Nuance Communications, Inc.
Form DEF 14A
January 26, 2018

SCHEDULE 14A INFORMATION

(RULE 14a-101)

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.

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(4) Date Filed:

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Nuance Communications, Inc.

One Wayside Road

Burlington, MA 01803

NOTICE OF THE 2018 ANNUAL MEETING OF STOCKHOLDERS

Dear Stockholders:

The 2018 Annual Meeting of Stockholders (the 2018 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 February 28, 2018 at 10:00 a.m. local time, for the purpose of considering and acting upon the following proposals:

(1) To elect eight 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 approve amendments to and restatement of the Company s Amended and Restated 2000 Stock Plan;

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

(4) To ratify the appointment of BDO USA, LLP as the Company s independent registered public accounting firm for the fiscal year ending September 30, 2018;

(5) To consider a stockholder proposal as described in the accompanying Proxy Statement if properly presented at the 2018 Annual Meeting; and

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

The Board of Directors has fixed the close of business on January 4, 2018 as the record date for determination of stockholders entitled to notice of, and to vote at, the 2018 Annual Meeting and at any postponements or adjournments thereof. A list of stockholders entitled to vote at the 2018 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 2018 Annual Meeting.

The Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2017 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 2018 Annual Meeting.

By Order of the Board of Directors,

Kenneth M. Siegel

Secretary

Burlington, Massachusetts

January 26, 2018

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PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

February 28, 2018

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 2018 Annual Meeting of Stockholders of the Company to be held on February 28, 2018 at 10:00 a.m., local time, at the Company s office located at 1198 East Arques Avenue, Sunnyvale, CA 94085 (the 2018 Annual Meeting). We intend to mail this Proxy Statement and the accompanying form of proxy to stockholders on or about January 30, 2018.

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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 2018 Annual Meeting, including the election of directors. Votes cast in person or by proxy at the 2018 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 and restating 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 ratification of the appointment of BDO USA, LLP as the Company s independent registered public accounting firm described in Proposal Four; (v) AGAINST with respect to the stockholder proposal described in Proposal Five; and (vi) as the proxy holders deem advisable in their sole discretion on any other matters that may properly come before the 2018 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 2018 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 January 4, 2018 have the right to receive notice of and to vote at the 2018 Annual Meeting. On January 4, 2018, the Company had issued and outstanding 293,464,892 shares of Common Stock.

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PROXIES

Proxies for use at the 2018 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 2018 Annual Meeting and the election to vote in person. Attendance at the 2018 Annual Meeting will not by itself constitute the revocation of a proxy.

STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS FOR THE 2019 ANNUAL MEETING OF STOCKHOLDERS

Stockholders may present proper proposals or nominations for inclusion in the Company s proxy statement and for consideration at next year s annual meeting of stockholders by submitting their proposals or nominations in writing to the Company s Secretary in a timely manner. The Company s Amended and Restated Bylaws dated as of November 7, 2017 (the 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. In addition, the Bylaws were filed as Exhibit 3.1 to the Company s Current Report on Form 8-K, filed with the Securities and Exchange Commission (the SEC) on November 13, 2017 and may be accessed through the SEC s website at www.sec.gov/edgar.

Inclusion of Stockholder Proposals in Proxy Statement

Proposals of stockholders that are intended to be presented at the Company s 2019 Annual Meeting of Stockholders must comply with the requirements of SEC Rule 14a-8 and must be received by the Company no later than September 21, 2018 in order to be included in the Company s proxy statement and form of proxy relating to the meeting.

Inclusion of Director Nominees in Proxy Statement

A shareholder, or group of up to 20 shareholders, that has owned continuously for at least three years shares of the Company s stock representing an aggregate of at least 3% of the Company s outstanding shares, may nominate and include in the Company s proxy materials director nominees constituting up to 20% of the authorized number of the Company s board of directors as of the deadline for such nomination, provided that the shareholder(s) and nominee(s) satisfy the requirements in the Bylaws. Notice of proxy access director nominees must be received not earlier than the close of business on October 1, 2018 (150^{th} day) and not later than the close of business on the October 31, 2018.

Inclusion of Stockholder Proposals or Nominations in Annual Meeting Agenda but Not in Proxy Statement

A stockholder proposal or a nomination for director for the Company s 2019 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 31, 2018 and no later than November 30, 2018.

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 2018 Annual Meeting, eight directors will be elected to the Board. The Nominating Committee of the Board of Directors recommended, and the Board of Directors approved, Robert J. Finocchio, Robert J. Frankenberg, William H. Janeway, Laura S. Kaiser, Mark R. Laret, Katharine A. Martin, Philip J. Quigley and Sanjay Vaswani as nominees for election at the 2018 Annual Meeting. In light of Mr. Ricci s expected retirement as CEO on or before March 31, 2018, the Board elected not to nominate Mr. Ricci for election as a director at the 2018 annual meeting of shareholders. 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

Robert J. Finocchio, 66, 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 as Chairman of our Audit Committee and serves on our Compensation Committee. 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, 70, 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 Compensation Committee and also serves on our Audit Committee and Nominating & Governance 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, 74, 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 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 & Governance 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.

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Laura S. Kaiser, 57, has served as a director since December 19, 2017. Ms. Kaiser has served as Chief Executive Officer of SSM Health since May 2017. Prior to SSM Health, Ms. Kaiser previously served as Executive Vice President and Chief Operating Officer of Intermountain Healthcare from March 2012 to April 2017. Prior to Intermountain Healthcare, Ms. Kaiser served in numerous leadership roles at Ascension Health. Ms. Kaiser holds a Bachelor of Science in Health Services Management from the University of Missouri-Columbia and a Master of Business Administration and a Master in Healthcare Administration from Saint Louis University. Ms. Kaiser serves on our Compensation Committee. Ms. Kaiser s experience as an executive at numerous health care companies qualifies her to be a member of our Board of Directors.

Mark R. Laret, 63, 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 our Nominating & 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, 55, has served as a director since December 17, 1999. Since September 1999, Ms. Martin has been 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, including serving as its chair since October 2017. Ms. Martin also serves on the boards of 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 has thirty 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, 75, 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.

Sanjay Vaswani, 58, is expected to join the Board of Directors in early February 2018 and has been nominated for election at the 2018 Annual Meeting. Mr. Vaswani has been a managing partner of the Center for Corporate Innovation, Inc., a professional services firm focused on the technology and healthcare industries, since 1990. From 1987 to 1990 he was with McKinsey & Company. Prior to that, Mr. Vaswani was employed by Intel Corporation. Mr. Vaswani previously served as a director of Brocade Communications Systems, Inc. from April 2004 until the sale of Brocade to Broadcom Ltd. in November 2017 and as a director at Blue Star Infotech Ltd. and Persistence Software, Inc. Mr. Vaswani received a B.B.A. degree from the University of Texas at Austin and an M.B.A. degree from the Wharton School of Business at the University of Pennsylvania. Mr. Vaswani s leadership and prior board experience, together with his global perspective, corporate advisory and risk management experience qualifies him to be a member of our Board of Directors.

