FITZGERALD BRIAN
Form SC 13D/A
June 15, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934
(Amendment No.19)*

Security Capital Corporation

(Name of Issuer)

Class A Common Stock, par value $0.01 per share

(Title of Class of Securities)

814131405

(CUSIP Number)

Brian D. Fitzgerald

c/o Capital Partners, Inc.

Eight Greenwich Office Park

Third Floor

Greenwich, CT 06831

(203) 625-0770

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

June 12, 2006

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. o

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 814131405

1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) Brian D. Fitzgerald		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) o (b) o		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) SC, BK, OO, PF		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o		
6.	Citizenship or Place of Organization United States		
Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power	0
	8.	Shared Voting Power	5,777,306+
	9.	Sole Dispositive Power	0
	10.	Shared Dispositive Power	5,777,306+
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 5,777,306		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) x 82,453		
13.	Percent of Class Represented by Amount in Row (11) 78.5%		
14.	Type of Reporting Person (See Instructions) IN		

+See the responses to Items 3, 4, 5 and 6 below.

2

CUSIP No. 814131405

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only)
   FGS, Inc. #51-0315515

2. Check the Appropriate Box if a Member of a Group (See Instructions)
   (a) o
   (b) o

3. SEC Use Only

4. Source of Funds (See Instructions)
   SC, BK, OO

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o

6. Citizenship or Place of Organization
   Delaware

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 0
	8.	Shared Voting Power 4,983,361+
	9.	Sole Dispositive Power 0
	10.	Shared Dispositive Power 4,983,361+

11. Aggregate Amount Beneficially Owned by Each Reporting Person
    4,983,361

12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o

13. Percent of Class Represented by Amount in Row (11)
    67.7%

14. Type of Reporting Person (See Instructions)
    CO

+See the responses to Items 3, 4, 5 and 6 below.

3

CUSIP No. 814131405

1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) Capital Partners, Inc. #13-3109595	
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) (b)	 o o
3.	SEC Use Only	
4.	Source of Funds (See Instructions) SC, BK, OO	
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)	o
6.	Citizenship or Place of Organization Connecticut	

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 0
	8.	Shared Voting Power 4,455,672+
	9.	Sole Dispositive Power 0
	10.	Shared Dispositive Power 4,455,672+

11.	Aggregate Amount Beneficially Owned by Each Reporting Person 4,455,672	
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)	o
13.	Percent of Class Represented by Amount in Row (11) 60.6%	
14.	Type of Reporting Person (See Instructions) CO	

+See the responses to Items 3, 4, 5 and 6 below.

4

CUSIP No. 814131405

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only)
   CP Acquisition, L.P. No. 1 #51-0328383

2. Check the Appropriate Box if a Member of a Group (See Instructions)
   (a) o
   (b) o

3. SEC Use Only

4. Source of Funds (See Instructions)
   SC, BK, OO

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o

6. Citizenship or Place of Organization
   Delaware

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 0
	8.	Shared Voting Power 4,455,672+
	9.	Sole Dispositive Power 0
	10.	Shared Dispositive Power 4,455,672+

11. Aggregate Amount Beneficially Owned by Each Reporting Person
    4,455,672

12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o

13. Percent of Class Represented by Amount in Row (11)
    60.6%

14. Type of Reporting Person (See Instructions)
    PN

+See the responses to Items 3, 4, 5 and 6 below.

5

CUSIP No. 814131405

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only)
FGS Partners, L.P. #06-1326750

2. Check the Appropriate Box if a Member of a Group (See Instructions)
(a) o
(b) o

3. SEC Use Only

4. Source of Funds (See Instructions)
SC, BK, OO

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o

6. Citizenship or Place of Organization
Connecticut

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 0
	8.	Shared Voting Power 4,455,672+
	9.	Sole Dispositive Power 0
	10.	Shared Dispositive Power 4,455,672+

11. Aggregate Amount Beneficially Owned by Each Reporting Person
4,455,672

12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o

13. Percent of Class Represented by Amount in Row (11)
60.6%

14. Type of Reporting Person (See Instructions)
PN

+See the responses to Items 3, 4, 5 and 6 below.

