Nuance Communications, Inc.
Form DEF 14A
December 16, 2016
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**(RULE 14a-101)**

# SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
Definitive Proxy Statement
**Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
Definitive Additional Materials
Soliciting Material Pursuant to § 240.14a-12

# NUANCE COMMUNICATIONS, INC.

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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# Nuance Communications, Inc.

**One Wayside Road**

**Burlington, MA 01803**

## NOTICE OF THE 2017 ANNUAL MEETING OF STOCKHOLDERS

Dear Stockholders:

The 2017 Annual Meeting of Stockholders (the 2017 Annual Meeting ) of Nuance Communications, Inc. (the Company ) will be held at the Company s office located at 1198 East Arques Avenue, Sunnyvale, CA 94085, on January 30, 2017 at 1:00 p.m. local time, for the purpose of considering and acting upon the following proposals:

(1) To elect seven members of the Board of Directors to hold office until the next annual meeting of stockholders or until their respective successors have been elected and qualified;

(2) To amend the Company s Amended and Restated 2000 Stock Plan to (a) increase the number of shares reserved for issuance thereunder by 1,950,000 shares and (b) to extend the term of the plan by approximately five (5) years;

(3) To approve a non-binding advisory resolution regarding the compensation of the Company s named executive officers;

(4) To approve a non-binding advisory proposal on the frequency of holding future votes regarding executive compensation;

(5) To ratify the appointment of BDO USA, LLP as the Company s independent registered public accounting firm for the fiscal year ending September 30, 2017;

(6) To consider a stockholder proposal as described in the accompanying Proxy Statement if properly presented at the 2017 Annual Meeting; and

(7) To transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

We will be using the U.S. Securities and Exchange Commission rules that allow issuers to furnish proxy materials to their stockholders via the Internet. Pursuant to these rules, instead of mailing a printed copy of the Company s proxy materials to each stockholder we have elected to provide access to our proxy materials over the Internet. Accordingly, with the exception of certain requesting stockholders who will receive printed copies of the Company s proxy materials by mail, stockholders of record will receive a Notice of Internet Availability of Proxy Materials and may vote at the 2017 Annual Meeting and any postponements or adjournments of the meeting. We expect to mail the Notice of Internet Availability of Proxy Materials on or about December 21, 2016.

The Board of Directors has fixed the close of business on December 5, 2016 as the record date for determination of stockholders entitled to notice of, and to vote at, the 2017 Annual Meeting and at any postponements or adjournments thereof. A list of stockholders entitled to vote at the 2017 Annual Meeting will be available at the meeting being held at 1198 East Arques Avenue, Sunnyvale, CA 94085 and for ten days prior to the 2017 Annual Meeting.

The Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2016 accompanies this Notice of Annual Meeting of Stockholders and Proxy Statement. These documents may also be accessed on the Broadridge Financial hosted site www.proxyvote.com.

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Please refer to the Proxy Statement for further information with respect to the business to be transacted at the 2017 Annual Meeting.

By Order of the Board of Directors,

Kenneth M. Siegel

*Secretary*

Burlington, Massachusetts

December 16, 2016

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# PROXY STATEMENT

## ANNUAL MEETING OF STOCKHOLDERS

**January 30, 2017**

This Proxy Statement is furnished in connection with the solicitation by Nuance Communications, Inc. (the Company ) on behalf of the Board of Directors (the Board or the Board of Directors ) of proxies for use at the 2017 Annual Meeting of Stockholders of the Company to be held on January 30, 2017 at 1:00 p.m., local time, at the Company s office located at 1198 East Arques Avenue, Sunnyvale, CA 94085 (the 2017 Annual Meeting ). We intend to mail and make available this Proxy Statement and the accompanying form of proxy to stockholders on or about December 21, 2016.

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## VOTING RIGHTS

Each share of the Company s common stock (the Common Stock ) entitles the holder thereof to one vote on matters to be acted upon at the 2017 Annual Meeting, including the election of directors. Votes cast in person or by proxy at the 2017 Annual Meeting will be tabulated by Broadridge Financial Solutions, Inc., the Inspector of Elections. Any proxy that is returned using the form of proxy enclosed or voted by Internet according to the instructions included on the proxy card will be voted in accordance with the instructions thereon, and if no instructions are given, will be voted: (i) FOR the election of all of the director nominees as described in Proposal One; (ii) FOR approval of amending the Company s Amended and Restated 2000 Stock Plan as described in Proposal Two; (iii) FOR the nonbinding advisory resolution regarding the compensation of the Company s named executive officers under Proposal Three; (iv) FOR the nonbinding advisory resolution on the frequency of holding future votes regarding executive compensation described in Proposal Four; (v) FOR ratification of the appointment of BDO USA, LLP as the Company s independent registered public accounting firm described in Proposal Five; (vi) ABSTAIN with respect to the stockholder proposal described in Proposal Six; and (vii) as the proxy holders deem advisable in their sole discretion on any other matters that may properly come before the 2017 Annual Meeting. A stockholder may indicate on the enclosed proxy or its substitute that it is abstaining from voting on a particular matter (an abstention ). A broker may indicate on the enclosed proxy or its substitute that it does not have discretionary authority as to certain shares to vote on a particular matter (a broker non-vote ). Abstentions and broker non-votes are each tabulated separately.

The Inspector of Elections will determine whether or not a quorum is present at the 2017 Annual Meeting. In general, Delaware law and our bylaws provide that a majority of the shares issued and outstanding and entitled to vote, present in person or represented by proxy, constitutes a quorum. Abstentions and broker non-votes of shares that are entitled to vote are treated as shares that are present in person or represented by proxy for purposes of determining the presence of a quorum.

In determining whether a proposal has been approved, abstentions are treated as present in person or represented by proxy and entitled to vote, but not as voting for such proposal, and hence have the same effect as votes against such proposal, while broker non-votes are not treated as present in person or represented by proxy but not entitled to vote, and hence have no effect on the vote for such proposal.

## RECORD DATE AND SHARE OWNERSHIP

Holders of record of Common Stock as of the close of business on December 5, 2016 have the right to receive notice of and to vote at the 2017 Annual Meeting. On December 5, 2016, the Company had issued and outstanding 291,252,461 shares of Common Stock.

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## PROXIES

Proxies for use at the 2017 Annual Meeting are being solicited by the Company from its stockholders. Any person giving a proxy in the form accompanying this Proxy Statement has the power to revoke it at any time before its exercise by (i) filing with the Secretary of the Company a signed written statement revoking his or her proxy or (ii) submitting an executed proxy bearing a date later than that of the proxy being revoked. A proxy may also be revoked by attendance at the 2017 Annual Meeting and the election to vote in person. Attendance at the 2017 Annual Meeting will not by itself constitute the revocation of a proxy.

## STOCKHOLDER PROPOSALS

Proposals of stockholders that are intended to be presented at the Company s 2018 Annual Meeting of Stockholders must comply with the requirements of SEC Rule 14a-8 and must be received by the Company no later than August 23, 2017 in order to be included in the Company s proxy statement and form of proxy relating to the meeting. A stockholder proposal or a nomination for director for the Company s 2018 Annual Meeting of Stockholders that is not to be included in the Company s proxy statement and form of proxy relating to the meeting must be received by the Company no earlier than October 2, 2017 and no later than November 1, 2017. The Company s bylaws require that certain information and acknowledgements with respect to the proposal or nomination be set forth in the stockholder s notice. A copy of the relevant bylaw provision is available upon written request to Nuance Communications, Inc., One Wayside Road, Burlington, MA 01803, Attention: Investor Relations. Further, our Amended and Restated Bylaws dated as of November 6, 2007 (the Bylaws ) were filed as Exhibit 3.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission (the SEC ) on November 13, 2007 and may be accessed through the SEC s website at www.sec.gov/edgar.

## PROXY SOLICITATION COSTS

The expense of solicitation of proxies will be borne by the Company. In addition to solicitation of proxies by mail, certain officers, directors and Company employees, who will receive no additional compensation for their services, may solicit proxies by telephone or in person. The Company is required to request brokers and nominees who hold stock in their name to furnish this proxy material to beneficial owners of the stock and will reimburse such brokers and nominees for their reasonable out-of-pocket expenses in so doing. In addition, we have engaged Alliance Advisors to assist in the solicitation of proxies and provide related advice and informational support for a service fee of $25,000 plus reimbursement of out-of-pocket expenses.

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## PROPOSAL ONE

## ELECTION OF DIRECTORS

At the 2017 Annual Meeting, seven directors will be elected to the Board. The Nominating Committee of the Board of Directors recommended, and the Board of Directors approved, Paul A. Ricci, Robert J. Finocchio, Robert J. Frankenberg, William H. Janeway, Mark R. Laret, Katharine A. Martin, and Philip J. Quigley as nominees for election at the 2017 Annual Meeting. Except as set forth below, unless otherwise instructed, the persons appointed in the accompanying form of proxy will vote the proxies received by them FOR the nominees named below, all of who are presently directors of the Company. The term of office of each person elected as a director will continue until the next Annual Meeting of Stockholders or until a successor has been elected and qualified.

**Information Regarding the Nominees for Election as Directors**

*Paul A. Ricci*, 60, has served as our Chairman since March 2, 1999 and our Chief Executive Officer since August 21, 2000. From May 1992 to August 2000, Mr. Ricci held several positions at Xerox including, President, Desktop Systems Division, President, Software Solutions Division, and Vice President, Corporate Business Development. Between June 1997 and March 1999, Mr. Ricci served as Chairman of the Board of Directors of Nuance Communications, Inc. (formerly, ScanSoft Inc.), which was then operating as an indirect wholly-owned subsidiary of Xerox. Mr. Ricci s leadership position at the Company, his management abilities and experience, and his extensive knowledge of our industry qualify him to serve as a member of our Board of Directors.

*Robert J. Finocchio*, 65, was appointed by the Board of Directors on April 29, 2015. Mr. Finocchio has been a Dean s Executive Professor at Santa Clara University s Leavey School of Business since September 2000 and was a former chairman of its Board of Trustees. From July 1997 to September 2000, he served as Chairman of Informix Corporation and from July 1997 to July 1999, he served as its Chief Executive Officer and President where he led the reconstruction and return to growth and profitability of the enterprise database software company. From December 1988 to May 1997, Mr. Finocchio held several positions at 3Com Corporation, including President of 3Com Systems, Executive Vice President of Network Systems Operations and Executive Vice President of Field Operations. He also served in numerous executive and management roles at IBM, Rolm Corporation and Bank of America. Mr. Finocchio also serves on the boards of Broadcom Corporation (until February 2016), Echelon Corporation, JustAnswer.com, Silver Peak, Inc. and Vistage International. Mr. Finocchio serves on our Compensation and Audit Committees. Mr. Finocchio s experience as chairman and chief executive officer of a technology company, executive leadership positions at various technology companies, and other board memberships qualifies him to be a member of our Board of Directors.

*Robert J. Frankenberg*, 69, has served as a director since March 13, 2000 and lead director since April 20, 2005. Mr. Frankenberg is owner of NetVentures, a management consulting firm. From December 1999 to July 2006, Mr. Frankenberg served as Chairman of Kinzan, Inc., an Internet Services software platform provider. From May 1997 to July 2000, Mr. Frankenberg served as Chairman, President and Chief Executive Officer of Encanto Networks, Inc., a developer of hardware and software designed to enable the creation of businesses on the Internet. From April 1994 to August 1996, Mr. Frankenberg was Chairman, President and Chief Executive Officer of Novell, Inc., a producer of network and office software. Mr. Frankenberg is a director of Rubicon Project, Inc. Mr. Frankenberg also serves on several boards of privately held companies. Previously, Mr. Frankenberg served as a director of National Semiconductor, Electroglas, Inc., Extended Systems Incorporated, Polycom Inc., Secure Computing Inc., and Wave Systems, Inc. Mr. Frankenberg serves as Chairman of our Audit and Compensation Committees and also serves on our Nominating Committee. Mr. Frankenberg s experience as chairman, president and chief executive officer of numerous technology companies and his significant board experience (both with the Company and elsewhere) provides expertise in technology, business operations, corporate development, strategy, financial reporting, governance and board best practices.

