Nuance Communications, Inc.
Form 10-Q
February 08, 2019

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

Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended December 31, 2018
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 000-27038

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 ý No ¨

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

Large accelerated filer ý	Accelerated filer ¨	Emerging growth company ¨
Non-accelerated filer ¨		Smaller reporting company ¨

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

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

The number of shares of the Registrant's Common Stock, outstanding as of January 31, 2019 was 285,418,064.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2018 (ASC 606)	2017 (ASC 605)
	(Unaudited) (In thousands, except per share amounts)	
Revenues:		
Hosting and professional services	$259,588	$257,979
Product and licensing	157,997	124,748
Maintenance and support	76,069	64,497
Total revenues	493,654	447,224
Cost of revenues:		
Hosting and professional services	163,170	171,527
Product and licensing	32,750	13,772
Maintenance and support	7,761	9,425
Amortization of intangible assets	9,757	13,514
Total cost of revenues	213,438	208,238
Gross profit	280,216	238,986
Operating expenses:		
Research and development	68,328	66,086
Sales and marketing	75,359	80,560
General and administrative	44,049	51,773
Amortization of intangible assets	16,974	18,841
Acquisition-related costs, net	2,836	5,561
Restructuring and other charges, net	23,081	13,569
Total operating expenses	230,627	236,390
Income from operations	49,589	2,596
Other (expense) income:		
Interest income	2,554	2,192
Interest expense	(32,266)	(36,070)
Other expense, net	(1,192)	(222)
Income (loss) before income taxes	18,685	(31,504)
Provision (benefit) for income taxes	986	(78,969)
Net income from continuing operations	17,699	47,465
Net income from discontinued operations	1,391	5,763
Net income	$19,090	$53,228
Net income per common share - basic:		
Continuing operations	$0.06	$0.16
Discontinued operations	0.01	0.02
Total net income per basic common share	$0.07	$0.18
Net income per common share - diluted:		

Continuing operations	$0.06	$0.16
Discontinued operations	0.01	0.02
Total net income per diluted common share	$0.07	$0.18
Weighted average common shares outstanding:		
Basic	287,796	291,367
Diluted	292,359	295,995

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended December 31,	
	2018	2017
	(Unaudited)	
	(In thousands)	
Net income	$19,090	$53,228
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(8,302)	1,515
Pension adjustments	(360)	116
Unrealized loss on marketable securities	(2)	(277)
Total other comprehensive (loss) income, net	(8,664)	1,354
Comprehensive income	$10,426	$54,582

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2018 (ASC 606) (Unaudited)	September 30, 2018 (ASC 605)
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$293,251	$315,963
Marketable securities	137,896	135,579
Accounts receivable, less allowances for doubtful accounts of $9,702 and $9,823	337,829	347,873
Prepaid expenses and other current assets	197,414	94,814
Current assets held for sale	395,266	34,402
Total current assets	1,361,656	928,631
Marketable securities	18,446	21,932
Land, building and equipment, net	147,319	153,452
Goodwill	3,238,338	3,247,105
Intangible assets, net	424,032	450,001
Other assets	260,228	141,761
Long-term assets held for sale	—	359,497
Total assets	$5,450,019	$5,302,379
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Contingent and deferred acquisition payments	$16,043	$14,211
Accounts payable	90,006	80,912
Accrued expenses and other current liabilities	188,411	269,339
Deferred revenue	287,242	330,689
Current liabilities held for sale	116,978	69,013
Total current liabilities	698,680	764,164
Long-term debt	2,197,734	2,185,361
Deferred revenue, net of current portion	441,283	434,316
Deferred tax liabilities	66,386	49,931
Other liabilities	103,797	93,593
Long-term liabilities held for sale	—	57,518
Total liabilities	3,507,880	3,584,883
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock, $0.001 par value per share; 560,000 shares authorized; 290,035 and 291,504 shares issued and 286,285 and 287,753 shares outstanding, respectively	290	291
Additional paid-in capital	2,578,496	2,597,693
Treasury stock, at cost (3,751 shares)	(16,788)	(16,788)
Accumulated other comprehensive loss	(131,527)	(122,863)
Accumulated deficit	(488,332)	(740,837)
Total stockholders' equity	1,942,139	1,717,496

