	—	—	160,575	—	—	—	—	—	160,575
Repurchase and retirement of common stock	(5,797)	(6)	(99,071)	—	—	—	—	—	(99,077)
Net issuance of common stock in connection with acquisitions and collaboration agreements	1,019	1	16,346	—	—	—	—	—	16,347
Equity portion of convertible debt issuance/retirement, net of tax effect	—	—	96,160	—	—	—	—	—	96,160
Net loss	—	—	—	—	—	—	(150,996)	—	(150,996)
Other comprehensive income	—	—	—	—	—	14,792	—	—	14,792
Balance at September 30, 2017	293,938	294	2,629,245	3,751	(16,788)	(101,342)	(580,027)	—	1,931,382
Prior period adjustment related to early adoption of ASU 2016-16	—	—	—	—	—	—	(882)	—	(882)
Issuance of common stock under employee stock plans	10,568	10	18,374	—	—	—	—	—	18,384
Cancellation of restricted stock, and repurchase of common stock at cost for employee tax withholding	(3,304)	(3)	(52,333)	—	—	—	—	—	(52,336)
Stock-based compensation	—	—	138,487	—	—	—	—	—	138,487
Repurchase and retirement of common stock	(9,698)	(10)	(136,080)	—	—	—	—	—	(136,090)
Net loss	—	—	—	—	—	—	(159,928)	—	(159,928)
Other comprehensive loss	—	—	—	—	—	(21,521)	—	—	(21,521)
Balance at September 30, 2018	291,504	291	2,597,693	3,751	(16,788)	(122,863)	(740,837)	—	1,717,496
Accumulated adjustment related to the adoption of ASC 606	—	—	—	—	—	—	233,415	—	233,415
Issuance of common stock under employee stock plans	8,981	9	16,588	—	—	—	—	—	16,597
Cancellation of restricted stock, and repurchase of common stock at cost for employee tax withholding	(2,645)	(2)	(42,552)	—	—	—	—	—	(42,554)
Stock-based compensation	—	—	161,371	—	—	—	—	—	161,371
Repurchase and retirement of common stock	(8,160)	(8)	(126,930)	—	—	—	—	—	(126,938)
Noncontrolling interests	—	—	(8,281)	—	—	—	—	18,144	9,863
Net income	—	—	—	—	—	—	213,810	—	213,810
Other comprehensive loss	—	—	—	—	—	(9,910)	—	—	(9,910)
Balance at September 30, 2019	289,680	\$ 290	\$2,597,889	3,751	\$(16,788)	\$ (132,773)	\$ (293,612)	\$ 18,144	\$ 2,173,150

See accompanying notes.

NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30,		
	2019	2018	2017
	(ASC 606)	(ASC 605)	(ASC 605)
	(In thousands)		
Cash flows from operating activities:			
Net income (loss) from continuing operations	\$ 114,338	\$ (184,904)	\$ (178,341)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	55,227	60,355	53,268
Amortization	103,563	124,883	150,731
Stock-based compensation	141,212	142,909	142,901
Non-cash interest expense	49,488	49,091	59,295
Deferred tax (benefit) provision	(123,763)	(86,841)	5,226
Loss (gain) on extinguishment of debt	910	(348)	18,565
Impairment of goodwill and other intangible assets	—	170,941	—
Impairment of fixed assets	—	10,550	16,351
Other	4,462	2,230	8,403
Changes in operating assets and liabilities, excluding effects of acquisitions:			
Accounts receivable	1,058	16,996	(15,403)
Prepaid expenses and other assets	(25,076)	(20,555)	(14,858)
Accounts payable	22,922	(14,458)	109
Accrued expenses and other liabilities	30,344	24,451	3,557
Deferred revenue	22,317	96,977	51,041
Net cash provided by operating activities - continuing operations	397,002	392,277	300,845
Net cash provided by operating activities - discontinued operations	4,355	52,149	78,022
Net cash provided by operating activities	401,357	444,426	378,867
Cash flows from investing activities:			
Proceeds from dispositions of businesses, net of transaction fees	407,043	—	—
Capital expenditures	(44,185)	(48,845)	(61,835)
Payments for business and asset acquisitions, net of cash acquired	(20,873)	(110,170)	(113,769)
Purchases of marketable securities and other investments	(349,125)	(201,995)	(332,470)
Proceeds from sales and maturities of marketable securities and other investments	303,171	323,695	173,864
Net cash provided by (used in) investing activities	296,031	(37,315)	(334,210)
Cash flows from financing activities:			
Repayment and redemption of debt	(300,000)	(481,172)	(634,055)
Proceeds from issuance of long-term debt, net of issuance costs	—	—	837,482
Payments for repurchase of common stock	(126,938)	(136,090)	(99,077)
Acquisition payments with extended payment terms	—	(24,842)	—
Proceeds from issuance of common stock from employee stock plans	16,597	18,384	17,383
Payments for taxes related to net share settlement of equity awards	(49,428)	(55,396)	(54,099)
Proceeds from sale of noncontrolling interests in a subsidiary	9,863	—	—
Other financing activities	(2,131)	(1,232)	(583)
Net cash (used in) provided by financing activities	(452,037)	(680,348)	67,051
Effects of exchange rate changes on cash and cash equivalents	(353)	(3,099)	(1,029)
Net increase (decrease) in cash and cash equivalents	244,998	(276,336)	110,679
Cash and cash equivalents at beginning of year	315,963	592,299	481,620
Cash and cash equivalents at end of year	\$ 560,961	\$ 315,963	\$ 592,299

See accompanying notes.



**NUANCE COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Organization and Presentation

Nuance Communications, Inc. ("We", "Nuance", or the "Company") is a pioneer and leader in conversational and cognitive AI innovations that bring intelligence to everyday work and life. Our solutions and technologies can understand, analyze and respond to human language to increase productivity and amplify human intelligence. Our solutions are used by businesses in the healthcare, automotive, financial services, telecommunications and travel industries, among others. We had four reportable segments: Healthcare, Enterprise, Automotive, and Other as of September 30, 2019. See Note 22 for a description of each of these segments.

As more fully described in Note 23, on October 1, 2019, we completed the previously announced spin-off of our Automotive business as an independent public company, or Cerence Inc. ("Cerence"). Effective the first quarter of fiscal year 2020, the historical results of our Automotive business will be included within discontinued operations for all the historical periods presented.

In connection with the spin-off of our Automotive business, we issued a notice to all holders on September 5, 2019, pursuant to which, the holders had the right to convert all or any portion of their debentures at the aforementioned conversion ratio until the close of business on October 1, 2019. As of September 30 2019, the net carrying amounts of the convertible notes were included within the current portion of long-term debt. Upon the conclusion of the conversion period on October 1, 2019, none of the holders exercised their right to convert. As a result, the net carrying amounts of the convertible notes were reclassified back to long-term debt.

2. Summary of Significant Accounting Policies

Use of Estimates

The consolidated financial statements are prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"), which requires management to make estimates and assumptions. These estimates, judgments and assumptions can affect the reported amounts in the financial statements and the footnotes thereto. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, assumptions and judgments. Significant estimates inherent to the preparation of financial statements include: revenue recognition; the allowances for doubtful accounts and sales returns; contract assets; internally developed software; goodwill and intangible assets; business combinations, including contingent consideration; and income taxes, including valuation allowance and uncertain tax positions. We base our estimates on historical experience, market participant fair value considerations, projected future cash flows, and various other factors that are believed to be reasonable under the circumstances. Actual amounts could differ significantly from these estimates.

Basis of Consolidation

The consolidated financial statements include the accounts Nuance and our subsidiaries. Intercompany transactions and balances have been eliminated.

Revenue Recognition under ASC 605 for fiscal years 2018 and 2017

We derive revenue from the following sources: (1) software license agreements, including royalty and other usage-based arrangements, (2) professional services, (3) hosting services and (4) post-contract customer support ("PCS"). Our hosting services are generally provided through on-demand, usage-based or per transaction fee arrangements. Generally, we recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable and (iv) collectibility is probable.

The sale and/or license of software solutions and technology is deemed to have occurred when a customer either has taken possession of or has access to take immediate possession of the software or technology. Revenue from royalties on sales of our software products by original equipment manufacturers ("OEMs"), where no services are included, is recognized in the quarter earned so long as we have been notified by the OEM that such royalties are due, and provided that all other revenue recognition criteria are met.

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

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

When we provide professional services considered essential to the functionality of the software, we recognize revenue from the professional services as well as any related software licenses on a percentage-of-completion basis whereby the arrangement consideration is recognized as the services are performed, as measured by an observable input. In these circumstances, we separate license revenue from professional service revenue for income statement presentation by allocating Vendor-Specific Objective Evidence ("VSOE") of fair value of the professional services as professional services and hosting revenue and the residual portion as product and licensing revenue. We generally determine the percentage-of-completion by comparing the labor hours incurred to-date to the estimated total labor hours required to complete the project. Adjustments to estimates to complete are made in the periods in which facts resulting in a change become known. When the estimate indicates that a loss will be incurred, such loss is recorded in the period identified.

In a hosting arrangement, we recognize the up-front setup fees ratably over the longer of the contract lives or the expected lives of the customer relationships. The usage-based or individual transaction fees are due and payable as each individual transaction is processed through the hosting service and is recognized as revenue in the period the services are provided. The on-demand service fees are recognized ratably over our estimate of the useful life of the devices on which the hosting service is provided.

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

See Note 3 for revenue recognition under ASC 606 for fiscal year 2019.

Business Combinations

We determine and allocate the purchase price of an acquired company to the tangible and intangible assets acquired and liabilities assumed as of the date of acquisition. Results of operations and cash flows of acquired companies are included in our operating results from the date of acquisition. The purchase price allocation process requires us to use significant estimates and assumptions, which include:

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

The fair value of any contingent consideration is established at the acquisition date and included in the total purchase price. The contingent consideration is then adjusted to fair value, with any measurement-period adjustment recorded against goodwill. Adjustments identified subsequent to the measurement period are recorded within Acquisition-related costs, net.

While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, our estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the measurement period, which is generally one year from the acquisition date, any adjustment to the assets acquired and liabilities assumed is recorded against goodwill in the period in which the amount is determined. Any adjustment identified subsequent to the measurement period is included in operating results in the period in which the amount is determined.

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

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill and intangible assets with indefinite lives are not amortized, but rather the carrying amounts of these assets are assessed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Goodwill is tested for impairment annually on July 1, the first day of the fourth quarter of the fiscal year. Goodwill impairment, if any, is determined by comparing the reporting unit's fair value to its carrying value. An impairment loss is recognized in an amount equal to the excess of the reporting unit's carrying value over its fair value, up to the amount of goodwill allocated to the reporting unit. There was no goodwill impairment for fiscal year 2019. See Note 6 for the impairment charges recorded in fiscal year 2018.

For the purpose of testing goodwill for impairment, all goodwill acquired in a business combination is assigned to one or more reporting units. A reporting unit represents an operating segment or a component within an operating segment for which discrete financial information is available and is regularly reviewed by segment management for performance assessment and resource allocation. Components of similar economic characteristics are aggregated into one reporting unit for the purpose of goodwill impairment assessment. Reporting units are identified annually and re-assessed periodically for recent acquisitions or any changes in segment reporting structure.

Corporate assets and liabilities are allocated to each reporting unit based on the reporting unit's revenue, total operating expenses or operating income as a percentage of the consolidated amounts. Corporate debt and other financial liabilities that are not directly attributable to the reporting unit's operations and would not be transferred to hypothetical purchasers of the reporting units are excluded from a 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. 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 adjust the discount rates for 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.

Long-Lived Assets with Definite-Lives

Our long-lived assets consist principally of technology, customer relationships, internally developed software, land, and building and equipment. Customer relationships are amortized over their estimated economic lives based on the pattern of economic benefits expected to be generated from the use of the asset. Other definite-lived assets are amortized over their estimated economic lives using the straight-line method. The remaining useful lives of long-lived assets are re-assessed periodically for any events and circumstances that may change the future cash flows expected to be generated from the long-lived asset or asset group.

Internally developed software consists of capitalized costs incurred during the application development stage, which include costs related design of the software configuration and interfaces, coding, installation and testing. Costs incurred during the preliminary project stage and post-implementation stage are expensed as incurred. Internally developed software is amortized over the estimated useful life, commencing on the date when the asset is ready for its intended use. Land, building and equipment are stated at cost and depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the related lease term or the estimated useful life. Depreciation is computed using the straight-line method. Repair and maintenance costs are expensed as incurred. The cost and related accumulated depreciation of sold or retired assets are removed from the accounts and any gain or loss is included in the results of operations for the period.

Long-lived assets with definite lives are tested for impairment whenever events or changes in circumstances indicate the carrying value of a specific asset or asset group may not be recoverable. We assess the recoverability of long-lived assets with definite-lives at the asset group level. Asset groups are determined based upon the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. When the asset group is also a reporting unit, goodwill assigned to the reporting unit is also included in the carrying amount of the asset group. For the purpose of the recoverability test, we compare the total undiscounted future cash flows from the use and disposition of the assets with its net carrying amount. When the carrying value of the asset group exceeds the undiscounted future cash flows, the asset group is deemed to be impaired. The amount of the

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

impairment loss represents the excess of the asset or asset group's carrying value over its estimated fair value, which is generally determined based upon the present value of estimated future pre-tax cash flows that a market participant would expect from use and disposition of the long-lived asset or asset group. There was no intangible assets impairment for fiscal year 2019. See Note 6 for the impairment charges recorded in fiscal year 2018.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, including money market funds and time deposits with original maturities of 90 days or less.

Marketable Securities

Marketable securities consist of time deposits and high-quality corporate debt instruments with stated maturities of more than 90 days. Investments are classified as available-for-sale and are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax.

Accounts Receivable Allowances

Allowances for Doubtful Accounts. We record allowances for doubtful accounts for the estimated probable losses on uncollectible accounts receivable. The allowance is based upon the credit worthiness of our customers, our historical experience, the age of the receivable and current market and economic conditions. Receivables are written off against these allowances in the period they are determined to be uncollectible.

Allowances for Sales Returns. We reduce transaction price for estimated returns and other allowances that represent variable considerations based on historical experience and other relevant factors. The returns allowance is recorded as a reduction to revenue and accounts receivable at the time the related revenue is recorded. Receivables are written off against the allowance in the period the return is received.

For the years ended September 30, 2019, 2018 and 2017, the activity related to accounts receivable allowances was as follows (dollars in thousands):

	Allowance for Doubtful Accounts	Allowance for Sales Returns
Balance at September 30, 2016	\$ 8,349	\$ 3,166
Bad debt provision	3,333	—
Write-offs, net of recoveries	256	—
Revenue adjustments, net ^(a)	—	26,375
Balance at September 30, 2017	11,938	29,541
Bad debt provisions	2,377	—
Write-offs, net of recoveries	(4,492)	—
Revenue adjustments, net ^(b)	—	(23,396)
Balance at September 30, 2018	9,823	6,145
Bad debt provisions	2,375	—
Write-offs, net of recoveries	(1,536)	—
Revenue adjustments, net	—	(765)
Balance at September 30, 2019	\$ 10,662	\$ 5,380

^(a) The increase in provisions primarily relates to accommodations made to our customers in connection with our Healthcare transcription service interruption due to the global NotPetya malware incident (the "2017 Malware Incident")

^(b) The decrease in provisions was primarily due to the resolution of the reserves related to the 2017 Malware Incident.

Software Development Costs

We expense software development costs, including costs to develop software products or the software component of products to be sold, leased, or marketed to external users, before technological feasibility is reached. Technological feasibility is typically

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

reached shortly before the release of such products and as a result, development costs that meet the criteria for capitalization were not material for the periods presented.

Software development costs also include costs to develop software to be used solely to meet internal needs and cloud based applications used to deliver our services. We capitalize development costs related to these software applications once the preliminary project stage is complete and it is probable that the project will be completed and the software will be used to perform the function intended. As of September 30, 2019 and 2018, the net book value of capitalized internal-use software costs was \$28.5 million and \$12.7 million, respectively, which are included within Land, buildings and equipment, net.

Acquisition-Related Costs, Net

Acquisition-related costs, net 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, 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.

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

	Year Ended September 30,		
	2019	2018	2017
Transition and integration costs	\$ 8,131	\$ 16,059	\$ 15,192
Professional service fees	2,321	3,450	12,622
Acquisition-related adjustments	(1,543)	(3,416)	(106)
Total	\$ 8,909	\$ 16,093	\$ 27,708

Advertising Costs

Advertising costs are expensed as incurred and recorded within sales and marketing expenses. The advertising costs capitalized as of September 30, 2019 and 2018 are de minimis. We incurred advertising costs of \$17.2 million, \$16.5 million and \$19.4 million for fiscal years 2019, 2018 and 2017, respectively.

Convertible Debt

We bifurcate the debt and equity (the contingently convertible feature) components of our convertible debt instruments in a manner that reflects our nonconvertible debt borrowing rate at the time of issuance. The equity components of our convertible debt instruments are recorded within stockholders' equity with an allocated issuance premium or discount. The debt issuance premium or discount is amortized to interest expense in our consolidated statement of operations using the effective interest method over the expected term of the convertible debt.

We assess the short-term and long-term classification of our convertible debt on each balance sheet date. Whenever the holders have a contractual right to convert, the carrying amount of the convertible debt is reclassified to current liabilities, with the corresponding equity component classified from additional paid-in capital to mezzanine equity.

Income Taxes

We account for income taxes using the asset and liability method, under which we recognize the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our financial statements or tax returns. We measure current and deferred tax assets and liabilities based on provisions of enacted tax law. We evaluate the realization of our deferred tax assets based on all available evidence and establish a valuation allowance to reduce deferred tax assets when it is more likely than not that they will not be realized.

We recognize the financial statement effects of a tax position when it is more likely than not that, based on technical merits, the position will be sustained upon examination. The tax benefits of the position recognized in the financial statements are then measured based on the largest amount of benefit that is greater than 50% likely to be realized upon settlement with a taxing authority. In addition, we recognize interest and penalties related to unrecognized tax benefits as a component of the income tax provision.

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

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, reflected in the consolidated statements of stockholders' equity, consisted of the following (dollars in thousands):

	September 30, 2019	September 30, 2018
Foreign currency translation adjustment	\$ (124,608)	\$ (118,220)
Net unrealized losses on post-retirement benefits	(8,296)	(4,528)
Unrealized gains (losses) on marketable securities	131	(115)
Accumulated other comprehensive loss	\$ (132,773)	\$ (122,863)

No income tax provisions or benefits are recorded for foreign currency translation adjustment as the undistributed earnings in our foreign subsidiaries are expected to be indefinitely reinvested.

Concentration of Risk

Financial instruments that are potentially subject to significant concentrations of credit risk principally consist of cash, cash equivalents, marketable securities and trade accounts receivable. We place our cash and cash equivalents and marketable securities with financial institutions with high credit ratings. As part of our cash and investment management processes, we perform periodic evaluations of the credit standing of the financial institutions with whom we maintain deposits, and have not recorded any credit losses to-date. For trade accounts receivable, we perform ongoing credit evaluations of our customers' financial condition and limit the amount of credit extended when deemed appropriate. No customer accounted for more than 10% of our net accounts receivable balance at September 30, 2019 and 2018 or 10% of our revenue for fiscal years 2019, 2018 or 2017.

Foreign Currency Translation

The functional currency of a foreign subsidiary is generally the local currency. We translate the financial statements of foreign subsidiaries to U.S. dollars using month-end exchange rates for assets and liabilities, and average rates for the reporting period for revenues, costs, and expenses. We record translation gains and losses in accumulated other comprehensive loss as a component of stockholders' equity. We record net foreign exchange transaction gains and losses resulting from the conversion of the transaction currency to the functional currency within in other expense, net. Foreign currency transaction (gains) losses for fiscal years 2019, 2018 and 2017 were \$(0.8) million, \$1.1 million and \$1.4 million, respectively.

Financial Instruments and Hedging Activities

We use forward currency exchange contracts to manage our exposure to fluctuations in foreign currency for certain transactions. In order for instruments to be designated as hedges, specific criteria must be met, including (i) formal documentation must exist for both the hedging relationship and our risk management objectives and strategies for undertaking the hedging activities, (ii) at the inception and on an ongoing basis, the hedging relationship is expected to be highly effective in offsetting changes in fair value attributed to the hedged risk during the period that the hedge is designated, and (iii) an assessment of effectiveness is required whenever financial statements or earnings are reported.

The effective portion of changes in the fair values of contracts designated as cash flow hedges is recorded in equity as a component of accumulated other comprehensive income (loss) until the hedged item affects earnings. Once the underlying forecasted transaction is realized, the changes of fair values of instruments designated as hedges reclassified from accumulated other comprehensive loss to the statement of operations, in the appropriate income statement line items. Any ineffective portion of the instruments designated as cash flow hedges is recognized in current earnings. We report cash flows arising from derivative financial instruments designated as fair value or cash flow hedges consistent with the classification of the cash flows from the underlying hedged items that these derivatives are hedging.

No forward exchange contracts are designated as hedges for fiscal year 2019, 2018, or 2017. Changes in the fair values of the forward currency exchange contracts are recorded within other expense, net. Cash flows related to investments and settlements of forward currency exchange contracts are included within cash flows from investing activities.

Stock-Based Compensation

Stock-based compensation primarily consists of restricted stock units with service, or market/performance conditions. Equity awards are measured at the fair market value of the underlying stock at the grant date. We recognize stock compensation expense

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

using the straight-line attribution method over the requisite service period and account for forfeitures based on our estimates. Shares are issued on the vesting dates net of the applicable statutory tax withholding to be paid by us on behalf of our employees. As a result, fewer shares are issued than the number of awards outstanding. We record a liability for the tax withholding to be paid by us as a reduction to additional paid-in capital. We record any income tax effect related to stock-based awards through the consolidated statements of operations. Excess tax benefits are recognized as deferred tax assets upon settlement and are subject to regular review for valuation allowance.

Net Income (Loss) Per Share

Basic net income or loss per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares, giving effect to potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of stock options, restricted stock units, contingently issuable shares under earn-out agreements, and potential issuance of stock upon conversion of our convertible debentures, as more fully described in Note 10. In the event of conversion, each convertible debenture entitles the holder to receive in cash the principal amount with any accrued interest, and in cash or common stock, at our election, any excess of conversion value over the principal amount plus accrued interest. Therefore, only the shares of common stock potentially issuable upon conversion, if any, are considered dilutive to the weighted average common shares calculation.

Recently Adopted Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standard Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606" ("ASC 606"), under which revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive for those goods or services. ASC 606 supersedes nearly all existing revenue recognition guidance under U.S. GAAP. We adopted ASC 606 on October 1, 2018 using the modified retrospective approach, with a cumulative adjustment to retained earnings as opposed to retrospectively adjusting prior periods.

Results for reporting periods beginning after October 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies under "Revenue Recognition: Topic 605" ("ASC 605"). For contracts that were modified before the effective date, the Company aggregated the effect of all contract modifications prior to identifying performance obligations and allocation transaction price in accordance with practical expedient ASC 606-10-5-1-(f)-4.

Upon adoption of ASC 606 on October 1, 2018, we recorded a decrease to accumulated deficit of approximately \$233 million as a result of the transition. The impact of the adoption primarily relates to the cumulative effect of (1) approximately \$70 million decrease in deferred revenue from the upfront recognition of term licenses and the general requirement to allocate the transaction price on a relative stand-alone selling price, (2) approximately \$180 million increase in contract assets, (3) approximately \$30 million decrease in accounts receivable, (4) \$30 million increase in deferred costs, and (5) approximately \$20 million increase in deferred tax liabilities related to the above items.

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

The following tables summarize the impact of adopting ASC 606 on the Company's consolidated statement of operations for the year ended September 30, 2019 and the consolidated balance sheet as of September 30, 2019 (dollars in thousands):

	For the Year Ended September 30, 2019		
	As reported, ASC 606	Effect of Implementation	As adjusted, ASC 605
Revenues:			
Hosting and professional services	1,044,670	37,294	1,081,964
Product and licensing	509,226	23,870	533,096
Maintenance and support	269,196	(25,531)	243,665
Total revenues	<u>1,823,092</u>	<u>35,633</u>	<u>1,858,725</u>
Cost of revenues:			
Hosting and professional services	636,189	2,948	639,137
Product and licensing	73,333	(5,891)	67,442
Maintenance and support	33,564	253	33,817
Amortization of intangible assets	36,833	—	36,833
Total cost of revenues	<u>779,919</u>	<u>(2,690)</u>	<u>777,229</u>
Sales and marketing	303,503	5,863	309,366
(Benefit) provision for income taxes	(88,594)	1,963	(86,631)

	For the Year Ended September 30, 2019		
	As reported, ASC 606	Effect of Implementation	As adjusted, ASC 605
Assets:			
Accounts receivable	308,601	31,072	339,673
Prepaid expenses and other current assets	199,096	(74,582)	124,514
Other assets	351,581	(129,760)	221,821
Liabilities:			
Deferred revenue, current	302,872	20,704	323,576
Deferred revenue, net of current portion	398,834	16,122	414,956
Deferred tax liabilities	54,216	(16,635)	37,581
Other long-term liabilities	100,981	(10,331)	90,650
Stockholders' Equity:			
Accumulated Deficit	(293,612)	(181,496)	(475,108)

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", which is effective for fiscal years beginning after December 15, 2017 and the interim periods therein. We adopted this guidance on October 1, 2018 and applied it retrospectively. The adoption did not have a material impact on our consolidated statement of cash flows.

Financial Instruments

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. We adopted ASU 2016-01 as of January 1, 2018 using the modified retrospective method. The adoption did not have a material impact on our consolidated financial statements.

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

Issued Accounting Standards Not Yet Adopted

From time to time, new accounting pronouncements are issued by the FASB 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 or cash flows, or do not apply to our operations.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASC 842"), which will become effective for fiscal years beginning after December 15, 2018 and interim periods therein, with early adoption permitted. ASC 842 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. ASC 842 is effective for us in the first quarter of fiscal year 2020, and early application is permitted.

In July 2018, the FASB issued ASU 2018-10, "Codification Improvements to "Topic 842, Leases" and ASU 2018-11, "Leases Topic 842 Targeted Improvements", which provides an additional (and optional) transition method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings. Additionally, in March 2019, the FASB issued ASU 2019-01, "Codification Improvements to Topic 842", which provides guidance in the following areas: (1) determining the fair value of the underlying asset by lessors that are not manufacturers or dealers and (2) clarification of interim disclosure requirements during transition. We adopted the guidance as of October 1, 2019 under the modified retrospective approach and elect the package of practical expedients under the transition guidance.

We are currently evaluating the impact of ASC 842 and expect to recognize \$122 million to \$156 million of operating lease right-of-use assets and \$143 million to \$183 million operating lease obligations. We estimate that 10% of the right-of use assets and lease obligations will be included in the assets and liabilities transferred to Cerence Inc. as part of the spin-off of our Automotive business. We do not expect the adoption of the guidance to have a material impact on our consolidated statement of operations or consolidated statement of cash flows.

Other Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract", which is effective for fiscal year beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The guidance requires that implementation costs related to a hosting arrangement that is a service contract be capitalized and amortized over the term of the hosting arrangement, starting when the module or component of the hosting arrangement is ready for its intended use. 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 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.

3. Revenue Recognition

We derive revenue from the following sources: (1) hosting services, (2) software licenses, including royalties, (3) maintenance and support ("M&S"), (4) professional services, and (5) sale of hardware. Revenue is reported net of applicable sales and use tax, value-added tax and other transaction taxes imposed on the related transaction including mandatory government charges that are passed through to our customers. We account for a contract when both parties have approved and committed to the contract, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and the collectibility of the consideration is probable.

The majority of our arrangements with customers typically contain multiple products and services. We account for individual products and services separately if they are distinct--that is, if a product or service is separately identifiable from other items in the contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We recognize revenue after applying the following five steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract, including whether they are distinct within the context of the contract;
- determination of the transaction price, including the constraint on variable consideration;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, performance obligations are satisfied.

We allocate the transaction price of the arrangement based on the relative estimated standalone selling price ("SSP") of each distinct performance obligation. In determining SSP, we maximize observable inputs and consider a number of data points, including:

- the pricing of standalone sales (in the instances where available);
- the pricing established by management when setting prices for deliverables that are intended to be sold on a standalone basis;
- contractually stated prices for deliverables that are intended to be sold on a standalone basis; and
- other pricing factors, such as the geographical region in which the products are sold and expected discounts based on the customer size and type.

We only include estimated amounts of variable consideration in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. We reduce transaction prices for estimated returns and other allowances that represent variable consideration under ASC 606, which we estimate based on historical return experience and other relevant factors, and record a reduction to revenue and accounts receivable. Other forms of contingent revenue or variable consideration are infrequent.

Revenue is recognized when control of these products and services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

We assess the timing of the transfer of products or services to the customer as compared to the timing of payments to determine whether a significant financing component exists. In accordance with the practical expedient in ASC 606-10-32-18, we do not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less. If the difference in timing arises for reasons other than the provision of finance to either the customer or us, no financing component is deemed to exist. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our services, not to receive or provide financing from or to customers. We do not consider set-up fees nor other upfront fees paid by our customers to represent a financing component.

Certain products are sold through distributors or resellers. Certain distributors and resellers have been granted right of return and selling incentives which are accounted for as variable consideration when estimating the amount of revenue to be recognized. Returns and credits are estimated at the contract inception and updated at the end of each reporting period as additional information becomes available. In accordance with the practical expedient in ASC 606-10-10-4, we apply a portfolio approach to estimate the variable consideration associated with this group of customers.

Reimbursements for out-of-pocket costs generally include, but are not limited to, costs related to transportation, lodging and meals. Revenue from reimbursed out-of-pocket costs is accounted for as variable consideration.

Shipping and handling activities are not considered a contract performance obligation. We record shipping and handling costs billed to customers as revenue with offsetting costs recorded as cost of revenue.

Performance Obligations

Hosting

Hosting services, which allow our customers to use the hosted software over the contract period without taking possession of the software, are provided on a usage basis as consumed or on a fixed fee subscription basis. Our hosting contract terms generally range from one to five years.

As each day of providing services is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided, we have determined that our hosting services arrangements are a single performance obligation comprised

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of a series of distinct services. These services include variable consideration, which is typically a function of usage. We recognize revenue as each distinct service period is performed (i.e., recognized as incurred).

Subscription basis revenue represents a single promise to stand-ready to provide access to our hosting services. Revenue is recognized over time on a ratable basis over the hosting contract term, which generally ranges from one to five years.

Software Licenses

On-premise software licenses sold with non-distinct professional services to customize and/or integrate the underlying software are accounted for as a combined performance obligation. Revenue from the combined performance obligation is recognized over time based upon the progress towards completion of the project, which is measured based on the labor hours already incurred to date as compared to the total estimated labor hours.

Revenue from distinct on-premise software licenses, which do not require professional services to customize and/or integrate the software license, is recognized at the point in time when the software is made available to the customer and control is transferred.

Revenue from software licenses sold on a royalty basis, where the license of intellectual property is the predominant item to which the royalty relates, is recognized in the period the usage occurs in accordance with the practical expedient in ASC 606-10-55-65(A).

Maintenance and Support

Our M&S contracts generally include telephone support and the right to receive unspecified upgrades and updates on a when-and-if available basis. M&S revenue is recognized over time on a ratable basis over the contract period because we transfer control evenly by providing a stand-ready service.

Professional Services

Revenue from distinct professional services, including training, is recognized over time based upon the progress towards completion of the project, which is measured based on the labor hours already incurred to date as compared to the total estimated labor hours.

Hardware

Hardware revenue is recognized at the point in time when control is transferred to the customer, which is typically upon delivery.

Significant Judgments

Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Our license contracts often include professional services to customize and/or integrate the licenses into the customer's environment. Judgment is required to determine whether the license is considered distinct and accounted for separately, or not distinct and accounted for together with professional services.