Required Vote & Recommendation

The eight nominees receiving the highest number of affirmative votes of the shares of the Company s Common Stock present at the 2018 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.

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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

Corporate Governance Overview and Stockholder Engagement

We are committed to good corporate governance, which promotes the long-term interests of our stockholders and strengthens our Board of Directors and management accountability. Highlights of our corporate governance practices include the following:

- Annual elections of directors
- A Board composed of a majority of independent Directors
- Lead Independent Director, with an intention to move to an independent Board Chair
- Proxy access
- Commitment to Board of Directors refreshment during 2018
- 100% independent committee members
- Stock Ownership Guidelines
- Independent director nominee selection process
- Intention to split the position of Chair and CEO upon the appointment of a new CEO
- Continued evaluation of our strategic plan and unlocking unrealized value of our business units

We believe that effective corporate governance should also include regular, constructive conversations with our stockholders. During the past fiscal year, our CEO, CFO and outside members of our Board of Directors have engaged with several of our largest institutional stockholders directly to solicit feedback and understand any concerns they have. We are committed to a higher degree of transparency with all stockholders. We have also received letters and emails from our stockholders, which are reviewed with the full Board and appropriate committees.

These engagement efforts have allowed us to better understand our stockholders priorities and perspectives, and provided us with useful input concerning our corporate governance and compensation practices, among other matters. This effort generated important feedback for our Nominating & Governance and Compensation Committees, as well as the full Board of Directors, and was taken into account when making decisions regarding governance and compensation changes.

CEO Transition and Separation of the Chair and CEO role

As previously announced in November 2016, Mr. Ricci advised the Board that he intends to retire at the end of his term on March 31, 2018. The Board of Directors is nearing completion of a search process to choose Mr. Ricci s successor. The Board engaged a nationally recognized search firm in 2017 and is actively considering internal and external candidates. The Board intends to appoint a CEO successor to Mr. Ricci no later than March 31, 2018.

Mr. Ricci s role as a board member will end at the 2018 Annual Meeting. We expect that Mr. Ricci s CEO successor will be appointed to the Board, but we expect an independent director will assume the role of Chair of the Board at that time.

Director Refreshment and Diversity

The Board of Directors believes strongly in Board diversity and periodic Board refreshment. In this regard, we recently appointed Laura Kaiser, President and CEO of SSM Health, one of the largest integrated healthcare delivery systems in the U.S., and, effective February 1, 2018, Sanjay Vaswani, a managing partner of the Center for Corporate Innovation, Inc., a professional services firm focused on the technology and healthcare industries, to the Board. In addition, as noted above, we expect our new CEO to join the Board upon his or her appointment.

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The Board continues to work with a nationally recognized search firm to identify additional new directors. We expect to appoint one or two new directors prior to the 2019 Annual Meeting who would replace one or two current directors.

Executive Compensation

To better harmonize our strategic objectives with our compensation structure, we made changes in fiscal year 2017 and in prior years to our executive compensation program, including implementing more performance based incentives, as more fully described in the section titled Executive Compensation Compensation Discussion and Analysis Executive Summary Our Investor Outreach Program and Resulting Compensation Changes.

Committee Composition

In January 2018, the Board reviewed the organization of our committees, with a focus on independence and efficient function, and made the following changes:

- Combined the Nominating and Governance committees of the Board, appointing Mr. Janeway to serve as Chair and Messrs. Frankenberg and Laret to serve as members and in connection with which Ms. Martin resigned from her committee role;
- Named Mr. Finocchio as Chair of the Audit Committee; and
- Added Ms. Kaiser to the Compensation Committee.

In addition, the Board expects to add Mr. Vaswani to the Nominating & Governance Committee of the Board.

Board of Director Meetings and Committees

The Board of Directors held a total of seven meetings (including regular and special meetings) during the fiscal year ended September 30, 2017. 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 each of Mmes. Kaiser and Martin and Messrs. Finocchio, Frankenberg, Janeway, Laret, Quigley and Vaswani are independent within the meaning of the listing standards of the NASDAQ Stock Market.

The Board s Leadership Structure

Mr. Ricci currently serves in the combined roles of Chairman of the Board and Chief Executive Officer, and Mr. Frankenburg serves as Lead Independent Director. The Lead Independent Director serves as the focal point for the independent directors, coordinates providing 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.

As noted above, Mr. Ricci s role as a board member will end at the 2018 Annual Meeting. Mr. Ricci s CEO successor will be appointed to the Board, but we expect an independent director will assume the role of Chair of the Board at that time.

Committees of the Board of Directors

The Board of Directors had four standing committees during the fiscal year ended September 30, 2017: an Audit Committee, a Compensation Committee, a Governance Committee and a Nominating Committee. In January 2018, the Board of Directors consolidated the former Nominating Committee and Governance Committee into a combined Nominating & Governance 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 dele-

gated 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 eight meetings during the fiscal year ended September 30, 2017. Mr. Frankenberg served as Chairman of the Audit Committee through January 2018. Mr. Finocchio currently 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.

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 May 2017, a copy of which is available on the Company s Web site at http://investors.nuance.com/committee-details/audit-committee-charter.

Compensation Committee

During fiscal year 2017 the Compensation Committee consisted of Messrs. Finocchio, Frankenberg and Quigley. Ms. Kaiser joined the Compensation Committee in January 2018. Each member of the Compensation Committee 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 six meetings during the fiscal year ended September 30, 2017.

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://investors.nuance.com/committee-details/compensation-committee-charter. The Compensation Committee Report and the Compensation Discussion and Analysis are included elsewhere in this Proxy Statement.

Nominating & Governance Committee

In January 2018, the Board of Directors combined the previously separate Nominating Committee and Governance Committee to form a Nominating & Governance Committee. Mr. Janeway serves as the Chairman of the Nominating & Governance Committee and Messrs. Frankenberg and Laret serve as members. Each member of the Nominating & Governance Committee 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. During fiscal year ended September 30, 2017, the Governance Committee and the Nominating Committee each held two meetings. In addition, given the Board s focus on governance and board composition matters, on several occasions during the year the Board discussed these topics in executive sessions to augment the activities of the committees.

The Nominating & Governance Committee oversees the corporate governance practices of the Board of Directors. The Committee also considers and periodically reports to the full Board on matters relating to the identification, selection, qualification of candidates to serve as directors. The Nominating & Governance 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 & Governance Committee in January 2018, a copy of which is available on the Company s web site at http://investors.nuance.com/committee-details/nominating-governance-committee.

Consideration of Director Nominees

Stockholder Nominees

The Nominating & Governance Committee (previously 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 & Governance 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 and Director Nominations for the 2019 Annual Meeting Of Stockholders above for inclusion in the proxy materials or agenda, as appropriate, 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 & Governance 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 & Governance Committee has not specified any minimum qualifications for serving on the Board of Directors. However, the Nominating & Governance 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 & Governance 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 & Governance Committee utilizes a variety of methods for identifying and evaluating director nominees. Candidates may come to the attention of the Nominating & Governance 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 & Governance Committee and may be considered at any point during the year. As described above, the Nominating & Governance 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 & Governance 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 & Governance Committee. The Nominating & Governance 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 Ms. Kaiser and 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.