Total liabilities and stockholders’ equity	$5,450,019	$5,302,379

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31, 2018 (ASC 606)	2017 (ASC 605)
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income from continuing operations	$ 17,699	$ 47,465
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,547	47,833
Stock-based compensation	34,340	36,225
Non-cash interest expense	12,298	13,341
Deferred tax benefit	(4,755)	(97,132)
Other	312	631
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	(21,827)	(40,494)
Prepaid expenses and other assets	(19,811)	(19,001)
Accounts payable	11,437	(11,856)
Accrued expenses and other liabilities	(19,888)	3,045
Deferred revenue	35,253	88,250
Net cash provided by operating activities - continuing operations	87,605	68,307
Net cash provided by operating activities - discontinued operations	12,286	17,798
Net cash provided by operating activities	99,891	86,105
Cash flows from investing activities:		
Capital expenditures	(12,220)	(12,543)
Payments for business and asset acquisitions,	(1,447)	(8,648)

net of cash acquired				
Purchases of marketable securities and other investments	(47,502	)	(32,447	)
Proceeds from sales and maturities of marketable securities and other investments	45,678		159,805	
Net cash (used in) provided by investing activities	(15,491	)	106,167	
Cash flows from financing activities:				
Repayment and redemption of debt	—		(331,172	)
Payments for repurchase of common stock	(75,153	)	—	
Acquisition payments with extended payment terms	—		(16,880	)
Proceeds from issuance of common stock from employee stock plans	—		6	
Payments for taxes related to net share settlement of equity awards	(31,651	)	(38,617	)
Other financing activities	(699	)	(65	)
Net cash used in financing activities	(107,503	)	(386,728	)
Effects of exchange rate changes on cash and cash equivalents	391		618	
Net decrease in cash and cash equivalents	(22,712	)	(193,838	)
Cash and cash equivalents at beginning of period	315,963		592,299	
Cash and cash equivalents at end of period	$ 293,251		$ 398,461	

See accompanying notes.

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

1. Organization and Presentation
The condensed consolidated financial statements include the accounts of Nuance Communications, Inc. (“Nuance”, “we”, "our", or the "Company") and our wholly-owned subsidiaries. We prepared the unaudited interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (the “U.S.” or the "United States") and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). The condensed consolidated financial statements reflect all normal and recurring adjustments that, in our opinion, are necessary to present fairly our financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period.
Although we believe the disclosures included herein are adequate to ensure that the condensed consolidated financial statements are fairly presented, certain information and footnote disclosures to the financial statements have been condensed or omitted in accordance with the rules and regulations of the SEC. Accordingly, the condensed consolidated financial statements and the footnotes included herein should be read in conjunction with the audited financial statements and the footnotes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018. The results of operations for the interim periods presented are not necessarily indicative of the results for the entire fiscal year or any future period.
2. Summary of Significant Accounting Policies
Recently Adopted Accounting Standards
Revenue Recognition
In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606" ("ASC 606"), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. We adopted ASC 606 on October 1, 2018 using 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 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 allocating transaction price in accordance with the practical expedient ASC 606-10-65-1-(f)-4.
Upon adoption of ASC 606 on October 1, 2018, we recorded a decrease to accumulated deficit of approximately $230 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) approximately $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 UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables summarize the impact of adopting ASC 606 on the Company's condensed consolidated statement of operations for the three months ended December 31, 2018 and the condensed consolidated balance sheet as of December 31, 2018 (dollars in thousands):

	For the Three Months ended December 31, 2018		
	As reported, ASC 606	Effect of Implementation	As adjusted, ASC 605
Revenues:			
Hosting and professional services	$259,588	$ 8,036	$267,624
Product and licensing	157,997	(22,728)	135,269
Maintenance and support	76,069	(15,330)	60,739
Total revenues	$493,654	$ (30,022)	$463,632
Cost of revenues:			
Hosting and professional services	$163,170	$ (3,938)	$159,232
Product and licensing	32,750	(18,030)	14,720
Maintenance and support	7,761	766	8,527
Amortization of intangible assets	9,757	—	9,757
Total cost of revenues	$213,438	$ (21,202)	$192,236
Sales and marketing	$75,359	$ 1,522	$76,881
Provision (benefit) for income taxes	$986	$ (410)	$576

	As of December 31, 2018		
	As reported, ASC 606	Effect of Implementation	As adjusted, ASC 605
Assets:			
Accounts receivable	$337,829	$ 31,567	$369,396
Prepaid and expenses and other current assets	$197,414	$ (65,205)	$132,209
Other assets	$260,228	$ (139,529)	$120,699
Liabilities:			
Deferred revenue, current	$287,242	$ 86,097	$373,339
Deferred revenue, noncurrent	$441,283	$ 1,376	$442,659
Deferred tax liabilities	$66,386	$ (25,916)	$40,470
Other long-term liabilities	$103,797	$ (8,742)	$95,055
Stockholders' Equity:			
Accumulated deficit	$(488,332)	$ (245,441)	$(733,773)

Statements 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" ("ASU 2016-15"), 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 condensed consolidated statements of cash flows.