Judgments are required to determine the SSP for each distinct performance obligation. When SSP is directly observable, we estimate SSP based upon the historical transaction prices, adjusted for geographic considerations, customer classes, and customer relationship profiles. In instances where SSP is not directly observable, we determine SSP using information that may include market conditions and other observable inputs. We may have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we may use information such as the size of the customer and geographic region in determining SSP. Determining SSP for performance obligations which we never sell separately also requires significant judgment. In estimating the SSP, we consider the likely price that would have resulted from established pricing practices had the deliverable been offered separately and the prices a customer would likely be willing to pay.

From time to time, we may enter into arrangements with third party suppliers to resell products or services. In such cases, we evaluate whether we are the principal (i.e. report revenues on a gross basis) or agent (i.e. report revenues on a net basis). In doing so, we first evaluate whether we control the good or service before it is transferred to the customer. If we control the good or service before it is transferred to the customer, we are the principal; if not, we are the agent. Generally, we control a promised good or service before transferring that good or service to the customer and act as the principal to the transaction. Determining whether we control the good or service before it is transferred to the customer may require judgment.

Disaggregated Revenue

We disaggregate revenue from contracts with customers by the reportable segment, products, and services provided. The following presentation depicts the timing, risks, and uncertainty of our revenue streams, which is also in line with how we manage our

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

businesses, assess performance, and determine management compensation. Our disaggregated revenue from continuing operations is as follows (dollars in thousands):

	For the Year Ended September 30, 2019			
	Hosting and professional services	Product and licensing	Maintenance and support	Total
Healthcare	\$ 546,037	\$ 246,788	\$ 156,905	\$ 949,730
Enterprise	316,247	82,073	111,758	510,078
Automotive	131,027	170,532	262	301,821
Other	51,359	9,833	271	61,463
Total revenues	\$ 1,044,670	\$ 509,226	\$ 269,196	\$ 1,823,092

Hardware revenue comprised of approximately \$30.0 million of total product and license revenue for the year ended September 30, 2019.

Contract Acquisition Costs

Following our adoption of ASC 606, we are required to capitalize certain contract acquisition costs. The capitalized costs primarily relate to paid commissions and other direct, incremental costs to acquire customer contracts. In accordance with the practical expedient in ASC 606-10-10-4, we apply a portfolio approach to estimate contract acquisition costs for groups of customer contracts. We elect to apply the practical expedient in ASC 340-40-25-4 and will expense contract acquisition costs as incurred where the expected period of benefit is one year or less. Sales commissions paid on renewal maintenance and support are not commensurate with sales commissions paid on the initial maintenance and support contract. Contract acquisition costs are deferred and amortized on a straight-line basis over the period of benefit, which we have estimated to be between one and five years. The period of benefit was determined based on an average customer contract term, expected contract renewals, changes in technology and our ability to retain customers including canceled contracts. Contract acquisition costs are classified as current or noncurrent assets based on when the expense will be recognized. The current and noncurrent portions of contract acquisition costs are included in Prepaid expenses and other current assets, and Other assets, respectively. As of September 30, 2019, we had \$20.7 million of current contract acquisition costs and \$31.1 million of noncurrent contract acquisition costs. Commission expense is primarily included in Sales and marketing expense on the consolidated statements of operations. We also had amortization expense of \$16.2 million related to contract acquisition costs for the year ended September 30, 2019. There was no impairment related to commission costs capitalized.

Capitalized Contract Costs

We capitalize incremental costs incurred to fulfill our contracts that (1) relate directly to the contract, (2) are expected to generate resources that will be used to satisfy our performance obligation under the contract, and (3) are expected to be recovered through revenue generated under the contract. Our capitalized costs consist primarily of setup costs, such as costs to standup, customize, and develop applications for each customer. These costs are incurred to satisfy our stand-ready obligation to provide access to our connected offerings. The contract costs are expensed to cost of revenue as we satisfy our stand-ready obligation over the contract term, which we estimate to be between one and five years. The contract term estimation was determined based on an average customer contract term, expected contract renewals, changes in technology, and our ability to retain customers including canceled contracts. We classify capitalized contract costs as current or noncurrent based on the timing of when we expect to recognize the expense. The current and noncurrent portions of capitalized contract fulfillment costs are included in Prepaid expenses and other current assets, and Other assets, respectively. At September 30, 2019, we had \$26.4 million of short-term contract costs included with Prepaid expenses and other current assets and \$70.9 million of long-term costs included within Other assets.

Trade Accounts Receivable and Contract Balances

We classify our right to consideration in exchange for deliverables as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional (i.e. only the passage of time is required before payment is due). We present such receivables in Accounts receivable, net in our consolidated balance sheets at their net estimated realizable value. We maintain an allowance for doubtful accounts to provide for the estimated amount of receivables that may not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables and other applicable factors.

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Our contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period.

Contract assets include unbilled amounts from long-term contracts when revenue recognized exceeds the amount billed to the customer, and right to payment is not solely subject to the passage of time. The current and noncurrent portions of contract assets are included in Prepaid expenses and other current assets, and Other assets. As of September 30, 2019, we had \$67.8 million of current contract assets and \$108.7 million of noncurrent contract assets. The table below shows significant changes in contract assets of continuing operations (dollars in thousands):

	Contract assets
Balance October 1, 2018	\$ 168,595
Revenues recognized but not billed	326,818
Amounts reclassified to accounts receivable	(318,969)
Balance September 30, 2019	<u>\$ 176,444</u>

Our contract liabilities, or Deferred revenue, consist of advance payments and billings in excess of revenues recognized. We classify Deferred revenue as current or noncurrent based on when we expect to recognize the revenues. At September 30, 2019, we had \$701.7 million of Deferred revenue. The table below shows significant changes in Deferred revenue of continuing operations (dollars in thousands):

	Deferred revenue
Balance October 1, 2018	\$ 693,272
Amounts bill but not recognized	913,306
Revenue recognized	(904,872)
Balance September 30, 2019	<u>\$ 701,706</u>

Remaining Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at September 30, 2019 (dollars in thousands):

	Within One Year	Two to Five Years	Greater than Five Years	Total
Total revenue	<u>\$ 767,407</u>	<u>\$ 1,155,910</u>	<u>\$ 176,498</u>	<u>\$ 2,099,815</u>

The table above includes fixed backlogs and does not include variable backlog derived from continent usage-based activities, such as royalties and usage-based hosting revenue.

4. Disposition of Business

Sale of Imaging Business

On November 7, 2018, our Board of Directors approved the divestiture of our Imaging business. On November 11, 2018, we entered into a sale agreement (the "Agreement") with Project Leopard AcquireCo Limited, a private limited company incorporated under the laws of England and Wales (and an affiliate of Kofax, Inc.), relating to the sale of our Imaging business.

On February 1, 2019, we completed the sale of the business and received approximately \$400 million, after estimated transaction expenses, and subject to post-closing finalization of those adjustments as set forth in the Agreement. As a result, we recorded a gain of approximately \$102.4 million, which is included within net income from discontinued operations. There are a number of working capital and other adjustments under the agreement and related ancillary agreements. The post-closing adjustments under the agreement did not have a material impact on our consolidated financial statements.

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For all periods presented, Imaging's results of operations have been included within discontinued operations and its assets and liabilities within held for sale on our consolidated financial statements.

The following table summarizes the results of the discontinued operations (dollars in thousands):

	From October 1, 2018 to February 1, 2019	Fiscal Year 2018	Fiscal Year 2017
	(ASC 606)	(ASC 605)	(ASC 605)
Major line items constituting net income of Imaging:			
Revenue ^(a)	\$ 67,430	\$ 209,363	\$ 211,187
Cost of revenue	16,946	48,183	49,962
Research and development	7,557	26,588	26,172
Sales and marketing ^(a)	28,433	76,593	73,760
General and administrative	1,997	3,890	3,612
Amortization of intangible assets	5,219	17,096	21,056
Acquisition-related costs, net	(386)	8	32
Restructuring and other related charges	13,251	6,472	1,131
Other	—	44	(193)
(Loss) income from discontinued operations before income taxes ^(a)	(5,587)	30,489	35,655
(Benefit) provision for income taxes	(2,688)	5,513	8,310
Gain on disposition	102,371	—	—
Net income from discontinued operations	<u>\$ 99,472</u>	<u>\$ 24,976</u>	<u>\$ 27,345</u>

Supplemental Information:

Depreciation	\$ 391	\$ 1,995	\$ 2,397
Amortization	\$ 6,569	\$ 23,083	\$ 28,017
Stock compensation	\$ 7,103	\$ 7,876	\$ 11,371

Capital expenditures for all periods presented were de minimis.

^(a) As more fully described in Note 2, as a result of the adoption of ASC 606 using the modified retrospective approach, Revenue for fiscal year 2019 reflected an increase of \$2.4 million due to the upfront recognition of term licenses and the re-allocation of contract consideration to performance obligations based upon standalone selling prices; Sales and marketing expense for fiscal year, 2019 reflected a decrease of \$1.4 million due to the capitalization and amortization of commission expense; and the provision for income taxes for fiscal year 2019 reflected an increase in tax benefit of \$1.6 million related to the tax effect of the ASC 606 adjustments.

The following table summarizes the assets and liabilities included within discontinued operations (dollars in thousands):

	September 30, 2018
	(ASC 605)
Major classes of Imaging assets:	
Accounts receivable, net	\$ 30,959
Prepaid expenses and other current assets	3,443
Land, building and equipment, net	2,442
Goodwill	257,352
Intangible assets, net	99,507
Other assets	196
Total assets classified as held for sale	<u>\$ 393,899</u>
Major classes of Imaging liabilities:	
Accounts payable	\$ 3,604
Accrued expenses and other current liabilities	12,304
Deferred revenue	107,965
Other	2,658
Total liabilities classified as held for sale	<u>\$ 126,531</u>

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Spin-off of Automotive

As more fully disclosed in Note 23, on November 19, 2018, we announced our intent to spin off our Automotive business into an independent publicly traded company through a pro rata distribution to our common stockholders. The spin-off was completed on October 1, 2019.

The results of operations for our Automotive business was included within continuing operations for all the historical periods presented as the held-for-sale criterion was not met until the spin-off occurred on October 1, 2019. Effective the first quarter of fiscal year 2020, the historical results of our Automotive business will be included within discontinued operations for all the historical periods presented.

Other Dispositions

In connection with our comprehensive portfolio and business review efforts, we commenced a wind-down of our Devices and Mobile Operator Services businesses during the fourth quarter of fiscal year 2018. In May 2019, we completed the sale of our Mobile Operator Services business in Brazil, and in July 2019, we completed the sale of our Mobile Operator Services business in India. The sale prices and any gain or loss were immaterial to our consolidated financial statements.

5. Business Acquisitions

As part of our business strategy, we have acquired, and may acquire in the future, certain businesses and technologies primarily to expand our products and service offerings.

Fiscal Year 2019 Acquisitions

In fiscal year 2019, we completed one acquisition in our Healthcare segment for a total consideration of \$19.7 million, including \$17.8 million in cash, \$1.5 million estimated fair value for future contingent payments, and \$0.3 million related to the carrying value of existing warrants. As a result, we recognized goodwill of \$8.8 million and other intangible assets of \$10.5 million related to technology with a useful life of 5.0 years. The results of operations of the acquired entity has been included within our consolidated results of operations from the acquisition date. The acquisition was not material to our consolidated financial statements.

Fiscal Year 2018 Acquisitions

In fiscal year 2018, we completed several acquisitions in our Healthcare and Automotive segments for a total consideration of \$129.5 million, including \$114.6 million in cash, \$2.0 million estimated fair value for future contingent payments, and effective settlement of preexisting relationship with the acquiree of \$12.9 million. As a result, we recognized goodwill of \$62.9 million, including immaterial measurement-period adjustments through September 30, 2018 and other intangible assets of \$60.8 million, with a weighted average life of 6.0 years. The results of operations of the acquired entities have been included within our consolidated results of operations from the acquisition dates. Such acquisitions were not material, individually or in the aggregate to our consolidated financial statements.

Fiscal Year 2017 Acquisitions

In fiscal year 2017, we acquired several businesses in our Enterprise, Healthcare and Other segments for a total consideration of \$97.4 million, including \$75.7 million in cash, issuance of 0.8 million shares of our common stock valued at \$13.4 million, and \$8.3 million estimated fair value for future contingent payments. As a result, we recognized goodwill of \$62.3 million and other intangible assets of \$39.1 million, with a weighted average life of 5.9 years. The results of operations of the acquired entities have been included within our consolidated results of operations from the acquisition dates. Such acquisitions were not material, individually or in the aggregate to our consolidated financial statements.

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6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for our reportable segments for fiscal years 2019 and 2018 were as follows (dollars in thousands):

	Healthcare	Enterprise	Former Mobile	Automotive	Other	Total
Balance as of September 30, 2017	\$ 1,418,334	\$ 673,472	\$ 1,241,010	\$ —	\$ —	\$ 3,332,816
Acquisitions	14,936	—	—	50,193	—	65,129
Purchase accounting adjustments	(705)	—	2,697	(3,275)	—	(1,283)
Reorganization (Note 23)	—	11,991	(1,249,051)	1,080,453	156,607	—
Impairment charge ^(a)	—	—	—	—	(141,781)	(141,781)
Effect of foreign currency translation	(2,240)	(2,116)	5,344	(7,424)	(1,340)	(7,776)
Balance as of September 30, 2018	1,430,325	683,347	—	1,119,947	13,486	3,247,105
Acquisitions	8,785	—	—	—	—	8,785
Purchase accounting adjustments	113	—	—	(171)	—	(58)
Effect of foreign currency translation	(4,079)	(3,444)	—	(4,208)	(637)	(12,368)
Balance as of September 30, 2019	<u>\$ 1,435,144</u>	<u>\$ 679,903</u>	<u>\$ —</u>	<u>\$ 1,115,568</u>	<u>\$ 12,849</u>	<u>\$ 3,243,464</u>

^(a) Represents accumulated impairment charge as of September 30, 2019 and 2018.

Intangible assets consist of the following as of September 30, 2019 and 2018 (dollars in thousands):

	September 30, 2019			Weighted Average Remaining Life (Years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Customer relationships	\$ 605,736	\$ (350,695)	\$ 255,041	5.0
Technology and patents	264,151	(166,670)	97,481	3.5
Trade names, trademarks, and other	28,961	(24,551)	4,410	1.2
Total	<u>\$ 898,848</u>	<u>\$ (541,916)</u>	<u>\$ 356,932</u>	

	September 30, 2018			Weighted Average Remaining Life (Years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Customer relationships	\$ 605,784	\$ (289,218)	\$ 316,566	5.9
Technology and patents	292,766	(169,806)	122,960	3.8
Trade names, trademarks, and other	28,985	(18,510)	10,475	1.9
Total	<u>\$ 927,535</u>	<u>\$ (477,534)</u>	<u>\$ 450,001</u>	

Amortization expense for acquired technology and patents is included in the cost of revenue in the accompanying statements of operations and was \$36.8 million, \$50.9 million and \$57.9 million in fiscal 2019, 2018 and 2017, respectively. Amortization expense for customer relationships, trade names, trademarks, and other, and non-competition agreements is included in operating expenses and was \$66.7 million, \$74.0 million and \$92.8 million in fiscal 2019, 2018 and 2017, respectively.

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Estimated amortization expense for each of the five succeeding years as of September 30, 2019, is as follows (dollars in thousands):

Year Ending September 30,	Cost of Revenue	Other Operating Expenses	Total
2020	\$ 33,628	\$ 60,680	\$ 94,308
2021	25,286	55,891	81,177
2022	20,019	51,830	71,849
2023	13,507	39,585	53,092
2024	5,041	22,809	27,850
Thereafter	—	28,656	28,656
Total	\$ 97,481	\$ 259,451	\$ 356,932

Fiscal Year 2019 Annual Goodwill Impairment Analysis

For Fiscal year 2019 goodwill impairment analysis, we had four reporting units with goodwill assigned: Healthcare, Enterprise, Automotive, and Voicemail-to-Text. The estimated fair value of each reporting unit significantly exceeded its carrying amount. There was no impairment of goodwill or other intangible assets in fiscal year 2019.

Fiscal Year 2018 Goodwill Impairment Analysis

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. As a result of the reorganization, the former Mobile reporting unit was separated into three discrete lines of business comprised of Automotive, Dragon TV, and Devices. Dragon TV was merged within our Enterprise segment, and Devices was included within Other segment. 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. As a result, we recorded a \$35.1 million goodwill impairment for devices during the second quarter of fiscal 2018.

Also during the second quarter of fiscal year 2018, our Subscriber Revenue Services ("SRS") reporting unit, originally included within our Mobile operating segment, recorded significantly lower revenue and profitability due to recent market disruptions in certain markets that we serve. 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 year 2018. As a result, we recorded a goodwill impairment charge of \$102.8 million related to SRS for the second quarter of fiscal 2018. The assessment did not result in any impairment charge of other intangible assets.

During the fourth quarter of fiscal year 2018, in connection with our strategic business review announced in our earnings release issued on May 9, 2018, we restructured our SRS business by separating the voicemail transcription services business ("Voicemail-to-Text"), which continued to operate as part of the Other Segment, and commenced a wind-down of our SRS Mobile Operator Services in India and Brazil, and our Devices businesses. The wind-down decision resulted in significantly lower estimated future cash flows over a considerably shorter time horizon, which triggered a review of goodwill and long-lived asset groups for impairment.

As a result of the impairment review, we recorded an additional \$15.0 million impairment charge for Devices for the fourth quarter of fiscal year 2018, including \$7.6 million related to acquired trade names and customer relationships, \$0.8 million related to acquired technology assets, \$6.2 million related to fixed assets, and \$0.4 million related to its remaining goodwill; we also recorded a \$25.1 million impairment charge for our Mobile Operator Services business for the fourth quarter of fiscal year 2018, including \$12.9 million related to acquired trade names and customer relationships, \$7.9 million related to acquired technology assets, \$0.9 million related to fixed assets, and \$3.4 million related to goodwill.

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%. Determining the fair value of a long-lived asset group or a reporting unit requires 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. Also, if we experience lower-than-expected growth 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 impairment analysis. Such changes in assumptions and estimates may result in additional impairment of our goodwill and/or other long-lived assets, which could

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materially impact our future results of operations and financial conditions. Additionally, as we continue our product portfolio review and implement organizational changes to better align with our long-term strategies, decisions from such efforts may trigger additional impairment reviews of goodwill and other long-lived assets, which may result in additional impairment charges in the future periods.

7. Accounts Receivable, Net

Accounts receivable, net consisted of the following (dollars in thousands):

	September 30, 2019	September 30, 2018
	(ASC 606)	(ASC 605)
Trade accounts receivable	\$ 324,643	\$ 330,515
Unbilled accounts receivable under long-term contracts	—	33,326
Gross accounts receivable	324,643	363,841
Less: allowance for doubtful accounts	(10,662)	(9,823)
Less: allowance for sales returns	(5,380)	(6,145)
Accounts receivable, net	<u>\$ 308,601</u>	<u>\$ 347,873</u>

8. Land, Buildings and Equipment, Net

Land, building and equipment, net consisted of the following (dollars in thousands):

	Useful Life (In Years)	September 30, 2019	September 30, 2018
Land	—	\$ 2,400	\$ 2,400
Building	30	6,696	5,409
Machinery and equipment	3-5	167,789	163,359
Computers, software and equipment	3-5	163,906	179,461
Leasehold improvements	2-15	36,759	34,970
Furniture and fixtures	5-7	17,222	17,249
Construction in progress	—	21,751	2,088
Subtotal		416,523	404,936
Less: accumulated depreciation		(275,207)	(251,484)
Land, building and equipment, net		<u>\$ 141,316</u>	<u>\$ 153,452</u>

Depreciation expense for fiscal years 2019, 2018 and 2017 was \$55.2 million, \$60.4 million and \$53.3 million, respectively, which included amortization expense of \$6.7 million, \$11.0 million and \$11.9 million, respectively, for internally developed software costs.

9. Accrued Expenses and Other Current Liabilities

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

	September 30, 2019	September 30, 2018
Compensation	\$ 132,887	\$ 174,984
Accrued interest payable	19,302	21,326
Cost of revenue related liabilities	58,049	30,432
Consulting and professional fees	24,297	21,220
Facilities related liabilities	4,595	4,621
Sales and marketing incentives	2,692	1,889
Sales and other taxes payable	6,948	5,983
Other	28,229	8,884
Total	<u>\$ 276,999</u>	<u>\$ 269,339</u>



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10. Debt

At September 30, 2019 and 2018, we had the following borrowing obligations (dollars in thousands):

	September 30, 2019	September 30, 2018
5.625% Senior Notes due 2026, net of deferred issuance costs of \$4.5 million and \$5.1 million, respectively. Effective interest rate 5.625%.	\$ 495,518	\$ 494,915
5.375% Senior Notes due 2020, net of deferred issuance costs of \$1.2 million. Effective interest rate 5.375%.	—	298,759
6.000% Senior Notes due 2024, net of deferred issuance costs of \$1.5 million and \$1.8 million, respectively. Effective interest rate 6.000%.	298,529	298,220
1.00% Convertible Debentures due 2035, net of unamortized discount of \$91.6 million and \$116.9 million, respectively, and deferred issuance costs of \$4.3 million and \$5.6 million, respectively. Effective interest rate 5.622%.	580,639	553,973
2.75% Convertible Debentures due 2031. Effective interest rate 7.432%.	46,568	46,568
1.25% Convertible Debentures due 2025, net of unamortized discount of \$71.6 million and \$82.4 million, respectively, and deferred issuance costs of \$3.1 million and \$3.7 million, respectively. Effective interest rate 5.578%.	275,257	263,863
1.50% Convertible Debentures due 2035, net of unamortized discount of \$22.7 million and \$32.8 million, respectively, and deferred issuance costs of \$0.8 million and \$1.1 million, respectively. Effective interest rate 5.394%.	240,406	229,906
Deferred issuance costs related to our Revolving Credit Facility	(511)	(843)
Total debt	1,936,406	2,185,361
Less: current portion	(1,142,870)	—
Total long-term debt	\$ 793,536	\$ 2,185,361

The following table summarizes the maturities of our borrowing obligations as of September 30, 2019 (dollars in thousands):

Fiscal Year	Convertible Debentures ⁽¹⁾	Senior Notes ⁽²⁾	Total
2020	\$ —	\$ —	\$ —
2021	—	—	—
2022	310,464	—	310,464
2023	676,488	—	676,488
2024	—	300,000	300,000
Thereafter	350,000	500,000	850,000
Total before unamortized discount	1,336,952	800,000	2,136,952
Less: unamortized discount and issuance costs	(194,082)	(6,464)	(200,546)
Total long-term debt	\$ 1,142,870	\$ 793,536	\$ 1,936,406

⁽¹⁾ The repayment schedule above assumes that payment is due on the first contractual redemption date after September 30, 2019. As more fully described below, as of September 30, 2019, the holders had the right to convert all or any portion of their debentures until the close of business on October 1, 2019. As a result, the net carrying amounts of our convertible notes were included in current liabilities as of September 30, 2019. Upon the conclusion of the conversion period on October 1, 2019, none of the holders exercised their right to convert. As a result, the net carrying amounts of the convertible notes were reclassified back to long-term debt.

⁽²⁾ The repayment schedule reflects all the senior notes outstanding as of September 30, 2019. As more fully described below, on October 1, 2019, we redeemed all of the \$300 million outstanding principal of the 2024 Senior Notes.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. At any time and from time to time before December 15, 2021, we may redeem up to 35% of the aggregate outstanding principal amount of the 2026 Senior Notes with the net cash proceeds received by us from certain equity offerings at a price equal to 105.625% of the aggregate principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, provided that the redemption occurs no later than 120 days after the closing of the related equity offering, and at least 50% of the original aggregate principal amount of the 2026 Senior Notes remains outstanding immediately thereafter.

Upon the occurrence of certain asset sales or a change in control, we must offer to repurchase the 2026 Senior Notes at a price equal to 100% in the case of an asset sale, or 101% in the case of a change of control, of the principal amount plus accrued and unpaid interest to, but excluding, the repurchase date.

5.375% Senior Notes due 2020

On August 14, 2012, we issued \$700.0 million aggregate principal amount of 5.375% Senior Notes due on August 15, 2020 in a private placement. The net proceeds were approximately \$689.1 million, net of issuance costs, and bear interest at 5.375% per year, payable in cash semi-annually in arrears. On October 22, 2012, we issued, in a private placement, an additional \$350.0 million aggregate principal amount of our 5.375% Senior Notes due 2020 (collectively the "Notes"). The Notes were issued pursuant to the indenture agreement dated August 14, 2012. Total proceeds received, net of issuance costs, were \$351.7 million.

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

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

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

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. As a result, we recorded an extinguishment loss of \$18.6 million in fiscal year 2017.

In September 2018, we repurchased \$150.0 million in aggregate principal amount of our 2020 Senior Notes at par. As a result, we wrote off the remaining unamortized premium and deferred issuance costs related to the repayment and recorded an extinguishment gain of \$0.3 million in fiscal year 2018. Following this activity, \$300.0 million in aggregate principal amount of our 2020 Senior Notes remained outstanding.

In March 2019, we repurchased the remaining \$300.0 million in aggregate principal amount of our 2020 Senior Notes at par using the proceeds from the sale of our Imaging business. As a result, we wrote off the remaining unamortized deferred issuance costs related to the repayment and recorded an extinguishment loss of \$0.9 million for the three months ended March 31, 2019. Following this activity, we have fully repaid our 2020 Senior Notes and no amount remains outstanding.

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6.0% Senior Notes due 2024

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

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

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

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

On August 30, 2019, we issued a conditional notice of full redemption pursuant to the indenture governing its 2024 Senior Notes, which was conditioned upon the incurrence of indebtedness by Cerence. On October 1, 2019, we redeemed all the \$300.0 million outstanding principal amount of the 2024 Senior Notes for \$313.5 million, plus accrued and unpaid interest of \$4.5 million. As a result of the redemption, we will record a \$15.0 million loss on extinguishment of debt for the first quarter of fiscal year 2020, including a \$13.5 million redemption premium and a \$1.5 million write-off of unamortized debt issuance costs.

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. Total proceeds were \$663.8 million, net of issuance costs, and we used a portion to repurchase \$38.3 million in aggregate principal on our 2.75% Senior Convertible Debentures due in 2031 (the "2031 Debentures") and to repay the aggregate principal balance of \$472.5 million on our term loan under the amended and restated credit agreement. The 1.0% 2035 Debentures bear interest at 1.0% per year, payable in cash semi-annually in arrears. 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.

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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. Conversion is only allowed in the following circumstances and to the following extent: (i) prior to June 15, 2035, on any date during any fiscal quarter (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-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.

If we distribute to all holders of our common stock a per share dividend exceeding 10% of the closing sale price of our common stock on the trading day preceding the declaration date for such distribution (e.g. a spin-off), the holders will have the right to convert all or any portion of their debentures at the conversion ratio of 36.7360 shares per \$1,000 principal amount, multiplied by the then current stock price.

In connection with the spin-off of our Automotive business, we issued a notice to all holders on September 5, 2019, pursuant to which, the holders had the right to convert all or any portion of their debentures at the aforementioned conversion ratio until the close of business on October 1, 2019. As of September 30 2019, the net carrying amount of the 1.0% 2035 Debentures was included within the current portion of long-term debt. Upon the conclusion of the conversion period on October 1, 2019, none of the holders exercised their right to convert. As a result, the net carrying amount of the 1.0% 2035 Debentures was reclassified back to long-term debt.

Additionally, in accordance with the terms of the indentures governing the debentures and due to the completion of the spin-off of our Automotive business, the conversion ratio of the 1.0% 2035 Debentures has been adjusted to 41.4576 shares per \$1,000 principal amount, effective immediately after the end of October 15, 2019.

2.75% Convertible Debentures due 2031

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

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

In June 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to exchange, in a private placement, \$256.2 million in aggregate principal amount of our 2031 Debentures for approximately \$263.9 million in aggregate principal amount of our 1.5% 2035 Debentures. Upon repurchase we recorded an extinguishment loss of \$17.7 million in other expense, net, in the accompanying consolidated statements of operations. In December 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to repurchase \$38.3 million in aggregate principal with proceeds received from the issuance of our 1.0% 2035 Debentures. Upon repurchase we recorded an extinguishment loss of \$2.4 million in other expense, net, in the accompanying consolidated statements of operations. In accordance with the authoritative guidance for convertible debt instruments, a loss on extinguishment is equal to the difference between the reacquisition

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price and the net carrying amount of the extinguished debt for our 2031 Debentures, including any unamortized debt discount or issuance costs. Following this activity, \$395.5 million in aggregate principal amount of our 2031 Debentures remain outstanding. The aggregate debt discount was amortized to interest expense using the effective interest rate method through November 2017.

If converted, the principal amount of the 2031 Debentures is payable in cash and any amounts payable in excess of the principal amount will (based on an initial conversion rate, which represents an initial conversion price of approximately \$32.30 per share, subject to adjustment) be paid in cash or shares of our common stock, at our election. Conversion is only allowed in the following circumstances and to the following extent: (i) on any date during any fiscal quarter (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the 5 consecutive business-day period following any 5 consecutive trading-day period in which the trading price for \$1,000 principal amount of the 2031 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 2031 Debentures; or (iv) at the option of the holder at any time on or after May 1, 2031. Additionally, we may redeem the 2.75% 2031 Debentures, in whole or in part, at par plus accrued and unpaid interest. Each holder shall have the right, at such holder's option, to require us to repurchase all or any portion of the 2.75% 2031 Debentures held by such holder on November 1, 2021 and November 1, 2026 at par plus accrued and unpaid interest. If we undergo a fundamental change (as described in the indenture for the 2031 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the debentures to be purchased plus any accrued and unpaid interest.

In November 2017, holders of approximately \$331.2 million in aggregate principal amount of the outstanding 2.75% 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. We have the right to call for redemption of some or all of the remaining outstanding 2031 Debentures.

If we distribute to all holders of our common stock a per share dividend exceeding 10% of the closing sale price of our common stock on the trading day preceding the declaration date for such distribution (e.g. a spin-off), the holders will have the right to convert all or any portion of their debentures at the conversion ratio of 30.9610 shares per \$1,000 principal amount, multiplied by the then current stock price.

In connection with the spin-off of our Automotive business, we issued a notice to all holders on September 5, 2019, pursuant to which, the holders had the right to convert all or any portion of their debentures at the aforementioned conversion ratio until the close of business on October 1, 2019. As of September 30 2019, the net carrying amount of the 2.75% 2031 Debentures was included within the current portion of long-term debt. Upon the conclusion of the conversion period on October 1, 2019, none of the holders exercised their right to convert. As a result, the net carrying amount of the 2.75% 2031 Debentures was reclassified back to long-term debt.

Additionally, in accordance with the terms of the indentures governing the debentures and due to the completion of the spin-off of our Automotive business, the conversion ratio of the 2.75% 2031 Debentures has been adjusted to 34.9385 shares per \$1,000 principal amount, effective immediately after the end of October 15, 2019.

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. 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,

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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. Conversion is only allowed in the following circumstances and to the following extent: (i) prior to October 1, 2024, on any date during any fiscal quarter (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) 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.

If we distribute to all holders of our common stock a per share dividend exceeding 10% of the closing sale price of our common stock on the trading day preceding the declaration date for such distribution (e.g. a spin-off), the holders will have the right to convert all or any portion of their debentures at the conversion ratio of 45.0106 shares per \$1,000 principal amount, multiplied by the then current stock price.

In connection with the spin-off of our Automotive business, we issued a notice to all holders on September 5, 2019, pursuant to which, the holders had the right to convert all or any portion of their debentures at the aforementioned conversion ratio until the close of business on October 1, 2019. As of September 30 2019, the net carrying amount of the 1.25% 2025 Debentures was included within the current portion of long-term debt. Upon the conclusion of the conversion period on October 1, 2019, none of the holders exercised their right to convert. As a result, the net carrying amount of the 1.25% 2025 Debentures was reclassified back to long-term debt.