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 seven of our then-serving directors attended the 2017 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://investors.nuance.com/nuance-communications-inc-code-business-conduct-and-ethics. 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.

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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/static-files/97064ac0-8d78-403c-bb29-90d516a0e957. These guidelines cover, among other items, the following significant topics:

Board Selection Process and Qualifications. The Nominating & Governance 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 required to notify the Chairman, the Lead Independent Director and the Chair of the Nominating & Governance Committee upon a change in principal professional responsibilities. The Nominating & 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 Nominating & 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 and Nominating & Governance. Additional committees may be created or disbanded upon approval of the Board. The Nominating & 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 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 December 2017, 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.

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 the Board approved an adjustment to the compensation due to demands placed on Board and Committee members, the complexity of the Company and to ensure competitive positioning to attract qualified new Board members. The new cash compensation arrangements, which were effective January 1, 2017, were 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(1)	$	10,000
Nominating Committee Member(1)	$	5,000
Governance Committee Chair(1)	$	10,000
Governance Committee Member(1)	$	5,000
Lead Director	$	30,000

(1) In January 2018, the Board of Directors combined the former Nominating Committee and Governance Committee into a combined Nominating & Governance Committee, and established the compensation for service on the newly combined committee at $10,000 for the chair of the committee and $5,000 for each non-chair member of the committee. The remaining cash compensation levels remained unchanged.

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

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Plan that became 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 2017 Amendment	Terms After 2017 Amendment
Initial grant	Fixed share amount of 30,000 shares	$500,000 in grant date value converted to shares using the closing market price on date of grant
	Vests in equal increments over three 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 market price on date of grant
	Vests in equal increments over three years	One 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 Board and Committee 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 2017. Neither Ms. Kaiser, who joined the Board of Directors after the completion of fiscal 2017, nor Mr. Vaswani, who is expected to be appointed to serve on the Board of Directors beginning in February 2018, received any compensation in fiscal 2017 and, consequently, no compensation for fiscal 2017 is reflected for either of them in the table below.

FISCAL 2017 NON-EMPLOYEE DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1) (2)	Total ($)
Robert J. Finocchio	87,500	249,976	337,476
Robert J. Frankenberg	152,500	249,976	402,476
William H. Janeway	67,500	249,976	317,476
Mark R. Laret	77,500	249,976	327,476
Katharine A. Martin	67,500	249,976	317,476
Philip J. Quigley	87,500	249,976	337,476

(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 2017, 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 $14.81 per share for the annual restricted stock unit award). The grant date fair value of each restricted stock unit award granted during fiscal 2017 is set forth in the following table:

Name	Grant Date	Shares	Value ($)
Mr. Finocchio	January 1, 2017	16,880	249,976
Mr. Frankenberg	January 1, 2017	16,880	249,976
Mr. Janeway	January 1, 2017	16,880	249,976
Mr. Laret	January 1, 2017	16,880	249,976
Ms. Martin	January 1, 2017	16,880	249,976
Mr. Quigley	January 1, 2017	16,880	249,976

(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, 2017 is set forth in the following table:

Name	Unvested Shares Subject to Outstanding Stock Awards
Mr. Finocchio	36,880
Mr. Frankenberg	31,880
Mr. Janeway	31,880
Mr. Laret	31,880
Ms. Martin	31,880
Mr. Quigley	31,880

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EXECUTIVE COMPENSATION, MANAGEMENT AND OTHER INFORMATION

Information Concerning Current Executive Officers

Satish Maripuri, 52, joined the Company in February 2012 and currently serves as our Executive Vice President and General Manager, Healthcare Division, from August 2016 and was elected as an executive officer on August 1, 2017. From February 2012 to January 2016, Mr. Maripuri served as Senior Vice President of operations in the Healthcare Division. Prior to joining the Company in 2012, Mr. Maripuri held several executive leadership positions in global technology companies, including Solera Holdings, Lionbridge Technologies, and Imprivata.

Paul A. Ricci, 61, 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.). Mr. Ricci has announced his intention to retire from the Company on or before March 31, 2018.

Kenneth M. Siegel, 59, 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, 47, 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.

Robert Weideman, 59, joined the Company in November 2001, and currently serves as the Company s Executive Vice President and General Manager, Enterprise Division from October 2012 and was elected an executive officer on August 1, 2017. In his tenure with Company, he has been the general manager for the Dragon and Imaging businesses, as well as SVP of international marketing in EMEA. Previously, Mr. Weideman served as chief marketing officer for ScanSoft, and vice president of marketing for the Adobe Systems portfolio company Cardiff Software. He has also held senior marketing and management roles at TGS.com and CA (Computer Associates).

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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, with Ms. Kaiser abstaining, 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, 2017.

The Compensation Committee:

Robert J. Frankenberg, Chairman

Robert J. Finocchio

Laura S. Kaiser

Philip J. Quigley

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COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (the CD&A) provides information regarding the fiscal 2017 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, 2017. These executive officers were our named executive officers (the Named Executive Officers) for fiscal 2017. 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;
- Satish Maripuri, our Executive Vice President and General Manager, Healthcare Division (1)
- Robert C. Schassler, our Executive Vice President and General Manager, Mobile Division (2); and
- Robert Weideman, our Executive Vice President and General Manager, Enterprise Division (1).

(1) In August 2017, Messrs. Maripuri and Weideman were elected as executive officers of the Company.

(2) Mr. Schassler resigned from his position as our Executive Vice President and General Manager on January 13, 2018.

This CD&A describes the material elements of our executive compensation program in effect during the fiscal year ended September 30, 2017, including the basis for the fiscal 2017 compensation decisions. It also provides an overview of additional information related to our executive compensation program, including a discussion of our philosophy, policies, practices, objectives and the process by which the Compensation Committee sets executive compensation.

Executive Summary

Fiscal 2017 Year in Review

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. During fiscal 2017, we continued to make progress on a number of business initiatives including growing our net new bookings and increasing recurring revenue as a percent of total revenue. Progress on some initiatives was marred, however, by a malware incident that occurred at the end of the third fiscal quarter which negatively affected our results of operations and financial condition for fiscal 2017.

On June 27, 2017, we were impacted by the global NotPetya malware incident (the Malware Incident), which affected certain of our systems, including systems used by our healthcare customers, primarily for transcription services, as well as systems used by our Imaging division to receive and process orders.

As a result of our security controls and in-place monitoring, the Malware Incident was quickly identified and, through the extraordinary efforts of our employees, rapid and extensive mitigation actions were taken. As a result, we were able to prevent the malware from spreading to our customers, preserve the security and integrity of our customer data and our software products and restore services to the majority of our customers by the end of July 2017.

Since the target total direct compensation opportunities of our executive officers, including the Named Executive Officers, are directly tied to performance measures designed to focus on our revenue and profitability, the Malware Incident also impacted the outcomes of the incentive compensation for our executive officers for fiscal 2017, as described below.