6

CUSIP No. 814131405

1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) A. George Gebauer		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) o (b) o		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) SC, BK, OO		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o		
6.	Citizenship or Place of Organization United States		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power 0
		8.	Shared Voting Power 139,198+
		9.	Sole Dispositive Power 0
		10.	Shared Dispositive Power 139,198+
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 139,198		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o		
13.	Percent of Class Represented by Amount in Row (11) 1.9%		
14.	Type of Reporting Person (See Instructions) IN		

+See the responses to Items 3, 4, 5 and 6 below.

7

CUSIP No. 814131405

1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) William R. Schlueter	
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) (b)	 o o
3.	SEC Use Only	
4.	Source of Funds (See Instructions) SC, BK, OO, PF	
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)	o
6.	Citizenship or Place of Organization United States	

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 70,000
	8.	Shared Voting Power 0
	9.	Sole Dispositive Power 70,000
	10.	Shared Dispositive Power 0

11.	Aggregate Amount Beneficially Owned by Each Reporting Person 70,000	
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)	o
13.	Percent of Class Represented by Amount in Row (11) 1.0%	
14.	Type of Reporting Person (See Instructions) IN	

8

STATEMENT PURSUANT TO RULE 13d-1

OF THE GENERAL RULES AND REGULATIONS

UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

THIS STATEMENT CONSTITUTES AMENDMENT NO. 19 TO THE SCHEDULE 13D PREVIOUSLY FILED.

Item 1. **Security and Issuer**

This Amendment No. 19 to Schedule 13D (originally filed on November 24, 1989 as subsequently amended) (this Amendment No. 19) relates to the Class A Common Stock, par value $0.01 per share (the Class A Common Stock), of Security Capital Corporation (the Issuer). The address of the Issuer s principal executive offices is Eight Greenwich Office Park, Third Floor, Greenwich, CT 06831.

Item 2. **Identity and Background**

(a) This Amendment No. 19 is being filed by Brian D. Fitzgerald, FGS, Inc., a Delaware corporation, Capital Partners, Inc., a Connecticut corporation, CP Acquisition, L.P. No. 1, a Delaware limited partnership, FGS Partners, L.P., a Connecticut limited partnership, A. George Gebauer and William R. Schlueter (each, a Reporting Person and, collectively, the Reporting Persons).

(b) and (c) See Schedule A hereto.

(d) and (e) During the past five years, no Reporting Person or any other person listed in Schedule A hereto has (i) been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), or (ii) been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or a finding of any violation with respect to such laws.

(f) See Schedule A hereto.

Item 3. **Source and Amount of Funds or Other Consideration**

Item 3 is hereby amended by adding the following paragraph:

The cash used by Brian D. Fitzgerald, William R. Schlueter and Wendy E. Bolton to exercise the options described in Item 5(c) came from personal funds.

9

Item 4. **Purpose of Transaction**

Item 4 is hereby amended by adding the following paragraphs:

(a) - (j) On May 31, 2006, in connection with the declaration of a special cash dividend, the Board of Directors of the Issuer, upon the approval and recommendation of the Compensation Committee of the Board, accelerated the vesting of all remaining unvested employee and director options to purchase 104,008 shares of Class A Common Stock, subject to the requirement that any shares acquired upon exercise of such options may not be sold by the optionee until the earlier of the original vesting date of the accelerated options or the sale of the Issuer. As such, the vesting of Brian D. Fitzgerald s options to purchase 40,000 shares of Class A Common Stock for $10.85 per share that originally were to vest on July 19, 2006, William R. Schlueter s options to purchase 4,000 shares of Class A Common Stock for $10.85 per share that originally were to vest on July 19, 2006 and Wendy E. Bolton s options to purchase 400 shares of Class A Common stock for $10.85 per share that originally were to vest on July 19, 2006 was accelerated.

All outstanding options of the Reporting Persons have been exercised. See Item 5(c).