Additionally, in accordance with the terms of the indentures governing the debentures and due to the completion of the spin-off of our Automotive business, the conversion ratio of the 1.25% 2025 Debentures has been adjusted to 50.7957 shares per \$1,000 principal amount, effective immediately after the end of October 15, 2019.

1.50% Convertible Debentures due 2035

In June 2015, we issued \$263.9 million in aggregate principal amount of 1.50% Senior Convertible Debentures due in 2035 (the “1.5% 2035 Debentures”) in exchange for \$256.2 million in aggregate principal amount of our 2031 Debentures. Total proceeds, net of issuance costs, were \$253.2 million. The 1.5% 2035 Debentures were issued at 97.09% of the principal amount, which resulted in a discount of \$7.7 million. The 1.5% 2035 Debentures bear interest at 1.50% per year, payable in cash semi-annually in arrears. In addition to ordinary interest and default additional interest, beginning with the semi-annual interest period commencing on November 1, 2021, contingent interest will accrue during any regular semi-annual interest period where the average trading price of our 1.5% 2035 Debentures for the ten trading day period immediately preceding the first day of such semi-annual period is greater than or equal to \$1,200 per \$1,000 principal amount of our 1.5% 2035 Debentures, in which case, contingent interest will accrue at a rate of 0.50% per annum of such average trading price. The 1.5% 2035 Debentures mature on November 1, 2035, subject to the right of the holders to require us to redeem the 1.5% 2035 Debentures on November 1, 2021, 2026, or 2031. The 1.5% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.5% 2035 Debentures. The 1.5% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries.

We account separately for the liability and equity components of the 1.5% 2035 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. At issuance, we allocated \$208.6 million to long-term debt, and \$55.3 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through November 2021.

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If converted, the principal amount of the 1.5% 2035 Debentures is payable in cash and any amounts payable in excess of the principal amount, will (based on an initial conversion rate, which represents an initial conversion price of approximately \$23.26 per share, subject to adjustment) be paid in cash or shares of our common stock, at our election. Conversion is only allowed in the following circumstances and to the following extent: (i) prior to May 1, 2035, on any date during any fiscal quarter beginning after September 30, 2015 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for \$1,000 principal amount of the 1.5% 2035 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 1.5% 2035 Debentures; or (iv) at the option of the holder at any time on or after May 1, 2035. Additionally, we may redeem the 1.5% 2035 Debentures, in whole or in part, on or after November 5, 2021 for cash at a price equal to 100% of the principal amount of the 1.5% 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. Each holder shall have the right, at such holder's option, to require us to repurchase all or any portion of the 1.5% 2035 Debentures held by such holder on November 1, 2021, November 1, 2026, or November 1, 2031 at par plus accrued and unpaid interest. If we undergo a fundamental change (as described in the indenture for the 1.5% 2035 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the 1.5% 2035 Debentures to be purchased plus any accrued and unpaid interest.

If we distribute to all holders of our common stock a per share dividend exceeding 10% of the closing sale price of our common stock on the trading day preceding the declaration date for such distribution (e.g. a spin-off), the holders will have the right to convert all or any portion of their debentures at the conversion ratio of 42.9978 shares per \$1,000 principal amount, multiplied by the then current stock price.

In connection with the spin-off of our Automotive business, we issued a notice to all holders on September 5, 2019, pursuant to which, the holders had the right to convert all or any portion of their debentures at the aforementioned conversion ratio until the close of business on October 1, 2019. As of September 30 2019, the net carrying amount of the 1.5% 2035 Debentures was included within the current portion of long-term debt. Upon the conclusion of the conversion period on October 1, 2019, none of the holders exercised their right to convert. As a result, the net carrying amount of the 1.5% 2035 Debentures was reclassified back to long-term debt.

Additionally, in accordance with the terms of the indentures governing the debentures and due to the completion of the spin-off of our Automotive business, the conversion ratio of the 1.5% 2035 Debentures has been adjusted to 48.5216 shares per \$1,000 principal amount, effective immediately after the end of October 15, 2019.

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 September 30, 2019, after taking into account the outstanding letters of credit of \$5.9 million, we had \$236.6 million available for additional 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 September 30, 2019, we were in compliance with all the debt covenants.

11. Financial Instruments and Hedging Activities

Derivatives not Designated as Hedges

Forward Currency Contracts

We have operations in a number of international locations, including certain developing markets where currency exchange rates can be volatile. We utilize foreign currency forward contracts to mitigate the risks associated with changes in foreign currency exchange rates so that our exposure to foreign currencies will be mitigated or offset by the gains or losses on the foreign currency forward contracts. Generally, we enter into such contracts for less than 90 days and have no cash requirements until maturity. As of September 30, 2019 and 2018, we had outstanding contracts with a total notional value of \$189.6 million and \$117.1 million, respectively.

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We did not designate any forward contracts as hedging instruments for fiscal years 2019, 2017 and 2016. Therefore, changes in fair value of foreign currency forward contracts were recognized within other expense, net in our 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 consolidated statement of cash flows.

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

Derivatives Not Designated as Hedges:	Balance Sheet Classification	September 30, 2019	September 30, 2018
Foreign currency contracts	Prepaid expenses and other current assets	\$ 597	\$ 143
Foreign currency contracts	Accrued expenses and other liabilities	\$ (327)	\$ (1,192)

A summary of gains (losses) recognized from the derivative instruments is as follows (dollars in thousands):

Derivatives Not Designated as Hedges:	Income Statement Classification (loss) recognized	September 30,		
		2019	2018	2017
Foreign currency contracts	Other income (expense)	\$ 1,816	\$ (3,616)	\$ 6,811

12. Fair Value Measures

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.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2019 and 2018 consisted of (dollars in thousands):

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds ^(a)	\$ 217,861	\$ —	\$ —	\$ 217,861
Time deposits ^(b)		115,913	—	115,913
Commercial paper, \$77,089 at cost ^(b)	—	77,494	—	77,494
Corporate notes and bonds, \$37,504 at cost ^(b)		37,566	—	37,566
Foreign currency exchange contracts ^(b)		597	—	597
Total assets at fair value	<u>\$ 217,861</u>	<u>\$ 231,570</u>	<u>\$ —</u>	<u>\$ 449,431</u>
Liabilities:				
Foreign currency exchange contracts ^(b)		\$ (327)		\$ (327)
Contingent acquisition payments ^(c)			(2,925)	(2,925)
Total liabilities at fair value	<u>\$ —</u>	<u>\$ (327)</u>	<u>\$ (2,925)</u>	<u>\$ (3,252)</u>

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	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds ^(a)	\$ 200,004	\$ —	\$ —	\$ 200,004
Time deposits ^(b)	—	88,158	—	88,158
Commercial paper, \$27,194 at cost ^(b)	—	27,363	—	27,363
Corporate notes and bonds, \$57,563 at cost ^(b)	—	57,417	—	57,417
Foreign currency exchange contracts ^(b)	—	143	—	143
Total assets at fair value	<u>\$ 200,004</u>	<u>\$ 173,081</u>	<u>\$ —</u>	<u>\$ 373,085</u>
Liabilities:				
Foreign currency exchange contracts ^(b)	\$ —	\$ (1,192)	\$ —	\$ (1,192)
Contingent acquisition payments ^(c)	—	—	(4,000)	(4,000)
Total liabilities at fair value	<u>\$ —</u>	<u>\$ (1,192)</u>	<u>\$ (4,000)</u>	<u>\$ (5,192)</u>

(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 0.53 years and 0.61 years as of September 30, 2019 and September 30, 2018, respectively.

(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.

The estimated fair value of our long-term debt approximated \$2,143.4 million (face value \$2,137.0 million) as of September 30, 2019 and \$2,423.6 million (face value \$2,437.0 million) as of September 30, 2018, based on Level 2 measurements. The fair value of each borrowing was estimated using the average of the bid and ask trading quotes at the end of the reporting periods. There was no balance outstanding under our revolving credit agreement as of September 30, 2019 and September 30, 2018.

Additionally, contingent acquisition payments are recorded at fair values upon the acquisition, and are 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 (Level 3 measurement).

The following table provides a summary of changes in fair value of our Level 3 financial instruments for the years ended September 30, 2019 and 2018 (dollars in thousands):

	Amount
Balance as of September 30, 2017	\$ 8,648
Earn-out liability established at time of acquisition	2,000
Payments and foreign currency translation	(8,188)
Adjustments to fair value included in acquisition-related costs, net	1,540
Balance as of September 30, 2018	<u>4,000</u>
Earn-out liability established at time of acquisition	1,500
Payments and foreign currency translation	(2,550)
Adjustments to fair value included in acquisition-related costs, net	(25)
Balance as of September 30, 2019	<u>\$ 2,925</u>

Contingent acquisition payment liabilities are scheduled to be paid in periods through fiscal year 2021. As of September 30, 2019, we could be required to pay up to \$4.8 million if the specified performance targets are achieved.

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13. Restructuring and Other Charges, Net

Restructuring and other charges, net include restructuring expenses as well as other charges that are unusual in nature, are the result of unplanned events, and arise outside the ordinary course of our business. Restructuring expenses consist of employee severance costs, charges for the closure of excess facilities and other contract termination costs. Other charges include litigation contingency reserves, costs related to the transition agreement of our former CEO, asset impairment charges, expenses associated with the malware incident that occurred in the third quarter of fiscal year 2017 (the "2017 Malware Incident") and gains or losses on the sale or disposition of certain non-strategic assets or product lines.

The components of restructuring and other charges, net are as follows (dollars in thousands):

	Year Ended September 30,		
	2019	2018	2017
Personnel	\$ 19,371	\$ 31,520	\$ 12,553
Facilities	3,931	3,888	6,348
Total restructuring charges	23,302	35,408	18,901
Other charges	57,163	21,618	41,022
Total restructuring and other charges, net	\$ 80,465	\$ 57,026	\$ 59,923

The following table sets forth accrual activity relating to restructuring reserves for fiscal years 2019, 2018 and 2017 (dollars in thousands):

	Personnel	Facilities	Total
Balance at September 30, 2016	\$ 2,599	\$ 9,875	\$ 12,474
Restructuring charges, net	12,553	6,348	18,901
Non-cash adjustment	—	(1,374)	(1,374)
Cash payments	(13,678)	(6,580)	(20,258)
Balance at September 30, 2017	1,474	8,269	9,743
Restructuring charges, net	31,520	3,888	35,408
Non-cash adjustment	—	(998)	(998)
Cash payments	(22,438)	(4,658)	(27,096)
Balance at September 30, 2018	10,556	6,501	17,057
Restructuring charges, net	19,371	3,931	23,302
Non-cash adjustment	—	(102)	(102)
Cash payments	(25,971)	(6,681)	(32,652)
Balance at September 30, 2019	\$ 3,956	\$ 3,649	\$ 7,605

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Personnel	Facilities	Total Restructuring	Other Charges	Total
Fiscal Year 2019					
Healthcare	\$ 4,679	\$ 191	\$ 4,870	\$ —	\$ 4,870
Enterprise	5,037	933	5,970	—	5,970
Automotive	5,159	1,706	6,865	44,453	51,318
Other	1,457	337	1,794	3,306	5,100
Corporate	3,039	764	3,803	9,404	13,207
Total fiscal year 2019	<u>\$ 19,371</u>	<u>\$ 3,931</u>	<u>\$ 23,302</u>	<u>\$ 57,163</u>	<u>\$ 80,465</u>
Fiscal Year 2018					
Healthcare	\$ 11,563	\$ 25	\$ 11,588	\$ —	\$ 11,588
Enterprise	4,217	2,243	6,460	—	6,460
Automotive	4,160	20	4,180	—	4,180
Other	1,473	647	2,120	7,103	9,223
Corporate	10,107	953	11,060	14,515	25,575
Total fiscal year 2018	<u>\$ 31,520</u>	<u>\$ 3,888</u>	<u>\$ 35,408</u>	<u>\$ 21,618</u>	<u>\$ 57,026</u>
Fiscal Year 2017					
Healthcare	\$ 4,283	\$ 870	\$ 5,153	\$ 8,758	\$ 13,911
Enterprise	2,141	3,480	5,621	—	5,621
Automotive	1,838	—	1,838	—	1,838
Other	2,954	(15)	2,939	10,773	13,712
Corporate	1,337	2,013	3,350	21,491	24,841
Total fiscal year 2017	<u>\$ 12,553</u>	<u>\$ 6,348</u>	<u>\$ 18,901</u>	<u>\$ 41,022</u>	<u>\$ 59,923</u>

Fiscal Year 2019

For fiscal year 2019, we recorded restructuring charges of \$23.3 million, which included \$19.4 million related to the termination of approximately 391 employees and \$3.9 million charge related to closing 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 \$4.0 million to be substantially paid during the first quarter of fiscal year 2020, and the remaining of \$3.6 million for the facilities to be made through fiscal year 2027, in accordance with the terms of the applicable leases.

Additionally, for the year ended September 30, 2019, we recorded \$8.8 million of professional services fees related to our corporate transformational efforts, \$45.6 million costs related to the separation of our Imaging business and the stand-up of our Automotive business, and \$3.3 million accelerated depreciation related to our Mobile Operator Services, offset in part by a \$0.5 million cash receipt from insurance claims related to the 2017 Malware Incident.

Fiscal Year 2018

For fiscal year 2018, we recorded restructuring charges of \$35.4 million, which included \$31.5 million related to the termination of approximately 1,318 employees and \$3.9 million charge related to closing certain excess facilities, including adjustment to sublease assumptions associated with these facilities. These actions were part of our strategic initiatives focused on investment rationalization, process optimization and cost reduction.

Additionally, during fiscal year 2018, we recorded \$5.7 million for costs related to the transition agreement of our former CEO, \$4.8 million professional services fees related to assessment and establishment of our corporate transformational efforts, \$4.0 million related to our remediation and restoration effort after the 2017 Malware Incident, and fixed asset impairment charges of \$7.1 million for SRS and Devices, as more fully described in Note 6.

Fiscal Year 2017

For fiscal year 2017, we recorded restructuring charges of \$18.9 million, which included \$12.6 million related to the termination of approximately 792 terminated employees and \$6.3 million charge related to closing certain excess facilities, including adjustment

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to sublease assumptions associated with these facilities. These actions were part of our initiatives to reduce costs and optimize processes.

Additionally, during fiscal year 2017, we recorded \$8.1 million for costs related to the transition agreement of our former CEO, \$18.1 million of professional services fees and \$4.0 million of fixed asset and inventory write-down as a result of the 2017 Malware Incident, and an impairment charge of \$10.8 million related to an internally developed software.

14. Supplemental Cash Flow Information

Cash paid for Interest and Income Taxes

	Year Ended September 30,		
	2019	2018	2017
	(Dollars in thousands)		
Interest paid	\$ 72,630	\$ 93,121	\$ 91,718
Income taxes paid	\$ 24,056	\$ 18,485	\$ 21,700

15. 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. On August 1, 2018, our Board of Directors approved an additional \$500.0 million under our share repurchase program. Under the terms of the share repurchase program, we have the ability to repurchase shares from time to time through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, or any combination of such methods. The share repurchase program does not require us to acquire any specific number of shares and may be modified, suspended, extended or terminated by us at any time without prior notice. The timing and the amount of any purchases will be determined by management based on an evaluation of market conditions, capital allocation alternatives, and other factors.

We repurchased 8.2 million shares, 9.7 million shares and 5.8 million shares for \$126.9 million, \$136.1 million and \$99.1 million during the fiscal years ended September 30, 2019, 2018 and 2017, respectively, under the program. The amount paid in excess of par value is recognized in additional paid in capital and these shares were retired upon repurchase. Since the commencement of the program, we have repurchased 64.3 million shares for \$1,070.0 million. The amount paid in excess of par value is recognized in additional paid in capital. Shares were retired upon repurchase. As of September 30, 2019, approximately \$430.4 million remained available for share repurchases as of September 30, 2019 pursuant to our share repurchase program.

Stock Issuances

During the year ended September 30, 2017, we issued 844,108 shares of our common stock valued at \$13.4 million in connection with a business acquisition and 175,000 shares of our common stock valued at \$2.9 million associated with charitable contributions. There were no share issuances in connection with acquisitions in fiscal years 2018 and 2019.

Preferred Stock

We are authorized to issue up to 40,000,000 shares of preferred stock, par value \$0.001 per share. The undesignated shares of preferred stock will have rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by the Board of Directors upon issuance of the preferred stock. There were no outstanding shares of preferred stock as of September 30, 2019 or September 30, 2018.

Series A Preferred Stock

We have designated 1,000,000 shares as Series A Preferred Stock, par value \$0.001 per share. The Series A Preferred Stock is entitled to receive dividends equal to the greater of \$1.00 and 1,000 times the aggregate per share amount of all dividends declared on our Common Stock. Holders of each share of the Series A Preferred Stock are entitled to 1,000 votes on all matters submitted to a vote of the stockholders of the Company, and shall vote as one class. The Series A Preferred Stock is not redeemable, and has the right to certain liquidation preferences over our Common Stock. The Series A Preferred Stock ranks junior to all other series

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of the Preferred Stock as to the payment of dividends and the distribution of assets. There were no outstanding shares of preferred stock as of September 30, 2019 or September 30, 2018.

Series B Preferred Stock

We have designated 15,000,000 shares as Series B Preferred Stock, par value \$0.001 per share. The Series B Preferred Stock is convertible into shares of common stock on a one-for-one basis and has a liquidation preference of \$1.30 per share plus all declared but unpaid dividends. The holders of Series B Preferred Stock are entitled to non-cumulative dividends at the rate of \$0.05 per annum per share, payable when, and if, declared by the Board of Directors. To date, no dividends have been declared by the Board of Directors. Holders of Series B Preferred Stock have no voting rights, except those rights provided under Delaware law. There were no outstanding shares of preferred stock as of September 30, 2019 or September 30, 2018.

16. Net Income (Loss) Per Share

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

	Year Ended September 30,		
	2019	2018	2017
	(ASC 606)	(ASC 605)	(ASC 605)
Numerator:			
Net income (loss) from continuing operations	\$ 114,338	\$ (184,904)	\$ (178,341)
Net income from discontinued operations	99,472	24,976	27,345
Net income (loss)	\$ 213,810	\$ (159,928)	\$ (150,996)
Denominator:			
Weighted average common shares outstanding — Basic	286,347	291,318	289,348
Dilutive effect of employee stock compensation plans (a)	3,778	—	—
Weighted average common shares outstanding — Diluted	290,125	291,318	289,348
Net income (loss) per common share - basic:			
Continuing operations	\$ 0.40	\$ (0.63)	\$ (0.62)
Discontinued operations	0.35	0.08	0.10
Total net income (loss) per basic common share	\$ 0.75	\$ (0.55)	\$ (0.52)
Net income (loss) per common share - diluted:			
Continuing operations	\$ 0.39	\$ (0.63)	\$ (0.62)
Discontinued operations	0.35	0.08	0.10
Total net income (loss) per diluted common share	\$ 0.74	\$ (0.55)	\$ (0.52)
Anti-dilutive equity instruments excluded from the calculation	1,047	528	328
Contingently issuable awards excluded from the calculation (a)	1,786	4,434	1,721

(a) Certain performance-based 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.

17. Stock-Based Compensation

On January 17, 2019, our stockholders 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 from 82,250,000 to 83,500,000 shares; (ii) permits the Company's Board of Directors (the "Board") to make proportional adjustments to outstanding awards affected by a change in the Company's capital structure, and in addition to or in lieu of such adjustments, to permit the Board to pay dividends, dividend equivalents, or similar rights in conjunction to any such changes in the Company's capital structure; and (iii) contains certain updates to reflect changes in the law relating to Section 162(m).

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As of September 30, 2019, we had 7.2 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 consolidated statements of operations related to stock-based compensation are as follows (dollars in thousands):

	Year Ended September 30,		
	2019	2018	2017
Cost of professional services and hosting	\$ 28,523	\$ 31,094	\$ 28,532
Cost of product and licensing	855	814	348
Cost of maintenance and support	1,314	3,322	2,161
Research and development	38,454	38,077	30,540
Sales and marketing	34,360	35,838	39,037
General and administrative	37,706	33,764	42,283
Total	\$ 141,212	\$ 142,909	\$ 142,901

Stock Options

We have share-based award plans under which employees, officers and directors may be granted stock options to purchase our common stock, generally at the fair market value of the grant date. Our plans do not allow for options to be granted at below fair market value, nor can they be re-priced at any time. Options granted under our plans generally become exercisable over a period of two to four years and have a maximum term of ten years. We have also assumed options and option plans in connection with certain of our acquisitions. These stock options are governed by the plans and agreements that they were originally issued under but are now exercisable for shares of our common stock.

The table below summarizes activities related to stock options for the years ended September 30, 2019, 2018 and 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ^(a)
Outstanding at September 30, 2016	1,965,826	\$ 15.01		
Granted	—	—		
Exercised/Repurchased ^(b)	(1,932,286)	\$ 14.98		
Forfeited	—	—		
Expired	(9,733)	\$ 20.01		
Outstanding at September 30, 2017	23,807	\$ 15.39		
Granted	—	—		
Exercised	(2,963)	\$ 2.61		
Forfeited	—	—		
Expired	(1,700)	\$ 15.99		
Outstanding at September 30, 2018	19,144	\$ 17.31		
Granted	—	\$ —		
Exercised	(3,314)	\$ 7.22		
Forfeited	—	—		
Expired	(4,528)	\$ 17.89		
Outstanding at September 30, 2019	11,302	\$ 20.04	2.6 years	\$ 0.1 million
Exercisable at September 30, 2019	11,302	\$ 20.04	2.6 years	\$ 0.1 million
Exercisable at September 30, 2018	19,144			
Exercisable at September 30, 2017	23,798			

^(a) The aggregate intrinsic value represents any excess of the closing price of our common stock of \$16.31 on September 30, 2019 over the exercise price of the underlying options.

^(b) We repurchased 1.0 million shares owned directly or indirectly by our former Chief Executive Officer, including 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.

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As of September 30, 2019, there was no unamortized fair value of stock options. A summary of intrinsic value of stock options exercised is as follows:

	2019	2018	2017
Total intrinsic value of stock options exercised (in millions)	\$ 0.1	\$ 0.1	\$ 3.6

Restricted Awards

We are authorized to issue equity incentive awards in the form of Restricted Awards, including Restricted Units and Restricted Stock, which are individually discussed below. Unvested Restricted Awards may not be sold, transferred or assigned. The fair value of the Restricted Awards is measured based upon the market price of the underlying common stock as of the date of grant, reduced by the purchase price of \$0.001 per share of the awards. Restricted Awards generally vest over a period of two to four years. We also issued certain Restricted Awards with vesting solely dependent on the achievement of specified performance targets. The fair value of the Restricted Awards is amortized to expense over the awards' applicable requisite service periods using the straight-line method. In the event that the employees' employment with us terminates, or in the case of awards with only performance goals, if those goals are not met, any unvested shares are forfeited and revert to us.

In order to satisfy our employees' withholding tax liability as a result of the vesting of Restricted Awards, we have historically repurchased shares upon the employees' vesting. In fiscal year 2019, we withheld payroll taxes totaling \$42.6 million related to 2.6 million shares of common stock that were repurchased or canceled.

Restricted Units

Restricted Units are not included in issued and outstanding common stock until the shares are vested and released. The table below summarizes activity relating to Restricted Units:

	Number of Shares Underlying Restricted Units — Performance-Based Awards	Number of Shares Underlying Restricted Units — Time-Based Awards
Outstanding at September 30, 2016	4,224,488	5,884,023
Granted	3,224,696	8,457,761
Earned/released	(1,790,514)	(7,150,783)
Forfeited	(614,739)	(713,837)
Outstanding at September 30, 2017	5,043,931	6,477,164
Granted	2,175,537	8,876,712
Earned/released	(2,092,862)	(7,156,468)
Forfeited	(2,087,038)	(1,325,321)
Outstanding at September 30, 2018	3,039,568	6,872,087
Granted	1,342,836	9,500,077
Earned/released	(1,405,485)	(6,383,908)
Modification ^(a)	(296,759)	296,759
Forfeited	(688,835)	(1,286,071)
Outstanding at September 30, 2019	1,991,325	8,998,944
Weighted average remaining recognition period of outstanding Restricted Units	1.4 years	1.9 years
Unrecognized stock-based compensation expense of outstanding Restricted Units	\$24.5 million	\$84.0 million
Aggregate intrinsic value of outstanding Restricted Units ^(b)	\$32.5 million	\$146.9 million

^(a) 296,759 shares of performance-based awards were modified to time-based awards with only service conditions in December 2018.

^(b) The aggregate intrinsic value represents any excess of the closing price of our common stock of \$16.31 on September 30, 2019 over the exercise price of the underlying Restricted Units.

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A summary of the weighted-average grant-date fair value of Restricted Units granted, and the aggregate intrinsic value of Restricted Units vested for each fiscal year is as follows:

	2019	2018	2017
Weighted-average grant-date fair value per share	\$ 16.52	\$ 15.47	\$ 16.31
Total intrinsic value of shares vested (in millions)	\$ 125.2	\$ 146.5	\$ 146.0

Performance-based Restricted Units outstanding as of September 30, 2019 and issued in fiscal year 2019 include performance goals based on total shareholder return relative to our peers during the performance period. The awards actually earned will be up to two hundred percent of the targeted number of the performance-based stock units. Compensation expense is recorded ratably over the performance period of the award based on the estimated grant date fair value estimated at the grant date using a Monte Carlo simulation model, which included the following assumptions:

	2019
Dividend yield	0.0%
Expected volatility	27.3% - 30.9%
Risk-free interest rate	2.2% - 3.0%
Expected term (in years)	1 - 3

Restricted Stock Awards

Restricted stock awards ("Restricted Stock") are included within the issued and outstanding common stock at the date of the grant. The table below summarizes activities related to Restricted Stock:

	Number of Shares Underlying Restricted Stock	Weighted Average Grant Date Fair Value
Outstanding at September 30, 2016	—	—
Granted	250,000	\$ 15.55
Vested	(250,000)	\$ 15.55
Outstanding at September 30, 2017	—	—
Outstanding at September 30, 2018	—	—
Outstanding at September 30, 2019	—	—

A summary of the weighted-average grant-date fair value of Restricted Stock granted, and the aggregate intrinsic value of Restricted Stock vested for each fiscal year is as follows:

	2019	2018	2017
Weighted-average grant-date fair value per share	\$ —	\$ —	\$ 15.55
Total intrinsic value of shares vested (in millions)	\$ —	\$ —	\$ 3.9

1995 Employee Stock Purchase Plan

Our 1995 Employee Stock Purchase Plan (the "Plan"), as amended and restated on January 27, 2015, authorizes the issuance of a maximum of 20,000,000 shares of common stock in semi-annual offerings to employees at a price equal to the lower of 85% of the closing price on the applicable offering commencement date or 85% of the closing price on the applicable offering termination date. Stock-based compensation expense for the employee stock purchase plan is recognized for the fair value benefit accorded to participating employees. At September 30, 2019, we have reserved 3.9 million shares for future issuance. A summary of the weighted-average grant-date fair value, shares issued and total stock-based compensation expense recognized related to the Plan are as follows:

	2019	2018	2017
Weighted-average grant-date fair value per share	\$ 3.76	\$ 4.00	\$ 3.84
Total shares issued (in millions)	1.2	1.3	1.3
Total stock-based compensation expense (in millions)	\$ 4.5	\$ 5.2	\$ 4.9

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The fair value of the purchase rights granted under this plan was estimated on the date of grant using the Black-Scholes option-pricing model that uses the following weighted-average assumptions, which were derived in a manner similar to those discussed above relative to stock options:

	2019	2018	2017
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	27.8%	32.1%	29.3%
Risk-free interest rate	2.2%	2.0%	0.9%
Expected term (in years)	0.5	0.5	0.5

18. Commitments and Contingencies

Operating Leases

We have various operating leases for office space around the world. In connection with many of our acquisitions, we assumed facility lease obligations. Among these assumed obligations are lease payments related to office locations that were vacated by certain of the acquired companies prior to the acquisition date. Additionally, certain of our lease obligations have been included in various restructuring charges.

The following table outlines our gross future minimum payments under all non-cancelable operating leases for continuing operations as of September 30, 2019 (dollars in thousands):

Year Ending September 30,	Operating Leases	Operating leases under restructuring	Total
2020	\$ 34,279	\$ 4,968	\$ 39,247
2021	28,740	2,470	31,210
2022	23,357	2,170	25,527
2023	16,289	2,222	18,511
2024	13,209	1,629	14,838
Thereafter	48,259	3,189	51,448
Total	\$ 164,133	\$ 16,648	\$ 180,781

As of September 30, 2019, we have subleased certain office space that is included in the above table to third parties. As of September 30, 2019, the aggregate sublease income to be recognized during the remaining lease terms is \$15.2 million, with approximately an average of \$2.4 million annually for each of the next five fiscal years and approximately \$3.1 million thereafter.

Total rent expense, including rent expense for our data centers, was approximately \$46.9 million, \$43.9 million and \$36.7 million for the years ended September 30, 2019, 2018 and 2017, respectively.

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. 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 the estimates are based only on the information available at the time. Due to the inherent uncertainties involved in claims, legal proceedings, and in estimating the 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 additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. As of September 30, 2019 and 2018, accrued losses were not material to our consolidated financial statements, and we do not expect any pending matter to have a material impact on our consolidated financial statements.

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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 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.

19. Pension and Other Post-Retirement Benefits***Defined Contribution Plans***

We have established a retirement savings plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). The 401(k) Plan covers substantially all of our U.S. employees who meet minimum age and service requirements, and allows participants to defer a portion of their annual compensation on a pre-tax basis. Amended on January 25, 2019, we now match 50% of employee contributions up to 6% of eligible salaries. Employer's contributions vest one-third annually over a three-year period. Our contributions to the 401(k) Plan that covers substantially all of our U.S. employees who meet the minimum requirements totaled \$8.1 million, \$6.7 million and \$6.7 million for fiscal years 2019, 2018 and 2017, respectively. We make contributions to various other plans in certain of our foreign operations; total contributions to these plans are not material.

Defined Benefit Plans

We sponsor certain defined benefit plans that are offered primarily by our foreign subsidiaries. Many of these plans were assumed through our acquisitions or are required by local regulatory requirements. We may deposit funds for these plans with insurance companies, third party trustees, or into government-managed accounts consistent with local regulatory requirements, as applicable. Our defined benefit pension (income) expenses were \$(0.1) million, \$(0.3) million and \$0.4 million for fiscal years 2019, 2018 and 2017, respectively. The aggregate projected benefit obligation as of September 30, 2019 and September 30, 2018 was \$39.9 million and \$34.7 million, respectively. The aggregate net liability of our defined benefit plans as of September 30, 2019 and September 30, 2018 was \$16.8 million and \$11.1 million, respectively.

20. Income Taxes***Recent Tax Legislation***

On December 22, 2017, the Tax Cuts and Jobs Act (the "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.

We are subject to additional requirements of the TCJA during the year ended September 30, 2019. Those provisions include a tax on global intangible low-taxed income ("GILTI"), a limitation of certain executive compensation, a base erosion and anti-abuse tax ("BEAT") and other immaterial provisions. We have elected to account for GILTI as a period cost and therefore included GILTI expense in the effective tax rate calculation. Our fiscal year 2019 effective tax rate includes our estimates of these new provisions. Our estimates may be revised in future period as we obtain additional data and as the IRS issues new guidance implementing the law changes.

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As a result of the TCJA, in fiscal year 2018 we remeasured certain deferred tax assets and liabilities at the lower rates and recorded approximately \$92.9 million of tax benefits. Additionally, as of September 30, 2018, we recorded a \$5.8 million provision for the deemed repatriation of foreign cash and earnings, which is estimated based upon estimated foreign earnings and foreign income taxes.