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Fiscal 2017 Financial Results

Notwithstanding the Malware Incident, we continued to make progress in several areas in fiscal 2017 as follows:

- We delivered net new bookings growth at 10% for fiscal 2017 led by Dragon Medical cloud, Enterprise offerings, clinical documentation improvement solutions, and automotive. Our Enterprise segment delivered record net new bookings on an annual basis.

- Our Healthcare segment delivered its best net new bookings quarter in history in the fourth quarter of fiscal 2017 despite the challenges it faced as it recovered from the Malware Incident.

- We met our recurring revenue target of 73% for fiscal 2017 as we saw a continued momentum across our growth businesses.

Thus, even after giving effect to the Malware Incident, which impacted many of our key financial metrics, we were able to improve our performance year-over-year in our bookings, net new bookings and recurring revenue metrics as follows:

- ***Bookings*** Our total bookings were $2,604.6 million, up approximately 6% from $2,462.6 million in fiscal 2016.

- ***Net New Bookings*** Our total net new bookings were $1,653.6 million, up 10% from $1,502.3 million in fiscal 2016.

- ***Revenue*** Our revenue under generally-accepted accounting principles (GAAP) was $1,939.4 million, down $9.5 million from $1,948.9 million in fiscal 2016. Fiscal 2017 non-GAAP revenue was $1,977.4 million, down slightly from $1,979.6 million in fiscal 2016. Both GAAP and non-GAAP revenue were down as a result of the Malware Incident.

- ***Recurring Revenue*** Our total GAAP recurring revenue at the end of fiscal 2017 was $1,406.4 million, while non-GAAP recurring revenue was $1,442.3 million, both represented 73% of total revenue, compared to 70% in fiscal 2016.

- ***Margins*** Our GAAP operating margin was 2.7%, compared to 7.1% in fiscal 2016. Fiscal 2017 non-GAAP operating margin was 26.4%, compared to 28.5% in fiscal 2016. Both GAAP and non-GAAP operating margins were down as compared to the prior year as a result of lost revenues due to the Malware Incident.

- ***Net Income*** We recognized a GAAP net loss of $(151.0) million, or $(0.52) per share, compared to a GAAP net loss of $(12.5) million, or $(0.04) per share, in fiscal 2016. Fiscal 2017 non-GAAP net income was $309.0 million, or $1.05 per diluted share, compared to $343.4 million, or $1.15 per diluted share, in fiscal 2016. Both GAAP and non-GAAP declined as a result of the lost revenues due to the Malware Incident.

- ***Cash Flow from Operations (CFFO)*** We reported full-year CFFO of $378.9 million, down 33% compared to $565.8 million in fiscal 2016 due to the impact of the Malware Incident.

A reconciliation of the non-GAAP to GAAP financial measures is set forth in Annex A to this Proxy Statement.

The Malware Incident impacted our financial results in the third and fourth quarters of fiscal 2017 and, correspondingly, our overall financial results for the full fiscal year. For fiscal 2017, we estimate that we lost approximately $68.0 million in revenues, primarily in our Healthcare segment, due to the service disruption and the reserves we established for customer refund credits. In addition, we incurred incremental costs of approximately $24.0 million for fiscal 2017 as a result of our remediation and restoration efforts, as well as incremental amortization expenses. We also incurred capital expenditures of approximately $13.0 million related to upgrading our existing technology infrastructures during the fourth quarter of fiscal 2017.

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Results of Fiscal 2017 Say-on-Pay Vote and Stockholder Engagement

Prior to our 2017 Annual Meeting of Stockholders, our Board of Directors, led by the Compensation Committee, continued its engagement efforts to better understand our stockholder concerns about our executive compensation program while continuing to emphasize the annual focus of our business transformation initiative. At the direction of the Compensation Committee, we contacted stockholders representing approximately 59% of our outstanding common shares and met with stockholders representing approximately 28% of our outstanding common shares to gather feedback on the changes we made to our executive compensation program in fiscal 2017, as described below, and to further our ongoing dialogue with stockholders about our compensation philosophy and how we can continue to strengthen the alignment of pay and performance.

Previously, in fiscal 2017, we responded to the feedback received from our stockholders concerning 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 our annual and long-term incentive compensation programs. Based on this information, and after weighing our stockholders views against our business imperatives (including the ongoing business transformation and the upcoming Chief Executive Officer transition), the Compensation Committee made the following modifications to the executive compensation program for fiscal 2017 (each as described in more detail in the section below entitled Fiscal 2017 Executive Compensation Actions and Decisions Other Fiscal 2017 Compensation Actions and Decisions):

What we heard	**What we did**
Concern with use of overlapping metrics in our short-term and our long-term incentive programs	We eliminated the overlapping performance measurement between our short-term and long-term incentive compensation programs.
Short-term focus of our long-term incentives for our CEO	We designed our CEO s PRSU award granted pursuant to the terms of his employment agreement as amended and restated on November 17, 2016 to be earned based entirely on a relative TSR performance metric to be measured over the term of his agreement.
Concern that our compensation programs were not adequately aligned with stockholder interests	We introduced a TSR modifier for the PRSU awards granted in fiscal 2017 to our other executive officers to be earned at the end of fiscal 2019

At the 2017 Annual Meeting of Stockholders, we received 33.2% support for the stockholder advisory vote on the compensation of the Named Executive Officers (the Say-on-Pay vote). Following the Annual Meeting of Stockholders, the Compensation Committee considered the results of the Say-on-Pay vote and decided to retain the TSR modifier introduced in fiscal 2017 for the PRSU awards granted to our executive officers in fiscal 2018 and to continue to use different performance measures for the annual bonus plan for our executive officers and their performance-based long-term incentive compensation awards.

Our Board of Directors is committed to engaging with our stockholder on their views about our executive compensation program and will continue to evaluate potential program design changes in the future, including reducing the target total direct compensation opportunities of our executive officers and continuing to link the majority of each executive officer s target total direct compensation opportunity to Company performance.

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Executive Compensation-Related Policies and Practices

As noted above, we have made changes to our executive compensation policies and practices in response to stockholder input, and intend to continue to evolve our practices to better align our compensation with stockholder interests and market practices. During fiscal 2017, 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 2017, 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.

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

Provide perquisites and other personal benefits to our executive officers which are consistent with competitive market prices.

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.

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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 Challenges

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 highly-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.

Consequently, in designing the compensation program for our executive officers, including the Named Executive Officers, the Compensation Committee seeks to implement strategies for delivering compensation that align current opportunities with the overall software industry, provide sufficient emphasis on pay-for-performance, are appropriately aligned with our financial goals and long-term stockholder returns and address or mitigate the challenges described above.

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Compensation Philosophy and Objectives

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.

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.