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

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.
Issued Accounting Standards Not Yet Adopted
Leases
In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is effective for us in the first quarter of fiscal year 2020, and early application is permitted. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases Topic 842 Target 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. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our condensed consolidated financial statements, and we currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of ASU 2016-02, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption.
Other Accounting Pronouncements
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 TCJA 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 collectability of 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.
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
- 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);

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

- 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;
- 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 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 corresponding refund liability as a component of accrued expenses and other current liabilities. Other forms of contingent revenue or variable consideration are infrequent.

Revenue is recognized when control of these 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 distributor and reseller customers have been granted right of return and selling incentives which are accounted for as variable consideration when estimating the amount of revenue to be recognize. 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 customer contracts.

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

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

Revenue from software license 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 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 point in time when control is transferred to the customer, typically 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 standalone selling price ("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 reportable segment and products and services as this presentation depicts the timing, risks and uncertainty of our revenue streams, which is also in line with how we manage our businesses, assess performance, and determine management compensation. Our disaggregated revenue from continuing operations is as follows (dollars in thousands):

	For the Three Months Ended December 31, 2018			
	Hosting and professional services	Product and licensing	Maintenance and support	Total

Healthcare	$133,515	$93,029	$ 45,321	$271,865
Enterprise	78,542	20,279	30,631	129,452
Automotive	31,871	42,108	—	73,979
Other	15,660	2,581	117	18,358
Total revenues	$259,588	$157,997	$ 76,069	$493,654

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

Hardware comprised approximately $10.1 million of total product and license revenue as of three months ended December 31, 2018.

Contract Acquisition Costs

In conjunction with the 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 cost 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, respectively. As of December 31, 2018, we had $15.2 million of current contract acquisition costs and $24.4 million of noncurrent contract acquisition costs. Commission expense is primarily included in Sales and marketing expense on the condensed consolidated statements of operations. We had amortization expense of $3.2 million related to contract acquisition costs during the three months ended December 31, 2018. There was no impairment related to commission costs capitalized.

Contract Fulfillment Costs

We capitalize the setup costs incurred to satisfy our stand-ready obligation to provide access to our hosting service. Contract fulfillment costs are expensed to cost of revenue as we satisfy its stand-ready obligation over the contract term which we estimate to be between one and five years. The contract term 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 contract fulfillment 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 December 31, 2018, we had $28.8 million of contract fulfillment costs included with Prepaid expenses and other current assets and $87.6 million 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 condensed 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.

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 December 31, 2018, we had $76.3 million of current contract assets and $118.0 million of noncurrent contract assets.

The table below shows significant changes in contract assets of continuing operations (dollars in thousands):

	Contract assets
Balance as of October 1, 2018	$168,595
Revenues recognized but not billed	99,915

Amounts reclassified to accounts receivable	(74,164)
Balance as of December 31, 2018	$194,346

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

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 December 31, 2018, we had $728.5 million of deferred revenue. The table below shows significant changes in deferred revenue of continuing operations (dollars in thousands):

	Deferred revenue
Balance as of October 1, 2018	$693,272
Amounts bill but not recognized	258,962
Revenue recognized	(223,709)
Balance as of December 31, 2018	$728,525

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 December 31, 2018 (dollars in thousands):

	12 months	2 to 5 years	Greater than 5 years	Total
Total revenue	$722,932	$1,157,824	$118,631	$1,999,387

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.

4. Disposition of Business

In connection with our ongoing strategic business and portfolio review, 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.) (the "Buyer"), relating to the sale of our Imaging business for a total cash consideration of approximately $400 million, subject to certain working capital adjustments as set forth in the Agreement. Pursuant to the Agreement, we will sell and transfer, and Buyer will purchase and acquire, (a) the shares of certain subsidiaries through which we operate a portion of our Imaging business and (b) certain assets used in or related to the business; and the Buyer will assume certain liabilities related to such assets or the business, subject to certain exclusions and indemnities as set forth in the Agreement. On February 1, 2019, we completed the sale of the business and received approximately $390 million, after estimated transaction expenses, and subject to post-closing finalization of those adjustments as set forth in the Agreement. 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 condensed consolidated financial statements.