Provision for Income Taxes

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

	Year Ended September 30,		
	2019	2018	2017
Domestic	\$ (15,102)	\$ (198,525)	\$ (245,636)
Foreign	40,846	(48,699)	90,966
Income (loss) before income taxes	<u>\$ 25,744</u>	<u>\$ (247,224)</u>	<u>\$ (154,670)</u>

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

	Year Ended September 30,		
	2019	2018	2017
Current:			
Federal	\$ 11,294	\$ 1,542	\$ (5,856)
State	1,020	(198)	1,105
Foreign	22,855	23,177	23,196
Total current	<u>35,169</u>	<u>24,521</u>	<u>18,445</u>
Deferred:			
Federal	(10,931)	(83,319)	7,291
State	1,477	2,302	1,133
Foreign	(114,309)	(5,824)	(3,198)
Total deferred	<u>(123,763)</u>	<u>(86,841)</u>	<u>5,226</u>
(Benefit) provision for income taxes	<u>\$ (88,594)</u>	<u>\$ (62,320)</u>	<u>\$ 23,671</u>
Effective income tax rate	<u>(344.1)%</u>	<u>25.2%</u>	<u>(15.3)%</u>

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The (benefit) provision for income taxes differed from the amount computed by applying the federal statutory rate to our income tax before income taxes as follows (dollars in thousands):

	Year Ended September 30,		
	2019	2018	2017
Federal tax provision (benefit) at statutory rate	\$ 5,407	\$ (60,647)	\$ (54,138)
State tax provision, net of federal benefit	2,175	1,096	1,858
Foreign tax rate and other foreign related tax items	(1,341)	(10,695)	(15,768)
Stock-based compensation	3,368	3,290	6,934
Non-deductible expenditures	8,389	2,375	3,086
Change in U.S. and foreign valuation allowance	168,726	56,557	72,318
Capital losses	(187,822)	—	—
Intangible property transfers	(171,040)	—	—
Uncertain tax positions	61,339	4,782	3,111
Global intangible low-taxed income	7,460	—	—
Base erosion and anti-abuse tax	11,216	—	—
TCJA impact	—	(87,058)	—
Goodwill impairment	—	28,640	—
Executive compensation	1,662	503	5,492
Other	1,867	(1,163)	778
(Benefit) provision for income taxes	<u>\$ (88,594)</u>	<u>\$ (62,320)</u>	<u>\$ 23,671</u>

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 effective 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 income 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.

The effective income tax rate in fiscal year 2019 differs from the U.S. federal statutory rate of 21.0% primarily due to a net tax benefit of \$112.1 million related to intangible property transfers, partially offset by an uncertain tax position. The net tax benefit is also partially offset by a BEAT tax expense of \$11.2 million and a GILTI tax expense of \$7.5 million. As part of the restructuring for the spin-off of our Automotive business, we recognized an \$896.8 million gross U.S. capital loss with a potential tax benefit of \$188.3 million. We believe that it is not more likely than not that the tax benefit from the U.S. capital loss will be realized. As a result, we recorded a full valuation allowance against the capital loss.

The effective income tax rate in fiscal year 2018 differs from the U.S. federal statutory rate of 24.5% primarily due to the net tax benefits resulting from the TCJA remeasurement of deferred tax assets and liabilities at the lower enacted rate, and our foreign earnings subject to lower tax rates, offset in part by additional valuation allowance related to current period losses, and the tax effect of goodwill impairment charges that are not deductible.

The effective income tax rate in fiscal year 2017 differs from the U.S. federal statutory rate of 35% primarily due to additional valuation allowance related to current period losses in the United States, and an increase in deferred tax liabilities related to goodwill, partially offset by our earnings in foreign operations that are subject to significantly lower tax rates than the U.S. statutory tax rate.

As of September 30, 2019, we have not provided taxes on \$243.3 million of undistributed earnings of our foreign subsidiaries, which may be subject to foreign withholding taxes upon repatriation, as we consider these earnings indefinitely reinvested. Our indefinite reinvestment determination is based on the future operational and capital requirements of our domestic and foreign operations. We expect our international cash and cash equivalents and marketable securities of \$135.9 million will continue to be used for our foreign operations and therefore do not anticipate repatriating these funds. As of September 30, 2019, it is not practicable to calculate the unrecognized deferred tax liability on these earnings due to the complexities of the utilization of foreign tax credits and other tax assets.

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Deferred tax assets (liabilities) consist of the following as of September 30, 2019 and 2018 (dollars in thousands):

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 166,224	\$ 192,017
Capital loss carryforwards	188,320	—
Federal and state credit carryforwards	43,897	46,721
Accrued expenses and other reserves	33,150	41,371
Difference in timing of revenue related items	24,832	81,647
Deferred compensation	22,917	19,315
Other	11,579	13,802
Total deferred tax assets	<u>490,919</u>	<u>394,873</u>
Valuation allowance for deferred tax assets	<u>(303,378)</u>	<u>(183,295)</u>
Net deferred tax assets	187,541	211,578
Deferred tax liabilities:		
Depreciation	(16,833)	(15,729)
Convertible debt	(87,046)	(92,452)
Acquired intangibles	(7,517)	(131,959)
Net deferred tax liabilities	<u>\$ 76,145</u>	<u>\$ (28,562)</u>
Reported as:		
Other assets	\$ 130,361	\$ 21,369
Long-term deferred tax liabilities	(54,216)	(49,931)
Net deferred tax liabilities	<u>\$ 76,145</u>	<u>\$ (28,562)</u>

Deferred tax assets are reduced by a valuation allowance if, based on the weight of available positive and negative evidence, it is more likely than not that some portion or all the deferred tax assets will not be realized. During fiscal year 2019, the valuation allowance for deferred tax assets increased by \$120.1 million. This increase relates to the valuation allowance for the U.S. capital loss of \$188.3 million, partially offset by reduction of revenue related deferred tax assets due to ASC 606 implementation and the reversal of valuation allowance related to current period earnings. As of September 30, 2019, we have \$269.6 million and \$33.8 million in valuation allowance against our net domestic and foreign deferred tax assets, respectively. As of September 30, 2018, we had \$142.8 million and \$40.5 million in valuation allowance against our net domestic and foreign deferred tax assets, respectively.

Other than the capital loss carryforward, the majority of domestic deferred tax assets relate to net operating losses, the use of which may not be available as a result of limitations on the use of acquired losses. With respect to these operating losses, there is no assurance that they will be used given the current assessment of the limitations on their use or our current projection of future taxable income in the entities for which these losses relate. Based on our analysis, we have concluded that it is not more likely than not that the majority of our domestic deferred tax assets can be realized and therefore a valuation allowance has been assigned to these deferred tax assets. If we are subsequently able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been established, then we may be required to recognize these deferred tax assets through the reduction of the valuation allowance which could result in a material benefit to our results of operations in the period in which the benefit is determined.

At September 30, 2019 and 2018, we had U.S. federal net operating loss carryforwards of \$551.1 million and \$692.9 million, respectively. At September 30, 2019 and 2018, we had state net operating loss carryforwards of \$194.6 million and \$259.1 million, respectively. The net operating loss and credit carryforwards are subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state tax provisions. As of September 30, 2019 and 2018, we had foreign net operating loss carryforwards of \$191.7 million and \$164.9 million, respectively. These carryforwards will expire at various dates beginning in 2019 and extending up to an unlimited period.

As of September 30, 2019 and 2018, we had federal research and development carryforwards and foreign tax credit carryforwards of \$27.7 million and \$30.2 million, respectively. As of September 30, 2019 and 2018, we had state research and development credit and investment tax credit carryforwards of \$3.9 million and \$5.3 million, respectively. As of September 30, 2019 and 2018, we had foreign investment tax credit carryforwards of \$14.3 million and \$14.7 million, respectively.

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Uncertain Tax Positions

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit which is more likely than not to be realized upon ultimate settlement. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes line of our consolidated statements of operations.

The aggregate changes in the balance of our gross unrecognized tax benefits were as follows (dollars in thousands):

	Year Ended September 30,	
	2019	2018
Balance at the beginning of the year	\$ 29,456	\$ 33,245
Increases related to tax positions from prior fiscal years	—	1,590
Decreases related to tax positions from prior fiscal years	—	(2,281)
Increases for tax positions taken during current period	60,225	1,709
Decreases for tax settlements and lapse in statutes	(1,803)	(4,083)
Cumulative translation adjustments	(2,291)	(724)
Balance at the end of the year	<u>\$ 85,587</u>	<u>\$ 29,456</u>

As of September 30, 2019, 85.6 million of the unrecognized tax benefits, if recognized, would impact our effective income tax rate. In fiscal year 2019, there was an increase in unrecognized tax benefits of \$58.9 million related to intercompany intangible property transfers. Within the next 12 months, we expect the unrecognized tax benefits to decrease by \$56.6 million as it is transferred to Cerence as part of the spin-off on October 1, 2019. We recognized interest and penalties related to uncertain tax positions in our provision for income taxes of \$1.9 million, \$1.3 million, and \$2.0 million during fiscal years 2019, 2018, and 2017, respectively. We recorded interest and penalties of \$12.7 million and \$10.8 million as of September 30, 2019 and 2018, respectively.

We are subject to U.S. federal income tax, various state and local taxes, and international income taxes in numerous jurisdictions. The federal tax returns for 2000 through 2016 remain subject to examination for the purpose of determining the amount of remaining tax NOL and other carryforwards. Additionally, the federal tax returns for 2017 through 2019 years remain open for all purposes of examination by the IRS and other taxing authorities in material jurisdictions.

21. Related Party Transaction

In January 2018, we entered into a software and license agreement (the "License Agreement") with Magnet Systems, Inc. ("Magnet") which was pre-approved by our Board of Directors. 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 us 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 in six equal monthly installments upon the signature of the statement of work, which was finalized within 90 days following the effective date of the License Agreement. We incurred \$2.0 million service costs by the time the integration service was completed on March 31, 2019.

22. Segment and Geographic Information

Our Chief Operating Decision Maker ("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,

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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.

- 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. As more fully disclosed in Note 4, on November 19, 2018, we announced our intent to spin off our Automotive business into an independent publicly traded company through a pro rata distribution to our common stockholders. On August 5, 2019, we further announced our plans to brand the Automotive spin-off as Cerence and the spin-off was completed on October 1, 2019.
- The Other segment includes our SRS and Devices businesses. Our SRS business provides value-added services to mobile operators in India and Brazil (“Mobile Operator Services”) and voicemail transcription services to mobile operators in the rest of the world (“Voicemail-to-Text”). Our Devices business provides speech recognition solutions and predictive text technologies for handset devices. Our Devices revenue has been declining due to the ongoing consolidation of our handset manufacturer customer base and continued erosion of our penetration of the remaining market. During the fourth quarter of fiscal 2018, in connection with our comprehensive portfolio and business review efforts, we commenced a wind-down of our Devices and Mobile Operator Services businesses. In May 2019, we completed the sale of our Mobile Operator Services business in Brazil, and in July 2019, we completed the sale of our Mobile Operator Services business in India. The sale prices and any gain or loss were immaterial to our consolidated financial statement.

As more fully described in Note 4, effective the first quarter of fiscal year 2019, the results of our Imaging segment, previously a reportable segment, have been included within discontinued operations due to the completion of the sale of Imaging on February 1, 2019. As a result, effective the first quarter of fiscal year 2019, we changed our corporate overhead allocation methodology to re-allocate the stranded costs related to our Imaging business to the remaining operating segments included within continuing operations. Stranded costs of \$7.0 million for fiscal year 2019, \$7.8 million for fiscal year 2018, and \$7.1 million for fiscal year 2017 have been included within total segment profits and re-allocated to Healthcare, Enterprise, Automotive, and Other.

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As we do not track our assets by operating segment, we do not include total assets or depreciation expenses by operating segment. The following table presents segment results along with a reconciliation of segment profits to (loss) income before income taxes (dollars in thousands):

	Year Ended September 30,		
	2019	2018	2017
	(ASC 606)	(ASC 605)	(ASC 605)
Segment revenues:			
Healthcare	\$ 950,593	\$ 984,819	\$ 899,341
Enterprise	510,753	483,194	474,317
Automotive	306,580	279,402	252,218
Other	61,461	109,064	133,766
Total segment revenues	1,829,387	1,856,479	1,759,642
Acquisition related revenue adjustments ^(a)	(6,295)	(14,181)	(31,467)
Total consolidated revenue	1,823,092	1,842,298	1,728,175
Segment profit:			
Healthcare	337,471	326,658	257,825
Enterprise	141,479	140,478	133,913
Automotive	110,559	109,111	118,248
Other	23,413	28,013	41,186
Total segment profit	612,922	604,260	551,172
Corporate expenses and other, net	(139,806)	(195,704)	(121,935)
Acquisition-related revenues and costs of revenues adjustment	(6,295)	(14,181)	(31,467)
Stock-based compensation	(141,212)	(142,909)	(142,901)
Amortization of intangible assets	(103,563)	(124,883)	(150,731)
Acquisition-related costs, net	(8,909)	(16,093)	(27,708)
Restructuring and other charges, net	(80,465)	(57,026)	(59,923)
Impairment of goodwill and other intangible assets	—	(170,941)	—
Other expenses, net	(106,928)	(129,747)	(171,177)
Income (loss) before income taxes	\$ 25,744	\$ (247,224)	\$ (154,670)

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

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

	Year Ended September 30,		
	2019	2018	2017
United States	\$ 1,367,752	\$ 1,374,877	\$ 1,244,900
International	455,340	467,421	483,275
Total	\$ 1,823,092	\$ 1,842,298	\$ 1,728,175

No country outside of the United States held greater than 10% of our long-lived or total assets. Our long-lived assets from continuing operations, including intangible assets and goodwill, were located as follows (dollars in thousands):

	September 30, 2019	September 30, 2018
United States	\$ 3,279,186	\$ 3,031,714
International	831,394	982,537
Total	\$ 4,110,580	\$ 4,014,251

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

23. Automotive Spin-Off

On October 1, 2019, we completed the previously announced complete legal and structural separation and distribution to our stockholders of all of the outstanding shares of Cerence, in a tax free spin-off (the "Spin-Off"). The distribution was made in the amount of one share of Cerence common stock for every eight shares of Nuance common stock owned by Nuance's stockholders of record as of 5:00 p.m. Eastern Time on September 17, 2019.

In connection with the Spin-Off, on September 30, 2019, we sold 1.8% of our equity interest in Cerence to a non-affiliated third party for a total cash consideration of \$9.8 million. The difference between the consideration received and the carrying amount of the non-controlling interest was recognized in additional paid-in capital. The remaining 98.2%, or 35,740,709 shares of Cerence common stock held by us were distributed to our stockholders upon the completion of the spin-off.

Additionally, on October 1, 2019, prior to the consummation of the Spin-Off, Cerence entered into senior secured credit facilities (the "Senior Facilities"), which consisted of a \$270.0 million aggregate principal amount senior secured term loan, of which approximately \$153 million of the net proceeds were transferred to us, and a \$75.0 million senior secured revolving credit facility, of which nothing was drawn at the time of the Spin-Off. We do not have any obligations under the Senior Facilities subsequent to the Spin-Off. Additionally, on October 1, 2019, pursuant to the redemption notice issued on August 30, 2019, we redeemed all the \$300.0 million outstanding principal amount of the 2024 Senior Notes for \$313.5 million, plus accrued and unpaid interest of \$4.5 million. As a result of the redemption, we will record a \$15.0 million loss on extinguishment of debt for the first quarter of fiscal year 2020, including a \$13.5 million redemption premium and a \$1.5 million write-off of unamortized debt issuance costs.

24. Quarterly Data (Unaudited)

The following information has been derived from unaudited consolidated financial statements that, in the opinion of management, include all recurring adjustments necessary for a fair statement of such information (dollars in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2019					
Total revenue	\$ 493,654	\$ 409,583	\$ 449,197	\$ 470,658	\$ 1,823,092
Gross profit	\$ 280,216	\$ 227,992	\$ 258,506	\$ 276,459	\$ 1,043,173
Net income (loss) from continuing operations	\$ 17,699	\$ (20,749)	\$ 9,259	\$ 108,129	\$ 114,338
Net income (loss) per share - continuing operations:					
Basic	\$ 0.06	\$ (0.07)	\$ 0.03	\$ 0.38	\$ 0.40
Diluted	\$ 0.06	\$ (0.07)	\$ 0.03	\$ 0.37	\$ 0.39
Weighted average common shares outstanding:					
Basic	287,796	285,866	285,942	285,754	286,347
Diluted	292,359	285,866	288,648	291,598	290,125
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2018					
Total revenue	\$ 447,224	\$ 466,193	\$ 449,449	\$ 479,432	\$ 1,842,298
Gross profit	\$ 238,986	\$ 249,173	\$ 248,118	\$ 280,634	\$ 1,016,911
Net income (loss) from continuing operations	\$ 47,465	\$ (167,141)	\$ (20,720)	\$ (44,508)	\$ (184,904)
Net income (loss) per share - continuing operations:					
Basic	\$ 0.16	\$ (0.57)	\$ (0.07)	\$ (0.16)	\$ (0.63)
Diluted	\$ 0.16	\$ (0.57)	\$ (0.07)	\$ (0.16)	\$ (0.63)
Weighted average common shares outstanding:					
Basic	291,367	294,103	292,663	287,052	291,318
Diluted	295,995	294,103	292,663	287,052	291,318

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures. Our disclosure controls and procedures are designed (i) to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed and summarized and reported within the time periods specified in the SEC's rules and forms and (ii) to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2019, our disclosure controls and procedures were effective.

Management Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and,
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of September 30, 2019, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the 2013 Internal Control-Integrated Framework. Based on the results of this assessment, management (including our Chief Executive Officer and our Chief Financial Officer) has concluded that, as of September 30, 2019, our internal control over financial reporting was effective.

The attestation report concerning the effectiveness of our internal control over financial reporting as of September 30, 2019 issued by BDO USA, LLP, an independent registered public accounting firm, appears in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Controls Over Financial Reporting

There have been no material changes in our internal controls over financial reporting during the fourth quarter of fiscal 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. Other Information

None

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K since we intend to file our definitive Proxy Statement for our next Annual Meeting of Stockholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Proxy Statement"), within 120 days of the end of the fiscal year covered by this report, and certain information to be included in the Proxy Statement is incorporated herein by reference.

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item concerning our directors is incorporated by reference to the information set forth in the section titled “Election of Directors” in our Proxy Statement. Information required by this item concerning our executive officers is incorporated by reference to the information set forth in the section entitled “Executive Compensation, Management and Other Information” in our Proxy Statement. Information regarding Section 16 reporting compliance is incorporated by reference to the information set forth in the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement.

Our Board of Directors adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees effective on November 25, 2019. Our Code of Business Conduct and Ethics, as well as any amendments thereto, can be found at our website: www.nuance.com. We will provide to any person without charge, upon request, a copy of our Code of Business Conduct and Ethics. Such a request should be made in writing and addressed to Investor Relations, Nuance Communications, Inc., 1 Wayside Road, Burlington, MA 01803.

To date, there have been no waivers under our Code of Business Conduct and Ethics. We will post any waivers, if and when granted, of our Code of Business Conduct and Ethics on our website at www.nuance.com.

Item 11. *Executive Compensation*

The information required by this item regarding executive compensation is incorporated by reference to the information set forth in the section titled “Executive Compensation, Management and Other Information” in our Proxy Statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters*

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth in the sections titled “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in our Proxy Statement.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

It is the policy of the Board that all transactions required to be reported pursuant to Item 404 of Regulation S-K be subject to approval by the Audit Committee of the Board. In furtherance of relevant Nasdaq rules and our commitment to corporate governance, the charter of the Audit Committee provides that the Audit Committee shall review and approve any proposed related party transactions including, transactions required to be reported pursuant to Item 404 of Regulation S-K for potential conflict of interest situations. The Audit Committee reviews the material facts of all transactions that require the committee’s approval and either approves or disapproves of the transaction. In determining whether to approve a transaction, the Audit Committee will take into account, among other factors it deems appropriate, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances.

The additional information required by this item regarding certain relationships and related party transactions is incorporated by reference to the information set forth in the sections titled “Transactions with Related Persons” and “Corporate Governance-Board Independence” in our Proxy Statement.

Item 14. *Principal Accountant Fees and Services*

The information required by this section is incorporated by reference from the information in the section entitled “Ratification of Appointment of Independent Registered Public Accounting Firm” in our Proxy Statement.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) The following documents are filed as a part of this Report:

- (1) Financial Statements — See Index to Financial Statements in Item 8 of this Report.
- (2) Financial Statement Schedules — All schedules have been omitted as the requested information is inapplicable or the information is presented in the financial statements or related notes included as part of this Report.
- (3) Exhibits — See Item 15(b) of this Report below.

(b) Exhibits.

EXHIBIT INDEX

Exhibit Index #	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Separation and Distribution Agreement, dated as of September 30, 2019, between Nuance Communications, Inc. and Cerence Inc.	8-K	001-36056	2.1	10/2/2019	
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	0-27038	3.2	5/11/2001	
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	0-27038	3.1	8/9/2004	
3.3	Certificate of Ownership and Merger.	8-K	0-27038	3.1	10/19/2005	
3.4	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant, as amended.	S-3	333-142182	3.3	4/18/2007	
3.5	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock.	8-K	0-27038	3.2	8/20/2013	
3.6	Amended and Restated Bylaws of the Registrant.	8-K	001-36056	3.1	11/7/2019	
4.1	Specimen Common Stock Certificate.	8-A	0-27038	4.1	12/6/1995	
4.2	Indenture, dated as of October 24, 2011, between Nuance Communications, Inc. and U.S. Bank National Association as Trustee relating to 2.75% Senior Convertible Debentures due 2031.	8-K	0-27038	4.1	10/24/2011	
4.3	Indenture, dated June 16, 2015, between Nuance Communications, Inc., and U.S. Bank National Association as Trustee, relating to 1.50% Senior Convertible Debentures due 2035	8-K	001-36056	4.1	6/22/2015	
4.4	Indenture, dated December 7, 2015, between Nuance Communications, Inc., and U.S. Bank National Association as Trustee, relating to 1.00% Senior Convertible Debentures due 2035.	8-K	001-36056	4.1	12/7/2015	
4.5	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act.					X
10.1	Form of Indemnification Agreement.*	10-Q	001-36056	10.1	5/9/2019	
10.2	Nuance Communications, Inc. 2000 Stock Plan (as amended and restated January 17, 2019).*	8-K	001-36056	10.1	1/17/2019	
10.3	Form of Restricted Stock Purchase Agreement for use under Nuance Communications, Inc. 2000 Stock Plan (time-vesting awards).*					X
10.4	Form of Restricted Stock Unit Purchase Agreement for use under Nuance Communications, Inc. 2000 Stock Plan (performance-based awards).*					X
10.5	Amended and Restated 1995 Directors Stock Plan (as amended and restated June 25, 2018).*	10-Q	001-36056	10.3	8/9/2018	
10.6	Form of Executive Officer Employment Offer Letter.*	10-K	001-36056	10.9	11/22/2016	
10.7	Form of Change of Control and Severance Agreement for Executive Officers.*	10-Q	001-36056	10.2	8/9/2018	

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		Incorporated by Reference				Filed Herewith
10.8	Revolving Credit Agreement, dated April 15, 2016, among Nuance Communications, Inc., the lenders party thereto and Barclays Bank PLC, as Administrative Agent.	8-K	001-36056	10.1	4/19/2016	
10.9	Amendment No. 1, dated as of October 4, 2016, to the Revolving Credit Agreement, dated April 15, 2016, among Nuance Communications, Inc., the lender's party thereto, Barclays Bank PLC, as Administrative Agent, and the other parties named therein.					X
10.10	Amendment No. 2, dated as of September 12, 2019, to the Revolving Credit Agreement, dated April 15, 2016, among Nuance Communications, Inc., the lender's party thereto, Barclays Bank PLC, as Administrative Agent, and the other parties named therein.	8-K	001-36056	10.1	9/13/2019	
10.11	Guarantee and Collateral Agreement, dated April 15, 2016, among Nuance Communications, Inc., certain Nuance subsidiaries and Barclays Bank PLC, as Administrative Agent.	8-K	001-36056	10.2	4/19/2016	
10.12	Change of Control and Severance Agreement between Nuance Communications, Inc. and Daniel Tempesta, dated August 8, 2018.*	10-K	001-36056	10.16	11/20/2018	
10.13	Employment Agreement between Nuance Communications, Inc. and Mark D. Benjamin, dated March 19, 2018.*	8-K	001-36056	10.1	3/22/2018	
10.14	Tax Matters Agreement, dated as of September 30, 2019, between Nuance Communications, Inc. and Cerence Inc.	8-K	001-36056	10.1	10/2/2019	
10.15	Transition Services Agreement, dated as of September 30, 2019, between Nuance Communications, Inc. and Cerence Inc.	8-K	001-36056	10.2	10/2/2019	
10.16	Employee Matters Agreement, dated as of September 30, 2019, between Nuance Communications, Inc. and Cerence Inc.	8-K	001-36056	10.3	10/2/2019	
10.17	Intellectual Property Agreement, dated as of September 30, 2019, between Nuance Communications, Inc. and Cerence Inc.	8-K	001-36056	10.4	10/2/2019	
10.18	Transitional Trademark License Agreement, dated as of September 30, 2019, between Nuance Communications, Inc. and Cerence Inc.	8-K	001-36056	10.5	10/2/2019	
21.1	Subsidiaries of the Registrant.					X
23.1	Consent of BDO USA, LLP.					X
24.1	Power of Attorney. (See Signature Page).					X
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a).					X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a).					X
32.1	Certification Pursuant to 18 U.S.C. Section 1350.					X

Incorporated by Reference

101 The following materials from Nuance Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended September 30, 2019, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Loss, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Consolidated Financial Statements.

104 The cover page of this Annual Report on Form 10-K for the year ended September 30, 2019, formatted in Inline XBRL.

* Denotes management compensation plan or arrangement

Item 16. *Form 10-K Summary*

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

NUANCE COMMUNICATIONS, INC.

By: /s/ Mark Benjamin
Mark Benjamin
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Mark Benjamin and Daniel D. Tempesta, and each of them acting individually, as his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, and hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof. This power of attorney may be executed in counterparts.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated.

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Date: 11/26/2019	<hr/> <i>/s/ Mark Benjamin</i> <hr/> Mark Benjamin, Chief Executive Officer (Principal Executive Officer)
Date: 11/26/2019	<hr/> <i>/s/ Daniel D. Tempesta</i> <hr/> Daniel D. Tempesta Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: 11/26/2019	<hr/> <i>/s/ Arthur Giterman</i> <hr/> Arthur Giterman Senior Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)
Date: 11/26/2019	<hr/> <i>/s/ Daniel J. Brennan</i> <hr/> Daniel J. Brennan, Director
Date: 11/26/2019	<hr/> <i>/s/ Lloyd A. Carney</i> <hr/> Lloyd A. Carney, Chairman of the Board
Date: 11/26/2019	<hr/> <i>/s/ Thomas D. Ebling</i> <hr/> Thomas D. Ebling, Director
Date: 11/26/2019	<hr/> <i>/s/ Robert J. Finocchio</i> <hr/> Robert J. Finocchio, Jr., Director
Date: 11/26/2019	<hr/> <i>/s/ Laura S. Kaiser</i> <hr/> Laura S. Kaiser, Director
Date: 11/26/2019	<hr/> <i>/s/ Michal Katz</i> <hr/> Michal Katz, Director
Date: 11/26/2019	<hr/> <i>/s/ Mark R. Laret</i> <hr/> Mark R. Laret, Director
Date: 11/26/2019	<hr/> <i>/s/ Sanjay N. Vaswani</i> <hr/> Sanjay N. Vaswani, Director

Description of the Company's Capital Stock

The following is a description of the authorized capital stock of Nuance Communications, Inc. (the "Company"). This summary is qualified by reference to the actual provisions of the Company's Amended and Restated Certificate of Incorporation, as amended (the "Charter"), and Amended and Restated Bylaws (the "Bylaws"), copies of which have been filed with the Securities and Exchange Commission, and to the provisions of the Delaware statutes described herein.

Common Stock

The Company's authorized common stock consists of 560,000,000 shares of Common Stock, \$0.001 par value per share (the "Common Stock"). The Common Stock is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended, and is listed for trading on the Nasdaq Global Select Market under the trading symbol "NUAN".

Holders of the Common Stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. Holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared by the Company's Board of Directors out of funds legally available therefor, subject to any preferential dividend rights of preferred stock that may be issued in the future.

In the event of a liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior rights of preferred stock then outstanding, if any. Common Stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions available to Common Stock. The rights, preferences, and privileges of holders of Common Stock are subject to, and may be adversely affected by, the rights of holders of shares of the Preferred Stock, as discussed below.

Preferred Stock

The Company's Board of Directors is authorized, subject to any limitations prescribed by law, without further stockholder approval, to issue from time to time up to an aggregate of 40,000,000 shares of preferred stock, \$0.001 par value ("Preferred Stock"), in one or more series.

No shares of Preferred Stock are outstanding.

The Charter currently designates two series of preferred stock: 1,000,000 shares as Series A Participating Preferred Stock and 15,000,000 shares as Series B Preferred Stock.

The Series A Participating Preferred Stock, if issued, have no conversion or redemption rights and upon a liquidation would entitle holders to the greater of \$1,000.00 per share or an amount equal to the payment made on one share of the Common Stock. The holders of Series A Participating Preferred Stock are entitled to cumulative dividends at the rate of the greater of (x) \$1.00 per quarter per share and (y) 1,000 times the amount of all cash and 1,000 times the amount of all non-cash dividends declared on the Common Stock since the prior dividend payment, payable when, and if declared by the Company's Board of Directors. The Series A Participating Preferred Stock ranks junior to all other series of Preferred Stock as to the payment of dividends and the distribution of assets.

The Series B Preferred Stock is convertible into shares of Common Stock on a one-for-one basis. The Series B Preferred Stock has a liquidation preference of \$1.30 per share plus all declared but unpaid dividends. The holders of Series B Preferred Stock are entitled to non-cumulative dividends at the rate of \$0.05 per annum per share, payable when, and if declared by the Company's Board of Directors.

The undesignated shares of Preferred Stock will have rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be

determined by the Company's Board of Directors upon issuance of the Preferred Stock. The Company's right to issue shares of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders. Additionally, the issuance of Preferred Stock may adversely affect the rights of the holders of Common Stock as follows:

- *Dividends.* Preferred Stock is entitled to receive dividends out of any legally available assets, when and if declared by the Company's Board of Directors and prior and in preference to any declaration or payment of any dividend on the Common Stock. In addition, after the first issuance of the Series A Participating Preferred Stock, the Company cannot declare a dividend or make any distribution on the Common Stock unless the Company concurrently declares a dividend on such Series A Participating Preferred Stock. Moreover, the Company cannot pay dividends or make any distribution on the Common Stock as long as dividends payable to the Series A Participating Preferred Stock are in arrears. With respect to the Series B Preferred Stock, the Company cannot declare a dividend or make any distribution on the Common Stock unless full dividends on the Series B Preferred Stock have been paid or declared and the sum sufficient for the payment set apart.
- *Voting Rights.* Each share of Series A Participating Preferred Stock entitles its holder to 1,000 votes on all matters submitted to a vote of Company stockholders. In addition, the Series A Participating Preferred Stock and the holders of Common Stock vote together as one class on all matters submitted to a vote of our stockholders. The holders of Series B Preferred Stock are not entitled to vote on any matter (except as provided in Delaware law in connection with amendments to the Charter that, among other things, would alter or change the rights and preferences of the class, in which case each share of Series B Preferred Stock would be entitled to one vote). However, the Series B Preferred Stock is convertible into Common Stock, and as a result, may dilute the voting power of the common stock.
- *Liquidation, Dissolution or Winding Up.* The Preferred Stock is entitled to certain liquidation preferences upon the occurrence of a liquidation, dissolution or winding up of the Company. If there are insufficient assets or funds to permit this preferential amount, then the Company's entire assets and all of our funds legally available for distribution will be distributed ratably among the holders of Preferred Stock. The remaining assets, if any, will be distributed to the holders of Common Stock on a pro rata basis.
- *Preemptive Rights.* The Series A Participating Preferred Stock and Series B Preferred Stock do not have any preemptive rights.