*William H. Janeway*, 73, has served as a director since April 2004. Mr. Janeway is a Senior Advisor at Warburg Pincus LLC and has been employed by Warburg Pincus LLC since July 1988. Prior to joining Warburg Pincus LLC, Mr. Janeway served as Executive Vice President and a director at Eberstadt Fleming Inc. from 1979 to July 1988. Mr. Janeway is a director of several privately held companies. Mr. Janeway holds a B.A. from

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Princeton University and a Ph.D. from Cambridge University, where he studied as a Marshall Scholar. From 2004 through 2013 affiliates of Warburg Pincus owned more than 10% of the shares of the Company. Mr. Janeway serves as Chairman of our Nominating Committee. As a private equity investor, Mr. Janeway brings strategic insights and financial experience to the Board. He has evaluated, invested in and served as a board member on numerous companies and is familiar with a full range of corporate and board functions.

*Mark R. Laret*, 62, has served as a director since June 3, 2010. Since April 2000, Mr. Laret has served as CEO of the University of California San Francisco Medical Center. Mr. Laret serves as a director of Varian Medical Systems, Inc. Mr. Laret earned a B.A. from UCLA and a master s degree in political science from the University of Southern California. Mr. Laret serves on our Audit and Governance Committees. Mr. Laret s corporate executive experience in the healthcare industry, his significant professional expertise and background in medical and technical issues qualifies him to be a member of our Board of Directors.

*Katharine A. Martin*, 54, has served as a director since December 17, 1999. Since September 1999, Ms. Martin has served as a Member of Wilson Sonsini Goodrich & Rosati, Professional Corporation. Ms. Martin also serves on the board of directors of Wilson Sonsini Goodrich & Rosati, a Professional Corporation, the Wilson Sonsini Goodrich & Rosati Foundation, a nonprofit organization, The Gateway School, a nonprofit organization, WildAid, a nonprofit organization, and YMCA, of Silicon Valley, a nonprofit organization. Ms. Martin serves as Chairman of our Governance Committee. Ms. Martin has twenty-nine years experience practicing corporate and securities law, and has extensive experience representing public companies. Ms. Martin brings to the Board expertise in corporate governance, acquisitions, capital market transactions and securities law.

*Philip J. Quigley,* 74, has served as a director since the consummation of our acquisition of the former Nuance Communications, Inc. in September 2005, and was originally appointed to the Board in accordance with the terms of the Merger Agreement pursuant to which the Company acquired the former Nuance Communications, Inc. Mr. Quigley served as Chairman, President, and Chief Executive Officer of Pacific Telesis Group, a telecommunications holding company in San Francisco, California, from April 1994 until his retirement in December 1997. He also served as a director of Wells Fargo & Company from 1994 to April 2013. Mr. Quigley serves as an advisor or director to several private organizations. Mr. Quigley serves on our Compensation and Audit Committees. Mr. Quigley has extensive leadership and business management experience, which he acquired over a 30-year career in the telecommunications industry, including during that time as chairman, president and CEO of Pacific Telesis Group. Mr. Quigley s experience at Pacific Telesis included mergers and acquisitions, and also provided him with extensive financial management experience.

**Required Vote & Recommendation**

The seven nominees receiving the highest number of affirmative votes of the shares of the Company s Common Stock present at the 2017 Annual Meeting in person or by proxy and entitled to vote shall be elected as directors. Unless marked to the contrary, proxies received will be voted FOR ALL the Board s nominees. Abstentions and broker non-votes will not affect the outcome of the vote.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR ALL ON THE ELECTION OF THE FOREGOING NOMINEES TO SERVE AS DIRECTORS UNTIL THE NEXT ANNUAL MEETING OF STOCKHOLDERS.**

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## CORPORATE GOVERNANCE

### Board of Director Meetings and Committees

The Board of Directors held a total of eight meetings (including regular and special meetings) during the fiscal year ended September 30, 2016. Each director attended at least 75% of the aggregate number of meetings of the Board of Directors and the committees of the Board of Directors on which he or she served.

### Board Independence

The Board of Directors has determined that Ms. Martin and each of Messrs. Finocchio, Frankenberg, Janeway, Laret and Quigley are independent within the meaning of the listing standards of the NASDAQ Stock Market.

### The Board s Leadership Structure

The Board currently combines the role of Chairman and Chief Executive. The Board believes that the Chief Executive Officer is best situated to serve as Chairman because he is the director most familiar with the Company s business and industry and is therefore best able to identify the strategic priorities to be discussed by the Board. The Board believes that combining the role of Chairman and Chief Executive Officer facilitates information flow between management and the Board and fosters strategic development and execution. The Board has appointed Robert Frankenberg as the lead independent director. The lead independent director serves as the focal point for independent directors, coordinating feedback to the CEO on behalf of the independent directors regarding business issues and board management. The lead independent director and the other independent directors meet regularly without the CEO present.

### Committees of the Board of Directors

The Board of Directors has four standing committees: an Audit Committee, a Compensation Committee, a Governance Committee and a Nominating Committee. These committees meet regularly throughout the year and also hold special meetings or act by written consent from time to time as appropriate. The Board has delegated various responsibilities and authority to its committees as generally described below. The committees regularly report on their activities and actions to the Board. Each of these committees has adopted a written charter. All members of the committees are appointed by the Board of Directors, and meet the independence requirements of the respective committees on which they serve.

*Audit Committee*

The Audit Committee currently consists of Messrs. Finocchio, Frankenberg, Laret and Quigley, each of whom is independent within the meaning of the requirements of the Sarbanes-Oxley Act of 2002, applicable U.S. Securities and Exchange Commission, or SEC, rules and the listing standards of the NASDAQ Stock Market. The Audit Committee held seven meetings during the fiscal year ended September 30, 2016. Mr. Frankenberg serves as Chairman of the Audit Committee.

The Board of Directors has determined that Messrs. Finocchio and Frankenberg are audit committee financial experts as defined by Item 407(d)(5)(ii) of Regulation S-K of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Mr. Finocchio s relevant experience includes his service as chairman and chief executive officer of a technology company, executive leadership positions at various technology companies, and other board memberships. Mr. Frankenberg s relevant experience includes his service as the Chief Executive Officer of Novell, Inc., where he actively supervised that company s principal financial officer, and his service as a member of several other audit committees.

The Audit Committee reviews the engagement of the Company s independent registered public accounting firm, reviews annual financial statements, considers matters relating to accounting policy and internal controls, reviews whether non-audit services provided by the independent registered public accounting firm affect the accountants independence and reviews the scope of annual audits in accordance with a written Audit Committee Charter.

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The Audit Committee Report is included in this Proxy Statement. In addition, the Board of Directors adopted an Amended and Restated Charter for the Audit Committee in March 2015, a copy of which is available on the Company s Web site at http://www.nuance.com/company/company-overview/company-policies/corporate-governance/audit-committee/index.htm.

*Compensation Committee*

The Compensation Committee currently consists of Messrs. Finocchio, Frankenberg and Quigley, each of whom is (i) independent within the meaning of the listing standards of the NASDAQ Stock Market, (ii) a non-employee director within the meaning of Section 16 of the Exchange Act and (iii) an outside director within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. Mr. Frankenberg serves as the Chairman of the Compensation Committee. The Compensation Committee held eight meetings during the fiscal year ended September 30, 2016.

The Compensation Committee oversees, evaluates and approves compensation plans, policies and practices applicable to, and approves the compensation of, the Company s executive officers. The Compensation Committee also administers the Company s equity-based incentive compensation except to the extent that authority to administer the plans has been delegated to the Chief Executive Officer to administer such plans as to non-executive personnel. The Board of Directors adopted a written charter for the Compensation Committee in March 2014, a copy of which is available on the Company s Web site at http://www.nuance.com/company/company-overview/company-policies/corporate-governance/compensation-committee/index.htm.

The Compensation Committee Report and the Compensation Discussion and Analysis are included elsewhere in this Proxy Statement.

*Governance Committee*

The Governance Committee currently consists of Ms. Martin and Mr. Laret each of whom is independent within the meaning of the requirements of the Sarbanes-Oxley Act of 2002, applicable SEC rules and the listing standards of the NASDAQ Stock Market. Ms. Martin serves as the Chairman of the Governance Committee. The Governance Committee held one meeting during the fiscal year ended September 30, 2016.

The Governance Committee oversees the corporate governance practices of the Board of Directors. The Governance Committee also recommends to the full Board of Directors the composition of the Board s standing committees and oversees the evaluation of the Board and its committees.

The Board of Directors adopted a written charter for the Governance Committee in March 2004, a copy of which is available on the Company s Web site at http://www.nuance.com/company/company-overview/company-policies/corporate-governance/governance-committee/index.htm.

*Nominating Committee*

The Nominating Committee currently consists of Messrs. Frankenberg and Janeway, each of whom is independent within the meaning of the requirements of the Sarbanes-Oxley Act of 2002, applicable U.S. Securities and Exchange Commission, or SEC, rules and the listing standards of the NASDAQ Stock Market. Mr. Janeway serves as the Chairman of the Nominating Committee. The Nominating Committee held one meeting during the fiscal year ended September 30, 2016.

The Nominating Committee considers and periodically reports to the full Board on matters relating to the identification, selection, qualification of candidates to serve as directors. The Nominating Committee also recommends to the Board on an annual basis the candidates to be nominated by the Board for election as directors at the Company s annual meeting of stockholders.

The Board of Directors adopted a written charter for the Nominating Committee in April 2004, a copy of which is available on the Company s Web site at http://www.nuance.com/company/company-overview/company-policies/corporate-governance/nominating-committee/index.htm.

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**Consideration of Director Nominees**

*Stockholder Nominees*

The Nominating Committee will consider properly submitted stockholder nominations for candidates for membership on the Board of Directors as well as candidates recommended for consideration by the Nominating Committee as described below under Identifying and Evaluating Nominees for Directors. Any stockholder nominations must comply with the requirements of the Company s Bylaws and should include all information relating to such nominee as would be required to be disclosed in solicitations of proxies for the election of such nominee as a director pursuant to Regulation 14A under the Exchange Act, such nominee s written consent to be named in the proxy statement as a nominee and to serve as a director if elected, as well as a written statement executed by such nominee acknowledging that as a director of the Company, such nominee will owe a fiduciary duty under the General Corporation Law of the State of Delaware exclusively to the Company and its stockholders. In addition, stockholder nominations should be submitted within the time frame as specified under Stockholder Proposals above and addressed to: Nuance Communications, Inc., Attention: General Counsel, One Wayside Road, Burlington, MA 01803.

A stockholder that instead desires to merely recommend a candidate for consideration by the Nominating Committee shall direct the recommendation in writing to Nuance Communications, Inc., Attention: General Counsel, One Wayside Road, Burlington, MA 01803, and must include the candidate s name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and the Company within the last three years and evidence of the nominating person s ownership of Company stock.

*Director Qualifications*

In discharging its responsibilities to nominate candidates for election to the Board of Directors, the Nominating Committee has not specified any minimum qualifications for serving on the Board of Directors. However, the Nominating Committee endeavors to evaluate, propose and approve candidates with business experience and personal skills in technology, finance, marketing, financial reporting and other areas that may be expected to contribute to an effective Board of Directors. The Nominating Committee seeks to ensure that the Board of Directors is composed of individuals who have experience relevant to the needs of the Company and who, consistent with the Company s values and standards, have the highest professional and personal ethics. Candidates should be committed to enhancing stockholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience.