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

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

	Three Months Ended December 31,	
	2018 (ASC 606)	2017 (ASC 605)
Major line items constituting net income of Imaging:		
Revenue [(a)]	$51,995	$54,421
Cost of revenue	12,004	12,956
Research and development	5,516	7,280
Sales and marketing [(a)]	18,190	21,400
General and administrative	1,231	1,119
Amortization of intangible assets	3,914	4,223
Acquisition-related costs, net	(386)	—
Restructuring and other charges, net	8,460	1,232
Income from discontinued operations before income taxes [(a)]	3,066	6,211
Provision for income taxes	1,675	448
Net income from discontinued operations	$1,391	$5,763
Supplemental information:		
Depreciation	$294	$417
Amortization	$4,926	$6,065
Stock compensation	$2,102	$1,761

Capital expenditures for the three-month periods ended December 31, 2018 and December 31, 2017 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 the three months ended December 31, 2018 reflects an increase of $1.6 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 the three months ended December 31, 2018 reflects a decrease of $1.5 million due to the capitalization and amortization of commission expense; and the provision for income taxes for the three months ended December 31, 2018 reflects an increase in provision of $1.1 million related to the tax effect of the ASC 606 adjustments.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	December 31, 2018 (ASC 606)	September 30, 2018 (ASC 605)
Major classes of Imaging assets:		
Accounts receivable, net	$ 30,492	$ 30,959
Prepaid expenses and other current assets[a]	4,979	3,443
Land, building and equipment, net	2,321	2,442
Goodwill	257,129	257,352
Intangible assets, net	94,356	99,507
Other [a]	5,989	196
Total assets classified as held for sale	$ 395,266	$ 393,899
Major classes of Imaging liabilities:		
Accounts payable	$ 6,611	$ 3,604
Accrued expenses and other current liabilities	13,795	12,305
Deferred revenue [a]	93,547	107,965
Other	3,025	2,657
Total liabilities classified as held for sale	$ 116,978	$ 126,531

[a] As more fully described in Note 2, as a result of the adoption of ASC 606 using the modified retrospective approach, contract assets as of December 31, 2018 reflects an increase of $7.6 million due to capitalized commissions included within prepaid expense and other current assets, and other assets; and deferred revenue as of December 31, 2018 reflects a decrease of $11.7 million due to the upfront recognition of term licensing revenue.

Additionally, 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 stock holders. Completion of the proposed spin-off is subject to certain conditions, including final approval by our Board of Directors. We intend to complete the separation of the business by the end of fiscal year 2019.

5. Business Acquisitions

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

Fiscal Year 2018

For the three months ended December 31, 2017, we completed an acquisition in our Healthcare segment for total cash consideration of $8.7 million and contingent payments with a fair value of $0.5 million. As a result, we recognized goodwill of $6.8 million and other intangible assets of $2.0 million, with a weighted average life of 2.0 years. The acquisition does not have a material impact on our condensed consolidated financial statements for the periods presented.

Acquisition-Related Costs, net

Acquisition-related costs include costs related to business and asset 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.

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

A summary of acquisition-related costs, net is as follows (dollars in thousands):

	Three Months Ended December 31,	
	2018	2017
Transition and integration costs	$2,864	$4,062
Professional service fees	78	511
Acquisition-related adjustments	(106)	988
Total	$2,836	$5,561

6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by reportable segment for the three months ended December 31, 2018 are as follows (dollars in thousands):

Goodwill

	Healthcare	Enterprise	Automotive	Other	Total
Balance as of September 30, 2018	$1,430,325	$683,347	$1,119,947	$13,486	$3,247,105
Purchase accounting adjustments	17	—	—	—	17
Effect of foreign currency translation	(2,297)	(2,387)	(3,693)	(407)	(8,784)
Balance as of December 31, 2018	$1,428,045	$680,960	$1,116,254	$13,079	$3,238,338

Other Intangible Assets

The changes in the carrying amount of intangible assets for the three months ended December 31, 2018 are as follows (dollars in thousands):

	Intangible Assets
Balance as of September 30, 2018	$450,001
Acquisitions	1,216
Amortization	(26,731)
Effect of foreign currency translation	(454)
Balance as of December 31, 2018	$424,032

7. Financial Instruments and Hedging Activities

Derivatives Not Designated as Hedges

Forward Currency Contracts

We utilize foreign currency forward contracts to mitigate the risks associated with changes in foreign currency exchange rates. Generally, we enter into such contracts for less than 90 days and have no cash requirements until maturity. At December 31, 2018 and September 30, 2018, we had outstanding contracts with a total notional value of $121.7 million and $117.1 million, respectively.