Anti-Takeover Provisions of Delaware Law and the Charter and Bylaws

Certain provisions of Delaware law and the Charter and Bylaws could make the acquisition of the Company by means of a tender offer, or the acquisition of control of the Company by means of a proxy contest or otherwise more difficult. These provisions, summarized below, are intended to discourage certain types of coercive takeover practices and inadequate takeover bids, and are designed to encourage persons seeking to acquire control of the Company to negotiate with the Company's Board of Directors. The Company believes that the benefits of increased protection against an unfriendly or unsolicited proposal to acquire or restructure the Company outweigh the disadvantages of discouraging such proposals. Among other things, negotiation of such proposals could result in an improvement of their terms.

Delaware Anti-Takeover Law. The Company is subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a

“business combination” with an “interested stockholder” for a period of three years following the date the person became an interested stockholder, unless the “business combination” or the transaction in which the person became an interested stockholder is approved by the Company’s Board of Directors in a prescribed manner. Generally, a “business combination” includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own, 15% or more of a corporation’s voting stock. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Other Provisions in the Charter and Bylaws. The Company’s Charter and Bylaws provide other mechanisms that may help to delay, defer or prevent a change in control. For example, the Charter provides that stockholders may not take action by written consent without a meeting, but must take any action at a duly called annual or special meeting. This provision makes it more difficult for stockholders to take action opposed by the Company’s Board of Directors.

The Charter does not provide for cumulative voting in the election of directors. Cumulative voting provides for a minority stockholder to vote a portion or all of its shares for one or more candidates for seats on the board of directors. Without cumulative voting, a minority stockholder will not be able to gain as many seats on the Company’s Board of Directors based on the number of shares of Common Stock that such stockholder holds than if cumulative voting were permitted. The elimination of cumulative voting makes it more difficult for a minority stockholder to gain a seat on the Company’s Board of Directors to influence the Board of Directors’ decision regarding a takeover.

Under the Charter, 24,000,000 shares of Preferred Stock remain undesignated. The authorization of undesignated Preferred Stock makes it possible for the Board of Directors, without stockholder approval, to issue Preferred Stock with voting or other rights or preferences that could impede the success of any attempt to obtain control of the Company.

The Bylaws contain advance notice procedures that apply to stockholder proposals and the nomination of candidates for election as directors by stockholders other than nominations made pursuant to the notice given by the Company with respect to such meetings or nominations made by or at the direction of the Company’s Board of Directors.

Lastly, the Bylaws do not provide for right of stockholders to act by written consent without a meeting.

These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of the Company.

Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC, is the transfer agent and registrar for the Common Stock.

NUANCE COMMUNICATIONS, INC.
2000 STOCK PLAN
(Amended and Restated January 17, 2019)

RESTRICTED STOCK UNIT AGREEMENT

- (A) Name of Grantee:
- (B) Number of Restricted Stock Units:
- (C) Grant Date:
- (D) Vesting Commencement Date:
- (E) Award Number:

This Restricted Stock Unit Agreement, including any exhibit, appendix or addendum hereto (the “**Agreement**”), is made and entered into as of the date set forth in Item C above between Nuance Communications, Inc., a Delaware corporation (the “**Company**”) and the person named in Item A above (“**Grantee**”).

THE PARTIES AGREE AS FOLLOWS:

1. **Restricted Stock Units.** Pursuant to the Company’s 2000 Stock Plan, as amended from time to time (the “**Plan**”), a copy of which is attached to this Agreement as Exhibit A, the Company hereby grants to Grantee the number of Restricted Stock Units listed in Item B above on the terms and conditions set forth herein and in the Plan, the terms and conditions of the Plan being hereby incorporated into this Agreement by reference. In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan shall prevail. Capitalized terms used and not defined in this Agreement will have the meanings set forth in the Plan.
 2. **Company’s Obligation to Pay.** Each Restricted Stock Unit represents the right to receive one share of Common Stock of the Company, par value \$0.001 (“**Share**”) after the Restricted Stock Unit has vested. Unless and until the Restricted Stock Units will have vested in the manner set forth in Section 3, Grantee will have no right to receive the Shares subject to the Restricted Stock Units. Prior to the actual issuance of any Shares subject to the Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.
 3. **Vesting.** Except as provided in Section 4, and subject to Section 5, the Restricted Stock Units shall vest in accordance with the provisions set forth on Exhibit B, subject to Grantee’s continuing to be an employee, director or consultant of the Company or of an Affiliate (a “**Service Provider**”) through each vesting date. For the avoidance of doubt, Grantee would no longer be considered a Service Provider if Grantee’s employer ceases to be controlled or majority-owned by the Company, in which case the Restricted Stock Units will be forfeited unless otherwise determined by the Administrator, in its discretion.
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4. **Administrator Discretion.** The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator.
5. **Forfeiture upon Termination as Service Provider.** If Grantee terminates service as a Service Provider, for any or no reason, prior to vesting, Grantee's right to acquire Shares pursuant to such unvested Restricted Stock Units awarded by this Agreement will immediately terminate.
6. **Payment After Vesting.** Any Restricted Stock Units that vest in accordance with Sections 3 or 4, or otherwise vest in accordance with the terms of the Plan, will be settled by the Company issuing Shares to Grantee, subject to the provisions of Section 8 below. The settlement of vested Restricted Stock Units will be completed by the issuance of the appropriate number of Shares as soon as practicable after vesting, but in each such case no later than the 15th day of the third month following the end of the Company's tax year that includes each applicable vesting date.

Any distribution or delivery to be made to Grantee under this Agreement will, if Grantee is then deceased, be made to Grantee's designated beneficiary (if Grantee is permitted to and designates a beneficiary under the Plan). If no beneficiary is designated (including if the Company does not permit Grantee to make a beneficiary designation) or if the Company determines, in its discretion, that the beneficiary designation is not valid or enforceable under any applicable laws or regulations, or if no beneficiary survives Grantee, then such distribution or delivery will be made to the administrator or executor of Grantee's estate. Any such beneficiary, administrator or executor must furnish the Company with (a) written notice of his or her status as a beneficiary, administrator or executor, and (b) evidence satisfactory to the Company to establish the validity of the distribution or delivery to be made to such beneficiary, administrator or executor and compliance with any laws or regulations pertaining thereto.

7. **Rights as Stockholder.** Neither Grantee nor any person claiming under or through Grantee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Grantee.
8. **Taxes.**
 - a. **Responsibility for Taxes.** Grantee acknowledges that, regardless of any action taken by the Company or, if different, Grantee's employer (the "**Employer**"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to Grantee's participation in the Plan and legally applicable to Grantee as a result of participation in the Plan ("**Tax-Related**

Items”) is and remains Grantee’s responsibility and may exceed the amount (if any) withheld by the Company or the Employer. Grantee further acknowledges that Company and the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including, but not limited to, the grant of the Restricted Stock Units, the vesting and settlement of the Restricted Stock Units, the delivery of Shares, the subsequent sale of any Shares acquired at vesting / settlement and the receipt of any dividend equivalents or dividends, if applicable; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Grantee’s liability for Tax-Related Items or achieve any particular tax result. Further, if Grantee is subject to Tax-Related Items in more than once jurisdiction, Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than once jurisdiction.

- b. *Withholding.* Prior to the relevant taxable or tax withholding event, as applicable, Grantee agrees to make arrangements satisfactory to the Company to satisfy all Tax-Related Items. In this regard, Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy their withholding obligations with regard to all Tax-Related Items by one or a combination of the following:
- i. withholding from Grantee’s wages or other cash compensation otherwise payable to Grantee by the Company and/or the Employer; and/or
 - ii. requiring Grantee to tender a payment in cash (or the cash equivalent) in an amount equal to the Tax-Related Items to the Company or its designee; and/or
 - iii. withholding from the proceeds from the sale of Shares acquired upon settlement of the Restricted Stock Units, either through a voluntary sale or through a mandatory sale arranged by the Company (on Grantee’s behalf pursuant to this authorization without further consent); and/or
 - iv. withholding in Shares to be issued upon settlement of the Restricted Stock Units, provided, however, that if Grantee is an officer of the Company within the meaning of Section 16 of the Exchange Act, the Company will withhold in Shares to be issued upon settlement of the Restricted Stock Units, unless the use of such withholding method is problematic under applicable tax or securities law or has materially adverse accounting consequences, in which case, the Committee (as constituted to satisfy Rule 16b-3 of the Exchange Act) will determine which of the other withholding methods set out in this Section 8(b) will be used; and/or
 - v. any other method determined by the Company and permitted under applicable laws.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including applicable maximum rates in Grantee's jurisdiction, in which case Grantee may receive a refund of any over-withheld amount in cash and will not be entitled to the equivalent amount in Shares. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, Grantee will be deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of Shares that are held back solely for the purpose of paying the Tax-Related Items.

The Company may refuse to deliver the Shares or the proceeds from the sale of the Shares if Grantee fails to comply with Grantee's obligations in connection with the Tax-Related Items as described in this section.

- c. *Section 409A.* This Agreement and the Restricted Stock Units granted hereunder are intended to meet the "short-term deferral" exception to the provisions of Section 409A of the Code and U.S. Department of Treasury regulations issued thereunder or to otherwise comply with Section 409A of the Code and the U.S. Department of Treasury regulations and guidance issued thereunder, to the extent applicable. Notwithstanding any provision of the Plan or this Agreement to the contrary, this Agreement and the Restricted Stock Units granted hereunder shall be interpreted and construed consistent with this intent. Notwithstanding the foregoing, the Company and its affiliates shall not be required to assume any increased economic burden in connection therewith. Neither the Company or any of its Affiliates, nor any of their respective directors, officers, managers, employees or advisers shall be liable to Grantee (or any other individual claiming a benefit through Grantee) for any tax, interest, or penalties Grantee might owe as a result of this Agreement and the Restricted Stock Units granted hereunder, or otherwise. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right, but is not obligated, to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Grantee, to comply with Section 409 of the Code or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection with this grant of Restricted Stock Units; provided, however, that the Company makes no representation that this Agreement and the Restricted Stock Units granted hereunder will be exempt from, or will comply with, Section 409A of the Code, and makes no undertakings to preclude Section 409A of the Code from applying to this Agreement and the Restricted Stock Units granted hereunder or to ensure that it complies with Section 409A of the Code.
9. ***Assignment; Binding Effect.*** Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon and inure to the benefit of the executors, administrators, heirs, legal representatives, and successors of the parties hereto; provided, however, that except to the limited extent that may be provided in Section 6, Grantee may not assign any of Grantee's rights under this Agreement.

10. **Damages.** Grantee shall be liable to the Company for all costs and damages, including incidental and consequential damages, resulting from a disposition of the Restricted Stock Units which is not in conformity with the provisions of this Agreement.
11. **Governing Law.** This Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Massachusetts, U.S.A., without regard to conflict of laws principles.
12. **Notices.** Except as provided in Section 21, all notices and other communications under this Agreement shall be in writing. Unless and until Grantee is notified in writing to the contrary, all notices, communications, and documents directed to the Company and related to the Agreement, if not delivered by hand, shall be mailed, addressed as follows:

Nuance Communications, Inc.
1 Wayside Road
Burlington, MA 01803
Attention: HR Director

Except as provided in Section 21, all notices, communications, and documents intended for Grantee and related to this Agreement, if not delivered by hand, shall be mailed to Grantee's last known address as shown on the Company's books. Except as provided in Section 21, notices and communications shall be mailed by first class mail, postage prepaid; documents shall be mailed by registered mail, return receipt requested, postage prepaid. All mailings and deliveries related to the Agreement shall be deemed received when actually received, if by hand delivery, and two business days after mailing, if by mail.

13. **Arbitration.** Any controversy, dispute, or claim arising out of or relating to this Agreement shall be finally settled and binding arbitration administered by JAMS pursuant to its Employment Arbitration Rules and Procedures and subject to JAMS Policy on Employment Arbitration Minimum Standards of Procedural Fairness. A copy of the current JAMS Employment Arbitration Rules & Procedures are available from Human Resources upon request (including concurrently with your review and execution of this Agreement), online in English and Spanish at <http://www.jamsadr.com/rules-employment-arbitration/>, or by calling JAMS at 800.352.5267. If the JAMS rules are inconsistent with the terms of this Section 13, the terms of this Section shall govern, unless prohibited by applicable law. Any arbitration shall be before a single arbitrator and shall be held in the jurisdiction where Grantee works for the Company or an Affiliate or last worked for the Company or an Affiliate. Judgment on the arbitrator's award may be entered in any court having jurisdiction. Grantee expressly agrees to waive any right to pursue or participate in any dispute on behalf of, or as part of, any class, representative or collective action, except to the extent such waiver is expressly prohibited by law. Accordingly, to the extent permitted by law, no dispute by the parties hereto shall be brought, heard or arbitrated as a class or collective action, and no party hereto shall serve as a member of any purported class, representative or collective proceeding, including without limitation pending but not certified class actions. Both the Company and Grantee agree that this Section 13 is enforceable under the Federal Arbitration Act, 9 U.S.C.

§ 1 *et seq.* (the “*FAA*”), and that if the *FAA* is found not to apply, then this Section 13 is enforceable under the laws of the state in which Grantee is employed at the time Grantee receives this Agreement.

GRANTEE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT GRANTEE IS WAIVING ANY RIGHT GRANTEE MAY OTHERWISE HAVE TO A JURY TRIAL FOR ANY DISPUTES ARISING OUT OF OR RELATING TO THIS AGREEMENT.

14. ***No Rights to Restricted Stock Units, Shares, or Employment.*** Other than with respect to the Restricted Stock Units granted pursuant to, and subject to, this Agreement, neither Grantee nor any other person shall have any claim or right to be issued Shares. Having received a grant of Restricted Stock Units under the Plan shall not give Grantee any right to receive any other grant under the Plan. This grant of Restricted Stock Units is not an employment contract and nothing in this grant of Restricted Stock Units shall be deemed to create in any way whatsoever any obligation on Grantee’s part to continue in the employ or service of the Company or an Affiliate (as applicable) or the Company or an Affiliate (as applicable) to continue Grantee’s employment or service relationship.
15. ***Entire Agreement; Modifications.*** The Company and Grantee agree that this Agreement is the complete and exclusive statement between the Company and Grantee regarding its subject matter and supersedes all prior proposals, communications, and agreements of the parties, whether oral or written, regarding the grant Restricted Stock Units to Grantee. Grantee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. This grant of Restricted Stock Units and any Shares subject to the Restricted Stock Units, and the income from and value of same, are not part of normal or expected compensation for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, holiday pay, pension or retirement or welfare benefits or similar mandatory payments.
16. ***Additional Conditions to Issuance of Shares.*** If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any law (including any U.S. federal or state or any non-U.S. law), or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Grantee, such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company.
17. ***Administrator Authority.*** The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the

Administrator in good faith will be final and binding upon Grantee, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

18. **Captions.** Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.
19. **Agreement Severable.** In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.
20. **Language.** Grantee acknowledges and represents that Grantee is sufficiently proficient in the English language or has consulted with an advisor who is sufficiently proficient in English as to allow Grantee to understand the terms and conditions of this Agreement and any other documents related to the Plan. If Grantee has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different from the English version, the English version will control.
21. **Electronic Delivery and Participation.** The Company may, in its sole discretion, deliver any documents related to this Agreement or to participation in the Plan or to future awards that may be granted under the Plan by electronic means or to request Grantee's consent to participate in the Plan by electronic means. Grantee hereby consents to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
22. **Insider Trading Restrictions/Market Abuse Laws.** Grantee acknowledges that he or she may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions including, but not limited to, the United States and Grantee's country of residence, which may affect Grantee's ability to directly or indirectly acquire, sell or attempt to sell Shares or rights to Shares (e.g., Restricted Stock Units) under the Plan during such times as Grantee is considered to have "insider information" regarding the Company (as defined by the laws in the applicable jurisdictions). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable insider trading policy of the Company. Grantee is responsible for ensuring compliance with any applicable restrictions and should consult his or her personal legal advisor on this matter.
23. **Non-U.S. and Country-Specific Provisions.** The Restricted Stock Units and any Shares subject to the Restricted Stock Units shall be subject to any special terms and conditions set forth in Exhibit C to this Agreement. Moreover, if Grantee relocates to one of the countries included in Exhibit C, the special terms and conditions for such country will apply to Grantee, to the extent the Company determines that the application of such terms and

conditions is necessary or advisable for legal or administrative purposes. Exhibit C constitutes part of this Agreement.

24. ***Imposition of Other Requirements.*** The Company reserves the right to impose other requirements on Grantee's participation in the Plan, on the Restricted Stock Units and on any Shares subject to the Restricted Stock Units, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.
25. ***Waiver.*** Grantee acknowledges that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Grantee or any other grantee.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date below.

Nuance Communications, Inc.

By: _____

Mark Benjamin, Chief Executive Officer

By signing below or accepting the Restricted Stock Units through the Company's electronic acceptance procedure, Grantee hereby accepts and agrees to be bound by all of the terms and conditions of this Agreement and the Plan.

Grantee

Date

EXHIBITS

Exhibit A	2000 Stock Plan (as Amended and Restated January 17, 2019)
Exhibit B	Vesting Schedule
Exhibit C	Non-U.S. and Country-Specific Provisions

EXHIBIT A

2000 Stock Plan (as Amended and Restated January 17, 2019)

EXHIBIT B

Vesting Schedule

EXHIBIT C

**NUANCE COMMUNICATIONS, INC.
2000 STOCK PLAN
(Amended and Restated January 17, 2019)**

RESTRICTED STOCK UNIT AGREEMENT

NON-U.S. AND COUNTRY-SPECIFIC PROVISIONS

Terms and Conditions

This Exhibit C includes special terms and conditions applicable to Grantee if Grantee resides outside the U.S. and, as applicable, in one of the countries listed below. These terms and conditions supplement or replace (as indicated) the terms and conditions set forth in the Restricted Stock Unit Agreement to which it is attached. Capitalized terms used and not defined in this Exhibit C will have the meanings set forth in the Restricted Stock Unit Agreement or the Plan, as applicable.

Notifications

This Exhibit C also includes information regarding exchange controls and certain other issues of which Grantee should be aware with respect to his or her participation in the Plan. The information is based on the exchange control, securities and other laws in effect in the respective countries as of June 2019. Such laws are often complex and change frequently. In addition, other laws and regulations generally applicable to the acquisition, holding or disposal of securities and financial instruments as well as cross-border fund transfers may apply to Grantee. As a result, Grantee should not rely on the information noted herein as the only source of information relating to the consequences of Grantee's participation in the Plan because the information may be out of date at the time the Restricted Stock Units vest or Grantee receives or sells Shares.

In addition, the information in this Exhibit C is general in nature and may not apply to Grantee's particular situation. The Company is not in a position to assure Grantee of any particular result. *Accordingly, Grantee should seek appropriate professional advice as to how the relevant laws in Grantee's country apply to Grantee's situation.*

* * * * *

If Grantee is a citizen or resident of a country other than the one in which Grantee is currently residing and/or working, transfers employment and/or residency after the Grant Date, or is considered a resident of another country for local law purposes, the terms and conditions and information contained herein may not be applicable to Grantee. The Company shall, in its sole discretion, determine to what extent the terms and conditions herein shall apply to Grantee in such a case.

Terms and Conditions for all Non-U.S. Grantees

Nature of Grant. By accepting the grant of Restricted Stock Units, Grantee acknowledges, understands and agrees that:

- (a) the Plan is established voluntarily by the Company, is discretionary in nature and may be amended, suspended or terminated by the Company at any time to the extent permitted in the Plan;
- (b) the grant of Restricted Stock Units is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of restricted stock units, or benefits in lieu of restricted stock units, even if restricted stock units have been awarded in the past;
- (c) all decisions with respect to future grants of restricted stock units, if any, will be at the sole discretion of the Company;
- (d) Grantee is voluntarily participating in the Plan;
- (e) the grant of Restricted Stock Units and any Shares subject to the Restricted Stock Units, and the income from and value of same, are not intended to replace any pension rights or compensation;
- (f) unless otherwise agreed with the Company, the Restricted Stock Units and the Shares subject to the Restricted Stock Units, and the income from and value of same, are not granted as consideration for, or in connection with, any service Grantee may provide as a director of an Affiliate;
- (g) the future value of the Shares underlying the Restricted Stock Units is unknown, indeterminable and cannot be predicted with certainty;
- (h) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from Grantee's termination as a Service Provider (for any reason whatsoever and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment agreement, if any);
- (i) for purposes of the Restricted Stock Units, Grantee's status as a Service Provider will be considered terminated as of the date Grantee is no longer actively providing services to the Company or one of its Affiliates (regardless of the reason for such termination and whether or not later to be found invalid or in breach of employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment agreement, if any) and, unless otherwise expressly provided in the Agreement or determined by the Company,

Grantee's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of such date and will not be extended by any notice period (e.g., Grantee's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment agreement, if any); the Administrator shall have the exclusive discretion to determine when Grantee is no longer actively providing services for purposes of the Restricted Stock Units, and

(j) neither the Company, the Employer nor any Affiliate shall be liable for any exchange rate fluctuation between Grantee's local currency and the United States Dollar that may affect the value of the Restricted Stock Units or of any amounts due to Grantee pursuant to the vesting and settlement of the Restricted Stock Units or the subsequent sale of any Shares acquired upon settlement.

No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Grantee's participation in the Plan or sale of the Shares acquired upon vesting and settlement of the Restricted Stock Units. *Grantee should consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.*

Data Privacy.

If Grantee would like to participate in the Plan, Grantee will need to review the information provided in this Data Privacy section and, where applicable, declare Grantee's consent to the processing and/or transfer of personal data as described below.

(a) EEA+ Controller and Representative. If Grantee is based in the European Union ("EU"), the European Economic Area, Switzerland or, if and when the United Kingdom leaves the European Union, the United Kingdom (collectively "EEA+"), Grantee should note that the Company, with its registered address at 1 Wayside Road Burlington, MA 01803, United States of America, is the controller responsible for the processing of Grantee's personal data in connection with the Agreement and the Plan. The Company's representative in the EU is Nuance Communications Ireland, Ltd, 20 Merrion Road, Ballsbridge, Dublin 4, Ireland.

(b) Data Collection and Usage. The Company collects, uses and otherwise processes certain personal data about Grantee, including, but not limited to, Grantee's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in Grantee's favor, which the Company receives from Grantee, Grantee's Employer or otherwise in connection with this Agreement or the Plan ("Data"), for the purposes of implementing, administering and managing the Plan and allocating Shares pursuant to the Plan.

If Grantee is based in the EEA+, the legal basis, where required, for the processing of Data by the Company is the necessity of the data processing for the Company to (i) perform its contractual obligations under this Agreement, (ii) comply with legal obligations established in the EEA+, or (iii) pursue the legitimate interest of complying with legal obligations established outside of the EEA+.

If Grantee is based outside of the EEA+, the legal basis, where required, for the processing of Data by the Company is Grantee's consent, as further described below.

*(c) Stock Plan Administration Service Providers. The Company transfers Data to E*TRADE Corporate Financial Services, Inc., and E*TRADE Securities LLC (collectively, "E*TRADE"), an independent service provider, which is assisting the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner. E*TRADE will open an account for Grantee to receive and trade Shares acquired under the Plan. Grantee may be asked to agree on separate terms and data processing practices with E*TRADE, with such agreement being a condition to the ability to participate in the Plan.*

(d) International Data Transfers. In the event Grantee resides, works or is otherwise located outside of the U.S., Data will be transferred from Grantee's country to the U.S., where the Company and its service providers are based. Grantee understands and acknowledges that the U.S. might not provide a level of protection of personal data equivalent to the level of protection in Grantee's country. The U.S. is subject to adequacy decisions by the European Commission and Switzerland acknowledging that the U.S. provides an adequate level of protection for personal data transferred to organizations in the United States that have self-certified under the EU/U.S. and Swiss/U.S. Privacy Shield Frameworks.

*The Company is self-certified under the EU/U.S. and Swiss/U.S. Privacy Shield Frameworks. If Grantee is based in the EEA+, Data will be transferred from the EEA+ to the Company and onward from the Company to E*TRADE or, as the case may be, a different service provider of the Company in the U.S. based on the Company's self-certification under EU/U.S. Privacy Shield Framework or the Swiss/U.S. Privacy Shield Framework.*

*If Grantee is based outside of the EEA+, the Company's legal basis, where required, for the transfer of Data from Grantee's country to the Company and from the Company onward to E*TRADE or, as the case may be, a different service provider of the Company is Grantee's consent, as further described below.*

(e) Data Retention. The Company will hold and use the Data only as long as is necessary to implement, administer and manage Grantee's participation in the Plan, or as

required to comply with legal or regulatory obligations, including under tax and security laws.

(f) **Data Subject Rights.** Grantee may have a number of rights under data privacy laws in his or her jurisdiction. Depending on where Grantee is based and subject to the conditions set out in applicable law, such rights may include the right to request from the Company access to and rectification, erasure or portability of Data, to restrict or object to the processing of Data, lodge a complaint with a supervisory authority and/or to receive a list with the names and addresses of any potential recipients of Data. To receive additional information regarding these rights or to exercise these rights, Grantee can contact the Company's data privacy team at privacy@nuance.com.

(g) **Necessary Disclosure of Data.** Grantee understands that providing the Company with Data is necessary for the performance of the Agreement and that Grantee's refusal to provide Data would make it impossible for the Company to perform its contractual obligations and may affect Grantee's ability to participate in the Plan.

(h) **Voluntariness and Consequences of Consent Denial or Withdrawal.** Participation in the Plan is voluntary and Grantee is providing any consents referred to herein on a purely voluntary basis. Grantee understands that he or she may withdraw any such consent at any time with future effect for any or no reason. If Grantee does not consent, or if Grantee later seeks to withdraw Grantee's consent, Grantee's salary from or employment and career with the Employer will not be affected; the only consequence of refusing or withdrawing Grantee's consent is that the Company would not be able to grant the Restricted Stock Units or other awards to Grantee or administer or maintain the Restricted Stock Units. For more information on the consequences of refusal to consent or withdrawal of consent, Grantee should contact the Company's data privacy team at privacy@nuance.com.

Declaration of Consent. If Grantee is based outside of the EEA+, by accepting the Restricted Stock Units and indicating consent via the Company's online acceptance procedure, Grantee explicitly declares his or her consent to the entirety of the Data processing operations described in this "Data Privacy" Section including, without limitation, the onward transfer of Data by the Company to E*TRADE or, as the case may be, a different service provider of the Company in the U.S.

Arbitration. This provision replaces Section 13 of the Agreement:

Any dispute arising under this Agreement shall be resolved by binding and non-appealable arbitration under the rules of the International Centre for Dispute Resolution ("ICDR"). The arbitration shall be conducted by a single arbitrator chosen by the parties or, if the parties cannot agree upon a single arbitrator within thirty (30) days, then by a single arbitrator appointed by the ICDR. The arbitration shall take place in Middlesex County, Massachusetts,

U.S.A. and shall be conducted in the English language. All costs and expenses of the arbitrator and of the arbitral institution shall be borne by the parties equally. Each party shall bear its own costs, fees, and expenses (including of its own counsel, experts and witnesses) in preparing and presenting its case.

Foreign Asset/Account, Exchange Control, and Tax Reporting. Depending on Grantee's country, Grantee may be subject to foreign asset/account, exchange control and/or tax reporting requirements as a result of the vesting and settlement of the Restricted Stock Units, the acquisition, holding, and/or transfer of Shares or cash resulting from participation in the Plan and/or the opening and maintenance of a brokerage or bank account in connection with the Plan. Grantee may be required to report such assets, accounts, account balances and values and/or related transactions to the applicable authorities in his or her country and/or repatriate funds received in connection with the Plan to Grantee's country within a certain time period and/or according to certain procedure. Grantee acknowledges that he or she is responsible for ensuring compliance with any applicable foreign asset/account, exchange control and tax reporting requirements and that *Grantee should consult with his or her personal legal advisor to ensure compliance with applicable laws.*

AUSTRALIA

Terms and Conditions

Nature of Plan and Restricted Stock Units. The Plan is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) (the “*Act*”) applies (subject to the conditions in that Act).

In addition, the offer of the Restricted Stock Units is intended to comply with the provisions of the Corporations Act 2001, Australian Securities and Investments Commission (“*ASIC*”) Regulatory Guide 49 and ASIC Class Order 14/1000. Additional details are set forth in the Offer Document for the Offer of Restricted Stock Units to Australian Resident Employees.

AUSTRIA

Notifications

Exchange Control Information. If Grantee holds securities (including Shares acquired under the Plan) or cash (including proceeds from the sale of Shares) outside Austria, Grantee will be required to report certain information to the Austrian National Bank if certain thresholds are exceeded. Specifically, if Grantee holds securities outside Austria, reporting requirements will apply if the value of such securities meets or exceeds (i) €30,000,000 as of the end of any calendar quarter, or (ii) €5,000,000 as of December 31. Further, if Grantee holds cash in accounts outside Austria, monthly reporting requirements will apply if the aggregate transaction volume of such cash accounts meets or exceeds €10,000,000. If the transaction value of all cash accounts abroad is less than €10,000,000, no ongoing reporting requirements apply.

BELGIUM

Notifications

Foreign Asset/Account Reporting Information. Grantee will be required to report any securities (e.g., Shares acquired under the Plan) or bank accounts (including brokerage accounts) held outside of Belgium on Grantee’s annual tax return. Grantee will also be required to complete a separate report providing the National Bank of Belgium with details regarding any such account (including the account number, the name of the bank in which such account is held and the country in which such account is located). This report, as well as additional information on how to complete it, can be found on the website of the National Bank of Belgium, www.nbb.be, under *Kredietcentrales / Centrales des crédits* caption.

Stock Exchange Tax Alert. A stock exchange tax may apply to transactions under the Plan, such as the sale of Shares acquired under the Plan. *Grantee should consult with his or her personal tax advisor for details regarding Grantee’s obligations with respect to the stock exchange tax.*

Brokerage Account Tax Alert. A brokerage account tax may apply if the average annual value of the securities Grantee holds (including Shares acquired under the Plan) in a brokerage or other securities account exceeds certain thresholds. *Grantee should consult with his or her personal tax advisor for details regarding Grantee's obligations with respect to the brokerage account tax.*

BRAZIL

Terms and Conditions

Nature of Grant. This provision supplements the Nature of Grant section of this Exhibit C:

By accepting the Restricted Stock Units, Grantee agrees that he or she is (i) making an investment decision, (ii) Shares will be issued to Grantee only if the vesting conditions are met and (iii) the value of the underlying Shares is not fixed and may increase or decrease without compensation to Grantee.

Compliance with Law. By accepting the Restricted Stock Units, Grantee acknowledges that he or she agrees to comply with applicable Brazilian laws and pay any and all Tax-Related Items associated with the vesting and settlement of the Restricted Stock Units, the receipt of any dividends or dividend equivalents and the sale of Shares acquired under the Plan.

Notifications

Exchange Control Information. Grantee may be required to submit a declaration of assets and rights held outside of Brazil to the Central Bank of Brazil, depending on the aggregate value of such assets and rights. If the aggregate value of such assets and rights is US\$100,000 or more but less than \$100,000,000, a declaration must be submitted annually. If the aggregate value exceeds \$100,000,000, a declaration must be submitted quarterly. Assets and rights that must be reported include Shares acquired under the Plan.

Financial Transactions Tax Alert. Funds remitted into Brazil (e.g., sale proceeds from the sale of Shares and/or dividends), and the conversion of funds between Brazilian Real and United States Dollars associated with such transfers, may be subject to the Tax on Financial Transactions. *Grantee should consult with his or her personal tax advisor for details regarding Grantee's obligations with respect to the Tax on Financial Transactions.*

CANADA

Terms and Conditions

Payment After Vesting. This provision supplements Section 6 of the Agreement:

The discretion to pay cash in lieu of delivering Shares for the Restricted Stock Units, as described in Section 11(e) of the Plan, shall not apply to any Restricted Stock Units in Canada.