On June 12, 2006, the Issuer, Sedgwick CMS Holdings, Inc. (Sedgwick CMS) and GOSC Merger Corp., a wholly-owned subsidiary of Sedgwick CMS, entered into an Agreement and Plan of Merger (the Merger Agreement), a copy of which is filed as an exhibit hereto and is incorporated herein by reference. The Merger Agreement provides, among other things, for the merger of GOSC Merger Corp. with and into the Issuer (the Merger), with the Issuer to be the surviving corporation and a wholly-owned subsidiary of Sedgwick CMS following the Merger. Under the terms of the Merger Agreement, which is subject to the conditions discussed below, upon the Merger, each issued and outstanding share of capital stock of GOSC Merger Corp. shall be converted into and become one fully paid and nonassessable share of common stock of the Issuer. Further, upon the Merger, the issued and outstanding shares of capital stock of the Issuer shall be converted into the right to receive $16.46 per share in cash, subject to a downward adjustment to the merger consideration if the Issuer s indebtedness at the time the proxy statement is mailed is in excess of the Issuer s expected indebtedness and an upward or downward adjustment to the merger consideration if the actual costs and expenses of preparing the Issuer s proxy statement and holding its special meeting of stockholders with respect to the Merger are more or less than the expected costs and expenses. All adjustments will be finalized prior to the time that the Issuer s proxy statement is mailed to its stockholders, and such proxy statement will include a definitive cash price per share payable to the Issuer s stockholders. The Merger will become effective at such time as the certificate of merger is duly filed with the Secretary of State of the State of Delaware or at such later time as is specified in the certificate of merger (the Effective Time). The consummation of the Merger is subject to customary closing conditions, including the approval of the Issuer s stockholders, the Issuer s acquisition of all of the outstanding WC Holdings, Inc., a Delaware corporation (WC), shares and options not currently owned by the Issuer and the receipt of certain regulatory and third-party consents,

10

including the expiration of all waiting periods required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

In connection with the execution of the Merger Agreement, Brian D. Fitzgerald, FGS, Inc., CP Acquisition, L.P. No 1 and A. George Gebauer, stockholders of the Issuer (each a Stockholder and, collectively, the Stockholders), entered into a Voting Agreement, dated as of June 12, 2006 (the Voting Agreement), with Sedgwick CMS and GOSC Merger Corp., a copy of which is filed as an exhibit hereto and is incorporated herein by reference, with respect to an aggregate of 5,916,504 shares of Class A Common Stock and 128 shares of Common Stock and any additional shares of Class A Common Stock and Common Stock acquired by the Stockholders of record or otherwise owned after June 12, 2006 (the Shares).

Under the Voting Agreement, each Stockholder has agreed that, until the first to occur of (a) the Effective Time or (b) the termination of the Merger Agreement in accordance with its terms (the Termination Date), at any meeting of the stockholders of the Company, however called, or in connection with any action by written consent of the stockholders of the Company, such Stockholder shall vote (or cause to be voted) or act by written consent with respect to its Shares (i) in favor of adoption and approval of the Merger Agreement and the transactions contemplated thereby, and any actions in furtherance thereof requiring a vote of the Issuer s stockholders, (ii) against any action, proposal, transaction or agreement that would result in a breach in any material respect of any representation, warranty, covenant or agreement of the Issuer contained in the Merger Agreement or that is reasonably likely to result in any of the conditions to Sedgwick CMS s or GOSC Merger Corp. s obligations under the Merger Agreement not being fulfilled, (iii) except as otherwise agreed to in writing in advance by Sedgwick CMS, against (A) any Transaction Proposal (as defined in the Merger Agreement), (B) any reorganization, recapitalization, dissolution or liquidation of the Issuer, (C) any change to the present capitalization of the Issuer, any amendment to the Issuer s certificate of incorporation or by-laws other than in connection with the transactions contemplated by the Merger Agreement or any other material change to the Issuer s corporate structure or business and (D) any other action or proposal that is intended, or would reasonably be expected, to prevent, impede, interfere with, delay, postpone or adversely affect the transactions contemplated by the Merger Agreement and (iv) in favor of any matter reasonably necessary for consummation of the transactions contemplated by the Merger Agreement, and in connection therewith, to execute any documents that are reasonably necessary or appropriate in order to effectuate the foregoing, including granting to Sedgwick CMS the ability of Sedgwick CMS or its nominees to vote the Shares directly.