*Identifying and Evaluating Nominees for Directors*

The Nominating Committee utilizes a variety of methods for identifying and evaluating director nominees. Candidates may come to the attention of the Nominating Committee through current members of the Board of Directors, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating Committee and may be considered at any point during the year. As described above, the Nominating Committee will properly submitted stockholder nominations and recommendations for candidates for the Board of Directors. Following verification of the stockholder status of persons proposing candidates, nominations and recommendations are aggregated and considered by the Nominating Committee. If any materials are provided by a stockholder in connection with the nomination or recommendation of a director candidate, such materials are forwarded to the Nominating Committee. The Nominating Committee also reviews materials provided by professional search firms or other parties in connection with a nominee who is not proposed by a stockholder.

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee currently consists of Messrs. Finocchio, Frankenberg and Quigley. None of the members of the Compensation Committee has been or is an officer or employee of the Company. In addition, none of the Company s executive officers serve on the board of directors or compensation committee of a company that has an executive officer that serves on the Company s Board or Compensation Committee.

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**Annual Meeting Attendance**

Although we do not have a formal policy regarding attendance by members of the Board of Directors at our annual meetings of stockholders, directors are encouraged to attend annual meetings of the Company. All of our then-nine directors on our Board attended the 2016 annual meeting of stockholders in person or telephonically.

**Communication with the Board of Directors**

Although we do not have a formal policy regarding communications with the Board of Directors, stockholders who are interested in communicating with the Board of Directors are encouraged to do so by submitting an email to generalcounsel@nuance.com or by writing to us at Nuance Communications, Inc., Attention: General Counsel, One Wayside Road, Burlington, MA 01803. Stockholders who would like their submission directed to a particular member of the Board of Directors may so specify.

**Code of Ethics**

Our Board of Directors adopted an amended and restated Code of Business Conduct and Ethics applicable to all of our directors, officers and employees. Our Code of Business Conduct and Ethics can be found on our website: http://www.nuance.com/company/company-overview/company-policies/corporate-governance/code-of-ethics/index.htm. 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 Nuance Communications, Inc., Attention: Investor Relations, One Wayside Road, Burlington, MA 01803.

**Stock Ownership Guidelines**

In 2006, the Board of Directors adopted stock ownership guidelines for our executive officers and the non-employee directors. These guidelines were adopted to further align the interests of our executive officers and non-employee directors with the interests of our stockholders. Under these guidelines, the target share ownership levels are five times base salary for our chief executive officer, three times base salary for our other executive officers, and three times the annual cash retainer for the non-employee directors. Shares of the Company s common stock subject to outstanding and unexercised options, whether or not vested, as well as shares of the Company s common stock subject to outstanding and unvested restricted stock awards are not counted for purposes of satisfying these guidelines. We have not specified a time period during which individuals must be in compliance with the guidelines, however, until an individual has reached the appropriate target level, he or she is required to retain 25% of the net shares received as a result of the exercise of stock options or vesting of restricted stock or restricted stock unit awards. Satisfaction of the stock ownership guidelines is calculated based on the closing market price of the Company s common stock on a quarterly basis.

**Corporate Governance Guidelines**

Our corporate governance principles are set forth in our Corporate Governance Guidelines, which are available on our website at http://investors.nuance.com/phoenix.zhtml?c=110330&p=irol-govhighlights. These guidelines cover, among other items, the following significant topics:

*Board Selection Process and Qualifications.* The Nominating Committee is responsible reviewing the skills and characteristics required of prospective Board members, and is responsible for recommending to the Board candidates for directorship. Among the criteria the Board may consider are experience and diversity; and with respect to diversity, the Board may consider such factors as gender, race, ethnicity, differences in professional background, experience at policy making levels in business, finance and technology and other areas, education, skill, and other individual qualities and attributes. The Company does not have a formal policy with regard to the consideration of diversity in identifying Director nominees; however, the Board endorses the value of seeking qualified directors from backgrounds otherwise relevant to the Company s mission, strategy and business operations and perceived needs of the Board at a given time.

*Director s Eligibility, Education, and Term of Office.* Directors may not serve on the Board of Directors of more than four other public companies without first obtaining specific approval from the Board. Each director is

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required to notify the Chairman, the Lead Independent Director and the Chair of the Nominating Committee upon a change in principal professional responsibilities. The Governance Committee may consider such change of status in recommending to the Board whether the director should continue serving as a member of the Board. Directors who are not nominated for re-election by the Board must retire from the Board at the conclusion of any term during which the director reaches the age of seventy-five years. The Board encourages, and the Company will reimburse the costs associated with, directors participating in continuing director education. The Board believes that term limits may result in the loss of long-serving directors who over time have developed unique and valuable insights into the Company s business and therefore can provide a significant contribution to the Board. As a result, there are no term limits on Board service.

*Board Leadership.* The leadership of the Board shall include a Chairman of the Board and, if the Chairman of the Board is an employee, a lead independent director designated by the Governance Committee. The lead independent director, who shall be independent under the independence rules of the NASDAQ Stock Market, shall serve as the focal point for independent directors in resolving conflicts with the Chief Executive Officer, or other independent directors, and coordinating feedback to the Chief Executive Officer on behalf of independent directors regarding business issues and Board management.

*Committees.* The current committee structure of the Board includes the following standing committees: Audit, Compensation, Governance and Nominating. Additional committees may be created or disbanded upon approval of the Board. The Governance Committee recommends, and the full Board approves, the composition of the Board s standing committees. The charters of each standing committee are reviewed periodically with a view to delegating committees with the authority of the Board concerning specified matters appropriate to such committee.

**Board s Role in Risk Oversight**

The Board has an active role, as a whole and also at the committee level, in overseeing management of Company risk. This role is one of informed oversight rather than direct management of risk. The Board regularly reviews and consults with management on strategic direction, challenges and risks faced by the Company. The Board also reviews and discusses with management quarterly financial results and forecasts. The Audit Committee of the Board oversees management of financial risks, including investment and foreign currency fluctuation risk mitigation policies. The Compensation Committee of the Board is responsible for overseeing the management of risks relating to and arising from the Company s compensation plans and arrangements. These committees provide regular reports generally on a quarterly basis to the full Board.

Management has responsibility for the direct management and oversight of legal, financial and commercial compliance matters, which includes identifying areas of risk and implementing policies, procedures and practices to mitigate the identified risks. Additionally, the Chief Financial Officer, the Chief Accounting Officer and Sr. Director of Corporate Compliance provide regular reports to the Audit Committee concerning financial, tax and compliance related risks. Management also provides the Audit Committee with periodic reports on the Company s compliance programs and efforts, investment policy and practices, and compliance with debt covenants. Management and the Company s compensation consultant provide analysis of risks related to the Company s compensation programs and practices to the Compensation Committee.

**Compensation Risk Assessment**

In November 2016, the Compensation Committee and management considered whether the Company s compensation programs for employees create incentives for employees to take excessive or unreasonable risks that could materially harm the Company. The Compensation Committee believes that our compensation programs are typical for our industry and that our compensation policies and practices do not create incentives to take excessive or unreasonable risk.

**Compensation of Non-Employee Directors**

*Cash Retainers*

The non-employee members of the Board of Directors receive a cash retainer for Board and Board committee service, 25% of which is payable on a quarterly basis following the quarter of service.

Cash retainers applicable for fiscal 2016 were as follows:

| Board/Committee | Applicable Retainer | |
|---|---|---|
| Board | $ | 50,000 |
| Audit Committee Chair | $ | 30,000 |
| Audit Committee Member | $ | 15,000 |
| Compensation Committee Chair | $ | 25,000 |
| Compensation Committee Member | $ | 15,000 |
| Nominating Committee Chair | $ | 10,000 |
| Nominating Committee Member | $ | 5,000 |
| Governance Committee Chair | $ | 10,000 |
| Governance Committee Member | $ | 5,000 |
| Lead Director | $ | 20,000 |

In November 2016, the Compensation Committee, with the assistance of Compensia, Inc., a national compensation consulting firm Compensia, reviewed the compensation of the Board of Directors. The Compensation Committee reviewed with the Board of Directors and approved an adjustment to the compensation due to demands placed on Board and Committee members, complexity of company and to ensure competitive positioning to attract qualified new Board members. The new cash compensation, effective January 1, 2017, is as follows:

| Board/Committee | Applicable Retainer | |
|---|---|---|
| Board | $ | 60,000 |
| Audit Committee Chair | $ | 35,000 |
| Audit Committee Member | $ | 15,000 |
| Compensation Committee Chair | $ | 30,000 |
| Compensation Committee Member | $ | 15,000 |
| Nominating Committee Chair | $ | 10,000 |
| Nominating Committee Member | $ | 5,000 |
| Governance Committee Chair | $ | 10,000 |
| Governance Committee Member | $ | 5,000 |
| Lead Director | $ | 30,000 |

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*Equity Awards*

The non-employee members of the Board of Directors are eligible to participate in the 1995 Directors Stock Plan, as amended (the Directors Plan ). The Directors Plan provides that an initial restricted stock unit award will be granted to individuals upon first joining the Board of Directors as a non-employee director. In addition, the non-employee members of the Board of Directors are eligible to automatically receive annual restricted stock unit awards January 1 of each year, provided that, on such date, he or she has served on the Board of Directors for at least six months. The restricted stock unit awards have a purchase price per share equal to $0.001 per share. In November 2016, the Board of Directors approved the following amendments to the Directors Plan that will become effective on January 1, 2017. The restricted stock unit award terms, before and after the November 2016 amendments, are as follows:

| Award | Terms Prior to 2016 Amendment | Terms After 2016 Amendment |
|---|---|---|
| Initial grant | Fixed share amount of 30,000 shares | $500,000 in grant date value converted to shares using the closing price on date of grant |
| | Vests in equal increments over 3 years | No change in vesting term |
| Annual grant | Fixed share amount of 15,000 shares | $250,000 in grant date value converted to shares using the closing price on date of grant |
| | Vests in equal increments over 3 years | 1-year term, to align with annual election of directors |

*Expense Reimbursement*

The Company reimburses the non-employee members of the Board of Directors for their expenses in connection with their attendance at meetings.

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The following table provides information regarding the actual cash and equity compensation earned, paid to and received by the non-employee members of the Board of Directors during fiscal 2016.

**FISCAL 2016 NON-EMPLOYEE DIRECTOR COMPENSATION TABLE**

| Name | Fees Earned or Paid in Cash ($) | Stock Awards ($)(1) (2) | Total ($) |
|---|---|---|---|
| Robert J. Finocchio | 72,500 | 301,035 | 373,535 |
| Robert J. Frankenberg | 131,250 | 301,035 | 432,285 |
| Brett Icahn | 26,250 | 301,035 | 327,285 |
| William H. Janeway | 58,750 | 301,035 | 359,785 |
| Mark R. Laret | 70,000 | 301,035 | 371,035 |
| Katharine A. Martin | 60,000 | 301,035 | 361,035 |
| Mark B. Myers | 22,500 | 301,035 | 323,535 |
| Philip J. Quigley | 76,250 | 301,035 | 377,285 |
| David S. Schechter | 26,250 | 301,035 | 327,285 |

(1) Amounts reported in the Stock Awards column represent the grant date fair value with respect to the restricted stock unit awards granted to the non-employee members of the Board of Directors during fiscal 2016, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, *Compensation-Stock Compensation* ( FASB ASC Topic 718 ) based on the closing market price of the Company s common stock on the grant date (which was $20.07 per share for the annual award). During fiscal 2016, non-employee directors forfeited 85,000 shares as follows: Mr. Icahn and Mr. Schechter each forfeited 35,000 of their outstanding shares upon their resignation from the Board effective March 9, 2016 and Dr. Myers forfeited 15,000 shares upon his retirement from the Board effective January 27, 2016. The grant date fair value of each restricted stock unit award granted during fiscal 2016 is set forth in the following table:

| Name | Grant Date | Shares | Value ($) |
|---|---|---|---|
| Mr. Finocchio | January 1, 2016 | 15,000 | 301,035 |
| Mr. Frankenberg | January 1, 2016 | 15,000 | 301,035 |
| Mr. Icahn | January 1, 2016 | 15,000 | 301,035 |
| Mr. Janeway | January 1, 2016 | 15,000 | 301,035 |
| Mr. Laret | January 1, 2016 | 15,000 | 301,035 |
| Ms. Martin | January 1, 2016 | 15,000 | 301,035 |
| Dr. Myers | January 1, 2016 | 15,000 | 301,035 |
| Mr. Quigley | January 1, 2016 | 15,000 | 301,035 |
| Mr. Schechter | January 1, 2016 | 15,000 | 301,035 |

(2) The aggregate number of unvested shares of the Company s common stock subject to outstanding stock awards held by each non-employee member of the Board of Director as of September 30, 2016 is set forth in the following table:

| Name | Unvested Shares Subject to Outstanding Stock Awards |
|---|---|
| Mr. Finocchio | 35,000 |
| Mr. Frankenberg | 30,000 |
| Mr. Icahn | |
| Mr. Janeway | 30,000 |
| Mr. Laret | 30,000 |
| Ms. Martin | 30,000 |
| Dr. Myers | |
| Mr. Quigley | 30,000 |
| Mr. Schecter | |

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## EXECUTIVE COMPENSATION, MANAGEMENT AND OTHER INFORMATION

### Information Concerning Current Executive Officers Who Are Not Directors

*A. Bruce Bowden,* 47, joined the Company in October 2010 currently serves as our Executive Vice President of Corporate Strategy and Development and was elected as an executive officer on November 15, 2010. From October 2014 to January 2016, Mr. Bowden also had responsibility for our global legal organization. Previously, Mr. Bowden was employed by Nokia from June 2006 through April 2010 in a number of different positions, most notably as Vice President and Global Head of Mergers and Acquisitions. Prior to joining Nokia, Mr. Bowden served as Director, Corporate Strategy & Development (head of North American M&A) for PepsiCo from November 2004 through June 2006.