All vested Restricted Stock Units in Canada will be settled by the Company issuing Shares to Grantee as described in this Section 6.

Nature of Grant. This provision replaces Section (i) of the Nature of Grant section of this Exhibit C:

For purposes of the Restricted Stock Units, Grantee's status as a Service Provider will be considered terminated as of the date that is the earliest of: (a) the date Grantee's employment with the Employer is terminated, (b) the date Grantee receives written notice of termination from the Employer, regardless of any notice period or period of pay in lieu of such notice mandated under the employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment contract, if any, or (c) the date Grantee is no longer actively providing services to the Company or an Affiliate (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment contract, if any) and, unless otherwise expressly provided in the Agreement or determined by the Company, Grantee's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of such date; the Administrator shall have the exclusive discretion to determine when Grantee is no longer actively providing services for purposes of the Restricted Stock Units.

The following provisions will also apply if Grantee is a resident of Quebec:

Language Consent. The parties acknowledge that it is their express wish that the Agreement, including this Exhibit C, as well as all documents, notices, and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Consentement Relatif à la Langue Utilisée. Les parties reconnaissent avoir expressément souhaité que la convention ainsi que cette Exhibit C, ainsi que tous les documents, avis et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement à la présente convention, soient rédigés en langue anglaise.

Data Privacy. This provision supplements the Data Privacy section of this Exhibit C:

Grantee hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. Grantee further authorizes the Company and any Affiliate, as well as E*Trade or such other stock plan service provider as may be selected by the Company to assist with the Plan, to disclose and discuss the Plan with their advisors. Grantee further authorizes the Company and any Affiliate to record such information and to keep such information in Grantee's employee file.

Notifications

Securities Law Information. Grantee is permitted to sell Shares acquired under the Plan through the Company's designated broker, provided the resale of such Shares takes place outside of Canada through the facilities of a stock exchange on which the Shares are listed. The Shares are currently listed on the NASDAQ Stock Market.

Foreign Asset/Account Reporting Information. Foreign specified property held by a Canadian resident must be reporting annually on a Form T1135 (Foreign Income Verification Statement) if the total cost of the foreign specified property exceeds C\$100,000 at any time during the year. Thus, unvested Restricted Stock Units must be reported - generally at a nil cost- if the C\$100,000 cost threshold is exceeded because of other foreign specified property held by Grantee. When Shares are acquired, their cost generally is the adjusted cost base ("**ACB**") of the Shares. The ACB would ordinarily equal the fair market value of the Shares at the time of acquisition, but if Grantee owns other Shares, this ACB may need to be averaged with the ACB of the other Shares. *Grantee should consult with his or her personal legal advisor regarding what reporting obligations, if any, will apply to Grantee with respect to Shares acquired under the Plan.*

CHINA

Terms and Conditions

Payment After Vesting. This provision supplements Section 6 of the Agreement:

To facilitate compliance with any applicable laws and regulations in China, Grantee agrees that the Company (or a brokerage firm instructed by the Company, if applicable) is entitled to (i) sell all Shares issued to Grantee at settlement (on Grantee's behalf and at Grantee's direction pursuant to this authorization), either at the time of settlement, at the time Grantee ceases employment with the Employer, or at such other time determined by the Company, and (ii) require that any Shares acquired under the Plan be held with a designated brokerage firm until such Shares are sold.

Grantee also agrees to sign any agreements, forms and/or consents that may be reasonably requested by the Company (or the Company's designated brokerage firm) to effectuate the sale of the Shares and acknowledges that neither the Company nor the designated brokerage firm is under any obligation to arrange for such sale of Shares at any particular price (it being understood that the sale will occur at the then-current market price) and that brokerage fees or commissions may be incurred in any such sale. In any event, when Shares acquired under the Plan are sold, the proceeds of the sale of the Shares, less any Tax-Related Items and brokerage fees or commissions, will be remitted to Grantee in accordance with applicable exchange control laws and regulations.

Exchange Control Restrictions. Grantee understands and agrees that he or she will be required to immediately repatriate the proceeds of the sale of Shares, any cash dividends or dividend

equivalents, and any other funds realized under the Plan to China. Grantee further understands that the repatriation of such funds may need to be effected through a special exchange control account established by the Company or an Affiliate and Grantee hereby consents and agrees that such funds may be transferred to such special account prior to being delivered to Grantee's personal account.

Grantee also understands that the Company will deliver sale proceeds, any cash dividends or dividend equivalents, and any other funds realized under the Plan to Grantee as soon as practicable, but that there may be delays in distributing the funds due to exchange control requirements in China. Funds may be paid to Grantee in U.S. dollars or local currency at the Company's discretion. If the funds are paid in U.S. dollars, Grantee will be required to set up a U.S. dollar bank account in China so that the proceeds may be deposited into this account. If the funds are paid in local currency, the Company is under no obligation to secure any particular currency conversion rate and the Company may face delays in converting the funds to local currency. Grantee agrees to bear any currency fluctuation risk between the time the Shares are sold and the time (i) the Tax-Related Items are converted to local currency and remitted to the tax authorities and/or (ii) the net proceeds are converted to local currency and distributed to Grantee.

Grantee further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

FRANCE

Terms and Conditions

Language Consent. By accepting the grant of the Restricted Stock Units, Grantee confirms having read and understood the documents related to the grant (the Agreement and the Plan), which were provided in the English language. Grantee accepts the terms of those documents accordingly.

Consentement Relatif à la Langue. En acceptant l'attribution du droit sur des actions assujetti à des restrictions, le Bénéficiaire confirme avoir lu et compris les documents relatifs à l'attribution (le Contrat et le Plan) qui ont été fournis en langue anglaise. Le Bénéficiaire accepte les dispositions de ces documents en connaissance de cause.

Notifications

Foreign Asset/Account Reporting Information. Grantee is required to report all foreign accounts (whether open, current or closed) to the French tax authorities when filing his or her annual tax return. Additional monthly reporting requirements may apply if foreign account balances exceed €1,000,000.

GERMANY

Notifications

Exchange Control Information. Grantee must report any cross-border payments in excess of €12,500 to the German Federal Bank (*Bundesbank*). The report must be filed electronically and the form of report (*Allgemeine Meldeportal Statistik*) can be accessed via the Bundesbank's website (www.bundesbank.de). *Grantee is responsible for complying with applicable reporting obligations and should consult his or her personal legal advisor on this matter.*

GREECE

There are no country-specific provisions.

HONG KONG

Terms and Conditions

Payment After Vesting. This provision supplements Section 6 of the Agreement:

The discretion to pay cash in lieu of delivering Shares for the Restricted Stock Units, as described in Section 11(e) of the Plan, shall not apply to any Restricted Stock Units in Hong Kong. All vested Restricted Stock Units in Hong Kong will be settled by the Company issuing Shares to Grantee as described in this Section 6.

Notifications

Securities Law Information. WARNING: The Restricted Stock Units and the Shares issued upon settlement of the Restricted Stock Units do not constitute a public offering of securities and are available only to employees of the Company or its Affiliates.

The Agreement, the Plan and other incidental communication materials are intended only for the personal use of Grantees and not for distribution to any other persons. The Agreement, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable companies and securities legislation in Hong Kong, nor have the documents been reviewed by any regulatory authority in Hong Kong. If Grantee has questions about any of the contents of the Agreement or the Plan, he or she should contact a legal or other professional advisor.

HUNGARY

There are no country-specific provisions.

INDIA

Notifications

Exchange Control Information. Any funds realized in connection with the Plan (e.g., proceeds from the sale of Shares and cash dividends paid on Shares) must be repatriated to India within a specified period of time after receipt as prescribed under Indian exchange control laws. It is Grantee’s responsibility to obtain an inward remittance certificate (“**FIRC**”) from the bank where Grantee deposits the foreign currency. Grantee should maintain the FIRC as evidence of the repatriation of funds in the event the Reserve Bank of India or the Employer requests proof of repatriation.

Foreign Asset/Account Reporting Requirement. Grantee is required to declare foreign bank accounts and any foreign financial assets (including Shares and, possibly, rights to Shares held outside India) in Grantee’s annual tax return. *Grantee should consult with his or her personal tax advisor to ensure compliance with applicable reporting obligations.*

IRELAND

There are no country-specific provisions.

ITALY

Terms and Conditions

Plan Document Acknowledgment. By accepting the Agreement, Grantee further acknowledges that Grantee has received a copy of the Plan, has reviewed the Plan and the Agreement in their entirety and fully understands and accepts all provisions of the Plan and the Agreement. Grantee further acknowledges that Grantee has read and specifically and expressly approves, without limitation, the following sections of the Agreement: “Vesting”; “Payment After Vesting”; “Responsibility for Taxes”; “Damages”; “Arbitration”; “Electronic Delivery and Participation”; “Insider Trading Restrictions; Market Abuse Laws”; “Imposition of Other Requirements”; “Nature of Grant”; and “Foreign Asset/Account, Exchange Control and Tax Reporting” (including the “Foreign Asset/Account Reporting Information” below).

Notifications

Foreign Asset/Account Reporting Information. If Grantee holds investments abroad or foreign financial assets (*e.g.*, cash, Shares) that may generate income taxable in Italy, Grantee is required to report them on his or her annual tax return (UNICO Form, RW Schedule) or on a special form if no tax return is due. The same reporting duties apply if Grantee is the beneficial owner of the investments, even if Grantee does not directly hold investments abroad or foreign assets.

Foreign Financial Assets Tax Alert. The value of any Shares (and certain other foreign assets) held outside of Italy may be subject to a foreign financial assets tax. The taxable amount is equal to the fair market value of Shares on December 31 or on the last day the Shares were held (the tax is levied in proportion to the number of days Shares were held over the calendar year). The value of financial assets held abroad must be reported in the annual tax return. *Grantee should consult with his or her personal tax advisor for details regarding Grantee’s obligations with respect to the foreign financial assets tax.*

JAPAN

Notifications

Foreign Asset/Account Reporting Information. Grantee will be required to report details of any assets (such as Shares) held outside of Japan as of December 31st to the extent such assets have a total net fair market value exceeding ¥50,000,000. Such report will be due by March 15th each year. *Grantee should consult with his or her personal tax advisor as to whether the reporting obligation extends to any outstanding Restricted Stock Units held by Grantee and to ensure compliance with applicable reporting obligations.*

KOREA

Notifications

Foreign Asset/Account Reporting Information. Korean residents must declare all foreign financial accounts (e.g., brokerage accounts, bank accounts) to the Korean tax authorities and file a report with respect to such accounts if the value of such accounts exceeds KRW 500 million (or an equivalent amount in foreign currency) on any month-end date during the calendar year. *Grantee should consult with his or her personal tax advisor to ensure compliance with applicable reporting obligations.*

NETHERLANDS

There are no country-specific provisions.

NEW ZEALAND

Securities Law Information. Grantee is being offered Restricted Stock Units which will allow Grantee to acquire Shares in accordance with the terms of this Agreement and the Plan. The Shares, if issued will give Grantee a stake in the ownership of the Company. Grantee may receive a return if dividends are paid.

If the Company runs into financial difficulties and is wound up, Grantee will be paid only after all creditors have been paid. Grantee may lose some or all of Grantee's investment, if any.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors make an informed decisions. The usual rules do not apply for this offer because it is made under an employee share scheme. As a result, Grantee may not be given all the information usually required. Grantee will also have fewer legal protections for this investment. Grantee should ask questions, read all documents carefully, and seek independent financial advice before committing.

The Shares are listed on the NASDAQ. This means that if Grantee acquires Shares under the Plan, Grantee may be able to sell the Shares on the NASDAQ if there are interested buyers. Grantee may get less than Grantee invested. The price will depend on the demand for the Shares.

For more information on risk factors impacting the Company's business that may affect the value of the Shares, Grantee should refer to the risk factors discussion in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q which are filed with the U.S. Securities and Exchange Commission. These reports are available online at www.sec.gov, as well as on the Company's "Investor Relations" website at <http://investors.nuance.com/investor-relations>.

SINGAPORE

Notifications

Securities Law Information. The grant of the Restricted Stock Units is being made pursuant to the "Qualifying Person" exemption under section 273(1)(f) of the Securities and Futures Act (Chapter 289, 2006 Ed.) ("**SFA**"). The Plan has not been lodged or registered as a prospectus with the Monetary Authority of Singapore. Grantee should note that the Restricted Stock Units are subject to section 257 of the SFA and Grantee should not make any subsequent sale of the Shares in Singapore or any offer of such subsequent sale of the Shares subject to the Restricted Stock Units in Singapore, unless such sale or offer is made (i) six months or more after the Grant Date or (ii) pursuant to the exemptions under Part XIII Division 1 Subdivision (4) (other than section 280) of the SFA (Chapter 289, 2006 Ed.) or pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA. The Company's Common Stock is traded on the NASDAQ Stock Market, which is located outside of Singapore, under the ticker symbol "NUAN" and the Shares acquired under the Plan may be sold through this exchange.

CEO and Director Reporting Information. If Grantee is the chief executive officer ("**CEO**") or a director (including an alternate, substitute or shadow director) of a Singapore Affiliate, he or she is subject to certain notification requirements under the Singapore Companies Act, regardless of whether he or she is a Singapore resident or employed in Singapore. Among these requirements is the obligation to notify the Singapore Affiliate in writing when Grantee receives or disposes of an interest in the Company or an Affiliate (e.g., Options, Restricted Stock Units, Shares). These notifications must be made within two (2) business days of acquiring or disposing of any interest in the Company or any Affiliate or within two (2) business days of becoming the CEO or a director if such an interest exists at that time.

SPAIN

Terms and Conditions

Nature of Grant. This section supplements the Nature of Grant section of this Exhibit C:

By accepting the Restricted Stock Units, consents to participate in the Plan and acknowledges having received a copy of the Plan.

Grantee understands that, as a condition of the grant of the Restricted Stock Units, the termination of Grantee's employment for any reason will automatically result in the forfeiture of any and all Restricted Stock Units that have not vested as of the date of termination. In particular, Grantee understands and agrees that any unvested Restricted Stock Units will be forfeited without entitlement to the underlying Shares or to any amount as indemnification in the event of a termination of Grantee's employment prior to vesting by reason of, including, but not limited to: death, disability, resignation, retirement, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without cause, individual or collective layoff on objective grounds, whether adjudged to be with cause or adjudged or recognized to be without cause, material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Employer, and under Article 10.3 of Royal Decree 1382/1985.

Furthermore, Grantee understands that the Company has unilaterally, gratuitously and discretionally decided to grant the Restricted Stock Units under the Plan to individuals who may be employees of the Company or an Affiliate throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any Affiliate on an ongoing basis (other than as set forth in this Agreement and the Plan). Consequently, Grantee understands that the Restricted Stock Units are granted on the assumption and condition that the Restricted Stock Units and the related Shares shall not become a part of any employment or contract (either with the Company or any Affiliate) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, Grantee understands that the grant of the Restricted Stock Units would not be made to Grantee but for the assumptions and conditions referred to above; thus, Grantee acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then the grant of Restricted Stock Units shall be null and void.

Notifications

Securities Law Information. No "offer of securities to the public," as defined under Spanish law, has taken place or will take place in the Spanish territory in connection with the grant of the Restricted Stock Units under the Plan. This Agreement and the Plan have not been nor will

they be registered with the *Comisión Nacional del Mercado de Valores*, and do not constitute a public offering prospectus.

Exchange Control Information. Grantee must declare the acquisition, ownership and disposition of stock in a foreign company (including Shares acquired under the Plan) to the Spanish *Dirección General de Comercio e Inversiones* (the “*DGCI*”), the Bureau for Commerce and Investments, which is a department of the Ministry of Economy and Competitiveness, for statistical purposes. Generally, the declaration must be filed in January for Shares acquired or sold during (or owned as of December 31) the prior year; however, if the value of the Shares acquired under the Plan or the amount of the sale proceeds exceeds €1,502,530, the declaration must be filed within one month of the acquisition or sale, as applicable.

Grantee may be required to declare electronically to the Bank of Spain any foreign accounts (including brokerage accounts held abroad), any foreign instruments (including Shares acquired under the Plan), and any transactions with non-Spanish residents (including any payment of cash or Shares made by the Company) depending on the value of the transactions during the relevant year or the balances in such accounts and the value of such instruments as of December 31 of the relevant year. *Grantee should consult with his or her personal legal advisor regarding the applicable thresholds and corresponding reporting requirements.*

Foreign Asset/ Account Reporting Information. Grantee is required to report assets or rights deposited or held outside of Spain (including the Shares acquired under the Plan or cash proceeds from the sale of the Shares acquired under the Plan) if the value per type of asset or right exceeds a certain threshold. This obligation applies to assets and rights held as of December 31 and requires that information on such assets and rights be included in Grantee’s tax return filed with the Spanish tax authorities for such year. After such assets or rights are initially reported, the reporting obligation will apply for subsequent years only if the value of any previously reported asset or right increases by more than a certain threshold or if ownership of such asset or right is transferred or relinquished during the year. *Grantee should consult with his or her personal tax advisor regarding the applicable thresholds and corresponding reporting requirements.*

SWITZERLAND

Notifications

Securities Law Information. The Restricted Stock Units are not intended to be publicly offered in or from Switzerland. Neither this document nor any other materials relating to the Restricted Stock Units (i) constitutes a prospectus as such term is understood pursuant to article 652a of the Swiss Code of Obligations, or (ii) may be publicly distributed or otherwise made publicly available in Switzerland. Further, neither this document nor any other offering or marketing material relating to the offering of the Restricted Stock Units has been or will be filed with or approved or supervised by any Swiss regulatory authority (in particular, the Swiss Financial Market Supervisory Authority (FINMA)).

TAIWAN

Notifications

Securities Law Information: The grant of the Restricted Stock Units (and the issuance, if any, of the underlying Shares) is available only to certain employees of the Company and its Affiliates. It is not a public offer of securities by a Taiwanese company. Therefore, it is exempt from registration in Taiwan.

Exchange Control Information: Grantee may remit foreign currency (including proceeds from the sale of Shares and the receipt of any dividends) into Taiwan with a transaction amount of up to US\$5,000,000 per year. If the transaction amount is TWD500,000 or more in a single transaction, Grantee must submit a foreign exchange transaction form and also provide supporting documentation to the satisfaction of the handling bank.

If the transaction amount is US\$500,000 or more, Grantee may be required to provide additional supporting documentation to the satisfaction of the bank. *Grantee should consult with his or her personal advisor to ensure compliance with applicable exchange control laws in Taiwan.*

UNITED KINGDOM

Terms and Conditions

Payment after Vesting. This provision supplements Section 6 of the Agreement and Section 11(e) of the Plan:

Restricted Stock Units shall be settled only in Shares. In no event shall the Restricted Stock Units be paid in cash, notwithstanding any discretion contained in Section 11(e) of the Plan to the contrary.

Responsibility for Taxes. This provision supplements Section 8 of the Agreement:

Without limitation to Section 8 of the Agreement, Grantee hereby agrees that Grantee is liable for all Tax-Related Items and hereby covenants to pay all such Tax-Related Items, as and when requested by the Company or if different, the Employer or by Her Majesty's Revenue & Customs ("**HMRC**") (or any other tax authority or any other relevant authority). Grantee also hereby agrees to indemnify and keep indemnified the Company and, if different, the Employer against any Tax-Related Items that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on Grantee's behalf.

Notwithstanding the foregoing, if Grantee is a director or executive officer of the Company (within the meaning of Section 13(k) of the Exchange Act), the terms of the immediately foregoing provision will not apply. In the event that Grantee is a director or executive officer

of the Company and the income tax is not collected from or paid by Grantee within ninety (90) days of the end of the U.K. tax year in which an event giving rise to the indemnification described above occurs, the amount of any uncollected income tax may constitute a benefit to Grantee on which additional income tax and National Insurance contributions (“**NICs**”) may be payable. Grantee will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for paying to the Company and/or the Employer (as appropriate) the amount of any employee NICs due on this additional benefit.

NIC Joint Election. As a condition of participation in the Plan, Grantee agrees to accept liability for any secondary Class 1 National Insurance contributions that may be payable by the Company and/or the Employer (or any successor to the Company or the Employer) in connection with the Restricted Stock Units and any event giving rise to Tax-Related Items (“**Employer NICs**”).

Without prejudice to the foregoing, Grantee agrees to enter into the following joint election with the Company, the form of such NICs Joint Election being formally approved by HMRC (the “**NIC Joint Election**”), and any other consent or elections required to accomplish the transfer of the Employer NICs to Grantee. Grantee further agrees to execute such other elections as may be required between Grantee and any successor to the Company and/or the Employer for the purpose of continuing the effectiveness of Grantee’s NIC Joint Election. Grantee understands that the NIC Joint Election applies to any Restricted Stock Units granted to him or her under the Plan after the execution of the NIC Joint Election. Grantee agrees that the Employer NICs may be collected by the Company or the Employer by any of the methods set forth in Section 8 of the Agreement.

If Grantee does not enter into the NIC Joint Election, he or she will not be entitled to vest in the Restricted Stock Units or receive any benefit in connection with the Restricted Stock Units unless and until he or she enters into a NIC Joint Election and no Shares or other benefit pursuant to the Restricted Stock Units will be issued to Grantee under the Plan, without any liability to the Company and/or the Employer.

IMPORTANT NOTE: By accepting the Agreement (whether by clicking on the acceptance buttons as part of the Company’s electronic acceptance procedure or by signing the Agreement in hard copy), Grantee is agreeing to be bound by the terms of the NIC Joint Election. Grantee should read the terms of the NIC Joint Election carefully before accepting the Agreement and the NIC Joint Election. However, if requested by the Company, Grantee agrees to separately execute the NIC Joint Election.

**Important Note on the Joint Election to Transfer
Employer National Insurance Contributions**

As a condition of participation in the Nuance Communications, Inc. 2000 Stock Plan, as amended (the “Plan”) and the restricted stock units (the “RSUs”) that have been granted to you (the “Grantee”) by Nuance Communications, Inc. (the “Company”), the Grantee is required to enter into a joint election to transfer to the Grantee any liability for employer national insurance contributions (the “Employer’s Liability”) that may arise in connection with the grant of the RSUs or in connection with any restricted stock units that may be granted by the Company to the Grantee under the Plan (the “Joint Election”).

If the Grantee does not agree to enter into the Joint Election, the grant of the RSUs will be worthless and the Grantee will not be able to vest in the RSUs or receive any benefit in connection with the RSUs.

By entering into the Joint Election:

- ⑩ the Grantee agrees that any Employer’s Liability that may arise in connection with or pursuant to the vesting of the RSUs (or any restricted stock units granted to the Grantee under the Plan) or the acquisition of Shares or other taxable events in connection with the RSUs (or any other restricted stock units granted under the Plan) will be transferred to the Grantee;
- ⑩ the Grantee authorises the Company and/or the Grantee’s employer to recover an amount sufficient to cover this liability by any method set forth in the Restricted Stock Unit Award Agreement and/or the Joint Election; and
- ⑩ the Grantee acknowledges that even if he or she has accepted the Joint Election via the Company’s online procedure, the Company or the Grantee’s employer may still require the Grantee to sign a paper copy of the Joint Election (or a substantially similar form) if the Company determines such is necessary to give effect to the Joint Election.

By accepting the RSUs through the Company’s online acceptance procedure (or by signing the Restricted Stock Unit Agreement), the Grantee is agreeing to be bound by the terms of the Joint Election.

**Please read the terms of the Joint Election carefully before
accepting the Restricted Stock Unit Agreement
and the Joint Election.**

**Please print and keep a copy of the Joint Election
for your records.**

NUANCE COMMUNICATIONS, INC. 2000 STOCK PLAN
(UK Employees)

Election To Transfer the Employer's National Insurance Liability to the Employee

1. PARTIES

This Election is between:

- (A) You, the individual who has gained access to this Election (the "**Employee**"), who is employed by one of the employing companies listed in the attached schedule (the "**Employer**") and who is eligible to receive Restricted Stock Units ("**RSUs**") granted by Nuance Communications, Inc. pursuant to the terms and conditions of the Nuance Communications, Inc. 2000 Stock Plan, as amended (the "**Plan**"), and
- (B) Nuance Communications, Inc. of 1 Wayside Road, Burlington, Massachusetts 01803, United States (the "**Company**"), which may grant RSUs under the Plan and is entering into this Form of Election on behalf of the Employer.

2. PURPOSE OF ELECTION

2.1 This Election relates to RSUs granted by the Company to the Employee under the Plan on or after July 1, 2017.

2.2 In this Election the following words and phrases have the following meanings:

"**Taxable Event**" means any event giving rise to Relevant Employment Income.

"**ITEPA**" means the Income Tax (Earnings and Pensions) Act 2003.

"**Relevant Employment Income**" from RSUs on which employer's National Insurance Contributions becomes due is defined as:

- i. an amount that counts as employment income of the earner under section 426 ITEPA (restricted securities: charge on certain post-acquisition events);
- ii. an amount that counts as employment income of the earner under section 438 of ITEPA (convertible securities: charge on certain post-acquisition events); or
- iii. any gain that is treated as remuneration derived from the earner's employment by virtue of section 4(4)(a) SSCBA, including without limitation:

(A) the acquisition of securities pursuant to the RSUs (within the meaning of section 477(3)(a) of ITEPA);

(B) the assignment (if applicable) or release of the RSUs in return for consideration (within the meaning of section 477(3)(b) of ITEPA);

- (C) the receipt of a benefit in connection with the RSUs, other than a benefit within (i) or (ii) above (within the meaning of section 477(3)(c) of ITEPA).

“SSCBA” means the Social Security Contributions and Benefits Act 1992.

- 2.3 This Election relates to the Employer’s secondary Class 1 National Insurance Contributions (the “*Employer’s Liability*”) which may arise in respect of the Relevant Employment Income in respect of RSUs pursuant to section 4(4)(a) and/or paragraph 3B(1A) of Schedule 1 of the SSCBA.
- 2.4 This Election does not apply in relation to any liability, or any part of any liability, arising as a result of regulations being given retrospective effect by virtue of section 4B(2) of either the SSCBA or the Social Security Contributions and Benefits (Northern Ireland) Act 1992.
- 2.5 This Election does not apply to the extent that it relates to relevant employment income which is employment income of the earner by virtue of Chapter 3A of Part VII of ITEPA (employment income: securities with artificially depressed market value).
- 2.6 Any reference to the Company and/or the Employer shall include that entity’s successors in title and assigns as permitted in accordance with the terms of the Plan and the Restricted Stock Unit Agreement. This Election will have effect in respect of the RSUs and any awards which replace or replaced the RSUs following their grant in circumstances where section 483 of ITEPA applies.

3. ELECTION

The Employee and the Company jointly elect that the entire liability of the Employer to pay the Employer’s Liability that arises on any Relevant Employment Income is hereby transferred to the Employee. The Employee understands that by accepting the RSUs (whether by clicking on the acceptance buttons as part of the Company’s electronic acceptance procedure or by signing the Restricted Stock Unit Agreement in hard copy), he or she will become personally liable for the Employer’s Liability covered by this Election. This Election is made in accordance with paragraph 3B(1) of Schedule 1 to SSCBA.

4. PAYMENT OF THE EMPLOYER’S LIABILITY

- 4.1 The Employee hereby authorises the Company and/or the Employer to collect the Employer’s Liability in respect of any Relevant Employment Income from the Employee at any time after the Taxable Event:
- (i) by deduction from salary or any other payment payable to the Employee at any time on or after the date of the Taxable Event; and/or
 - (ii) directly from the Employee by payment in cash or cleared funds; and/or

- (iii) by arranging, on behalf of the Employee, for the sale of some of the securities which the Employee is entitled to receive in respect of the RSUs; and/or
 - (iv) by any other means specified in the Restricted Stock Unit Agreement.
- 4.2 The Company hereby reserves for itself and the Employer the right to withhold the transfer of any securities in respect of the RSUs to the Employee until full payment of the Employer's Liability is received.
- 4.3 The Company agrees to procure the remittance by the Employer of the Employer's Liability to HM Revenue and Customs on behalf of the Employee within 14 days after the end of the UK tax month during which the Taxable Event occurs (or within 17 days after the end of the UK tax month during which the Taxable Event occurs, if payments are made electronically).

5. DURATION OF ELECTION

- 5.1 The Employee and the Company agree to be bound by the terms of this Election regardless of whether the Employee is transferred abroad or is not employed by the Employer on the date on which the Employer's Liability becomes due.
- 5.2 This Election will continue in effect until the earliest of the following:
- (i) the Employee and the Company agree in writing that it should cease to have effect;
 - (ii) on the date the Company serves written notice on the Employee terminating its effect;
 - (iii) on the date HM Revenue and Customs withdraws approval of this Election; or
 - (iv) after due payment of the Employer's Liability in respect of the entirety of the RSUs to which this Election relates or could relate, such that the Election ceases to have effect in accordance with its terms.

Acceptance by the Employee

The Employee acknowledges that by accepting the RSUs (whether by clicking on the acceptance buttons as part of the Company's electronic acceptance procedure or by signing the Restricted Stock Unit Agreement in hard copy), the Employee agrees to be bound by the terms of this Election.

Acceptance by the Company

The Company acknowledges that, by arranging for the scanned signature of an authorised representative to appear on this Election, the Company agrees to be bound by the terms of this Election.

Signed for and on behalf of the Company

[insert signature and signatory details]

SCHEDULE OF EMPLOYER COMPANIES

The following are employer companies to which this Joint Election may apply:

Nuance Communications UK Limited

Registered Office:	Wethered House Pound Lane Marlow Buckinghamshire SL7 2AF UK
Company Registration Number:	4090152
Corporation Tax Reference:	2015201381
PAYE Reference:	120VZ29530

SpinVox Limited

Registered Office:	Wethered House Pound Lane Marlow Buckinghamshire SL7 2AF UK
Company Registration Number:	4825183
Corporation Tax Reference:	7347505990
PAYE Reference:	951/JZ55285

Winscribe Europe Limited (UK)

Registered Office:	1 Pound Lane, Marlow, Buckinghamshire, England, SL7 2AF
Company Registration Number:	1792924
Corporation Tax Reference:	2506004151
PAYE Reference:	577/RM123

NUANCE COMMUNICATIONS, INC.
2000 STOCK PLAN
(Amended and Restated January 17, 2019)

RESTRICTED STOCK UNIT AGREEMENT

- (A) Name of Grantee:
- (B) Number of Restricted Stock Units:
- (C) Grant Date:
- (D) Vesting Commencement Date:
- (E) Award Number:

This Restricted Stock Unit Agreement, including any exhibit, appendix or addendum hereto (the “**Agreement**”), is made and entered into as of the date set forth in Item C above between Nuance Communications, Inc., a Delaware corporation (the “**Company**”), and the person named in Item A above (“**Grantee**”).

THE PARTIES AGREE AS FOLLOWS:

1. **Restricted Stock Units.** Pursuant to the Company’s 2000 Stock Plan, as amended from time to time (the “**Plan**”), a copy of which is attached to this Agreement as Exhibit A, the Company hereby grants to Grantee the number of Restricted Stock Units listed in Item B above on the terms and conditions set forth herein and in the Plan, the terms and conditions of the Plan being hereby incorporated into this Agreement by reference. In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan shall prevail. Capitalized terms used and not defined in this Agreement will have the meanings set forth in the Plan.
 2. **Company’s Obligation to Pay.** Each Restricted Stock Unit represents the right to receive one share of Common Stock of the Company, par value \$0.001 (“**Share**”) after the Restricted Stock Unit has vested. Unless and until the Restricted Stock Units will have vested in the manner set forth in Section 3, Grantee will have no right to receive the Shares subject to the Restricted Stock Units. Prior to the actual issuance of any Shares subject to the Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.
 3. **Vesting.** Subject to Section 5, the Restricted Stock Units shall vest in accordance with the provisions set forth on Exhibit B, subject to Grantee’s continuing to be an employee, director or consultant of the Company or of an Affiliate (a “**Service Provider**”) through each vesting date. For the avoidance of doubt, Grantee would no longer be considered a Service Provider
-

(and therefore the Restricted Stock Units would be forfeited) if Grantee's employer ceases to be controlled by majority owned by the Company.