Fiscal 2017 Executive Compensation Actions and Decisions

Actions and Decisions Affected by Malware Incident

As noted above, the Malware Incident directly affected the incentive compensation outcomes for our executive officers. Prior to making its decisions with respect to our fiscal 2017 incentive compensation awards, the Compensation Committee conducted an in-depth review of the impact of the Malware Incident on our financial results and the outcome these results had on each of the incentive compensation awards. Balancing the unforeseeable nature of the Malware Incident against the extraordinary efforts that were taken to mitigate its impact on both our systems and our customers, the Compensation Committee exercised its discretion to make adjustments to the fiscal 2017 PRSU awards of the Named Executive Officers as described in detail below. The Compensation Committee decided not to exercise its discretion to adjust the final outcome of Mr. Ricci s incentive compensation awards or the resulting payments made under the Annual Bonus Plan.

Further details of actions and decisions taken by the Compensation Committee are as follows:

- ***Annual Bonus Payments*** The Compensation Committee approved annual bonus payments for our executive officers at 50% of their target bonus opportunity level based on the pre-existing objectives and without making any discretionary adjustments. While we achieved the pre-established net new bookings target for our annual performance-based bonuses, as a result of the Malware Incident we did not attain the pre-established free cash flow-per-share target for the bonuses. Consequently, each of the Named Executive Officers received an annual bonus payment that was equal to 50% of his annual bonus opportunity.

- ***Performance-Based Restricted Stock Unit Awards*** In November 2017, the Compensation Committee certified the level of attainment of the pre-established performance objectives for the fiscal 2017 PRSU awards, which included the PRSU awards granted in previous years but for which the performance objectives were not established until the beginning of fiscal 2017, as follows:

  - ***Mr. Ricci*** As described in more detail in the section entitled Long-Term Incentive Compensation Fiscal 2017 Equity Award Decisions and Outcomes Mr. Ricci below, based on the percentage achievement of each performance objective of his fiscal 2017

PRSU awards, in the aggregate Mr. Ricci earned 471,120 shares of our common stock (compared to an aggregate total of 500,000 shares subject to such awards).

Notwithstanding our overall performance for the year, Mr. Ricci requested that the Compensation Committee reduce the overall net value of the shares to be issued to him from the fiscal 2017 PRSU

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awards by an additional $300,000. Mr. Ricci noted his belief in setting an appropriate tone. The Compensation Committee acknowledged the importance of the tone Mr. Ricci was seeking to set, accepted his request and reduced the number of shares issuable to Mr. Ricci for his fiscal 2017 PRSU awards to 451,524 shares.

Other Named Executive Officers As described in more detail in the section entitled Long-Term Incentive Compensation Fiscal 2017 Equity Award Decisions and Outcomes below, based on the percentage achievement of each performance objective of their fiscal 2017 PRSU awards, the other Named Executive Officers would have earned approximately 34% to 93% of the shares of our common stock subject to such awards. After evaluating the effect of the Malware Incident on these outcomes and after considering the extraordinary efforts of the Named Executive Officers in responding to the Malware Incident, as well as the unforeseeable nature of the incident, the Compensation Committee exercised its discretion, for purposes of their fiscal 2017 PRSU awards only, to adjust the results of our earnings-per-share financial measure for all the Named Executive Officers, our cash flow financial measure for our CFO s award, as well as the financial measures applicable to our Healthcare segment, to remove 75% of the impact of the Malware Incident from those results. As a result of these adjustments, the other Named Executive Officers were deemed to have earned 47.4% to 101.7% of the shares of our common stock subject to the fiscal 2017 PRSU awards.

Other Fiscal 2017 Compensation Actions and Decisions

In addition to the foregoing, the Compensation Committee took the following actions with respect to the compensation of the Named Executive Officers for fiscal 2017:

Base salaries and target annual bonus opportunities Reviewed and maintained their annual base salaries and target annual bonus opportunities at their fiscal 2016 levels.

Annual Bonus Plan Performance Measures To address the feedback received from our stockholders, selected net new bookings and free cash flow-per-share as the performance measures for our annual bonus plan.

Equity Awards for Mr. Ricci In connection with his contract extension and acknowledging the pre-existing obligations of the Company to Mr. Ricci under his prior contract, the Compensation Committee approved the following equity awards for Mr. Ricci:

A restricted stock award for 250,000 shares of our common stock to vest in full on September 30, 2017; and

A performance-based restricted stock unit (PRSU) award for 375,000 shares of our common stock to be earned based on our relative total stockholder return (TSR) performance over an 18-month performance period ending on March 31, 2018 (the Relative TSR PRSU Award).

Equity Awards for other Named Executive Officers Approved equity awards to the other Named Executive Officers in amounts that we believe to be competitive, satisfy our retention objectives and reward them for individual performance and expected future contributions, with the value of these awards to be delivered 50% in the form of PRSU awards for shares of our common stock to be earned upon the achievement of pre-established performance objectives for each of fiscal 2017, 2018 and 2019 and 50% in the form of restricted stock unit (RSU) awards for shares of our common stock to vest over a three-year period.

Enhanced Performance-Based Equity Awards for other Named Executive Officers To drive our financial performance and ensure their continued service through the transition to a new Chief Executive Officer, approved PRSU awards to the Named Executive Officers (other than Mr. Ricci) to be earned upon the weighted-average achievement of 100% or more of pre-established performance objectives for fiscal 2017 and 2018, respectively, with an opportunity to earn additional shares of our common stock if these performance objectives were achieved for both fiscal years (the NEO Enhanced Performance Incentive Awards).

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Amended Change of Control and Severance Agreements Amended our change of control and severance agreements with each of the Named Executive Officers providing enhanced separation terms. Enhancements included the addition of benefits in the event of death and disability, pro-rated time-based equity acceleration for involuntary termination without cause outside of a change in control and the addition of 50% of outstanding performance-based share acceleration opportunity in the event of a termination event as a result of change of control. The terms and conditions of each of the Named Executive Officer s amended agreement is further described in the section entitled Employment, Severance and Change in Control Agreements below.

Employment Agreement Extension with Mr. Ricci

In November 2016 we entered into a new employment agreement with Mr. Ricci with a term expiring March 31, 2018. For additional information about the terms and conditions of Mr. Ricci s amended and restated employment agreement, see the section entitled Employment Agreement with Mr. Ricci below, as well as our current report on Form 8-K filed with the Securities and Exchange Commission on November 17, 2016.

Compensation-Setting Process

Role of the Compensation Committee

The current members of the Compensation Committee are Ms. Kaiser and 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, our 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 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://investors.nuance.com/committee-details/compensation-committee-charter.

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 2017.

Compensation-Setting Process

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 2017, the Compensation Committee reviewed the key objectives of our operating plan and evaluated various performance measures that would provide focus on our continued revenue, bookings and earnings-per-share growth. Since we were still in the midst of the business transformation which has been focused on strengthening our recurring revenue growth, the Compensation Committee selected performance measures for our annual and long-term incentive compensation plans that it believed would best provide a balance between maintaining revenue during this transformation and ensuring a focus on earnings-per-share growth.

Accordingly, in fiscal 2017, the performance objectives for our CEO s PRSU awards that were authorized in the prior fiscal year were based on the 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 2017 operating plan, while the performance objectives for the similar awards 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. Further, with respect to our CEO s relative TSR PRSU Award, the 18-month performance period commenced at the beginning of fiscal 2017 and, with respect to the PRSU awards granted to the other Named Executive Officers, the performance period for the relative TSR modifier also commenced at the beginning of fiscal 2017. 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.