We did not designate any forward contracts as hedging instruments for the three months ended December 31, 2018 or 2017. Therefore, changes in fair value of foreign currency forward contracts were recognized within other expense, net in our condensed consolidated statements of operations. The cash flows related to the settlement of forward contracts not designated as hedging instruments are included in cash flows from investing activities within our condensed consolidated statement of cash flows.

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

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

Derivatives Not Designated as Hedges	Balance Sheet Classification	Fair Value December 31, 2018	Fair Value September 30, 2018
Foreign currency forward contracts	Prepaid expenses and other current assets	$463	$ 143
Foreign currency forward contracts	Accrued expenses and other current liabilities	(130)	(1,192)

A summary of income (loss) related to the derivative instruments for the three months ended December 31, 2018 and 2017 is as follows (dollars in thousands):

Derivatives Not Designated as Hedges	Income Statement Classification Income (loss) recognized	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017
Foreign currency forward contracts	Other expense, net	$(1,730)	$(397)

8. Fair Value Measurements

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

The determination of the applicable level within the hierarchy of a particular financial asset or liability depends on the lowest level of inputs that are significant to the fair value measurement as of the measurement date as follows:

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 2018 and September 30, 2018 consisted of the following (dollars in thousands):

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds[(a)]	$185,713	$—	$—	$185,713
Time deposits[(b)]	—	97,743	—	97,743
Commercial paper, $20,176 at cost[(b)]	—	20,287	—	20,287
Corporate notes and bonds, $58,308 at cost[(b)]	—	58,153	—	58,153
Foreign currency exchange contracts[(b)]	—	463	—	463
Total assets at fair value	$185,713	$176,646	$—	$362,359
Liabilities:				
Foreign currency exchange contracts[(b)]	$—	$(130)	$—	$(130)
Contingent acquisition payments[(c)]	—	—	(3,979)	(3,979)
Total liabilities at fair value	$—	$(130)	$(3,979)	$(4,109)

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

	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	$200,004	$173,081	$—	$373,085
Liabilities:				
Foreign currency exchange contracts[(b)]	$—	$(1,192)	$—	$(1,192)
Contingent acquisition payments[(c)]	—	—	(4,000)	(4,000)
Total liabilities at fair value	$—	$(1,192)	$(4,000)	$(5,192)

(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 0.51 years as of December 31, 2018 and 0.61 years as of September 30, 2018.

(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 was approximately $2,271.4 million (face value $2,437.0 million) as of December 31, 2018 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 each respective reporting date. There was no balance outstanding under our revolving credit agreement as of December 31, 2018 or September 30, 2018.

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

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

	Three Months Ended December 31,	
	2018	2017
Balance at beginning of period	$4,000	$8,648
Earn-out liabilities established at time of acquisition	—	500
Payments and foreign currency translation	(21)	(17)
Adjustments to fair value included in acquisition-related costs, net	—	1,300
Balance at end of period	$3,979	$10,431

Contingent acquisition payments are to be made in periods through fiscal year 2021. As of December 31, 2018, the maximum amount payable based on the agreements was $11.7 million if the specified performance targets are achieved.

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

9. Accrued Expenses and Other Current Liabilities

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

	December 31, 2018	September 30, 2018
Compensation	$ 95,428	$ 174,984
Cost of revenue related liabilities	35,559	30,432
Consulting and professional fees	22,947	21,220
Accrued interest payable	9,726	21,326
Sales and other taxes payable	6,736	5,983
Facility-related liabilities	3,659	4,621
Sales and marketing incentives	2,262	1,889
Other	12,094	8,884
Total	$ 188,411	$ 269,339

10. Restructuring and Other Charges, net

Restructuring and other charges, net include restructuring expenses together with other charges that are unusual in nature, are the result of unplanned events, or arise outside of the ordinary course of our business. The following table sets forth accrual activity relating to restructuring reserves for the three months ended December 31, 2018 (dollars in thousands):