Under the Voting Agreement, each Stockholder grants to Sedgwick CMS and any designee of Sedgwick CMS an irrevocable proxy (until the Termination Date) to vote such Stockholder s Shares as described above. Each Stockholder further agrees to revoke any proxy previously granted by such Stockholder with respect to its Shares.

Prior to the Termination Date, without the prior consent of Sedgwick CMS, no Stockholder will directly or indirectly, nor in the case of any Stockholder that is a

11

corporation or other entity will it authorize or permit any of its respective directors, officers, employees, counsel, accountants and other agents, advisors and representatives to, directly or indirectly, (a) solicit, initiate or encourage (including by way of furnishing information), or take any other action designed to facilitate, any inquiries, proposals or offers from any person that constitute, or would reasonably be expected to lead to, a Transaction Proposal, (b) participate in any discussions or negotiations (including by way of furnishing information) regarding any such inquiry, proposal, offer or Transaction Proposal or (c) cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt by any other person to do or seek any of the foregoing.

Except as contemplated by the Voting Agreement, each Stockholder agrees, during the term of the Voting Agreement, not to (a) sell, transfer, tender, pledge, hypothecate, encumber, assign or otherwise dispose of, including by gift (collectively, Transfer), or enter into any agreement, option or other arrangement with respect to, or consent to, a Transfer of, any or all of the Shares, or any interest in any of the foregoing, except to Sedgwick CMS, (b) deposit any of the Shares into a voting trust or enter into any voting agreement or similar agreement or arrangement with respect to any of the Shares, or any interest in any of the foregoing, except to Sedgwick CMS or in accordance with the Voting Agreement or (c) take any other action that is intended, or could reasonably be expected, to restrict, limit or interfere with such Stockholder s ability to perform its obligations under the Voting Agreement or the transactions contemplated thereby.

In connection with the execution of the Merger Agreement, certain of the Company s stockholders (including CP Acquisition, L.P. No. 1, Brian D. Fitzgerald, FGS, Inc., each of the Company s directors, William R. Schlueter and Stephen Brown) and the minority holders of WC shares and options have entered into an Indemnification Agreement, dated as of June 12, 2006 (the Indemnification Agreement), a copy of which is filed as an exhibit hereto and is incorporated herein by reference, pursuant to which such parties have agreed to provide Sedgwick CMS with indemnification with respect to certain matters in connection with the merger. As security for such indemnification obligations, approximately $13 million otherwise payable to such stockholders in connection with the Merger will be placed into escrow at the time the Merger is closed. The Company s public stockholders will not be subject to any such indemnification obligations, and none of the merger consideration payable to the public stockholders will be placed into escrow.

Item 5. Interest in Securities of the Issuer

(a) Number of shares of Class A Common Stock beneficially owned as of June 14 2006 by each of the Reporting Persons and the other persons listed on Schedule A hereto:

	Number of Shares of Class A Common Stock:
Brian D. Fitzgerald	5,777,306
FGS, Inc.	4,983,361
Capital Partners, Inc.	4,455,672
CP Acquisition, L.P. No. 1	4,455,672

12

FGS Partners, L.P.	4,455,672	
A. George Gebauer	139,198	
William R. Schlueter	70,000	
Wendy E. Bolton	3,200	

Percent of Class A Common Stock(1):

Brian D. Fitzgerald	78.5	%
FGS, Inc.	67.7	%
Capital Partners, Inc.	60.6	%
CP Acquisition, L.P. No. 1	60.6	%
FGS Partners, L.P.	60.6	%
A George Gebauer	1.9	%
William R. Schlueter	1.0	%
Wendy E. Bolton	*	

* Less than 1.0%

(b) Number of shares of Class A Common Stock beneficially owned as of June 14, 2006 as to which the Reporting Persons and each of the other persons listed in Schedule A hereto have:

(i) sole power to vote or direct the vote:

Person	Number of Shares
Brian D. Fitzgerald	0
FGS, Inc.	0
Capital Partners, Inc.	0
CP Acquisition, L.P. No. 1	0
FGS Partners, L.P.	0
A. George Gebauer	0
William R. Schlueter	70,000
Wendy E. Bolton	3,200