*William T. Robbins*, 49, joined the Company in December 2013 and terminated his employment in November 2016. Mr. Robbins served as our Executive Vice President of Worldwide Sales and was elected an executive officer on January 17, 2014. Prior to joining the Company, Mr. Robbins served as Chief Operating Officer of [24]7 Customer, Inc. from January 2013 to December 2013. Prior to joining [24]7 Customer, Inc., Mr. Robbins held various leadership roles, including the role of executive vice president, Worldwide Sales & Services, in addition to other leadership roles at Symantec. Mr. Robbins terminated from the Company in November 2016.

*Robert C. Schassler,* 52, joined the Company in January 2016, as our Executive Vice President and General Manager, Mobile Division and was elected an executive officer on February 3, 2016. Prior to joining the Company, Mr. Schassler was employed at Motorola from April 1991 to January 2016, where his most recent role was Executive Vice President and General Manager for Global Solutions & Services for Motorola Solutions.

*Kenneth M. Siegel,* 58, joined the Company in January 2016, as our Executive Vice President and Chief Legal Officer and was elected an executive officer on February 3, 2016. Prior to joining us, Mr. Siegel served as Vice President, General Counsel and Secretary of Cyan, Inc., a provider of optical networking and network management software solutions from September 2012 until Cyan was acquired in September 2015. Prior to Cyan, Mr. Siegel served as Senior Vice President, General Counsel and Secretary at QuinStreet, Inc., an online performance marketing company, from February 2012 to September 2012. From February 2010 to February 2012, Mr. Siegel served as Senior Vice President, General Counsel and Secretary at SafeNet, Inc., a private data security company. Mr. Siegel was in private practice at Wilson Sonsini Goodrich & Rosati from 1986 to 2000.

*Daniel D. Tempesta,* 46, joined the Company in March 2008 and was appointed as the Company s Executive Vice President of Finance and Chief Financial Officer on July 21, 2015. Prior to his appointment as Chief Financial Officer, Mr. Tempesta served as the Company s Chief Accounting Officer, Corporate Controller and Senior Vice President of Finance. Before joining us, Mr. Tempesta was with Teradyne, Inc. from February 2004 to February 2008 where he held several positions, including Chief Accounting Officer and Corporate Controller. Prior to that Mr. Tempesta was in the audit practice of PricewaterhouseCoopers L.L.P.

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## COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management the following Compensation Discussion and Analysis included in this Proxy Statement. Based on its review and discussion with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and, through incorporation by reference, in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2016. Dr. Myers, who only served on the Compensation Committee during the early part of fiscal 2016 and who retired from the Board in January 2016, was not requested to join in delivering this report.

**The Compensation Committee:**

*Robert J. Frankenberg, Chairman*

*Robert J. Finocchio*

*Philip J. Quigley*

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## COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (the CD&A ) provides information regarding the fiscal 2016 compensation of our principal executive officer, our principal financial officer, and the three executive officers (other than our principal executive officer and principal financial officer) who were our most highly-compensated executive officers for the fiscal year ended September 30, 2016. These executive officers were our named executive officers (the Named Executive Officers ) for fiscal 2016. In this Compensation Discussion and Analysis, Nuance Communications, Inc. is referred to as our, us, we, or the Company. These individuals were:

- Paul A. Ricci, our Chief Executive Officer and Chairman of our Board of Directors (our CEO );
- Daniel D. Tempesta, our Executive Vice President and Chief Financial Officer;
- A. Bruce Bowden, our Executive Vice President, Corporate Strategy and Development (1);
- William T. Robbins, our Executive Vice President, Worldwide Sales (2); and
- Robert C. Schassler, our Executive Vice President and General Manager, Mobile Division (3).

(1) In January 2016, Mr. Bowden s role no longer included responsibility for our legal organization due to our hiring a Chief Legal Officer.

(2) In November 2016, Mr. Robbins left Nuance.

(3) In January 2016, Mr. Schassler was hired to lead our Mobile Division.

This CD&A describes the material elements of our executive compensation program in effect during the fiscal year ended September 30, 2016 including the basis for the fiscal 2016 compensation decisions. It also provides an overview of additional information related to our executive compensation, including a discussion of our philosophy, policies, practices, objectives and the process by which our Compensation Committee sets executive compensation.

We utilize a number of different financial measures, both Generally Accepted Accounting Principles ( GAAP ) and non-GAAP, in analyzing and assessing the overall performance of the business, for making operating decisions and for forecasting and planning for future periods. Our annual financial plan is prepared both on a GAAP and non-GAAP basis, and the non-GAAP annual financial plan is approved by our Board of Directors. The Board of Directors and management utilize these non-GAAP measures and results (in addition to the GAAP results) to make certain resource allocation and other managerial decisions. In addition, the Compensation Committee uses non-GAAP revenue and non-GAAP earnings per share targets as elements of its goal setting for executive officers compensation. Our definitions of these measures, as well as a discussion of how they are used in executive compensation matters, is set forth below in this CD&A. A reconciliation of the non-GAAP to GAAP financial measures is set forth in Annex A.

### Executive Summary

#### *Business Transformation*

We are a leading provider of voice recognition and natural language understanding solutions. Our four operating segments Healthcare, Mobile, Enterprise, and Imaging correspond to the markets in which our solutions and technologies are used. We believe that our diversified product solutions and services offerings present a significant competitive advantage in the marketplace.

In recognition of the pace of technological change and consumer expectations, as reflected in the growing adoption of cloud-based, connected services and highly interactive mobile applications, the deeper integration of virtual assistant capabilities and services, and the increasing shift from speech recognition to natural language understanding, semantic processing, domain-specific reasoning, dialog management capabilities, artificial intelligence, and biometric speaker authentication, in fiscal 2015 our Board of Directors embarked on an aggressive multi-year business transformation to focus our product investments on our best growth opportunities, increase our operating efficiencies, reduce costs, accelerate our transition to recurring revenue business models, and further enhance stockholder value through share buybacks.

Our Board of Directors has determined that this transformation is critical to the Company s ability to maintain and expand its market position. In deciding to proceed with this initiative, it understood that the transformation to recurring revenue models would create downward pressure on near-term revenue, potentially negatively impacting the market price of our common stock during the transition. Nonetheless, the Board of Directors determined that it was important for the Company to focus on driving long-term revenue growth while maintaining its focus on cost containment during this period. In addition, the Board determined it was critical to maintain continuity in our management team during the transformation.

Impact on Executive Compensation Design

While viewed as critical to our future growth and profitability, this transformation has presented challenges. Further, it has required our Board of Directors, as well as our senior executives, to manage our business and the Compensation Committee to consequently design our incentive compensation programs with a largely annual focus; both to enable us to nimbly respond to competitive market developments and ensure that we are able to minimize the impact on our revenues. As a result, the leading imperatives on our business since launching the transformation have been preventing the erosion of our revenue levels and contain costs, objectives that have heavily influenced the design of the incentive compensation programs for our executive officers.

Given these realities, as well as the challenges in recruiting and retaining qualified executive officers, particularly in recent years highly-competitive job market for experienced executive talent, since fiscal 2015 the Compensation Committee has designed our executive compensation program with two overarching objectives to grant incentive awards designed to focus our executive officers efforts on addressing our near-term business needs, positioning the Company for future growth and profitability, and promoting the retention of our key executive officers, including our CEO and other senior executives. Accordingly, the Compensation Committee has chosen to:

- Emphasize the importance of both maintaining our historical revenue levels as we shift toward recurring revenue models and cost containment by using similar performance measures in both our short-term and long-term incentive compensation programs; and

- Structure the long-term incentive awards for our executive officers reporting to the CEO to promote our retention objectives.

Consistent with the philosophy and approach, the fiscal 2017 incentive awards for our executive officers have been designed by the Compensation Committee to ensure the successful execution of the remaining business transformation milestones.

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We believe that this highly-focused orientation on near-term business imperatives, which has been tailored to achieve our annual operating plan, has worked well with the objectives of the business transformation. As most recently reflected in our operating results for fiscal 2016, we have made steady progress towards completing the business transformation over recent years. As an example, we have grown our non-GAAP recurring revenues for the past four fiscal years as follows:

Transformation Progress

Throughout fiscal 2016, we intensified efforts to advance our business transformation program that we initiated in fiscal 2015 and, as a result, made substantial progress on this initiative. We intend to continue our transformation program in fiscal 2017, maintaining our cost discipline and prioritizing investments for stronger bookings and revenue growth. Our progress on the business transformation program is reflected in the following highlights:

***Cost savings***. We have reduced expenditures broadly in cost of goods sold and operating expenses, which has contributed well to our improved, year-over-year performance in operating margins, gross margins, and earnings-per-share. Our initiative has involved reductions in services and products from third parties, real estate site consolidation, streamlining management layers and global labor optimization, including workforce reductions. During fiscal 2016, we achieved the $125.0 million target for annualized cost savings. In fiscal 2017, we expect to maintain strong cost disciplines that will allow us to invest in areas for future revenue growth.

***Growth investments***. We have reallocated investments to our highest-growth opportunities. As a result, we expect our growth businesses to outpace our few declining businesses. These efforts delivered strong, 4% net new bookings growth in fiscal 2016, which is a leading indicator of future revenue growth. In fiscal 2017, we expect approximately 1% percent organic revenue growth, with additional 2% to 4% organic revenue growth expected in fiscal 2018.

***Recurring revenue***. In recent years, we have sought to shift our business toward recurring revenue models driven by growing customer preference for cloud and subscription offerings. While the transition has placed pressure on near-term revenue, we believe that, over the long term, this change in business models will improve the sustainability and predictability of our revenue streams and return the Company to organic revenue growth in fiscal 2017.

***Share repurchase program***. As of September 30, 2016, we have repurchased approximately $707.5 million in shares of our common stock under our Board s $1.0 billion repurchase authorization. In fiscal 2017 our plans incorporate the use of $100.0 million in cash to repurchase shares of our common stock under the program.

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***Fiscal 2016 Financial Results and Fiscal 2017 Goals***

In fiscal 2016, we saw improvement across our key measures as we continued the transition of our business toward recurring revenue models, executed on our transformation program, and positioned the Company for future long-term growth. We also strengthened our competitive position in key markets by advancing our innovation and providing more offerings and solutions to the markets we serve. We believe fiscal 2016 s groundwork positions us well for organic growth in fiscal 2017 and beyond.