	Personnel	Facilities	Total
Balance at September 30, 2018	$ 9,320	$ 7,615	$ 16,935
Restructuring charges, net	8,483	1,906	10,389
Non-cash adjustment	—	(23)	(23)
Cash payments	(9,489)	(2,772)	(12,261)
Balance at December 31, 2018	$ 8,314	$ 6,726	$ 15,040

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

	Three Months Ended December 31,									
	2018					2017				
	Personnel	Facilities	Total Restructuring	Other Charges	Total	Personnel	Facilities	Total Restructuring	Other Charges	Total
Healthcare	$ 1,479	$ 127	$ 1,606	$ —	$ 1,606	$ 2,513	$ 25	$ 2,538	$ —	$ 2,538
Enterprise	2,551	13	2,564	—	2,564	262	2,360	2,622	—	2,622
Automotive	2,270	2,056	4,326	4,114	8,440	151	—	151	—	151
Other	1,030	—	1,030	2,507	3,537	249	11	260	—	260
Corporate	1,153	(290)	863	6,071	6,934	485	(740)	(255)	8,253	7,998
Total	$ 8,483	$ 1,906	$ 10,389	$ 12,692	$ 23,081	$ 3,660	$ 1,656	$ 5,316	$ 8,253	$ 13,569

Fiscal Year 2019

For the three months ended December 31, 2018, we recorded restructuring charges of $10.4 million, which included $8.5 million related to the termination of approximately 131 employees and $1.9 million related to certain excess facilities. These actions were part of our strategic initiatives focused on investment rationalization, process optimization and cost reduction. We expect the remaining outstanding severance of $8.3 million to be substantially paid during fiscal year 2019, and the remaining balance of $6.7 million related to excess facilities to be paid through fiscal year 2027, in accordance with the terms of the applicable leases.

Additionally, for the three months ended December 31, 2018, we recorded $7.2 million of professional services fees related to the execution of our corporate transformational efforts, $4.1 million costs related to the anticipated spin-off of our Automotive business, and $2.5 million accelerated depreciation related to our Mobile Operator Services, offset in part by a $1.1 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").

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

Fiscal Year 2018
For the three months ended December 31, 2017, we recorded restructuring charges of $5.3 million, which included $3.7 million related to the termination of approximately 160 employees and $1.7 million related to certain excess facilities. These actions were part of our initiatives to reduce costs and optimize processes.
Additionally, for the three months ended December 31, 2017, we recorded $2.3 million related to the transition agreement of our former CEO, and $6.0 million related to our remediation and restoration efforts after the 2017 Malware Incident. The remaining cash payments associated with the transition agreement are expected to be made during fiscal years 2019.
11. Debt
As of December 31, 2018 and September 30, 2018, we had the following borrowing obligations (dollars in thousands):

	December 31, 2018	September 30, 2018
5.625% Senior Notes due 2026, net of deferred issuance costs of $4.9 million and $5.1 million, respectively. Effective interest rate 5.625%.	$ 495,056	$ 494,915
5.375% Senior Notes due 2020, net of deferred issuance costs of $1.1 million and $1.2 million, respectively. Effective interest rate 5.375%.	298,925	298,759
6.000% Senior Notes due 2024, net of deferred issuance costs of $1.7 million and $1.8 million, respectively. Effective interest rate 6.000%.	298,297	298,220
1.00% Convertible Debentures due 2035, net of unamortized discount of $110.7 million and $116.9 million, respectively, and deferred issuance costs of $5.3 million and $5.6 million, respectively. Effective interest rate 5.622%.	560,507	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 $79.8 million and $82.4 million, respectively, and deferred issuance costs of $3.6 million and $3.7 million, respectively. Effective interest rate 5.578%.	266,655	263,863
1.50% Convertible Debentures due 2035, net of unamortized discount of $30.4 million and $32.8 million, respectively, and deferred issuance costs of $1.0 million and $1.1 million, respectively. Effective interest rate 5.394%.	232,486	229,906
Deferred issuance costs related to our Revolving Credit Facility	(760)	(843)
Total debt	2,197,734	2,185,361
Less: current portion	—	—
Total long-term debt	$ 2,197,734	$ 2,185,361

The following table summarizes the maturities of our borrowing obligations as of December 31, 2018 (dollars in thousands):