In addition, in making its compensation decisions for our executive officers for fiscal 2017 the Compensation Committee considered the competitive job market, its 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.

Role of Compensation Committee Advisor

The Compensation Committee retained Compensia to serve as its independent advisor for fiscal 2017. 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 equity 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 2017 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.

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

In June 2017, the Compensation Committee, with the assistance of Compensia, reviewed the compensation peer group for any potential changes as the result of mergers or acquisitions. At that time, the Compensation Committee removed Mentor Graphics Corporation from the peer group due to its acquisition. The compensation peer group utilized for the remainder of fiscal 2017 and to frame and evaluate the Compensation Committee s fiscal 2018 compensation analysis consisted of the following companies:

Akamai Technologies, Inc.	Fair Isaac 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.

Compensation Elements

In fiscal 2017, 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;
- retirement, welfare and 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, 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 returns, market share increase and revenue and earnings growth.

In addition, the Compensation Committee uses a combination of different financial measures, both GAAP and non-GAAP, in designing the performance-based awards for our executive officers short-term and long-term incentive compensation opportunities. Our definition of these measures, as well as a discussion of how they are used in our executive compensation program, is set forth as appropriate in this CD&A. A reconciliation of the non-GAAP to GAAP financial measures is set forth in Annex A to this Proxy Statement.

For fiscal 2017, 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 PRSU awards that were based on our fiscal 2017 financial performance as measured by non-GAAP revenue, bookings and earnings-per-share at the corporate level for Mr. Ricci 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 2017 annual bonuses were based on a 50/50 weighting of net new bookings and free cash flow-per-share achievement. In addition, as described above, the Compensation Committee granted Mr. Ricci a PRSU award to be earned based on our relative TSR and included a relative TSR modifier in the PRSU awards granted to the other Named Executive Officers. 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 2016, 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 2017.

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The base salaries of the Named Executive Officers during fiscal 2017 were as follows:

Named Executive Officer	Fiscal 2016 Base Salary	Fiscal 2017 Base Salary	Percentage Change
Mr. Ricci	$ 800,000	$ 800,000	
Mr. Tempesta	$ 400,000	$ 400,000	
Mr. Maripuri	$ 500,000	$ 500,000	
Mr. Schassler	$ 500,000	$ 500,000	
Mr. Weideman	$ 500,000	$ 500,000	

Performance-Based Annual Bonus

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 performance-based. 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 2017, 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 was 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 achieved or exceeded the pre-established target level for each performance measure (up to a maximum percentage of 125%) that may be paid to any executive officer. Our bonus program grants the Compensation Committee the authority to modify bonuses up or down as justified by the circumstances.

The target bonus opportunities of the Named Executive Officers for fiscal 2017 were as follows:

Named Executive Officer	Fiscal 2017 Target Bonus Opportunity (as a percentage of base salary)
Mr. Ricci	150%
Mr. Tempesta	75%
Mr. Maripuri	75%
Mr. Schassler	75%
Mr. Weideman	75%

Corporate Performance Measures

For fiscal 2017, annual bonuses were to be funded based on our actual performance as measured against two equally weighted corporate financial measures, net new bookings of $1,568.1 million and free cash flow-per-share of $1.50, which the Compensation Committee determined were critical to the successful execution of our fiscal 2017 operating plan.

For purposes of the 2017 bonuses, we calculated net new bookings and free cash flow-per-share as defined in Annex A.

These corporate performance measures were selected by the Compensation Committee after considering the financial objectives contained in our annual operating plan, our longer term strategic objectives, the relationship between our annual and long-term incentive compensation plans and from our stockholders concerning the selection of performance measures for our incentive compensation awards.

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Fiscal 2017 Bonus Decisions

For fiscal 2017, our reported net new bookings were $1,653.6 million and our free cash flow-per-share was $1.07 per share. After reviewing these financial results, inclusive of the impact of the Malware Incident on our revenues for the second half of the year which unfavorably affected our ability to achieve our pre-established free cash flow-per-share target, the Compensation Committee approved the payment of bonuses at 50% of the target bonus opportunity level. This payment at the 50% level was based on the achievement of the pre-existing net new bookings target. The remaining 50% of the target bonus opportunity was not achieved due to our not achieving the pre-established free cash flow-per-share target. After noting that prior to fiscal 2017 we had used a single annual bonus plan for our executive officers and other employees and that for fiscal 2017 we had introduced different performance measures for our executive officers to address stockholder feedback necessitating a separate plan for our other employees, the Compensation Committee, in evaluating the proposed bonus payments to be made to the Named Executive Officers, determined that these payments would not exceed, on a percentage basis, the payments made to our other employees.

The fiscal 2017 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 29, 2017, or $16.37 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 1, 2017.

The actual bonus payments to the Named Executive Officers for fiscal 2017 were as follows:

Named Executive Officer	Fiscal 2017 Target Bonus Opportunity (as a percentage of base salary)	Percentage of Fiscal 2017 Target Bonus Opportunity Earned	Actual Fiscal 2017 Bonus ($)(1)	Actual Fiscal 2017 Bonus (as a number of shares of common stock)
Mr. Ricci	150%	50%	$ 600,000	36,652
Mr. Tempesta	75%	50%	$ 150,000	9,163
Mr. Maripuri	75%	50%	$ 187,500	11,453
Mr. Schassler	75%	50%	$ 187,500	11,453
Mr. Weideman	75%	50%	$ 187,500	11,453

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

Long-Term Incentive Compensation

We provide long-term incentive compensation to our executive officers, including the Named Executive Officers, in the form of restricted stock unit (RSU) awards for shares of our common stock which are to be earned pursuant to both time-based and performance-based requirements. These requirements are designed to align the interests of our executive officers and our stockholders and to provide each individual executive officer with a significant incentive to manage us from the perspective of an owner and to remain employed with us.

The Compensation Committee has maintained a multi-year practice whereby at least 50% of the value of all equity awards granted to the Named Executive Officers is in the form of performance-based awards to be earned or settled based on the achievement of pre-established target levels for one or more performance measures. The Compensation Committee believes that this equity mix provides an effective alignment of the interests of our executive officers and our stockholders.

The Compensation Committee also believes that the commitment to grant a mix of both time-based and performance-based equity awards enhances our ability to retain our executive officers by providing a portion of their long-term incentive compensation opportunity in the form of full value equity awards (such as RSU awards) that will be earned only if they remain employed with us for several years.

Typically, the Compensation Committee reviews our executive officers prior fiscal year s performance at its first meeting of the fiscal year and will grant equity awards if deemed appropriate within the first quarter of

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the fiscal year. Further, the Compensation Committee determines the value of the equity awards that it grants to each executive officer based on its evaluation of his or her performance, his or her skills, expertise and experience, his or her expected future contributions, its retention objectives for the executive officer, the status of their outstanding equity awards (including the projected value of these awards in future fiscal years), its evaluation of our financial and operational performance for the preceding fiscal year and its review of the compensation data described in the section entitled Competitive Positioning above and replacement costs.