Our improved performance is evidenced in several key measures, including:

- ***Bookings***. In fiscal 2016, total bookings were $2,462.6 million, up 3% from $2,389.0 million in fiscal 2015.

- ***Net New Bookings***. In fiscal 2016, total net new bookings were $1,502.3 million, up 4% from $1,450.4 million in fiscal 2015.

- ***Revenue***. Fiscal 2016 non-GAAP revenue was $1,979.6 million, up slightly from $1,979.1 million in fiscal 2015. Fiscal 2016 GAAP revenue was $1,948.9 million, up $17.8 million from $1,931.1 million in fiscal 2015.

- ***Recurring Revenue***. Total fiscal 2016 non-GAAP recurring revenue at the end of fiscal 2016 was $1,380.3 million and represented 70% of total non-GAAP revenue, compared to $1,314.7 million and 66%, respectively, in fiscal 2015.

- ***Margins***. Our fiscal 2016 non-GAAP operating margin was 28.5%, compared to 26.2% in fiscal 2015. Non-GAAP operating margin improvement of 230 basis points, as compared to fiscal 2015, was led by cost discipline across all categories of operating expenses.

- ***Net Income***. Fiscal 2016 non-GAAP net income was $454.4 million, or $1.52 per diluted share, compared to $411.6 million, or $1.27 per diluted share, in fiscal 2015. We recognized GAAP net loss of $(12.5) million, or $(0.04) per share, compared to GAAP net loss of $(115.0) million, or $(0.36) per share, in fiscal 2015.

- ***Cash Flow from Operations* ( *CFFO* )**. We reported record full-year CFFO of $565.8 million in fiscal 2016, up 16% compared to $487.6 million in fiscal 2015, benefitting from non-GAAP strong profitability and changes in working capital. CFFO as a percentage of non-GAAP net income was 125%, up from 118% a year ago.

See Annex A for a reconciliation of the non-GAAP to GAAP financial measures.

We anticipate that we will continue with the business transformation during fiscal 2017 and return to organic revenue growth. Accordingly, our Board of Directors expects that we will continue to focus on the following initiatives:

- elevating the growth of the company by enhancing our market position with a focus on deepening customer engagements;

- continuing to strengthen our core technologies in voice and natural language, and enhance our offerings through increasing use of artificial intelligence, cognitive computing, and machine learning;

- continuing our transition to recurring revenue models;

- remaining disciplined in our costs; and

- prioritizing our investments in our highest revenue growth areas.

***Fiscal 2016 Business Challenges and Responses***

At the beginning of fiscal 2016, we faced a number of challenges that the Compensation Committee needed to address with respect to the oversight of our executive compensation program and making decisions for the current fiscal year.

Responding to Stockholder Feedback on Executive Compensation Program

Prior to the 2016 annual meeting, our Board of Directors, led by the Compensation Committee, sought to better understand how it could continue to address stockholder concerns about our executive compensation program while continuing to emphasize the annual focus of our business transformation initiative. Continuing an initiative that began following our initial Say-on-Pay failure in fiscal 2013, at the request of the Compensation Committee we contacted stockholders representing 68% of our outstanding shares and met with stockholders representing 36% of outstanding shares.

As in fiscal 2015, we received feedback indicating concern about two key design features of our executive compensation program: the short-term focus of our long-term incentive compensation program and our use of overlapping performance measures for annual and long-term incentive compensation programs.

At our 2016 annual meeting of stockholders, we received 36% support for the stockholder advisory ( Say-on-Pay ) proposal on the compensation of the Named Executive Officers. While this represented a nearly three-fold increase in support from the prior year advisory stockholder vote, it also marked the third time in past four fiscal years that we failed to receive majority support for our executive compensation program.

Armed with this information, the Compensation Committee conducted an intensive review of our executive compensation program, and assessed the feasibility of re-designing the incentive compensation plans in light of the ongoing business transformation. At the outset, the Compensation Committee noted that, given the timing of the fiscal 2016 executive compensation decisions and the 2016 annual meeting of stockholders, the first opportunity to begin to meaningfully respond to stockholder feedback would not come until establishing the fiscal 2017 executive compensation program. After taking into consideration our stockholders feedback and weighing these concerns against the understanding of our business imperatives, the Compensation Committee decided to make the following modifications to the executive compensation program for fiscal 2017:

- Aligned 100% of the CEO s performance shares issued pursuant to his employment agreement entered into in November 2016 to a relative total Shareholder return ( TSR ) metric to be measured over the term of his agreement,

- Introduced a total stockholder return ( TSR ) modifier for the performance-based long-term incentive compensation awards to be earned at the end of fiscal 2019; and

- Eliminated the overlapping performance measures for annual and long-term incentive compensation awards.

At the same time, the Compensation Committee decided to continue to emphasize in-year performance in the setting of the performance objectives for the short-term and long-term incentive compensation arrangements to ensure the successful execution of the business transformation.

The Compensation Committee is committed to addressing stockholder concerns about our executive compensation program and expects to continue to evaluate potential program design changes in the future, including reducing the overall target total direct compensation opportunity and continuing to link the majority of each executive officer s target total direct compensation opportunity to Company performance.

***Fiscal 2016 Compensation Decisions***

Consistent with our compensation philosophy and to further the focus on the successful execution of our business transformation, the target total direct compensation opportunities of our executive officers, including the Named Executive Officers, for fiscal 2016 were directly tied to performance measures designed to focus on our revenue and profitability and, thereby, produce long-term stockholder value given the continuing shift to recurring revenues. At the same time, the Compensation Committee considered the competitive job market, the desire to retain our executive officers so as to not jeopardize the business transformation, and the costs (both direct and indirect) associated with having to replace one or more executive officers when making its compensation decisions.

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Specifically for fiscal 2016, the Compensation Committee took the following actions with respect to the compensation of the Named Executive Officers:

***Base salary***. Maintained their annual base salaries at their fiscal 2015 levels. In connection with his appointment as our Executive Vice President and General Manager, Mobile Division in January 2016, set Mr. Schassler s annual base salary at $500,000.

***Annual Bonus Opportunities***. Maintained their target annual bonus opportunities at their fiscal 2015 levels. In connection with his appointment as our Executive Vice President and General Manager, Mobile Division in January 2016, set Mr. Schassler s target annual bonus opportunity at 75% of his annual base salary.

***Annual Bonus Payments.*** Awarded annual bonus payments that ranged from 100% to 125% of their target bonus opportunity based on our level of achievement of the annual performance objectives, except with respect to Mr. Robbins who terminated his employment in November 2016 and was not eligible for a bonus. For additional information on the Compensation Committee s decisions, see the Short-Term Incentive Compensation section below.

***Equity Awards***. Approved equity awards in amounts that it believed to be competitive, satisfied our retention objectives, and rewarded them for individual performance and expected future contributions. Half of these awards were entirely performance-based, with the exception of Mr. Ricci who received 100% performance-based awards, the value of which will be earned only if they achieve the performance goals established annually for such awards.

***Employment Agreement with Mr. Ricci***. Entered into negotiations with Mr. Ricci seeking a delay in his expressed interest in retirement by agreeing to an extension of his employment agreement through March 2018 on terms that were mutually satisfactory to both parties. For additional information about the terms and conditions of Mr. Ricci s amended and restated employment agreement, see the following section of this Executive Summary.

Although the Compensation Committee was aware of stockholder concerns about the design of our short-term and long-term incentive compensation programs following our 2016 Annual Meeting of Stockholders, it elected to address these concerns in connection with establishing the compensation arrangements for our executive officers for fiscal 2017. Accordingly, as described above, the Compensation Committee modified the design of the fiscal 2017 annual bonuses to begin to address stockholder concerns and to ensure continued alignment across the Company.

Amended and Restated Employment Agreement with Mr. Ricci

At the beginning of fiscal 2016, the Compensation Committee was made aware of Mr. Ricci s desire to retire at the expiration of his current employment at the end of fiscal 2016. After discussion among its members, our Board of Directors determined that it was in the best interests of the Company and our stockholders to secure Mr. Ricci s continued employment to both ensure the successful completion of the business transformation that he had initiated and led since fiscal 2015 and to provide adequate time for the identification, recruitment, and hiring of his successor and for a seamless transition to such successor.

Accordingly, on behalf of our Board of Directors, the Compensation Committee commenced negotiations with Mr. Ricci for a continuation of his employment through March 2018 on terms and conditions that were mutually satisfactory to both parties. In conducting these negotiations, the Compensation Committee was aware of and took into consideration the following factors:

Mr. Ricci s role for the past 15+ years in turning the Company into the recognized leader in voice and language solutions for businesses and consumers worldwide;

his status as a leading visionary in the voice and language solutions sector;

his importance to as our business transformation as we transition our business toward recurring revenue models, thereby positioning the Company for both a return to profitability and future sustained long-term growth;

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the potential risks that the Company would face if, at this point in the business transformation, he left the Company, as well as the concerns that such a departure may raise; and

the terms and conditions of his then-existing employment agreement, as last amended in November 2015, and the need to ensure that his rights pursuant to that agreement were adequately addressed in any future agreement (including the compensation to which he would be entitled upon the expiration of such agreement.

Consequently, in November 2016, we entered into an amended and restated employment agreement with Mr. Ricci. The new agreement runs through March 31, 2018. The key terms and conditions of the new employment agreement are as follows:

***Base salary and target annual bonus*** His base salary and target bonus levels are to remain consistent with levels under his prior employment agreement ($800,000 base salary and target annual bonus of 150% of base salary for fiscal 2017);

***Long-term incentive compensation*** He is to continue to receive an annual long-term incentive compensation opportunity consisting of both performance-based and time-based equity awards for the term of the agreement;

***Severance payments upon non-renewal of employment agreement*** Eliminated the provision giving him the right to trigger termination of the agreement with full severance payment and accelerated vesting of equity awards. Instead, he is eligible to receive a retention payment in the amount of $8,400,000, which will be forfeited if he voluntarily terminates his employment without good reason as defined in Mr. Ricci s employment agreement, prior to March 31, 2018; and

***Post-employment compensation*** In the event of an involuntary termination of employment, he is eligible to receive payments and benefits consistent with the terms of the prior employment agreement (which covers both an involuntary termination of employment in connection with and absent a change-in-control of the Company).

*Executive Compensation-Related Policies and Practices*

We endeavor to maintain sound executive compensation policies and practices, including compensation-related corporate governance standards, consistent with our executive compensation philosophy. During fiscal 2016, we maintained the following policies and practices, including both policies and practices we have implemented to drive performance and policies and practices that either prohibit or minimize behaviors that we do not believe serve our stockholders long-term interests:

What We Do

Maintain a Compensation Committee comprised solely of independent directors who have established effective means for communicating with our stockholders regarding their executive compensation ideas and concerns.

Enable the Compensation Committee to engage and retain its own advisors. During fiscal 2016, the Compensation Committee continued to engage Compensia to assist with its responsibilities. Compensia performs no other services for the Company.

The Compensation Committee conducts an annual review of our executive compensation strategy, including a review of the compensation peer group used for comparative purposes, and, to help avoid creating any such risks that would be reasonably likely to have a material adverse effect on us, an annual review of our compensation-related risk profile.

Design the equity awards granted to our executive officers to vest or be earned over multi-year periods, which is consistent with current market practice, and better serves our long-term value creation goals and retention objectives.

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Design our executive compensation program to use performance-based short-term and long-term incentive compensation awards to align of the long-term interests of our executive officers with the interests of our stockholders.

Provide modest amounts of perquisites and other personal benefits to our executive officers which serve a sound business purpose.

Require that all change-in-control payments and benefits are based on a double-trigger arrangement (that is, they first require both a change-in-control of the Company and a qualifying termination of employment before an executive officer is eligible to receive any such payments and benefits).