4. **Forfeiture upon Termination as Service Provider.** If Grantee terminates service as a Service Provider, for any or no reason, prior to vesting, Grantee's right to acquire Shares pursuant to such unvested Restricted Stock Units awarded by this Agreement will immediately terminate.
5. **Payment After Vesting.** Any Restricted Stock Units that vest in accordance with Section 3, or otherwise vest in accordance with the terms of the Plan, will be settled by the Company issuing Shares to Grantee, subject to the provisions of Section 7 below. The settlement of vested Restricted Stock Units will be completed by the issuance of the appropriate number of Shares as soon as practicable after vesting, but in each such case no later than the 15th day of the third month following the end of the Company's tax year that includes each applicable vesting date.

Any distribution or delivery to be made to Grantee under this Agreement will, if Grantee is then deceased, be made to Grantee's designated beneficiary (if Grantee is permitted to and designates a beneficiary under the Plan). If no beneficiary is designated (including if the Company does not permit Grantee to make a beneficiary designation) or if the Company determines, in its discretion, that the beneficiary designation is not valid or enforceable under any applicable laws or regulations, or if no beneficiary survives Grantee, then such distribution or delivery will be made to the administrator or executor of Grantee's estate. Any such beneficiary, administrator or executor must furnish the Company with (a) written notice of his or her status as a beneficiary, administrator or executor, and (b) evidence satisfactory to the Company to establish the validity of the distribution or delivery to be made to such beneficiary, administrator or executor and compliance with any laws or regulations pertaining thereto.

6. **Rights as Stockholder.** Neither Grantee nor any person claiming under or through Grantee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Grantee.
7. **Taxes.**
 - a. **Responsibility for Taxes.** Grantee acknowledges that, regardless of any action taken by the Company or, if different, Grantee's employer (the "**Employer**"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to Grantee's participation in the Plan and legally applicable to Grantee as a result of participation in the Plan ("**Tax-Related Items**") is and remains Grantee's responsibility and may exceed the amount (if any) withheld by the Company or the Employer. Grantee further acknowledges that Company and the Employer (i) make no representations or undertakings regarding the treatment of any

Tax-Related Items in connection with any aspect of the Restricted Stock Units, including, but not limited to, the grant of the Restricted Stock Units, the vesting and settlement of the Restricted Stock Units, the delivery of Shares, the subsequent sale of any Shares acquired at vesting / settlement and the receipt of any dividend equivalents or dividends, if applicable; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Grantee's liability for Tax-Related Items or achieve any particular tax result. Further, if Grantee is subject to Tax-Related Items in more than one jurisdiction, Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

- b. *Withholding.* Prior to the relevant taxable or tax withholding event, as applicable, Grantee agrees to make arrangements satisfactory to the Company to satisfy all Tax-Related Items. In this regard, Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy their withholding obligations with regard to all Tax-Related Items by one or a combination of the following:
- i. withholding from Grantee's wages or other cash compensation otherwise payable to Grantee by the Company and/or the Employer; and/or
 - ii. requiring Grantee to tender a payment in cash (or the cash equivalent) in an amount equal to the Tax-Related Items to the Company or its designee; and/or
 - iii. withholding from the proceeds from the sale of Shares acquired upon settlement of the Restricted Stock Units, either through a voluntary sale or through a mandatory sale arranged by the Company (on Grantee's behalf pursuant to this authorization without further consent); and/or
 - iv. withholding in Shares to be issued upon settlement of the Restricted Stock Units, provided, however, that if Grantee is an officer of the Company within the meaning of Section 16 of the Exchange Act, the Company will withhold in Shares to be issued upon settlement of the Restricted Stock Units, unless the use of such withholding method is problematic under applicable tax or securities law or has materially adverse accounting consequences, in which case, the Committee (as constituted to satisfy Rule 16b-3 of the Exchange Act) will determine which of the other withholding methods set out in this Section 8(b) will be used; and/or
 - v. any other method determined by the Company and permitted under applicable laws.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including applicable maximum rates in Grantee's jurisdiction, in which case Grantee may receive a refund of any over-withheld amount in cash and will not

be entitled to the equivalent amount in Shares. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, Grantee will be deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of Shares that are held back solely for the purpose of paying the Tax-Related Items.

The Company may refuse to deliver the Shares or the proceeds from the sale of the Shares if Grantee fails to comply with Grantee's obligations in connection with the Tax-Related Items as described in this section.

- c. *Section 409A.* This Agreement and the Restricted Stock Units granted hereunder are intended to meet the "short-term deferral" exception to the provisions of Section 409A of the Code and U.S. Department of Treasury regulations issued thereunder or to otherwise comply with Section 409A of the Code and the U.S. Department of Treasury regulations and guidance issued thereunder, to the extent applicable. Notwithstanding any provision of the Plan or this Agreement to the contrary, this Agreement and the Restricted Stock Units granted hereunder shall be interpreted and construed consistent with this intent. Notwithstanding the foregoing, the Company and its affiliates shall not be required to assume any increased economic burden in connection therewith. Neither the Company or any of its Affiliates, nor any of their respective directors, officers, managers, employees or advisers shall be liable to Grantee (or any other individual claiming a benefit through Grantee) for any tax, interest, or penalties Grantee might owe as a result of this Agreement and the Restricted Stock Units granted hereunder, or otherwise. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right, but is not obligated, to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Grantee, to comply with Section 409A of the Code or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection with this grant of Restricted Stock Units; provided, however, that the Company makes no representation that this Agreement and the Restricted Stock Units granted hereunder will be exempt from, or will comply with, Section 409A of the Code, and makes no undertakings to preclude Section 409A of the Code from applying to this Agreement and the Restricted Stock Units granted hereunder or to ensure that it complies with Section 409A of the Code.
8. ***Assignment; Binding Effect.*** Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon and inure to the benefit of the executors, administrators, heirs, legal representatives, and successors of the parties hereto; provided, however, that except to the limited extent that may be provided in Section 5, Grantee may not assign any of Grantee's rights under this Agreement.
9. ***Damages.*** Grantee shall be liable to the Company for all costs and damages, including incidental and consequential damages, resulting from a disposition of the Restricted Stock Units which is not in conformity with the provisions of this Agreement.

10. **Governing Law.** This Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Massachusetts, U.S.A., without regard to conflict of laws principles.

11. **Notices.** Except as provided in Section 20, all notices and other communications under this Agreement shall be in writing. Unless and until Grantee is notified in writing to the contrary, all notices, communications, and documents directed to the Company and related to the Agreement, if not delivered by hand, shall be mailed, addressed as follows:

Nuance Communications, Inc.
1 Wayside Road
Burlington, MA 01803
Attention: HR Director

Except as provided in Section 20, all notices, communications, and documents intended for Grantee and related to this Agreement, if not delivered by hand, shall be mailed to Grantee's last known address as shown on the Company's books. Except as provided in Section 20, notices and communications shall be mailed by first class mail, postage prepaid; documents shall be mailed by registered mail, return receipt requested, postage prepaid. All mailings and deliveries related to the Agreement shall be deemed received when actually received, if by hand delivery, and two business days after mailing, if by mail.

12. **Arbitration.** Any controversy, dispute, or claim arising out of or relating to this Agreement shall be finally settled and binding arbitration administered by JAMS pursuant to its Employment Arbitration Rules and Procedures and subject to JAMS Policy on Employment Arbitration Minimum Standards of Procedural Fairness. A copy of the current JAMS Employment Arbitration Rules & Procedures are available from Human Resources upon request (including concurrently with Grantee's review and execution of this Agreement), online in English and Spanish at <http://www.jamsadr.com/rules-employment-arbitration/>, or by calling JAMS at 800.352.5267. If the JAMS rules are inconsistent with the terms of this Section 12, the terms of this Section shall govern, unless prohibited by applicable law. Any arbitration shall be before a single arbitrator and shall be held in the jurisdiction where Grantee works for the Company or an Affiliate or last worked for the Company or an Affiliate. Judgment on the arbitrator's award may be entered in any court having jurisdiction. Grantee expressly agrees to waive any right to pursue or participate in any dispute on behalf of, or as part of, any class, representative or collective action, except to the extent such waiver is expressly prohibited by law. Accordingly, to the extent permitted by law, no dispute by the parties hereto shall be brought, heard or arbitrated as a class or collective action, and no party hereto shall serve as a member of any purported class, representative or collective proceeding, including without limitation pending but not certified class actions. Both the Company and Grantee agree that this Section 12 is enforceable under the Federal Arbitration Act, 9 U.S.C. § 1 *et seq.* (the "**FAA**"), and that if the FAA is found not to apply, then this Section 12 is enforceable under the laws of the state in which Grantee is employed at the time Grantee receives this Agreement.

GRANTEE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT GRANTEE IS WAIVING ANY RIGHT GRANTEE MAY OTHERWISE HAVE TO A JURY TRIAL FOR ANY DISPUTES ARISING OUT OF OR RELATING TO THIS AGREEMENT.

13. ***No Rights to Restricted Stock Units, Shares, or Employment.*** Other than with respect to the Restricted Stock Units granted pursuant to, and subject to, this Agreement, neither Grantee nor any other person shall have any claim or right to be issued Shares. Having received a grant of Restricted Stock Units under the Plan shall not give Grantee any right to receive any other grant under the Plan. This grant of Restricted Stock Units is not an employment contract and nothing in this grant of Restricted Stock Units shall be deemed to create in any way whatsoever any obligation on Grantee's part to continue in the employ or service of the Company, or an Affiliate (as applicable) or the Company or an Affiliate (as applicable) to continue Grantee's employment or service relationship.
14. ***Entire Agreement; Modifications.*** The Company and Grantee agree that this Agreement is the complete and exclusive statement between the Company and Grantee regarding its subject matter and supersedes all prior proposals, communications, and agreements of the parties, whether oral or written, regarding the grant Restricted Stock Units to Grantee. Grantee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. This grant of Restricted Stock Units and any Shares subject to the Restricted Stock Units, and the income from and value of same, are not part of normal or expected compensation for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, holiday pay, pension or retirement or welfare benefits or similar mandatory payments.
15. ***Additional Conditions to Issuance of Shares.*** If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any law (including any U.S. federal or state or any non-U.S. law), or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Grantee, such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company.
16. ***Administrator Authority.*** The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Grantee, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

17. **Captions.** Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.
18. **Agreement Severable.** In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.
19. **Language.** If Grantee has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different from the English version, the English version will control.
20. **Electronic Delivery and Participation.** The Company may, in its sole discretion, deliver any documents related to this Agreement or to participation in the Plan or to future awards that may be granted under the Plan by electronic means or to request Grantee's consent to participate in the Plan by electronic means. Grantee hereby consents to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
21. **Insider Trading Restrictions/Market Abuse Laws.** Grantee acknowledges that he or she may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions including, but not limited to, the United States and Grantee's country of residence, which may affect Grantee's ability to directly or indirectly acquire, sell or attempt to sell Shares or rights to Shares (e.g., Restricted Stock Units) under the Plan during such times as Grantee is considered to have "insider information" regarding the Company (as defined by the laws in the applicable jurisdictions). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable insider trading policy of the Company. Grantee is responsible for ensuring compliance with any applicable restrictions and should consult his or her personal legal advisor on this matter.
22. **Non-U.S. and Country-Specific Provisions.** The Restricted Stock Units and any Shares subject to the Restricted Stock Units shall be subject to any special terms and conditions set forth in Exhibit C to this Agreement. Moreover, if Grantee relocates to one of the countries included in Exhibit C, the special terms and conditions for such country will apply to Grantee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative purposes. Exhibit C constitutes part of this Agreement.
23. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on Grantee's participation in the Plan, on the Restricted Stock Units and on any Shares subject to the Restricted Stock Units, to the extent the Company determines it is

necessary or advisable for legal or administrative reasons, and to require Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

24. **Waiver.** Grantee acknowledges that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Grantee or any other grantee.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date below.

Nuance Communications, Inc.

By: _____

Mark Benjamin, Chief Executive Officer

By signing below or accepting the Restricted Stock Units through the Company's electronic acceptance procedure, Grantee hereby accepts and agrees to be bound by all of the terms and conditions of this Agreement and the Plan.

Grantee:

Date

EXHIBITS

Exhibit A	2000 Stock Plan (as Amended and Restated January 17, 2019)
Exhibit B	Vesting Schedule
Exhibit C	Non-U.S. and Country-Specific Provisions

EXHIBIT A

2000 Stock Plan (as Amended and Restated January 17, 2019)

EXHIBIT B

Vesting Schedule

EXHIBIT C

NUANCE COMMUNICATIONS, INC.
2000 STOCK PLAN
(Amended and Restated February 28, 2018)

RESTRICTED STOCK UNIT AGREEMENT

NON-U.S. AND COUNTRY-SPECIFIC PROVISIONS

Terms and Conditions

This Exhibit C includes special terms and conditions applicable to Grantee if Grantee resides outside the U.S. and, as applicable, in one of the countries listed below. These terms and conditions supplement or replace (as indicated) the terms and conditions set forth in the Restricted Stock Unit Agreement to which it is attached. Capitalized terms used and not defined in this Exhibit C will have the meanings set forth in the Restricted Stock Unit Agreement or the Plan, as applicable.

Notifications

This Exhibit C also includes information regarding exchange controls and certain other issues of which Grantee should be aware with respect to his or her participation in the Plan. The information is based on the exchange control, securities and other laws in effect in the respective countries as of July 2018. Such laws are often complex and change frequently. In addition, other laws and regulations generally applicable to the acquisition, holding or disposal of securities and financial instruments as well as cross-border fund transfers may apply to Grantee. As a result, Grantee should not rely on the information noted herein as the only source of information relating to the consequences of Grantee's participation in the Plan because the information may be out of date at the time the Restricted Stock Units vest or Grantee receives or sells Shares.

In addition, the information in this Exhibit C is general in nature and may not apply to Grantee's particular situation. The Company is not in a position to assure Grantee of any particular result. *Accordingly, Grantee should seek appropriate professional advice as to how the relevant laws in Grantee's country apply to Grantee's situation.*

If Grantee is a citizen or resident of a country other than the one in which Grantee is currently residing and/or working, transfers employment and/or residency after the Grant Date or is considered a resident of another country for local law purposes, the terms and conditions and information contained herein may not be applicable to Grantee. The Company shall, in its sole

discretion, determine to what extent the terms and conditions herein shall apply to Grantee in such a case.

Terms and Conditions for all Non-U.S. Grantees

Nature of Grant. By accepting the grant of Restricted Stock Units, Grantee acknowledges, understands and agrees that:

- (a) the Plan is established voluntarily by the Company, is discretionary in nature and may be amended, suspended or terminated by the Company at any time to the extent permitted in the Plan;
- (b) the grant of Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future grants of restricted stock units, or benefits in lieu of restricted stock units, even if restricted stock units have been awarded in the past;
- (c) all decisions with respect to future grants of restricted stock units, if any, will be at the sole discretion of the Company;
- (d) Grantee is voluntarily participating in the Plan;
- (e) the grant of Restricted Stock Units and any Shares subject to the Restricted Stock Units, and the income from and value of same, are not intended to replace any pension rights or compensation;
- (f) unless otherwise agreed with the Company, the Restricted Stock Units and the Shares subject to the Restricted Stock Units, and the income from and value of same, are not granted as consideration for, or in connection with, any service Grantee may provide as a director of an Affiliate;
- (g) the future value of the Shares underlying the Restricted Stock Units is unknown, indeterminable and cannot be predicted with certainty;
- (h) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from Grantee's termination as a Service Provider (for any reason whatsoever and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment agreement, if any);
- (i) for purposes of the Restricted Stock Units, Grantee's status as a Service Provider will be considered terminated as of the date Grantee is no longer actively providing services to the Company or one of its Affiliates (regardless of the reason for such termination)

and whether or not later to be found invalid or in breach of employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment agreement, if any) and, unless otherwise expressly provided in the Agreement or determined by the Company, Grantee's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of such date and will not be extended by any notice period (e.g., Grantee's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment agreement, if any); the Administrator shall have the exclusive discretion to determine when Grantee is no longer actively providing services for purposes of the Restricted Stock Units, and

(j) neither the Company, the Employer nor any Affiliate shall be liable for any exchange rate fluctuation between Grantee's local currency and the United States Dollar that may affect the value of the Restricted Stock Units or of any amounts due to Grantee pursuant to the vesting and settlement of the Restricted Stock Units or the subsequent sale of any Shares acquired upon settlement.

No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Grantee's participation in the Plan or sale of the Shares acquired upon vesting and settlement of the Restricted Stock Units. Grantee should consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

Data Privacy.

(a) ***Data Collection and Usage.*** *The Company and the Employer may collect, process and use certain personal information about Grantee, and persons closely associated with Grantee, including, but not limited to, Grantee's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in Grantee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is Grantee's consent. Where required under applicable law, Data may also be disclosed to certain securities or other regulatory authorities where the Company's securities are listed or traded or regulatory filings are made and the legal basis, where required, for such disclosure is the applicable laws.*

(b) ***Stock Plan Administration Service Providers.*** *The Company transfers Data to E*TRADE Corporate Financial Services, Inc., and E*TRADE Securities LLC, an independent service provider, which is assisting the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner. Grantee may be asked*

to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.

*(c) **International Data Transfers.** The Company and its service providers are based in the United States. Grantee's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program, which is open to companies subject to Federal Trade Commission jurisdiction and in which the Company participates with respect to employee data. The Company's legal basis, where required, for the transfer of Data is Grantee's consent.*

*(d) **Data Retention.** The Company will hold and use the Data only as long as is necessary to implement, administer and manage Grantee's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws.*

*(e) **Voluntariness and Consequences of Consent Denial or Withdrawal.** Participation in the Plan is voluntary and Grantee is providing the consents herein on a purely voluntary basis. If Grantee does not consent, or if Grantee later seeks to revoke Grantee's consent, Grantee's salary from or employment and career with the Employer will not be affected; the only consequence of refusing or withdrawing Grantee's consent is that the Company would not be able to grant this Restricted Stock Unit or other awards to Grantee or administer or maintain such awards.*

*(f) **Declaration of Consent.** By accepting the Restricted Stock Units and indicating consent via the Company's online acceptance procedure, Grantee is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Company and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.*

Grantee understands that the Company may rely on a different legal basis for the processing or transfer of Data in the future and/or request that Grantee provide another data privacy consent form. If applicable and upon request of the Company, Grantee agrees to provide an executed acknowledgement or data privacy consent form to the Employer or the Company (or any other acknowledgements, agreements or consents that may be required by the Employer or the Company) that the Company and/or the Employer may deem necessary to obtain under the data privacy laws in Grantee's country, either now or in the future. Grantee understands that he or she will not be able to participate in the Plan if he or she fails to execute any such acknowledgement, agreement or consent requested by the Company and/or the Employer.

Arbitration. This provision replaces Section 12 of the Agreement:

Any dispute arising under this Agreement shall be resolved by binding and non-appealable arbitration under the rules of the International Centre for Dispute Resolution (“**ICDR**”). The arbitration shall be conducted by a single arbitrator chosen by the parties or, if the parties cannot agree upon a single arbitrator within thirty (30) days, then by a single arbitrator appointed by the ICDR. The arbitration shall take place in Middlesex County, Massachusetts, U.S.A. and shall be conducted in the English language. All costs and expenses of the arbitrator and of the arbitral institution shall be borne by the parties equally. Each party shall bear its own costs, fees, and expenses (including of its own counsel, experts and witnesses) in preparing and presenting its case.

Foreign Asset/Account, Exchange Control, and Tax Reporting. Depending on Grantee’s country, Grantee may be subject to foreign asset/account, exchange control and/or tax reporting requirements as a result of the vesting and settlement of the Restricted Stock Units, the acquisition, holding, and/or transfer of Shares or cash resulting from participation in the Plan and/or the opening and maintenance of a brokerage or bank account in connection with the Plan. Grantee may be required to report such assets, accounts, account balances and values and/or related transactions to the applicable authorities in his or her country and/or repatriate funds received in connection with the Plan to Grantee’s country within a certain time period and/or according to certain procedure. Grantee acknowledges that he or she is responsible for ensuring compliance with any applicable foreign asset/account, exchange control and tax reporting requirements and that Grantee should consult his or her personal legal advisor to ensure compliance with applicable laws.

AUSTRALIA

Terms and Conditions

Nature of Plan and Restricted Stock Units. The Plan is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) (the “*Act*”) applies (subject to the conditions in that Act).

In addition, the offer of the Restricted Stock Units is intended to comply with the provisions of the Corporations Act 2001, Australian Securities and Investments Commission (“*ASIC*”) Regulatory Guide 49 and ASIC Class Order 14/1000. Additional details are set forth in the Offer Document for the Offer of Restricted Stock Units to Australian Resident Employees.

AUSTRIA

Notifications

Exchange Control Information. If Grantee holds securities (including Shares acquired under the Plan) or cash (including proceeds from the sale of Shares) outside Austria, Grantee will be required to report certain information to the Austrian National Bank if certain thresholds are exceeded. Specifically, if Grantee holds securities outside Austria, reporting requirements will apply if the value of such securities meets or exceeds (i) €30,000,000 as of the end of any calendar quarter, or (ii) €5,000,000 as of December 31. Further, if Grantee holds cash in accounts outside Austria, monthly reporting requirements will apply if the aggregate transaction volume of such cash accounts meets or exceeds €10,000,000. If the transaction value of all cash accounts abroad is less than €10,000,000, no ongoing reporting requirements apply.

BELGIUM

Notifications

Foreign Asset/Account Reporting Information. Grantee will be required to report any securities (*e.g.*, Shares acquired under the Plan) or bank accounts (including brokerage accounts) held outside of Belgium on Grantee’s annual tax return. Grantee will also be required to complete a separate report providing the National Bank of Belgium with details regarding any such account (including the account number, the name of the bank in which such account is held and the country in which such account is located). This report, as well as additional information on how to complete it, can be found on the website of the National Bank of Belgium, www.nbb.be, under Kredietcentrales / Centrales des crédits caption.

Stock Exchange Tax Alert. A stock exchange tax may apply to transactions under the Plan, such as the sale of Shares acquired under the Plan. Grantee should consult with his or her personal tax advisor for details regarding Grantee’s obligations with respect to the stock exchange tax.

Brokerage Account Tax Alert. A brokerage account tax may apply if the average annual value of the securities Grantee holds (including Shares acquired under the Plan) in a brokerage or other securities account exceeds certain thresholds. Grantee should consult with his or her personal tax advisor for details regarding Grantee's obligations with respect to the brokerage account tax.

BRAZIL

Terms and Conditions

Nature of Grant. This provision supplements the Nature of Grant section of this Exhibit C:

By accepting the Restricted Stock Units, Grantee agrees that he or she is (i) making an investment decision, (ii) Shares will be issued to Grantee only if the vesting conditions are met and (iii) the value of the underlying Shares is not fixed and may increase or decrease without compensation to Grantee.

Compliance with Law. By accepting the Restricted Stock Units, Grantee acknowledges that he or she agrees to comply with applicable Brazilian laws and pay any and all Tax-Related Items associated with the vesting and settlement of the Restricted Stock Units, the receipt of any dividends or dividend equivalents and the sale of Shares acquired under the Plan.

Notifications

Exchange Control Information. Grantee may be required to submit a declaration of assets and rights held outside of Brazil to the Central Bank of Brazil, depending on the aggregate value of such assets and rights. If the aggregate value of such assets and rights is US\$100,000 or more but less than \$100,000,000, a declaration must be submitted annually. If the aggregate value exceeds \$100,000,000, a declaration must be submitted quarterly. Assets and rights that must be reported include Shares acquired under the Plan.

CANADA

Terms and Conditions

Payment After Vesting. This provision supplements Section 5 of the Agreement:

The discretion to pay cash in lieu of delivering Shares for the Restricted Stock Units, as described in Section 11(e) of the Plan, shall not apply to any Restricted Stock Units in Canada. All vested Restricted Stock Units in Canada will be settled by the Company issuing Shares to Grantee as described in this Section 5.

Nature of Grant. This provision replaces Section (i) of the Nature of Grant section of this Exhibit C:

For purposes of the Restricted Stock Units, Grantee's status as a Service Provider will be considered terminated as of the date that is the earliest of: (a) the date Grantee's employment with the Employer is terminated, (b) the date Grantee receives written notice of termination from the Employer, regardless of any notice period or period of pay in lieu of such notice mandated under the employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment contract, if any, or (c) the date Grantee is no longer actively providing services to the Company or an Affiliate (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment contract, if any, and, unless otherwise expressly provided in the Agreement or determined by the Company, Grantee's right to vest in the Restricted Stock Units under the Plan, if any) will terminate as of such date; the Administrator shall have the exclusive discretion to determine when Grantee is no longer actively providing services for purposes of the Restricted Stock Units.

The following provisions will also apply if Grantee is a resident of Quebec:

Language Consent. The parties acknowledge that it is their express wish that the Agreement, including this Exhibit C, as well as all documents, notices, and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Consentement Relatif à la Langue Utilisée. Les parties reconnaissent avoir expressément souhaité que la convention ainsi que cette Exhibit C, ainsi que tous les documents, avis et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement à la présente convention, soient rédigés en langue anglaise.

Data Privacy. This provision supplements the Data Privacy section of this Exhibit C:

Grantee hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. Grantee further authorizes the Company and any Affiliate, as well as E*Trade or such other stock plan service provider as may be selected by the Company to assist with the Plan, to disclose and discuss the Plan with their advisors. Grantee further authorizes the Company and any Affiliate to record such information and to keep such information in Grantee's employee file.

Notifications

Securities Law Information. Grantee is permitted to sell Shares acquired under the Plan through the Company's designated broker, provided the resale of such Shares takes place outside of Canada through the facilities of a stock exchange on which the Shares are listed. The Shares are currently listed on the NASDAQ Stock Market.

Foreign Asset/Account Reporting Information. Foreign specified property held by a Canadian resident must be reporting annually on a Form T1135 (Foreign Income Verification Statement) if the total cost of the foreign specified property exceeds C\$100,000 at any time during the year. Thus, unvested Restricted Stock Units must be reported - generally at a nil cost- if the C\$100,000 cost threshold is exceeded because of other foreign specified property held by Grantee. When Shares are acquired, their cost generally is the adjusted cost base ("ACB") of the Shares. The ACB would ordinarily equal the fair market value of the Shares at the time of acquisition, but if Grantee owns other Shares, this ACB may need to be averaged with the ACB of the other Shares. *Grantee should consult with his or her personal legal advisor regarding what reporting obligations, if any, will apply to Grantee with respect to Shares acquired under the Plan.*

CHINA

Terms and Conditions

Payment After Vesting. This provision supplements Section 5 of the Agreement:

To facilitate compliance with any applicable laws and regulations in China, Grantee agrees that the Company (or a brokerage firm instructed by the Company, if applicable) is entitled to (i) sell all Shares issued to Grantee at settlement (on Grantee's behalf and at Grantee's direction pursuant to this authorization), either at the time of settlement or when Grantee ceases employment with the Employer, or at such other time determined by the Company, or (ii) require that any Shares acquired under the Plan be held with a designated brokerage firm until such Shares are sold.

Grantee also agrees to sign any agreements, forms and/or consents that may be reasonably requested by the Company (or the Company's designated brokerage firm) to effectuate the sale of the Shares and acknowledges that neither the Company nor the designated brokerage firm is under any obligation to arrange for such sale of Shares at any particular price (it being understood that the sale will occur at the then-current market price) and that brokerage fees or commissions may be incurred in any such sale. In any event, when Shares acquired under the Plan are sold, the proceeds of the sale of the Shares, less any Tax-Related Items and brokerage fees or commissions, will be remitted to Grantee in accordance with applicable exchange control laws and regulations.

Exchange Control Restrictions. Grantee understands and agrees that, he or she will be required to immediately repatriate the proceeds of the sale of Shares, any cash dividends or dividend

equivalents, or any other funds realized under the Plan to China. Grantee further understands that the repatriation of such funds may need to be effected through a special exchange control account established by the Company or an Affiliate and he or she hereby consents and agrees that such funds may be transferred to such special account prior to being delivered to Grantee's personal account.

Grantee also understands that the Company will deliver any sale proceeds, cash dividends or dividend equivalents or other funds to Grantee as soon as practicable, but that there may be delays in distributing the funds due to exchange control requirements in China. Funds may be paid to Grantee in U.S. dollars or local currency at the Company's discretion. If the funds are paid in U.S. dollars, Grantee will be required to set up a U.S. dollar bank account in China so that the proceeds may be deposited into this account. If the funds are paid in local currency, the Company is under no obligation to secure any particular currency conversion rate and the Company may face delays in converting the funds to local currency. Grantee agrees to bear any currency fluctuation risk between the time the Shares are sold and the time (i) the Tax-Related Items are converted to local currency and remitted to the tax authorities and/or (ii) the net proceeds are converted to local currency and distributed to Grantee.

Grantee further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

FRANCE

Terms and Conditions

Language Consent. By accepting the grant of the Restricted Stock Units, Grantee confirms having read and understood the documents related to the grant (the Agreement and the Plan), which were provided in the English language. Grantee accepts the terms of those documents accordingly.

Consentement Relatif à la Langue. En acceptant l'attribution du droit sur des actions assujetti à des restrictions, le Bénéficiaire confirme avoir lu et compris les documents relatifs à l'attribution (le Contrat et le Plan) qui ont été fournis en langue anglaise. Le Bénéficiaire accepte les dispositions de ces documents en connaissance de cause.

Notifications

Foreign Asset/Account Reporting Information. Grantee is required to report all foreign accounts (whether open, current or closed) to the French tax authorities when filing his or her annual tax return. Additional monthly reporting requirements may apply if foreign account balances exceed €1,000,000.

GERMANY

Notifications

Exchange Control Information. Grantee must report any cross-border payments in excess of €12,500 to the German Federal Bank (*Bundesbank*). The report must be filed electronically and the form of report (*Allgemeine Meldeportal Statistik*) can be accessed via the Bundesbank's website (www.bundesbank.de). *Grantee is responsible for complying with applicable reporting obligations and should consult his or her personal legal advisor on this matter.*

GREECE

There are no country-specific provisions.

HONG KONG

Terms and Conditions

Payment After Vesting. This provision supplements Section 5 of the Agreement:

The discretion to pay cash in lieu of delivering Shares for the Restricted Stock Units, as described in Section 11(e) of the Plan, shall not apply to any Restricted Stock Units in Hong Kong. All vested Restricted Stock Units in Hong Kong will be settled by the Company issuing Shares to Grantee as described in this Section 5.

Notifications

Securities Law Information. WARNING: The Restricted Stock Units and the Shares issued upon settlement of the Restricted Stock Units do not constitute a public offering of securities and are available only to employees of the Company or its Affiliates.

The Agreement, the Plan and other incidental communication materials are intended only for the personal use of Grantees and not for distribution to any other persons. The Agreement, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a "prospectus" for a public offering of securities under the applicable companies and securities legislation in Hong Kong, nor have the documents been reviewed by any regulatory authority in Hong Kong. If Grantee has questions about any of the contents of the Agreement or the Plan, he or she should contact a legal or other professional advisor.

HUNGARY

There are no country-specific provisions.

INDIA

Notifications

Exchange Control Information. Any funds realized in connection with the Plan (e.g., proceeds from the sale of Shares and cash dividends paid on Shares) must be repatriated to India within a specified period of time after receipt as prescribed under Indian exchange control laws. It is Grantee's responsibility to obtain an inward remittance certificate ("**FIRC**") from the bank where Grantee deposits the foreign currency. Grantee should maintain the FIRC as evidence of the repatriation of funds in the event the Reserve Bank of India or the Employer requests proof of repatriation.