Design of Performance-Based Awards

Consistent with our compensation philosophy, the Compensation Committee has designed our executive compensation program to provide that a significant portion of our executive officers target total direct compensation opportunity is performance based. This is achieved, in part, by delivering at least 50% of their long-term incentive compensation in the form of performance-based restricted stock unit (PRSU) awards which are earned only if the performance targets are achieved and the value of which depends directly on our stock price.

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

- The highly-competitive and rapidly-changing industry in which we operate;
- Our long-term growth strategy based on both acquisitions as well as organic growth; and
- The ongoing 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 PRSU awards using an annual approach, including measures which drive longer-term performance, with the exception of a portion of Mr. Ricci 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 adjust the goals each year as needed in a 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.

In addition, by determining the size of each PRSU 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 or her annual and target total direct compensation opportunity at risk, underscoring our emphasis on performance results and reinforcing our retention objectives.

Based on the feedback we received from our stockholders concerning the appropriate focus of our long-term incentive compensation program, the Compensation Committee introduced a TSR modifier for the PRSU awards granted in fiscal 2017 to each of the Named Executive Officers (other than Mr. Ricci) to be earned at the end of fiscal 2019. This modifier will adjust the number of shares of our common stock earned in fiscal 2019 by each Named Executive Officer with respect to the increment of their fiscal 2017 PRSU awards for which the performance objectives are to be established at the beginning of fiscal 2019 based on the performance of our common stock against a selected index measured over the three-year performance period ending September 30, 2019.

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The implementation of these principles can be illustrated by the following chart:

Fiscal 2017	**Fiscal 2018**	**Fiscal 2019**
Award Approved (Authorization Date) and Grant Date (Performance Objectives Set) for First Award Tranche	Grant Date (Performance Objectives Set) for Second Award Tranche	Grant Date (Performance Objectives Set) for Third Award Tranche
Number of shares earned to be determined following the completion of the fiscal 2017 performance period	Number of shares earned to be determined following the completion of the fiscal 2018 performance period	Number of shares earned to be determined following the completion of the fiscal 2019 performance period

For purposes of the foregoing chart, as well as the discussion below, the terms authorization date and grant date are defined as follows:

Authorization Date means the date on which the Compensation Committee approved the authorization of the equity award. The per share value of the award 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 award.

Grant Date means the date on which the Compensation Committee selected the performance measures and set the target performance level for the equity award. The per share value of the awards on such date

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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.

Fiscal 2017 Equity Award Decisions and Outcomes

In November and December 2016, the Compensation Committee approved annual equity awards for our executive officers, including the Named Executive Officers. As in prior years, the Compensation Committee determined that, with respect to the PRSU awards granted to Messrs. Tempesta, Maripuri, Schassler and Weideman, it would establish the performance measures and set target levels for such measures at or shortly after the beginning of each fiscal year covered by the award. See the section entitled Long-Term Incentive Compensation Design of Performance-Based Awards above for a discussion of the Compensation Committee s rationale for using this award format.

In addition, to ensure retention during the Chief Executive Officer transition, as well as to maintain their focus on driving the achievement of key financial objectives, in November and December 2016 the Compensation Committee approved additional PRSU awards for the Named Executive Officers (other than Mr. Ricci). The shares of our common stock subject to these awards were to be earned only if we achieved or exceeded pre-established target levels for one or more key financial measures on a weighted average basis for each of fiscal 2017 and fiscal 2018. In addition, specifically to reinforce the retention objectives and importance of the designated financial objectives, the awards contained an enhanced incentive which provided that each Named Executive Officer would earn additional shares of our common stock if we achieved or exceeded the financial objectives for both fiscal 2017 and fiscal 2018. Any shares of our common stock earned for the fiscal 2017 performance period would vest and be settled at the end of fiscal 2018. The Compensation Committee believed that this award design struck an appropriate balance between creating a long-term retention incentive for the Named Executive Officers and establishing performance goals that both aligned their interests with our business objectives for the next two fiscal years and provided a strong incentive for increasing stockholder value.

The equity awards granted to the Named Executive Officers were as follows:

Mr. Ricci:

On November 17, 2016, the Compensation Committee granted Mr. Ricci the following equity awards:

Type of Award	Date of Authorization/ Grant	Number of Shares	Authorization Date Fair Value	Vesting/ Performance Requirements
RSA	November 17, 2016	250,000	$ 3,887,500	Vested in full on September 30, 2017
PRSU	November 17, 2016	375,000	$ 5,831,250	Relative TSR(1)

(1) Between 80% - 120% of the target number of shares will be earned based upon our relative TSR measured over an 18-month performance period commencing October 1, 2016 and ending March 31, 2018.

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On December 29, 2016, the Compensation Committee selected the performance measures and set the related target levels for the following tranches of the PRSU awards that were approved for grant to Mr. Ricci on November 20, 2015 as follows:

Target Number of Shares of Common Stock Subject to each PRSU Award Tranche	Fiscal 2017 Performance Measure
170,000	Upto target shares will be earned if non-GAAP revenue equals or exceeds $2.060 billion Upto an additional 42,500 shares may be earned based on a pre-established scale for overachievement of revenue target
165,000	Upto target shares will be earned if corporate bookings equal $2.343 billion Upto an additional 41,250 shares may be earned based on a pre-established scale for overachievement of bookings target
165,000	Upto target shares will be earned if non-GAAP earnings-per-share equal or exceeds $1.58 Upto an additional 41,250 shares may be earned based on a pre-established scale for overachievement of earnings-per-share target
Total 500,000 shares	

In addition, on December 29, 2016, the Compensation Committee reserved 200,000 shares of our common stock for possible issuance in the event that Mr. Ricci exceeded the target performance levels for his fiscal 2017 performance-based equity awards; 75,000 shares were reserved for the relative TSR PRSU award granted on November 17, 2016 and 125,000 shares were reserved for overachievement of the PRSU awards granted on December 29, 2016.

Subsequently, on November 27, 2017, the Compensation Committee certified the level of achievement of the performance objectives for the various increments of the PRSU awards that were approved for grant on November 20, 2015 and which had such objectives established on December 29, 2016 as follows:

Target Number of Shares of Common Stock Subject to the PRSU Award Installment	Fiscal 2017 Performance Measure	Percentage Achievement of Performance Measure(s)	Number of Shares of Common Stock Earned Pursuant to the PRSU Award Installment

	170,000	Non-GAAP Revenue	96%	153,000
	165,000	Bookings	111%	206,250
	165,000	Non-GAAP earnings-per-share	86%	111,870
Total	500,000 shares		94%	471,120 shares
			CEO Requested Adjustment:	(19,596 shares)
Adjusted Total				451,524 shares

Notwithstanding these result, Mr. Ricci requested that the Compensation Committee reduce the overall net value of the shares to be issued to him from these PRSU tranches by $300,000. Mr. Ricci noted his belief of setting an appropriate tone. The Compensation Committee acknowledged the importance of the tone Mr. Ricci was seeking to set, accepted his request and reduced the number of shares issuable to Mr. Ricci for his fiscal 2017 PRSU awards to 451,524 shares.