Provide that all change-in-control payment and benefit amounts and multiples are within reasonable market norms.

Maintain a rigorous stock ownership policy for our executive officers which require each of them to beneficially own a specified amount of our common stock computed as a multiple of their annual base salary.

Maintain a compensation recovery ( clawback ) policy which provides that, in the event we are required to prepare an accounting restatement, we may recover from our executive officers any incentive compensation erroneously paid or awarded in excess of what would have been paid under the accounting restatement.

Prohibit our executive officers, employees**,** and members of our Board of Directors from speculating in our equity securities, including the use of short sales, sales against the box or any equivalent transaction involving our equity securities, or engaging in any other hedging transactions with respect to our equity securities. In addition, we prohibit our employees, executive officers, and members of our Board of Directors from pledging their equity securities or using such securities as collateral for a loan.

What We Do Not Do

X Offer pension arrangements, defined benefit retirement plans, or nonqualified deferred compensation plans to our executive officers.

X Provide any tax reimbursement payments or gross-ups in connection with any severance or change-in-control payments or benefits to our executive officers.

X Pay dividends or dividend equivalents on unvested or unearned restricted stock unit and performance-based restricted stock unit awards.

X Reprice options to purchase shares of our common stock without stockholder approval.

**Compensation Philosophy**

Our compensation philosophy is designed to promote our business objectives on the principle that our strategic and operational achievements result from the coordinated efforts of all employees working toward common strategic goals. Our guiding compensation principles focus on:

aligning the interests of our executive officers and our stockholders and customers by offering significant levels of at-risk compensation in the form of a) an annual short-term incentive bonus opportunity, and b) both time-based and performance-based restricted stock unit awards for shares of our common stock so that the long-term incentives available to our executive officers are directly correlated to our financial performance;

paying our executive officers on the basis of their value to the organization;

maintaining a compensation program that ensures compensation levels that are competitive with those of other organizations in our labor markets, based on our current financial condition; and

attracting, retaining, and motivating the best employees.

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**Compensation Objectives and Challenges**

Our overall compensation objective is to compensate our executive officers and other employees in a manner that attracts and retains the caliber of individuals needed to manage and staff a dynamic, highly-complex business in an innovative industry. For our executive officers, including the Named Executive Officers, we seek to align our executive compensation program with the interests of our stockholders by tying a significant portion of their total compensation to the performance of our common stock.

Currently, we face challenges in hiring and retaining executive officers due to a number of factors that contribute to a relatively small pool of executive talent being available. We believe that this makes recruiting and retaining executive officers difficult, and our executive compensation program takes into account and seeks to address these challenges, including the following:

*Highly Competitive Voice Recognition and Natural Language Understanding Industry* The market for voice recognition solutions and natural language understanding technologies is highly competitive, rapidly evolving, and fragmented, and is subject to changing technologies, shifting customer needs, and the frequent introduction of new products and services. Our position as a pioneer in this innovative and highly-competitive industry makes us a more attractive employer to some executives but a less attractive employer to others. In addition, our success has made our executive officers more attractive as candidates for employment with other companies, creating additional challenges for us to retain them.

*Executive Background* We hire deeply-experienced managers with specific experience in key functional areas who have operated in a fast-moving environment similar to the one in which we operate. The number of executives with the most desirable experience in our industry is relatively low and these executives are difficult to find. We have expanded our recruiting efforts both geographically and into other industries and sectors, which leads to increased complexity in recruiting efforts and has required us to be more aggressive with our executive compensation packages.

*Corporate Environment* We are a demanding employer and our fast-moving, challenging culture is not always suited to the executives who comprise the talent pool from which we recruit. Like many companies in very dynamic markets, we place extraordinary demands on executive time and attention. This means that often prospective executives are more focused on equity compensation, and the Compensation Committee applies our compensation practices accordingly. The Compensation Committee believes that offering competitive long-term incentive compensation awards with strong upside opportunities in our compensation packages better aligns the interests of our executive officers and our stockholders. If performance is not achieved, the compensation realized by our executive officers is reduced accordingly.

*Replacement Cost* When determining the compensation for a current executive officer who has been with us for a substantial period of time, the Compensation Committee takes into consideration what it may cost to hire that executive officer s replacement. The Compensation Committee believes that replacement cost is highly relevant to an executive officer s compensation because it is what we would have to pay if the executive officer left us given the factors described above and it likely approximates the executive officer s own perceived value in the competitive environment for executive talent.

Our objective is to implement strategies for delivering compensation that align current opportunities with the overall software industry, provide sufficient emphasis on pay-for-performance and are appropriately aligned with our financial goals and long-term stockholder returns.

**Compensation-Setting Process**

***Authority, Role, and Operation of the Compensation Committee***

The current members of the Compensation Committee are Messrs. Frankenberg (Chair), Finocchio, and Quigley. Our Board of Directors created the Compensation Committee to discharge its responsibilities relating to the compensation of our executive officers. The Compensation Committee oversees, evaluates and approves compensation plans, policies and practices applicable to, and approves the compensation of, the Company s executive officers. The Compensation Committee also administers the Company s equity-based incentive com-

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pensation except to the extent that authority to administer the plans has been delegated to the Chief Executive Officer to administer such plans as to non-executive personnel.

The Compensation Committee has adopted a written charter approved by our Board of Directors, which discusses in detail its responsibilities, and which is available on our corporate website at http://www.nuance.com/company/company-overview/company-policies/corporate-governance/compensation-committee/index.htm.

The Compensation Committee establishes all elements of compensation paid to our CEO and reviews management s recommendations for and approves all elements of compensation paid to our other executive officers, including the other Named Executive Officers. Our CEO, in consultation with our Senior Vice President and Chief Human Resources Officer, submits all recommendations regarding the compensation of our other executive officers to the Compensation Committee for its review and approval. The Compensation Committee also reviews the compensation of the non-employee members of our Board of Directors and recommends changes, when appropriate, to our Board of Directors.

In carrying out its responsibilities, the Compensation Committee may engage outside consultants and/or consult with our human resources department from time to time. The Compensation Committee also may obtain advice and assistance from internal or external legal, accounting or other advisers that it selects. Other than delegation of authority to our Chief Executive Officer to grant equity awards to non-executive personnel, the Compensation Committee may delegate any of its responsibilities to one or more subcommittees, to the extent permitted by applicable law. The Compensation Committee did not delegate any responsibilities to a subcommittee during fiscal 2016.

The Compensation Committee reviews the compensation of our executive officers, including the Named Executive Officers, annually to ensure that it is consistent with our compensation philosophy, corporate and individual performance, changes in the market, and our executive officers individual responsibilities. During the first quarter of our fiscal year, or in conjunction with the Company-wide performance process, the Compensation Committee conducts a review of the performance of each executive officer, including our CEO.

Our CEO presents to the Compensation Committee his evaluation of each executive officer, which includes a review of his or her contribution and performance during the last fiscal year (compared against the performance objectives that our CEO and Compensation Committee established at the beginning of the fiscal year for the executive officer), strengths, weaknesses, development plans and succession potential. Our human resources department also assists in the performance reviews of our executive officers, all of whom report directly to our CEO.

The Compensation Committee then makes its own assessments using our CEO s presentation and, based on this assessment, approves each executive officer s annual bonus payment, if any, for the last completed fiscal year, including any discretionary adjustments to such awards, and the elements of each executive officer s total direct compensation opportunity, including performance-based compensation, for the current fiscal year, taking into account, in each case, our CEO s evaluation, the scope of the executive officer s responsibilities and experience, and its own evaluation of the competitive market.

The Compensation Committee believes that strong, long-term corporate performance is achieved with a corporate culture that encourages a long-term focus by our executive officers, including the Named Executive Officers. At the beginning of fiscal 2016, the Compensation Committee reviewed the key objectives of our operating plan and determined the performance measures that will provide focus on our continued revenue, bookings and earnings-per-share growth. In fiscal 2016, while still in the midst of the business transition which has been focused on strengthening our recurring revenue growth, the Compensation Committee defined the key measures that would best provide a balance between maintaining revenue during this transition and maintaining a focus on earnings-per-share. In fiscal 2016, our CEO s performance objectives were based on achievement of the non-GAAP revenue, bookings and non-GAAP earnings-per-share target levels established by the Compensation Committee that aligned with our fiscal 2016 operating plan, while the performance objectives for the other Named Executive Officers were based on the financial objectives established for the Company as a whole and their respective business functions and responsibilities. The corporate, financial, and individual performance objectives for our executive officers are established in a manner such that target attainment is not assured; meaning that the executive officers receipt of compensation for performance at or above target will require significant effort on their part.

***Role of Compensation Committee Advisor***

The Compensation Committee retained Compensia, to serve as its independent advisor for fiscal 2016. Compensia advises the Compensation Committee with respect to trends in executive compensation, compensation peer group selection, the determination and design of compensation plans and arrangements, the assessment of competitive pay levels and mix (for example, the proportion of fixed pay to variable pay and the proportion of annual cash pay to long-term incentive pay), total equity utilization levels compared to market, and setting compensation levels. As part of its engagement, Compensia conducted executive and non-employee director compensation analyses to be used in connection with the Compensation Committee fiscal 2016 compensation actions.

The Compensation Committee may replace an advisor or hire additional advisors at any time. Compensia did not provide any other services to us and received no compensation other than with respect to the services described above.

Based on the consideration of the various factors as set forth in the rules of the SEC and the listing standards of the NASDAQ Stock Market, the Compensation Committee has determined that its relationship with Compensia and the work of Compensia on behalf of the Compensation Committee has not raised any conflict of interest.

***Competitive Positioning***

Each year, to determine the competitiveness of our overall executive compensation program, the Compensation Committee reviews the compensation for comparable positions within our industry, the historical compensation levels of our executive officers, and the individual performance of executive officers evaluated against their individual objectives established for the preceding fiscal year. The Compensation Committee believes the group of companies that it uses for these purposes constitutes an appropriate peer group because we compete for the same employee pool at the executive level, are in the same or similar industry, and are of generally similar size as measured by revenue and market capitalization. The Compensation Committee obtains compensation data about these companies from compensation surveys, publicly-available proxy statements, and other public filings. In addition, this data is supplemented by Radford executive compensation survey data representing a broader group of technology companies that are of similar size with revenues between $1 billion to $3 billion.

In July 2015, the Compensation Committee, with the assistance of Compensia, updated the compensation peer group to account for changes in our total revenue and revenue growth, market capitalization, and business/industry focus. At that time, the Compensation Committee removed salesforce.com, Inc. from the peer group due to differences in revenue and market capitalization. It also removed Micros Systems, Inc. and TIBCO Software, Inc. from the peer group as a result of their being acquired. Subsequent to the review of the peer group, Informatica Corporation was also acquired, thus causing it to be removed from the peer group. The Compensation Committee added Allscripts Healthcare Solutions, Inc. and Intuit, Inc. to the peer group, noting their financial and business and/or industry similarities to us. The compensation peer group utilized for the remainder of fiscal 2015 and to frame and evaluate the Compensation Committee s fiscal 2016 compensation analysis, consisted of the following companies:

| | |
|---|---|
| Adobe Systems Incorporated | LinkedIn Corporation |
| Akamai Technologies, Inc. | PTC, Inc. |
| Allscripts Healthcare Solutions, Inc. | Red Hat, Inc. |
| Autodesk, Inc. | Synopsys, Inc. |
| Cadence Design Systems, Inc. | Teradata Corporation |
| Cerner Corporation | Verifone Systems, Inc. |
| Citrix Systems, Inc. | VeriSign, Inc. |
| Intuit, Inc. | |

In June 2016, the Compensation Committee, with the assistance of Compensia, updated the compensation peer group to better align to the Company s revenue size and market capitalization, and business/industry focus. At that time, the Compensation Committee removed Adobe Systems Incorporated and Intuit, Inc. from the peer

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group due to differences in revenue and market capitalization. It also removed LinkedIn Corporation from the peer group as a result of its acquisition. The Compensation Committee added ANSYS, Inc., athenahealth, Mentor Graphics Corporation, Fair Isaac Corporation and Verint Systems, Inc. to the peer group, noting their financial and business and/or industry similarities to us. The compensation peer group utilized for the remainder of fiscal 2016 and to frame and evaluate the Compensation Committee s fiscal 2017 compensation analysis consisted of the following companies:

| | |
|---|---|
| Akamai Technologies, Inc. | Mentor Graphics Corporation |
| Allscripts Healthcare Solutions, Inc. | PTC, Inc. |
| ANSYS, Inc. | Red Hat, Inc. |
| Athenahealth, Inc. | Synopsys, Inc. |
| Autodesk, Inc. | Teradata Corporation |
| Cadence Design Systems, Inc. | Verifone Systems, Inc. |
| Cerner Corporation | Verint Systems Inc. |
| Citrix Systems, Inc. | VeriSign, Inc. |
| Fair Isaac Corporation | |

**Compensation Elements**

In fiscal 2016, the compensation arrangements of our executive officers, including the Named Executive Officers, comprised the following elements:

- base salary;
- a performance-based annual bonus opportunity;
- long-term incentive compensation in the form of equity awards;
- company retirement and other welfare benefits;
- personal benefits; and
- post-employment compensation payments and benefits.