Fiscal Year	Convertible Debentures(1)	Senior Notes	Total
2019	$ —	$—	$—
2020	—	300,000	300,000
2021	—	—	—
2022	310,463	—	310,463
2023	676,488	—	676,488
Thereafter	350,000	800,000	1,150,000
Total before unamortized discount	1,336,951	1,100,000	2,436,951
Less: unamortized discount and issuance costs	(230,735)	(8,482)	(239,217)
Total long-term debt	$ 1,106,216	$1,091,518	$2,197,734

(1) Pursuant to the terms of each convertible instrument, holders have the right to redeem the debt on specific dates prior to maturity. The repayment schedule above assumes that payment is due on the next redemption date after December 31, 2018.

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

5.625% Senior Notes due 2026

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

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

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

5.375% Senior Notes due 2020

In August 2012, we issued $700.0 million aggregate principal amount of 5.375% Senior Notes due on August 15, 2020 in a private placement. In October 2012, we issued an additional $350.0 million aggregate principal amount of our 5.375% Senior Notes (collectively the “2020 Senior Notes”). The 2020 Senior Notes bear interest at 5.375% per year, payable in cash semi-annually in arrears. The 2020 Senior Notes are our unsecured senior obligations and are guaranteed on an unsecured senior basis by certain of our domestic subsidiaries, ("the Subsidiary Guarantors"). The 2020 Senior Notes and guarantees rank equally in right of payment with all of our and the Subsidiary Guarantors' existing and future unsecured senior debt and rank senior in right of payment to all of our and the Subsidiary Guarantors' future unsecured subordinated debt. The 2020 Senior Notes and guarantees effectively rank junior to all secured debt of our and the Subsidiary Guarantors to the extent of the value of the collateral securing such debt and to all liabilities, including trade payables, of our subsidiaries that have not guaranteed the 2020 Senior Notes.

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

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 as of December 31, 2018.

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

6.0% Senior Notes due 2024

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

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

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

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.

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. The 1.0% 2035 Debentures bear interest at 1.0% per year, payable in cash semi-annually in arrears. The 1.0% 2035 Debentures mature on December 15, 2035, subject to the right of the holders to require us to redeem the 1.0% 2035 Debentures on December 15, 2022, 2027, or 2032. The 1.0% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.0% 2035 Debentures. The 1.0% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries. The initial conversion price is approximately $27.22 per share. At issuance, we allocated $495.4 million to long-term debt, and $181.1 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through December 2022. As of December 31, 2018, none of the conversion criteria were met for the 1.0% 2035 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

2.75% Convertible Debentures due 2031

In October 2011, we issued $690.0 million in aggregate principal amount of 2.75% Senior Convertible Debentures due in 2031 (the “2.75% 2031 Debentures”) in a private placement. The 2.75% 2031 Debentures bear interest at 2.75% per year, payable in cash semi-annually in arrears. The 2.75% 2031 Debentures mature on November 1, 2031, subject to the right of the holders to require us to redeem the 2.75% 2031 Debentures on November 1, 2021, and 2026. The 2.75% 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 2.75% 2031 Debentures. The 2.75% 2031 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries. The initial conversion price is approximately $32.30 per share. At issuance, we allocated $533.6 million to long-term debt, and $156.4 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through November 2017.

In June 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to exchange, in a private placement, $256.2 million in aggregate principal amount of our 2031 Debentures for approximately $263.9 million in aggregate principal amount of our 1.5% 2035 Debentures. In December 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to repurchase $38.3 million in aggregate principal with proceeds received from the issuance of our 1.0% 2035 Debentures. In March 2017, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to repurchase $17.8 million in aggregate principal with proceeds received from the issuance of our 1.25% Senior Convertible Debentures issued in March 2017.

In November 2017, holders of approximately $331.2 million in aggregate principal amount of the outstanding 2031 Debentures exercised their right to require us to repurchase such debentures. Following the repurchase, $46.6 million in aggregate principal amount of the 2.75% 2031 Debentures remains outstanding. On or after November 6, 2017, we have the right to call for redemption of some or all of the remaining outstanding 2031 Debentures.