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Mr. Tempesta:

On November 15, 2016, the Compensation Committee granted and authorized for grant to Mr. Tempesta the following equity awards:

Type of Award	Date of Authorization/ Grant	Number of Shares	Authorization Date Fair Value	Vesting/ Performance Requirements
RSU	November 15, 2016	80,000	$1,226,400	Subject to time-based vesting over three years as follows: 30,000 shares on September 30, 2017, 25,000 shares on September 30, 2018 and 25,000 shares on September 30, 2019
PRSU	November 15, 2016	80,000	$1,226,400	Up to 30,000 shares to be earned upon achievement of performance objectives established for one-year performance period ending September 30, 2017 and up to 25,000 shares to be earned upon achievement of performance objectives established for each of one-year performance period for fiscal 2018 and fiscal 2019

Also on November 15, 2016, the Compensation Committee granted and authorized for grant to Mr. Tempesta an NEO Enhanced Performance Incentive Award as follows:

Date of Authorization/ Grant	Number of Shares	Authorization Date Fair Value	Vesting/ Performance Requirements
November 15, 2016	100,000	$1,533,000	33,334 shares to be earned upon achievement of 100%, on a weighted-average basis or better, of the performance objectives established for one-year performance period ending September 30, 2017, 33,333 shares to be earned upon achievement of 100%, on a weighted-average basis or better, of the performance objectives established for one-year performance period ending September 30, 2018 and 33,333 shares to be earned on September 30, 2018 **ONLY** if the award tranches for **BOTH** fiscal 2017 and fiscal 2018, as described above, were earned based on 100% achievement of the applicable performance objectives

The initial 33,334 shares of our common stock subject to the NEO Enhanced Performance Incentive Award were to be earned if, on a weighted-average basis, 100% of the fiscal 2017 performance objectives were achieved. Any earned shares of our common stock will vest on September 30, 2018.

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On December 29, 2016, the Compensation Committee selected the performance measures and set the related target levels for the following increments of the PRSU awards that were approved for grant to Mr. Tempesta on December 15, 2014, July 21, 2015, November 20, 2015, and November 15, 2016:

Target Number of Shares of Common Stock Subject to the PRSU Award Tranche	**Fiscal 2017 Performance Measure**
15,000	Up to target number of shares will be earned if non-GAAP revenue equals or exceeds $2.060 billion Up to an additional 3,750 shares may be earned based on a pre-established scale for overachievement of revenue target
15,000	Up to target shares will be earned if corporate bookings equal $2.343 billion Up to an additional 3,750 shares may be earned based on a pre-established scale for overachievement of bookings target
22,500	Up to target shares will be earned if non-GAAP earnings-per-share equal or exceeds $1.58 Up to an additional 5,625 shares may be earned based on a pre-established scale for overachievement of earnings-per-share target
15,000	Up to target shares will be earned if functional operating expense target is achieved Up to an additional 3,750 shares may be earned based on a pre-established scale for overachievement of earnings-per-share target
7,500	Up to target shares will be earned if cash flow from operations target is achieved Up to an additional 1,875 shares may be earned based on a pre-established scale for overachievement of earnings-per-share target
Total 75,000 shares	

In addition, on December 29, 2016, the Compensation Committee reserved 18,750 shares of our common stock for possible issuance in the event that Mr. Tempesta exceeded the target performance levels for the increments of the PRSU awards that were approved for grant to him on December 15, 2014, July 21, 2015, November 20, 2015 and November 15, 2016 that had their performance measures selected and the related target levels set on December 29, 2016 and 6,250 shares were reserved for achievement of the relative TSR performance modifier for the PRSU award authorized on November 15, 2016 which is subject to the relative TSR modifier for the performance period commencing October 1, 2016 and ending September 30, 2019.

Subsequently, on November 27, 2017, the Compensation Committee certified the level of achievement of the performance objectives, taking into consideration the adjustment approved by the Compensation Committee for the Malware Incident as described in the section entitled Executive Summary Fiscal 2017 Year in Review above, for the various increments of the PRSU awards that were previously approved for grant and which had such objectives established on December 29, 2016 as follows:

Target Number of Shares of Common Stock Subject to the PRSU Award Installment	Fiscal 2017 Performance Measure	Percentage Achievement of Performance Measure(s)	Number of Shares of Common Stock Earned Pursuant to the PRSU Award Installment
15,000	Non-GAAP revenue	96%	6,000
15,000	Bookings	111%	18,750
22,500	Non-GAAP earnings-per-share	97%	15,075
15,000	Functional operating expense	92%	18,750
7,500	Cash flow from operations	97%	6,150
Total 75,000 shares			64,725 shares

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In addition, on November 27, 2017, the Compensation Committee certified the level of achievement of the performance objectives for the first increment of Mr. Tempesta s NEO Enhanced Performance Incentive Award. The Compensation Committee did not apply the adjustment approved by the Compensation Committee for the Malware Incident as described in the section entitled Executive Summary Fiscal 2017 Year in Review above, and, when assessing the final outcome for this award, determined that none of the shares of our common stock subject to that increment had been earned. As a result of the fiscal 2017 increment of the award not being earned, the additional portion of the award of 33,333 shares that was to be earned for 100% achievement, on a weighted-average basis or better, of the performance objectives for the fiscal 2017 and fiscal 2018 performance periods, was also forfeited.

Mr. Maripuri:

On December 22, 2016, prior to Mr. Maripuri being elected an executive officer, he was granted the following equity awards:

Type of Award	Date of Authorization/ Grant	Number of Shares	Authorization Date Value of Equity Award	Vesting/ Performance Requirements
RSU	December 22, 2016	75,000	$1,120,500	Subject to time-based vesting over three years as follows: 25,000 shares on September 30, 2017, 25,000 shares on September 30, 2018 and 25,000 shares on September 30, 2019
PRSU	December 22, 2016	75,000	$1,120,500	Up to 25,000 shares to be earned upon achievement of performance objectives established for one-year performance period ending September 30, 2017 and up to 25,000 shares to be earned upon achievement of performance objectives established for each of one-year performance period for fiscal 2018 and fiscal 2019, respectively

Also on December 22, 2016, Mr. Maripuri was granted a NEO Enhanced Performance Incentive Award as follows:

Date of Authorization/ Grant	Number of Shares	Authorization Date Value of Equity Grant	Vesting/ Performance Requirements
December 22, 2016	150,000	$2,241,000	50,000 shares to be earned upon achievement of 100%, on a weighted-average basis or better, of the performance objectives established for one-year performance period ending September 30, 2017, 50,000 shares to be earned upon achievement of 100%, on a weighted-average basis or better, of the performance objectives established for one-year performance period ending September 30, 2018 and 50,000 shares to be earned on September 30, 2018 **ONLY** if the award tranches for **BOTH** fiscal 2017 and