Our compensation philosophy places an emphasis on at-risk pay with a balanced focus between short-term and long-term strategic objectives. Consistent with this philosophy, the majority of the target total direct compensation opportunities of our executive officers, including the Named Executive Officers, is variable in nature, the payment and value of which depends on our financial results.

To achieve this objective, we use a performance-based annual bonuses that may be paid out in cash or shares of our common stock (with or without additional vesting requirements) or a combination of both cash and shares, of which has mainly been paid in shares of our common stock, and long-term incentive compensation in the form of time-based restricted stock unit awards that may be settled for shares of our common stock, time-based restricted stock awards that may be settled for shares of our common stock, and performance-based restricted stock unit awards that may be settled for shares of our common stock.

The performance measures we establish for the annual bonuses and the performance-based restricted stock unit awards are designed to promote stockholder return, market share increase, and revenue and earnings growth.

For fiscal 2016, the Compensation Committee elected, in consideration of the volatile nature of the software industry, compounded by the major transition of our business to a recurring revenue model, to establish performance measures and related target levels for the performance-based restricted stock unit awards that were based on our fiscal 2016 financial performance as measured by non-GAAP revenue at the corporate and segment levels, corporate and segment level gross and net new bookings, non-GAAP earnings-per-share, segment profit margin, non-GAAP operating expense, and cash flow from operations, while our fiscal 2016 annual bonuses were based on the intersection of non-GAAP revenue and non-GAAP earnings-per-share achievement. These performance measures were selected based on the Compensation Committee s belief that they best position us for sustained growth in the future.

***Base Salary***

We use base salary to provide our executive officers, including the Named Executive Officers, with a basic fixed amount of compensation. Base salary levels reflect each executive officer s responsibilities, performance, and expertise and are intended to be competitive with the base salary levels of comparable positions at the companies in our compensation peer group.

The Compensation Committee establishes base salary levels based, in part, on a review of market data for our compensation peer group, as well as the job performance and level of experience of each individual executive officer, internal pay parity considerations, and replacement costs. Generally, we tie the performance-based incentive compensation opportunities and post-employment compensation arrangements for each executive officer to his or her base salary.

In October 2015, the Compensation Committee reviewed the base salaries of our executive officers, including each of the Named Executive Officers, and determined that no adjustments would be made to their base salary levels for fiscal 2016.

The base salaries of the Named Executive Officers during fiscal 2016 were as follows:

| Named Executive Officer | Fiscal 2015 Base Salary | Fiscal 2016 Base Salary | Percentage Change |
|---|---|---|---|
| Mr. Ricci | $ 800,000 | $ 800,000 | |
| Mr. Tempesta | $ 400,000 | $ 400,000 | |
| Mr. Bowden | $ 400,000 | $ 400,000 | |
| Mr. Robbins | $ 450,000 | $ 450,000 | |
| Mr. Schassler(1) | N/A | $ 500,000 | N/A |

(1) In connection with his appointment as our Executive Vice President and General Manager, Mobile Division in January 2016, the Compensation Committee set Mr. Schassler s annual base salary at $500,000. This amount was determined by the Compensation Committee in arms-length negotiations with Mr. Schassler after evaluating the market data of our compensation peer group.

***Short-Term Incentive Compensation***

Consistent with our compensation philosophy, the Compensation Committee has designed our executive compensation program to ensure that a significant level of our executive officers target total direct compensation opportunity is at risk. To help accomplish this objective, we provide for performance-based bonus opportunities for our executive officers, including the Named Executive Officers, based on the achievement of corporate performance objectives established at the beginning of the year.

During fiscal 2016, the Compensation Committee adopted an annual executive bonus performance objectives and payout targets for our executive officers, including the Named Executive Officers, which was designed to promote the attainment of specific financial objectives (as reflected in our annual operating plan) while, at the same time, supporting our longer-term strategic business objectives, and encouraging leadership and teamwork. The Compensation Committee, after consultation with our CEO, established two financial performance measures, as well as minimum, target, and maximum performance levels for each measure. In addition, each executive officer was assigned a target bonus opportunity that generally reflected his or her position and is expressed as a percentage of his or her base salary. The amount of each executive officer s actual bonus payment was to be based on the extent to which we achieve or exceed the pre-established target level for each performance measure (up to a maximum percentage of 100%) that may be paid out to any executive officer. The Compensation Committee has the authority to modify bonuses up or down as justified by the circumstances.

After the end of the fiscal year, the Compensation Committee reviewed our performance against the financial performance measures and made its bonus decisions. The Compensation Committee had the discretion to approve bonus payments which were higher or lower than an executive officer s target bonus opportunity depending on its evaluation of his or her individual performance for the fiscal year. Annual bonus payments may be paid out in cash or shares of our common stock or a combination of both cash and shares, of which has mainly

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been paid in shares of our common stock, which may be subject to additional vesting requirements as established by the Compensation Committee.

Target Bonus Opportunities

In November 2015, the Compensation Committee reviewed the fiscal 2016 target bonus opportunity for each executive officer, including each Named Executive Officer, and determined that, at that time, no adjustments were necessary or appropriate.

The target bonus opportunities of the Named Executive Officers for fiscal 2016 were as follows:

| Named Executive Officer | Fiscal 2016 Target Bonus Opportunity (as a percentage of base salary) |
|---|---|
| Mr. Ricci | 150% |
| Mr. Tempesta | 75% |
| Mr. Bowden | 75% |
| Mr. Robbins | 78% |
| Mr. Schassler(1) | 75% |

(1) In connection with his appointment as our Executive Vice President and General Manager, Mobile Division in January 2016, the Compensation Committee set Mr. Schassler s target bonus opportunity at 75% of his annual base salary. This amount was determined by the Compensation Committee in arms-length negotiations with Mr. Schassler after evaluating the market data of our compensation peer group.

Corporate Performance Measures

For fiscal 2016, annual bonuses were to be funded based on our actual performance as measured against the intersection of two corporate financial measures, non-GAAP revenue of $2.0 billion and non-GAAP earnings-per-share of $1.39, which the Compensation Committee determined were critical to the successful execution of our fiscal 2016 operating plan.

For purposes of the 2016 bonuses, we calculated non-GAAP revenue and non-GAAP earnings-per-share in the same manner that we calculate this measure for purposes of our quarterly earnings announcements. In performing this calculation, we either included or excluded items in six general categories, each of which are described below.

*Acquisition-Related Revenue and Cost of Revenue*. We include revenue and cost of revenue related to acquisitions that would otherwise have been recognized but for the purchase accounting treatment of these transactions. Non-GAAP revenue also includes revenue that we would have otherwise recognized had we not acquired intellectual property and other assets from the same customer.

*Acquisition-Related Costs, Net*. We have completed a number of acquisitions, which result in operating expenses which would not otherwise have been incurred. These acquisition-related costs are included in the following categories: (i) transition and integration costs; (ii) professional service fees and expenses; and (iii) acquisition related adjustments. These categories are further discussed as follows:

Transition and integration costs include retention payments, transitional employee costs, and earn-out payments treated as compensation expense, as well as the costs of integration-related services, including services provided by third-parties;

Professional service fees and expenses include financial advisory, legal, accounting, and other outside services in connection with acquisition activities, and disputes and regulatory matters related to acquired entities; and

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Acquisition-related adjustments include items that are required to be marked to fair value each reporting period, such as contingent consideration, and other items related to acquisitions for which the measurement period has ended, such as gains or losses on settlements of pre-acquisition contingencies.

*Amortization of Acquired Intangible Assets*. We exclude the amortization of acquired intangible assets from the calculation of non-GAAP expense and income measures, including earnings-per-share.

*Costs Associated with IP Collaboration Agreement*. To gain access to a third party s extensive speech recognition technology and natural language and semantic processing technology, we entered into IP collaboration agreements, with terms that ranged between five and six years and a completion date in fiscal 2016. Depending on the agreement, some or all intellectual property derived from these collaborations will be jointly owned by the two parties. For the majority of the developed intellectual property, we will have sole rights to commercialize such intellectual property for periods ranging between two to six years, depending on the agreement. For non-GAAP purposes, we consider these long-term contracts and the resulting acquisitions of intellectual property from the third-party over the agreements terms to be an investing activity, outside of its normal, organic, continuing operating activities, and are therefore excluded from our non-GAAP results.

*Non-Cash Expenses*. We exclude the following non-cash expenses when calculating non-GAAP earnings-per-share: (i) stock-based compensation; (ii) certain accrued non-cash interest; and (iii) certain accrued non-cash income taxes.

*Other Expenses.* We exclude certain other expenses that are the result of unplanned events and arose outside of the ordinary course of continuing operations when calculating non-GAAP earnings-per-share. Included in these expenses are items such as restructuring charges, asset impairments, and other charges (credits), net. These items also include losses from the extinguishment of our debt and adjustments from changes in fair value of share-based instruments relating to the issuance of our common stock with security price guarantees payable in cash. Other items such as consulting and professional service fees related to assessing strategic alternatives and our transformation program, and gains or losses on non-controlling strategic equity interests, are also excluded.

Fiscal 2016 Bonus Decisions

For fiscal 2016, our reported non-GAAP revenue was $1,979.6 million and our non-GAAP earnings-per-share was $1.52 per share. After reviewing these financial results, the Compensation Committee approved the funding of bonuses at 100% of the target bonus opportunity level as a result of the overachievement on earnings-per-share offsetting the non-GAAP revenue shortfall. With respect to the bonus payments for each of the Named Executive Officers, in November 2016 the Compensation Committee exercised its discretion to approve the bonus payments to each of the Named Executive Officers as follows:

Mr. Ricci received a bonus payment equal to 100% of his target bonus opportunity based on the achievement of the intersection of our non-GAAP revenue and non-GAAP earnings-per-share, in particular the overachievement of the earnings-per-share target.

Mr. Tempesta received a bonus payment equal to 100% of his target bonus opportunity based on the achievement of the intersection of our non-GAAP revenue and non-GAAP earnings-per-share, in particular the overachievement of the earnings-per-share target.

Mr. Bowden received a bonus payment equal to 100% of his target bonus opportunity based on the achievement of the intersection of our non-GAAP revenue and non-GAAP earnings-per-share, in particular the overachievement of the earnings-per-share target.

Mr. Robbins terminated his employment with the Company in November 2016 and did not receive a bonus payment for fiscal 2016.

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Mr. Schassler received a bonus payment equal to 125% of his target bonus opportunity based on his performance in assisting in the achievement of our fiscal 2016 financial results. Mr. Schassler s bonus was enhanced due to his contribution to the strong bookings performance in our Mobile segment in the second half of fiscal 2016.