1.25% Convertible Debentures due 2025

In March 2017, we issued $350.0 million in aggregate principal amount of 1.25% Senior Convertible Debentures due in 2025 (the “1.25% 2025 Debentures”) in a private placement. The proceeds were approximately $343.6 million, net of issuance costs. We used a portion of the proceeds to repurchase 5.8 million shares of our common stock for $99.1

million and $17.8 million in aggregate principal on our 2031 Debentures. We used the remaining net proceeds, together with cash on hand to redeem and retire $331.2 million of our outstanding 2031 Debentures in November 2017. The 1.25% 2025 Debentures bear interest at 1.25% per year, payable in cash semi-annually in arrears. 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.

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We account separately for the liability and equity components of the 1.25% 2025 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature and record the remainder in stockholders' equity. At issuance, we allocated $252.1 million to long-term debt, and $97.9 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through April 1, 2025.
If converted, the principal amount of the 1.25% 2025 Debentures is payable in cash and any amounts payable in excess of the principal amount will (based on an initial conversion rate, which represents an initial conversion price of approximately $22.22 per share, subject to adjustment under certain circumstances) be paid in cash or shares of our common stock, at our election, only in the following circumstances and to the following extent: (i) prior to October 1, 2024, on any date during any fiscal quarter beginning after June 30, 2017 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) at any time on or after October 1, 2024, (iii) during the five consecutive business-day period immediately following any five consecutive trading-day period in which the trading price for $1,000 principal amount of the 1.25% 2025 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; or (iv) upon the occurrence of specified corporate transactions, as described in the indenture for the 1.25% 2025 Debentures. We may not redeem the 1.25% 2025 Debentures prior to the maturity date. If we undergo a fundamental change or non-stock change of control (as described in the indenture for the 1.25% 2025 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the 1.25% 2025 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of December 31, 2018, none of the conversion criteria were met for the 1.25% 2025 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

1.50% Convertible Debentures due 2035

In June 2015, we issued $263.9 million in aggregate principal amount of 1.50% Senior Convertible Debentures due in 2035 (the "1.5% 2035 Debentures") in exchange for $256.2 million in aggregate principal amount of our 2031 Debentures. The 1.5% 2035 Debentures were issued at 97.09% of the principal amount, which resulted in a discount of $7.7 million. The 1.5% 2035 Debentures bear interest at 1.50% per year, payable in cash semi-annually in arrears. The 1.5% 2035 Debentures mature on November 1, 2035, subject to the right of the holders to require us to redeem the 1.5% 2035 Debentures on November 1, 2021, 2026, or 2031. The 1.5% 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 1.5% 2035 Debentures. The 1.5% 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries. The initial conversion price is approximately $23.26 per share. At issuance, we allocated $208.6 million to long-term debt, and $55.3 million has been recorded as additional paid-in capital, which is being amortized to interest expense using the effective interest rate method through November 2021. As of December 31, 2018, none of the conversion criteria were met for the 1.5% 2035 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

Revolving Credit Facility

Our revolving credit agreement (the "Revolving Credit Facility"), which expires on April 15, 2021, provides for aggregate borrowing commitments of $242.5 million, including the revolving facility loans, the swingline loans and issuance of letters of credit. As of December 31, 2018, after taking into account the outstanding letters of credit of $6.9 million, we had $235.6 million available for borrowing under the Revolving Credit Facility. The borrowing outstanding under the Revolving Credit Facility bears interest at either (i) LIBOR plus an applicable margin of 1.50% or 1.75%, or (ii) the alternative base rate plus an applicable margin of 0.50% or 0.75%. The Revolving Credit Facility is secured by substantially all our assets. The Revolving Credit Facility contains customary affirmative and negative covenants and conditions to borrowing, as well as customary events of default. As of December 31, 2018, we are in compliance with all the debt covenants.

12. 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 through a

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variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated stock repurchase transactions, or any combination of such methods. The share repurchase program does not require us to acquire any specific number of shares and may be modified, suspended, extended or terminated by us at any time without prior notice. The timing and the amount of any purchases will be determined by management based on an evaluation of market conditions, capital allocation alternatives, and other factors.

For the three months ended December 31, 2018, we repurchased 4.9 million shares of our common stock for $75.2 million under the program. There were no share repurchases for the three months ended December 31, 2017. Since the commencement of the program, we have repurchased an aggregate of 61.0 million shares for $1,017.8 million. The amount paid in excess of par value is recognized in additional paid in capital. Shares were retired upon repurchase. As of December 31, 2018, approximately $482.2 million remained available for future repurchases under the program.

13. Net Income Per Share

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

	Three Months Ended December 31,	
	2018	2017
Numerator:		
Net income from continuing operations		