Foreign Asset/Account Reporting Requirement. Grantee is required to declare foreign bank accounts and any foreign financial assets (including Shares and, possibly, rights to Shares held outside India) in Grantee's annual tax return. *Grantee should consult his or her personal tax advisor to ensure compliance with applicable reporting obligations.*

IRELAND

Notifications

Director Reporting Information. Directors, shadow directors and secretaries of an Irish Affiliate are subject to certain notification requirements under the Irish Companies Act. If Grantee is a director, shadow director or secretary of the Irish Affiliate, he or she must notify the Irish Affiliate in writing of their interest in the Company and the number and class of Shares or rights to which the interest relates within five days of the issuance or disposal of Shares or within five days of becoming aware of the event giving rise to the notification. This disclosure requirement also applies to any rights or the Shares acquired by Grantee's spouse or children (under the age of 18) if Grantee is a director, shadow director or secretary of the Irish Affiliate.

ITALY

Terms and Conditions

Plan Document Acknowledgment. By accepting the Agreement, Grantee further acknowledges that Grantee has received a copy of the Plan, has reviewed the Plan and the Agreement in their entirety and fully understands and accepts all provisions of the Plan and the Agreement. Grantee further acknowledges that Grantee has read and specifically and expressly approves, without limitation, the following sections of the Agreement: "Vesting"; "Payment After Vesting"; "Responsibility for Taxes"; "Damages"; "Arbitration"; "Electronic Delivery and

Participation”; “Insider Trading Restrictions; Market Abuse Laws”; “Imposition of Other Requirements”; “Nature of Grant”; and “Foreign Asset/Account, Exchange Control and Tax Reporting” (including the “Foreign Asset/Account Reporting Information” below).

Notifications

Foreign Asset/Account Reporting Information. If Grantee holds investments abroad or foreign financial assets (e.g., cash, Shares) that may generate income taxable in Italy, Grantee is required to report them on his or her annual tax return (UNICO Form, RW Schedule) or on a special form if no tax return is due. The same reporting duties apply if Grantee is the beneficial owner of the investments, even if Grantee does not directly hold investments abroad or foreign assets.

JAPAN

Notifications

Foreign Asset/Account Reporting Information. Grantee will be required to report details of any assets (such as Shares) held outside of Japan as of December 31st to the extent such assets have a total net fair market value exceeding ¥50,000,000. Such report will be due by March 15th each year. *Grantee should consult with his or her personal tax advisor as to whether the reporting obligation extends to any outstanding Restricted Stock Units held by Grantee and to ensure compliance with applicable reporting obligations.*

KOREA

Notifications

Foreign Asset/Account Reporting Information. Korean residents must declare all foreign financial accounts (e.g., brokerage accounts, bank accounts) to the Korean tax authorities and file a report with respect to such accounts if the value of such accounts exceeds KRW 1 billion on any month-end date during the calendar year. *Grantee should consult with his or her personal tax advisor to ensure compliance with applicable reporting obligations.*

NETHERLANDS

There are no country-specific provisions.

NEW ZEALAND

Securities Law Information. Grantee is being offered Restricted Stock Units which will allow Grantee to acquire Shares in accordance with the terms of this Agreement and the Plan. The Shares, if issued will give Grantee a stake in the ownership of the Company. Grantee may receive a return if dividends are paid.

If the Company runs into financial difficulties and is wound up, Grantee will be paid only after all creditors have been paid. Grantee may lose some or all of Grantee's investment, if any.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors make an informed decisions. The usual rules do not apply for this offer because it is made under an employee share scheme. As a result, Grantee may not be given all the information usually required. Grantee will also have fewer legal protections for this investment. Grantee should ask questions, read all documents carefully, and seek independent financial advice before committing.

The Shares are listed on the NASDAQ. This means that if Grantee acquires Shares under the Plan, Grantee may be able to sell the Shares on the NASDAQ if there are interested buyers. Grantee may get less than Grantee invested. The price will depend on the demand for the Shares.

For more information on risk factors impacting the Company's business that may affect the value of the Shares, Grantee should refer to the risk factors discussion in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q which are filed with the U.S. Securities and Exchange Commission. These reports are available online at www.sec.gov, as well as on the Company's "Investor Relations" website at <http://investors.nuance.com/investor-relations>.

SINGAPORE

Notifications

Securities Law Information. The grant of the Restricted Stock Units is being made pursuant to the "Qualifying Person" exemption" under section 273(1)(f) of the Securities and Futures Act (Chapter 289, 2006 Ed.) ("**SFA**"). The Plan has not been lodged or registered as a prospectus with the Monetary Authority of Singapore. Grantee should note that the Restricted Stock Units are subject to section 257 of the SFA and Grantee should not make any subsequent sale of the Shares in Singapore or any offer of such subsequent sale of the Shares subject to the Restricted Stock Units in Singapore, unless such sale or offer is made (i) six months or more after the Grant Date or (ii) pursuant to the exemptions under Part XIII Division 1 Subdivision (4) (other than section 280) of the SFA (Chapter 289, 2006 Ed.) or pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA. The Company's Common Stock is traded on the NASDAQ Stock Market, which is located outside of Singapore, under the ticker symbol "NUAN" and the Shares acquired under the Plan may be sold through this exchange.

CEO and Director Reporting Information. If Grantee is the chief executive officer ("**CEO**") or a director (including an alternate, substitute or shadow director) of a Singapore Affiliate, he or she is subject to certain notification requirements under the Singapore Companies Act, regardless of whether he or she is a Singapore resident or employed in Singapore. Among

these requirements is the obligation to notify the Singapore Affiliate in writing when Grantee receives or disposes of an interest in the Company or an Affiliate (e.g., Options, Restricted Stock Units, Shares). These notifications must be made within two (2) business days of acquiring or disposing of any interest in the Company or any Affiliate or within two (2) business days of becoming the CEO or a director if such an interest exists at that time.

SPAIN

Terms and Conditions

Nature of Grant. This section supplements the Nature of Grant section of this Exhibit C:

By accepting the Restricted Stock Units, consents to participate in the Plan and acknowledges having received a copy of the Plan.

Grantee understands that, as a condition of the grant of the Restricted Stock Units, the termination of Grantee's employment for any reason will automatically result in the forfeiture of any and all Restricted Stock Units that have not vested as of the date of termination. In particular, Grantee understands and agrees that any unvested Restricted Stock Units will be forfeited without entitlement to the underlying Shares or to any amount as indemnification in the event of a termination of Grantee's employment prior to vesting by reason of, including, but not limited to: death, disability, resignation, retirement, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without cause, individual or collective layoff on objective grounds, whether adjudged to be with cause or adjudged or recognized to be without cause, material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Employer, and under Article 10.3 of Royal Decree 1382/1985.

Furthermore, Grantee understands that the Company has unilaterally, gratuitously and discretionally decided to grant the Restricted Stock Units under the Plan to individuals who may be employees of the Company or an Affiliate throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any Affiliate on an ongoing basis (other than as set forth in this Agreement and the Plan). Consequently, Grantee understands that the Restricted Stock Units are granted on the assumption and condition that the Restricted Stock Units and the related Shares shall not become a part of any employment or contract (either with the Company or any Affiliate) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, Grantee understands that the grant of the Restricted Stock Units would not be made to Grantee but for the assumptions and conditions referred to above; thus, Grantee acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then the grant of Restricted Stock Units shall be null and void.

Notifications

Securities Law Information. No “offer of securities to the public,” as defined under Spanish law, has taken place or will take place in the Spanish territory in connection with the grant of the Restricted Stock Units under the Plan. This Agreement and the Plan have not been nor will they be registered with the *Comisión Nacional del Mercado de Valores*, and do not constitute a public offering prospectus.

Exchange Control Information. Grantee must declare the acquisition, ownership and disposition of stock in a foreign company (including Shares acquired under the Plan) to the Spanish *Dirección General de Comercio e Inversiones* (the “*DGCI*”), the Bureau for Commerce and Investments, which is a department of the Ministry of Economy and Competitiveness, for statistical purposes. Generally, the declaration must be filed in January for Shares acquired or sold during (or owned as of December 31) the prior year; however, if the value of the Shares acquired under the Plan or the amount of the sale proceeds exceeds €1,502,530, the declaration must be filed within one month of the acquisition or sale, as applicable.

Grantee may be required to declare electronically to the Bank of Spain any foreign accounts (including brokerage accounts held abroad), any foreign instruments (including Shares acquired under the Plan), and any transactions with non-Spanish residents (including any payment of cash or Shares made by the Company) depending on the value of the transactions during the relevant year or the balances in such accounts and the value of such instruments as of December 31 of the relevant year. *Grantee should consult with his or her personal legal advisor regarding the applicable thresholds and corresponding reporting requirements.*

Foreign Asset/ Account Reporting Information. Grantee is required to report assets or rights deposited or held outside of Spain (including the Shares acquired under the Plan or cash proceeds from the sale of the Shares acquired under the Plan) if the value per type of asset or right exceeds a certain threshold. This obligation applies to assets and rights held as of December 31 and requires that information on such assets and rights be included in Grantee’s tax return filed with the Spanish tax authorities for such year. After such assets or rights are initially reported, the reporting obligation will apply for subsequent years only if the value of any previously reported asset or right increases by more than a certain threshold or if ownership of such asset or right is transferred or relinquished during the year. *Grantee should consult with his or her personal tax advisor regarding the applicable thresholds and corresponding reporting requirements.*

SWITZERLAND

Notifications

Securities Law Information. The Restricted Stock Units are not intended to be publicly offered in or from Switzerland. Neither this document nor any other materials relating to the Restricted Stock Units (i) constitutes a prospectus as such term is understood pursuant to article 652a of the

Swiss Code of Obligations, or (ii) may be publicly distributed or otherwise made publicly available in Switzerland. Further, neither this document nor any other offering or marketing material relating to the offering of the Restricted Stock Units has been or will be filed with or approved or supervised by any Swiss regulatory authority (in particular, the Swiss Financial Market Supervisory Authority (FINMA)).

TAIWAN

Notifications

Securities Law Information: The grant of the Restricted Stock Units (and the issuance, if any, of the underlying Shares) is available only to certain employees of the Company and its Affiliates. It is not a public offer of securities by a Taiwanese company. Therefore, it is exempt from registration in Taiwan.

Exchange Control Information: Grantee may remit foreign currency (including proceeds from the sale of Shares and the receipt of any dividends) into Taiwan with a transaction amount of up to US\$5,000,000 per year. If the transaction amount is TWD500,000 or more in a single transaction, Grantee must submit a foreign exchange transaction form and also provide supporting documentation to the satisfaction of the handling bank.

If the transaction amount is US\$500,000 or more, Grantee may be required to provide additional supporting documentation to the satisfaction of the bank. *Grantee should consult with his or her personal advisor to ensure compliance with applicable exchange control laws in Taiwan.*

UNITED KINGDOM

Terms and Conditions

Payment after Vesting. This provision supplements Section 5 of the Agreement and Section 11(e) of the Plan:

Restricted Stock Units shall be settled only in Shares. In no event shall the Restricted Stock Units be paid in cash, notwithstanding any discretion contained in Section 11(e) of the Plan to the contrary.

Responsibility for Taxes. This provision supplements Section 7 of the Agreement:

Without limitation to Section 7 of the Agreement, Grantee hereby agrees that Grantee is liable for all Tax-Related Items and hereby covenants to pay all such Tax-Related Items, as and when requested by the Company or if different, the Employer or by Her Majesty's Revenue & Customs ("**HRMC**") (or any other tax authority or any other relevant authority). Grantee also hereby agrees to indemnify and keep indemnified the Company and, if different, the Employer

against any Tax-Related Items that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on Grantee's behalf.

Notwithstanding the foregoing, if Grantee is a director or executive officer of the Company (within the meaning of Section 13(k) of the Exchange Act), the terms of the immediately foregoing provision will not apply. In the event that Grantee is a director or executive officer of the Company and the income tax is not collected from or paid by Grantee within ninety (90) days of the end of the U.K. tax year in which an event giving rise to the indemnification described above occurs, the amount of any uncollected income tax may constitute a benefit to Grantee on which additional income tax and National Insurance contributions ("**NICs**") may be payable. Grantee will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for paying to the Company and/or the Employer (as appropriate) the amount of any employee NICs due on this additional benefit.

NIC Joint Election. As a condition of participation in the Plan, Grantee agrees to accept liability for any secondary Class 1 National Insurance contributions that may be payable by the Company and/or the Employer (or any successor to the Company or the Employer) in connection with the Restricted Stock Units and any event giving rise to Tax-Related Items ("**Employer NICs**").

Without prejudice to the foregoing, Grantee agrees to enter into the following joint election with the Company, the form of such NICs Joint Election being formally approved by HMRC (the "**NIC Joint Election**"), and any other consent or elections required to accomplish the transfer of the Employer NICs to Grantee. Grantee further agrees to execute such other elections as may be required between Grantee and any successor to the Company and/or the Employer for the purpose of continuing the effectiveness of Grantee's NIC Joint Election. Grantee understands that the NIC Joint Election applies to any Restricted Stock Units granted to him or her under the Plan after the execution of the NIC Joint Election. Grantee agrees that the Employer NICs may be collected by the Company or the Employer by any of the methods set forth in Section 8 of the Agreement.

If Grantee does not enter into the NIC Joint Election, he or she will not be entitled to vest in the Restricted Stock Units or receive any benefit in connection with the Restricted Stock Units unless and until he or she enters into a NIC Joint Election and no Shares or other benefit pursuant to the Restricted Stock Units will be issued to Grantee under the Plan, without any liability to the Company and/or the Employer.

IMPORTANT NOTE: By accepting the Agreement (whether by clicking on the acceptance buttons as part of the Company's electronic acceptance procedure or by signing the Agreement in hard copy), Grantee is agreeing to be bound by the terms of the NIC Joint Election. Grantee should read the terms of the NIC Joint Election carefully before accepting the Agreement and the NIC Joint Election. However, if requested by the Company, Grantee agrees to separately execute the NIC Joint Election.

Execution Version

AMENDMENT NO. 1 (this "Amendment"), dated as of October 4, 2016, by and among NUANCE COMMUNICATIONS, INC., a Delaware corporation (the "Borrower"), the LENDERS party hereto and BARCLAYS BANK PLC, as administrative agent (the "Administrative Agent"), to the Revolving Credit Agreement dated as of April 15, 2016 (as amended, supplemented, amended and restated or otherwise modified prior to the date hereof, the "Credit Agreement"), among the Borrower, the LENDERS party thereto from time to time, the Administrative Agent and the other parties thereto from time to time. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement.

WHEREAS, the parties hereto wish to amend the Credit Agreement as described herein;

WHEREAS, Section 9.08 of the Credit Agreement provides that the Borrower and the Required Lenders may amend the Credit Agreement for certain purposes;

NOW, THEREFORE, in consideration of the premises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. **Amendment.**

(a) Section 1.01 of the Credit Agreement is hereby amended by:

(i) replacing the definition of "Alternate Currency" in its entirety with the following:

"Alternate Currency" shall mean each of euros, pounds, yen, Canadian dollars, Australian dollars and each other currency (other than Dollars) that is a lawful currency that is readily available and freely transferable and convertible into Dollars as shall be agreed from time to time between each applicable Issuing Bank and the Borrower.

(ii) adding the following definitions to such Section in alphabetical order:

"Australian dollars" shall mean the lawful money of the Commonwealth of Australia.

"Requirements of Law" shall mean, collectively, all international, foreign, federal, state and local common law, statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

Section 2. **Representations and Warranties.** The Borrower represents and warrants to the Administrative Agent and each of the Lenders that:

(a) The execution and delivery of this Amendment is within the Borrower's organizational powers and has been duly authorized by all necessary organizational action on the part of the Borrower. This Amendment has been duly executed and delivered by the Borrower and constitutes, a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally, subject to general principles of equity and subject to implied covenants of good faith and fair dealing. This Amendment will not violate any Requirement of Law, will not violate or result in a default or require any consent or approval under any indenture, agreement or other instrument binding upon any Loan Party or its property, or give rise to a right thereunder to require any payment to be made by any Loan Party, in each case, except as could not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect or a material adverse effect on the rights and remedies of the Administrative Agent and the Lenders.

(b) After giving effect to this Amendment, the representations and warranties set forth in Article III of the Credit Agreement or in any other Loan Document are true and correct in all material respects with the same effect as though made on and as of the date hereof (except where such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects as of such earlier date).

(c) After giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

Section 3. **Effectiveness.** This Amendment shall become effective on the date (the "Amendment Effective Date") on which (i) the Administrative Agent shall have received counterparts of this Amendment executed by the Borrower and the Required Lenders and (ii) each of the following conditions shall have been satisfied in accordance with the terms thereof:

- (a) the representations and warranties set forth in Section 2 hereof shall be true and correct as of the Amendment Effective Date;
- (b) the Borrower shall have paid all reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, negotiation and execution of this Amendment (including the reasonable fees and expenses of Cahill Gordon & Reindel LLP as counsel to the Administrative Agent); and
- (c) the Administrative Agent (or its counsel) shall have received a certificate of a Responsible Officer of the Borrower, dated the Amendment Effective Date, certifying compliance with the condition set forth in clause (a) of this Section 3.

Section 4. **Counterparts.** This Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to be an original, but all of which when taken together shall constitute a single instrument. Delivery of an executed counterpart of a signature page of this Amendment by facsimile or any other electronic transmission shall be effective as delivery of a manually executed counterpart hereof.

Section 5. **Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.** The provisions of Sections 9.07, 9.11 and 9.15 of the Credit Agreement shall apply to this Amendment to the same extent as if fully set forth herein.

Section 6. **Headings.** The headings of this Amendment are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

Section 7. **Effect of Amendment.** Except as expressly set forth herein, (i) this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect

the rights and remedies of the Lenders, the Administrative Agent, any other Agent, any Issuing Bank or the Swingline Lender, in each case under the Credit Agreement or any other Loan Document, and (ii) shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other provision of either such agreement or any other Loan Document. Except as expressly set forth herein, each and every term, condition, obligation, covenant and agreement contained in the Credit Agreement or any other Loan Document is hereby ratified and re-affirmed in all respects and shall continue in full force and effect. Each Loan Party reaffirms its obligations under the Loan Documents to which it is party and the validity of the Liens granted by it pursuant to the Security Documents. This Amendment shall constitute a Loan Document for purposes of the Credit Agreement and from and after the Amendment Effective Date, all references to the Credit Agreement in any Loan Document and all references in the Credit Agreement, as applicable, to “this Agreement,” “hereunder,” “hereof” or words of like import referring to the Credit Agreement shall, unless expressly provided otherwise, refer to the Credit Agreement as amended hereby. Each of the Loan Parties hereby consents to this Amendment and confirms that all obligations of such Loan Party under the Loan Documents to which such Loan Party is a party shall continue to apply to the Credit Agreement as amended hereby.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

NUANCE COMMUNICATIONS, INC.

By: /S/ T.F. Chagnon
Name: T.F. Chagnon
Title:

[Signature Page to Amendment No. 1]

BARCLAYS BANK PLC, as Administrative Agent and a Lender,

By: /s/ Mathew Cybul
Name: Mathew Cybul
Title: Assistant Vice President

[Signature page to Amendment No. 1]

AMENDMENT TO
THE NUANCE COMMUNICATIONS, INC. REVOLVING CREDIT AGREEMENT

THE UNDERSIGNED LENDER:

X Consents to Amendment

The Bank of Tokyo-Mitsubishi UFJ, Ltd.,

Name: Lillian Kim
Title: Director

By: /s/ Lillian Kim

[If a second signature is necessary:

By:
Name:
Title:]

Existing Revolving Facility Commitment amount¹: \$25,000,000

¹ For informational purposes only. In the event of immaterial discrepancies the Administrative Agent's Register will prevail.

[Signature Page to Amendment No. I]

AMENDMENT TO
THE NUANCE COMMUNICATIONS, INC. REVOLVING CREDIT AGREEMENT

THE UNDERSIGNED LENDER:

X Consents to Amendment

CITIBANK, N.A.

By: /s/ James Cahow

Name: James Cahow

Title: Director and Vice President

Existing Revolving Facility Commitment amount¹: \$20,000,000

¹For informational purposes only. In the event of immaterial discrepancies the Administrative Agent's Register will prevail.

[Signature Page to Amendment No. 1]

AMENDMENT TO
THE NUANCE COMMUNICATIONS, INC. REVOLVING CREDIT AGREEMENT

THE UNDERSIGNED LENDER:

X Consents to Amendment

DEUTSCHE BANK AG NEW YORK BRANCH

By: /s/ Anca Trifan

Name: Anca Trifan
Title: Managing Director

By: /s Dusan Lazarov

Name: Dusan Lazarov
Title: Director

Existing Revolving Facility Commitment amount¹: \$35,000,000.00

¹For informational purposes only. In the event of immaterial discrepancies the Administrative Agent's Register will prevail.

Signature Page to Amendment No. 1

AMENDMENT TO
THE NUANCE COMMUNICATIONS, INC. REVOLVING CREDIT AGREEMENT

THE UNDERSIGNED LENDER:

X Consents to Amendment

ROYAL BANK OF CANADA,
(Name of Institution)

By: /s/ Sheldon Pinto
Name: Sheldon Pinto
Title: Authorized Signatory

Existing Revolving Facility Commitment amount¹: \$25,000,000

¹For informational purposes only. In the event of immaterial discrepancies the Administrative Agent's Register will prevail.

AMENDMENT TO
THE NUANCE COMMUNICATIONS, INC. REVOLVING CREDIT AGREEMENT

THE UNDERSIGNED LENDER:

X Consents to Amendment

SunTrust Bank,

By: /s/ Johnetta Bush
Name: Johnetta Bush
Title: Vice President

Existing Revolving Facility Commitment amount¹: \$25,000,000

¹For informational purposes only. In the event of immaterial discrepancies the Administrative Agent's Register will prevail.

[Signature Page to Amendment No. 1]

The following is a list of subsidiaries of the Company as of September 30, 2019.

Subsidiary Name	Jurisdiction	Type
Agnitio Corp.	Delaware	Domestic
Caere LLC	Delaware	Domestic
Cerence AI LLC	Delaware	Domestic
Cerence Inc.	Delaware	Domestic
Cerence Operating Company	Delaware	Domestic
Cognition Technologies, Inc.	Delaware	Domestic
ComplyMD LLC	Delaware	Domestic
Consolidated Enterprise Corporation	Delaware	Domestic
Consolidated Healthcare Corporation	Delaware	Domestic
Consolidated Imaging Corporation	Delaware	Domestic
Consolidated Mobile Corporation	Delaware	Domestic
Ditech Networks, Inc.	Delaware	Domestic
Ditech Networks International, Inc.	Delaware	Domestic
eCopy, LLC	Delaware	Domestic
iScribes Inc.	Delaware	Domestic
eScription, Inc.	Delaware	Domestic
Language and Computing, Inc.	Delaware	Domestic
Montage Healthcare Solutions, Inc.	Delaware	Domestic
Nuance Diagnostics Holding, Inc.	Delaware	Domestic
Nuance Transcription Services, Inc.	Delaware	Domestic
PerSay, Inc.	Delaware	Domestic
Phonetic Systems, Inc.	Delaware	Domestic
Primordial Design, Inc.	Delaware	Domestic
Quadramed Quantim Corporation	Delaware	Domestic
SNAPin Software, LLC	Delaware	Domestic
SVOX USA, Inc.	Delaware	Domestic
TouchCommerce, Inc.	Delaware	Domestic
Viecore Federal Systems Division, Inc.	Delaware	Domestic
Viecore, LLC	Delaware	Domestic
VirtuOz, Inc.	Delaware	Domestic
VoiceBox Technologies LLC	Delaware	Domestic
J.A. Thomas and Associates, Inc.	Georgia	Domestic
Nuance Healthcare Diagnostics Solutions, Inc.	Georgia	Domestic
Winscribe USA Inc	Illinois	Domestic
New England Medical Transcription, Inc.	Maine	Domestic
AMS Solutions Corporation	Massachusetts	Domestic
Accentus U.S., Inc. f/k/a Zylomed Inc.	Nevada	Domestic
Medical Transcription Education Center, Inc.	Ohio	Domestic
Physician Technology Partners, LLC	Ohio	Domestic
Nuance Enterprise Solutions & Services Corporation f/k/a Varolii Corporation	Washington	Domestic
Information Technologies Australia Pty Ltd.	Australia	International
ITA Services Pty. Ltd.	Australia	International
Nuance Communications Australia Pty. Ltd.	Australia	International
OTE Pty. Limited	Australia	International
VoiceBox Technologies Australia Pty. Ltd.	Australia	International
Winscribe Australasia Pty. Ltd.	Australia	International

Nuance Communications Austria GmbH	Austria	International
Nuance Communications Services Austria GmbH	Austria	International
SpeechMagic Holdings GmbH	Austria	International
Multi-Corp International Ltd.	Barbados	International
Language and Computing N.V.	Belgium	International
Nuance Communications Belgium Limited	Belgium	International
Cerence BVBA	Belgium	International
Nuance Bermuda Automotive, Ltd.	Bermuda	International
Nuance Bermuda Enterprise, Ltd.	Bermuda	International
Nuance Bermuda Healthcare, Ltd.	Bermuda	International
Nuance Communications Ltda.	Brazil	International
Novitech Tecnologia e Servicos Ltda.	Brazil	International
BlueStar Options Inc.	British Virgin Islands	International
BlueStar Resources Ltd.	British Virgin Islands	International
SpeechWorks BVI Ltd.	British Virgin Islands	International
845162 Alberta Ltd.	Canada	International
Accentus Inc. f/k/a/ 2350111 Ontario Inc.	Canada	International
Cerence Holding Inc.	Canada	International
Ditech Networks Canada, Inc.	Canada	International
Cerence Acquisition ULC	Canada	International
Cerence Technologies Inc.	Canada	International
Nuance Communications Canada, Inc.	Canada	International
Zi Corporation	Canada	International
Zi Corporation of Canada, Inc.	Canada	International
Foxtrot Acquisition Limited	Cayman Islands	International
Foxtrot Acquisition II Limited	Cayman Islands	International
Huayu Zi Software Technology (Beijing) Co., Ltd.	China	International
Cerence Software Technology (Beijing) Co., Ltd.	China	International
Cerence Comm Tech (Shanghai) Co. Ltd.	China	International
USA Shenyu Technologies (Shenzhen) Co. Ltd.	China	International
Nuance Communications Finland OY	Finland	International
Voice Signal Technologies Europe OY	Finland	International
Nuance Communications France Sarl	France	International
VirtuOz S.A.	France	International
VoiceBox Technologies France SAS	France	International
Cerence GmbH	Germany	International
Nuance Communications GmbH	Germany	International
Nuance Communications Deutschland GmbH f/k/a Dictaphone Deutschland GmbH	Germany	International
Nuance Communications Germany GmbH	Germany	International
Nuance Communications Healthcare Germany GmbH	Germany	International
Cerence Deutschland GmbH	Germany	International
Voicebox Technologies Deutschland GmbH	Germany	International
Asia Translation & Telecommunications Limited	Hong Kong SAR	International
Huayu Zi Software Technology Limited	Hong Kong SAR	International
Cerence Hong Kong Limited	Hong Kong SAR	International
Telecom Technology Corporation Limited	Hong Kong SAR	International
Zi Corporation (H.K.) Limited	Hong Kong SAR	International
Zi Corporation of Hong Kong Limited	Hong Kong SAR	International
Nuance Communications Hungary Kft	Hungary	International
Ditech Communications India Pvt. Ltd.	India	International
Nuance India Pvt. Ltd.	India	International

Nuance Transcription Services India Private Limited f/k/a/ FocusMT India Private Limited	India	International
ServTech Systems India Pvt. Ltd.	India	International
Transcend India Private Limited	India	International
Transcend MT Services Private Ltd.	India	International
Cerence Services (India) LLP	India	International
Nuance Communications International Holdings ULC	Ireland	International
Nuance Communications Ireland Limited	Ireland	International
Nuance Communications Services Ireland Ltd.	Ireland	International
Diamond Auto Technologies Ireland Ltd.	Ireland	International
Cerence Services Ireland Ltd.	Ireland	International
Nuance Communications Healthcare International Ltd formally Voice Signal Ireland Ltd.	Ireland	International
Nuance Communications Israel Ltd.	Israel	International
PerSay Ltd.	Israel	International
Phonetic Systems Ltd.	Israel	International
Cerence s.r.l.	Italy	International
Loquendo S.p.a.	Italy	International
Nuance Communications Italy Srl	Italy	International
Cerence Japan K.K.	Japan	International
Nuance Japan K.K.	Japan	International
Cerence Ltd Korea	Korea	International
Caere Corporation Branch Mexico	Mexico	International
Cerence B.V.	Netherlands	International
Cerence Holding B.V.	Netherlands	International
Cerence Services B.V.	Netherlands	International
Nuance Communications Netherlands B.V.	Netherlands	International
X-Solutions Group B.V.	Netherlands	International
Winscribe Inc. Ltd.	New Zealand	International
VoiceBox Technologies Europe B.V.	Netherlands	International
Heartland Asia (Mauritius) Ltd.	Republic of Mauritius	International
Nuance Communications Asia Pacific Pte. Ltd.	Singapore	International
Nuance Communications Korea Ltd.	South Korea	International
Nuance Communications Iberica SA	Spain	International
Agnitio S.L.	Spain	International
Cerence Operations SL	Spain	International
Cerence A.B.	Sweden	International
Nuance Communications Sweden, A.B.	Sweden	International
Cerence Switzerland AG	Switzerland	International
SVOX AG	Switzerland	International
Winscribe GmbH	Switzerland	International
Cerence Taiwan Ltd.	Taiwan	International
Nuance Communications Illetism Ltd. Sirketi	Turkey	International
Nuance Turkey Iletisim Hizmetleri Ltd. Sirketi	Turkey	International
Ditech Communications Europe Ltd.	United Kingdom	International
Cerence Ltd.	United Kingdom	International
Nuance Communications UK Limited	United Kingdom	International
SpinVox Limited	United Kingdom	International
Winscribe Europe Limited	United Kingdom	International
TouchCommerce UK Ltd.	United Kingdom	International

Consent of Independent Registered Public Accounting Firm

Nuance Communications, Inc.
Burlington, Massachusetts

We hereby consent to the incorporation by reference in Registration Statements on Form S-3 (Nos. 333-128397 and 333-61862) and Form S-8 (Nos. 333-229550, 333-224825, 333-215966, 333-211272, 333-201933, 333-188397, 333-182459, 333-179399, 333-178436, 333-164955, 333-157579, 333-151088, 333-151087, 333-153911, 333-148684, 333-145971, 333-143465, 333-142183, 333-141819, 333-134687, 333-128396, 333-124856, 333-122718, 333-108767, 333-99729, 333-75406, 333-49656, and 333-33464) of Nuance Communications, Inc. of our reports dated November 22, 2019, relating to the consolidated financial statements (which report expresses an unqualified opinion and includes an explanatory paragraph related to the Company's change in method of accounting for revenue from contracts with customers due to the adoption of the new revenue standard) and the effectiveness of Nuance Communications, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP

Boston, Massachusetts
November 26, 2019

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel D. Tempesta, certify that:

1. I have reviewed this Annual Report on Form 10-K of Nuance Communications, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and in 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

By: /s/Daniel D. Tempesta

Daniel D. Tempesta

Executive Vice President and Chief Financial Officer

November 26, 2019

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Benjamin, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Nuance Communications, Inc. on Form 10-K for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Nuance Communications, Inc.

By: /s/ Mark Benjamin
Mark Benjamin
Chief Executive Officer

November 26, 2019

I, Daniel D. Tempesta, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Nuance Communications, Inc. on Form 10-K for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Nuance Communications, Inc.

By: /s/Daniel D. Tempesta
Daniel D. Tempesta
Executive Vice President and Chief Financial Officer

November 26, 2019