The fiscal 2016 bonus payments for the Named Executive Officers were made entirely in the form of restricted stock unit awards that are to be settled in shares of our common stock. The number of shares of our common stock subject to these awards was determined by dividing the amount of the bonus earned by the closing market price of our common stock on November 18, 2016, or $16.91 per share, which was the date the Compensation Committee approved the final allocation of the executive officer bonuses. These restricted stock unit awards vested in full on December 2, 2016.

The actual bonus payments to the Named Executive Officers for fiscal 2016 were as follows:

| Named Executive Officer | Percentage of Fiscal 2016 Target Bonus Opportunity Earned | Actual Fiscal 2016 Bonus ($)(1) | Actual Fiscal 2016 Bonus (as a number of shares of common stock) |
|---|---|---|---|
| Mr. Ricci | 100% | $ 1,200,000 | 70,963 |
| Mr. Tempesta | 100% | $ 300,000 | 17,740 |
| Mr. Bowden | 100% | $ 300,000 | 17,740 |
| Mr. Robbins(2) | 0% | $ | |
| Mr. Schassler(3) | 125% | $ 337,178 | 19,939 |

(1) The cash amount was not paid but rather converted into a number of shares of common stock with an equal value based on the closing price of our common stock on the date of grant.

(2) Mr. Robbins terminated his employment in November 2016 and did not receive a bonus for fiscal 2016.

(3) Mr. Schassler s base bonus was pro-rated as a result of his effective hire date January 14, 2016. The bonus reflected above is inclusive of a special enhanced recognition bonus provided to Mr. Schassler for his contribution to the strong bookings performance in our Mobile segment in the second half of fiscal 2016.

Long-Term Incentive Compensation Philosophy

Consistent with our compensation philosophy, the Compensation Committee has designed our executive compensation program to provide that a significant level of our executive officers target total direct compensation opportunity is at risk. All of their long-term incentive compensation is at risk as it is subject to the volatility of our stock price with at least 50% of their long-term incentive compensation delivered in the form of performance-based restricted stock unit awards of which are earned only if the performance targets are achieved.

The Compensation Committee structures these awards to reflect the unique characteristics of our business:

A business in a highly-competitive and rapidly-changing industry;

A business with a long-term growth strategy based on both acquisitions as well as organic growth; and

A business in the midst of a major transformation of our business model.

As a result, the Compensation Committee has determined that it is in our best interests to select the performance measures and set the related target levels for our performance-based restricted stock unit awards using an annual approach, including measures which drive longer-term performance, with the exception of a portion of our CEO s awards as described below. Not only does this approach enable the Compensation

Committee to set performance goals that are responsive to our near-term and long-term objectives, it also minimizes the risk that these goals will become unattainable because of unforeseen or changing circumstances by providing the committee with the opportunity to adapt the measures to the rapidly changing environment. This annual performance period approach also allows the Compensation Committee to be responsive to ever-changing business conditions and maintains focus on key measures in the midst of the transformation of our business model.

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In addition, by determining the size of each performance-based restricted stock unit award at the beginning of each three-year performance cycle, the Compensation Committee is able to ensure that each executive officer has a significant portion of his annual and near-term total direct compensation opportunity at risk, underscoring our emphasis on performance results and reinforcing our retention objectives.

At the same time, the Compensation Committee believes that, consistent with our compensation philosophy, the target total direct compensation opportunities of our executive officers should be predicated on their value to the organization. This is particularly true in the case of Mr. Ricci. As our Chief Executive Officer since September 2000, and Chairman of our Board of Directors since 1999, Mr. Ricci has played a critical role in our ongoing success over the past 16 years, both as our senior executive officer and a visionary in a dynamic and continuously-changing industry. During his tenure, Mr. Ricci has successfully led us through significant strategic acquisitions and business alliances that have transformed us into a leading provider of voice and natural language solutions. At the same time, under his guidance we have embarked on an aggressive plan to transform our business model, with an increasing concentration of our revenue coming from our hosting, term licensing and transaction based offerings, which are recurring revenue streams, and a decreasing proportion of our revenues coming from perpetual license models. Given his industry stature, Mr. Ricci continues to be a potential candidate for leadership positions at other companies that may seek to recruit him with a lucrative compensation package.

The implementation of these principles can be illustrated by the equity awards that the Compensation Committee has granted to Mr. Ricci over the past four fiscal years. Over that period, in recognition of his leadership and to directly link his compensation to our financial and operational performance, a significant portion of Mr. Ricci s target total direct compensation opportunity has consisted of the opportunity to earn shares of our common stock that is heavily weighted towards specific performance objectives. The Compensation Committee, however, did take into consideration the significant feedback that we received from our stockholders and over the last three years has materially reduced the grant value of these awards as depicted in table entitled Chief Executive Officer-Approved Equity Awards.

For purposes of this discussion, the terms issuance date and grant date are defined as follows:

*Issuance Date* means the date on which the Compensation Committee approved the issuance of equity award to the Named Executive Officers. The per share value of these awards on such date is equal to the closing market price of our common stock as quoted on NASDAQ on the date that the Compensation Committee approves the issuance of the award.

*Grant Date* means the date on which the vesting or performance terms of the equity awards are known and agreed upon between the Company and the Named Executive Office. The per share value of the awards on such date is equal to the closing market price of our common stock as quoted on NASDAQ on the date that the Compensation Committee approves these terms of the award. For time-based equity awards, the issuance date and grant date are the same as the vesting terms are known when the Compensation Committee issues the award. For performance-based restricted stock unit awards, there will be a difference between the issuance date and the grant date for the second and third installments of the awards as a result of the timing of when the performance measures and related target levels are established for each of these installments.

***Chief Executive Officer Long-Term Incentive Compensation Analysis***

In response to our shareholders feedback requesting additional clarity on the design of our long-term incentive awards, we have added additional information to provide clarity on the way the Compensation Committee has designed the long-term incentive compensation awards for our executive officers, with a specific emphasis on the awards for Mr. Ricci.

The ***Approved Equity Award Table*** that follows is intended to illustrate the following:

- Reflect the face value of the awards authorized by the Compensation Committee on each Issuance Date over fiscal years 2012-2017 (that is, the number of shares of our common stock issued multiplied by the stock price on the date of issuance).

- Show how the values reflected in table differ from what is reported in the Summary Compensation Table that accompanies this Compensation Discussion and Analysis as a result of the timing of the determi-

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nation of the performance measures and related target levels for the performance-based stock unit awards by the Compensation Committee. Unlike most companies, which grant and establish the performance measures and related target levels for the entire award at the time of issuance, the Compensation Committee approves the reservation of shares of our common stock for the performance-based stock unit awards at the Issuance Date, but does not select the performance measure or measures and the related target levels for each installment of the awards until the beginning of each one-year performance period. As a result, under the SEC s executive compensation disclosure rules, these subsequent award installments are not reported in the Summary Compensation Table until the fiscal year in which the performance measures and related target levels are established.

Reflect the material reduction in long-term incentive value delivered to Mr. Ricci over this four-year period with emphasis on the fiscal 2016 award that was granted 100% in performance-based units in response to stockholder feedback to align compensation with performance.

The ***Equity Award Opportunity Table*** that follows is intended to illustrate the following:

Show the change from face value on the issuance date, as depicted in approved equity award table, to the face value on the Grant Date once the performance measures and related target levels for the fiscal period are established.

Provide a comparison of the Grant Date fair value versus the value on the date the shares are actually earned by Mr. Ricci.

Show that in years when our stock price declined from the Grant Date to the date the shares were actually earned, Mr. Ricci s realized compensation value also declined. Conversely, in a period in which our stock price increased from the grant date to the date the shares were actually earned, Mr. Ricci s realized compensation exceeded the grant date value. Both scenarios demonstrate the strong alignment of Mr. Ricci s long-term incentive award value with the creation of stockholder value.

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**CHIEF EXECUTIVE OFFICER**

**APPROVED EQUITY AWARDS**

**FISCAL 2012 FISCAL 2017**

| | Type of Award[1] | FY 2012[2] | FY 2013[2] | FY 2014[2] | FY 2015[2] | FY 2016[2] | FY 2017[2] | FY 2018[2] | Total Face Value on Issuance Date |
|---|---|---|---|---|---|---|---|---|---|
| Nov 11, 2011 (FY12) (1,500,000 shares) | | $6,450,000 (250,000 shares) | $6,450,000 (250,000 shares) | $6,450,000 (250,000 shares) | | | | | $19,350,000 (750,000 shares) |
| | | $6,450,000 (250,000 shares) | $6,450,000 (250,000 shares) | $6,450,000 (250,000 shares) | | | | | $19,350,000 (750,000 shares) |
| Dec 17, 2012 (FY13) (1,500,000 shares) | | | $5,580,000 (250,000 shares) | $5,580,000 (250,000 shares) | $5,580,000 (250,000 shares) | | | | $16,740,000 (750,000 shares) |
| | | | $5,580,000 (250,000 shares) | $5,580,000 (250,000 shares) | $5,580,000 (250,000 shares) | | | | $16,740,000 (750,000 shares) |
| Nov 12, 2013 (FY14) (500,000 shares) | | | | | $3,927,500 (250,000 shares) | | | | $3,927,500 (250,000 shares) |
| | | | | | $3,927,500 (250,000 shares) | | | | $3,927,500 (250,000 shares) |
| Dec 15, 2014 (FY15) (500,000 shares) | | | | | | $3,507,500 (250,000 shares) | | | $3,507,500 (250,000 shares) |
| | | | | | | $3,750,500 (250,000 shares) | | | $3,507,500 (250,000 shares) |
| Nov 20, 2015 (FY16) | | | | | | | $10,040,000 | | $10,040,000 (500,000 |

| | | | |
|---|---|---|---|
| (500,000 shares) | (500,000 shares) | | shares) |
| Nov 17, 2016<br>(FY17)<br>(625,000 shares) | $3,887,500<br>(250,000 shares) | $5,831,250<br>(375,000 shares) | $3,887,500<br>(250,000 shares)<br>$5,831,250<br>(375,000 shares) |

(1) RSU means time-based restricted stock unit and PRSU means performance-based restricted stock unit.

(2) The dollar amounts shown in these columns represent the Grant Date fair value (under FASB ASC Topic 718) of each installment as follows: (a) RSU awards on the date of grant and (b) PRSU s awards represents the value on the date the Compensation Committee approved the issuance of the award. The actual grant date fair values of the PSRU awards will be determined based on the price of our common stock on the date that the performance measures are established by the Compensation Committee.

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**CHIEF EXECUTIVE OFFICER**

**EQUITY AWARD OPPORTUNITY**

**FISCAL 2013 FISCAL 2017**

| | **Type of Award[1]** | **FY 2013[2]** | **FY 2014[2]** | **FY 2015[2]** | **FY 2016[2]** | **FY 2017[3]** | **FY 2018[4]** |
|---|---|---|---|---|---|---|---|
| Nov 11, 2011 (FY12) (1,500,000 shares) | | $6,450,000<br>(250,000 shares)<br>$5,580,000<br>(250,000 shares) | $6,450,000<br>(250,000 shares)<br>$3,927,500<br>(250,000 shares) | | | | |
| Dec 17, 2012 (FY13) (1,500,000 shares) | | $5,580,000<br>(250,000 shares)<br>$5,580,000<br>(250,000 shares) | $5,580,000<br>(250,000 shares)<br>$3,927,500<br>(250,000 shares) | $5,580,000<br>(250,000 shares)<br>$702,235<br>(50,000 shares) | | | |
| Nov 12, 2013 (FY14) (500,000 shares) | | | | $2,854,000<br>(200,000 shares)<br>$3,927,500<br>(250,000 shares)<br>$3,927,500<br>(250,000 shares) | | | |
| Dec 15, 2014 (FY15) (500,000 shares) | | | | | $3,507,500<br>(250,000 shares)<br>$5,020,000<br>(250,000 shares) | | |
| Nov 20, 2015 (FY16) (500,000 shares) | | | | | | | |