(ii) shared power to vote or direct the vote:

Person	Number of Shares	
Brian D. Fitzgerald	5,777,306	(2)(3)(4)

13

FGS, Inc.	4,983,361	(4)(5)
Capital Partners, Inc.	4,455,672	(4)(6)
CP Acquisition, L.P. No. 1	4,455,672	(4)
FGS Partners, L.P.	4,455,672	(4)(6)
A. George Gebauer	139,184	(4)
William R. Schlueter	0	
Wendy E. Bolton	0	

(iii) sole power to dispose or to direct the disposition of:

Brian D. Fitzgerald	0
FGS, Inc.	0
Capital Partners, Inc.	0
CP Acquisition, L.P. No. 1	0
FGS Partners, L.P.	0
A. George Gebauer	0
William R. Schlueter	70,000
Wendy E. Bolton	3,200

(iv) shared power to dispose of or to direct the disposition of:

Person	Number of Shares	
Brian D. Fitzgerald	5,777,306	(2)(3)(4)
FGS, Inc.	4,983,361	(4)(5)
Capital Partners, Inc.	4,455,672	(4)(6)

---

(1) Based on 7,358,097 shares of Class A Common Stock issued and outstanding as of June 14, 2006.

(2) Excludes 82,453 shares of Class A Common Stock owned by The Fitzgerald Trust, of which Mr. Fitzgerald s brother is the trustee and Mr. Fitzgerald s minor children are the sole beneficiaries, as to which shares beneficial ownership is disclaimed by Mr. Fitzgerald for all purposes.

(3) Includes 793, 945 shares of Class A Common Stock owned of records by Brian D. Fitzgerald, 4,455,672 shares of Class A Common Stock owned of record by CP Acquisition, L.P. No. 1 and 527,689 shares of Class A Common Stock owned of record by FGS, Inc.

(4) All of the shares are subject to the restrictions on voting and disposition contained in the Voting Agreement.

(5) Includes 527,689 shares of Class A Common Stock owned of record by FGS, Inc. and 4,455,672 shares of Class A Common Stock owned of record by CP Acquisition, L.P. No. 1.

(6) Includes 4,455,672 shares of Class A Common Stock owned of record by CP Acquisition, L.P. No. 1.

14

CP Acquisition, L.P. No. 1	4,455,672	(4)
FGS Partners, L.P.	4,455,672	(4)(6)
A. George Gebauer	139,184	(4)
William R. Schlueter	0	
Wendy E. Bolton	0	

(c) Brian D. Fitzgerald exercised options to purchase 40,000 shares of Class A Common Stock for $10.85 per share on June 13, 2006. William R. Schlueter exercised options to purchase (i) 4,000 shares of Class A Common Stock for $10.85 per share on June 13, 2006, (ii) 16,000 shares of Class A Common Stock for $10.85 per share on April 10, 2006 and (iii) 50,000 shares of Class A Common Stock for $6.125 per share on April 10, 2006. Wendy E. Bolton exercised options to purchase 400 shares of Class A Common Stock for $10.85 per share on June 13, 2006.

(d) Not applicable.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

Item 6 is hereby amended by adding the following paragraphs:

See the response to Item 4, which is incorporated herein by reference.

Item 7. Material to Be Filed as Exhibits

Item 7 is hereby amended by adding the following exhibits:

1 Joint Filing Agreement, dated as of June 14, 2006, among the Reporting Persons.

2 Agreement and Plan of Merger, dated as of June 12, 2006, among Sedgwick CMS Holdings, Inc., GOSC Merger Corp. and Security Capital Corporation (incorporated by reference to Exhibit 2.1 to the Issuer s Form 8-K Current Report dated June 12, 2006).

3 Voting Agreement, dated as of June 12, 2006, among Sedgwick CMS Holdings, Inc. GOSC Merger Corp. and the stockholders of Security Capital Corporation whose names appear on Schedule A thereto (incorporated by reference to Exhibit 2.3 to the Issuer s Form 8-K Current Report dated June 12, 2006).

4 Indemnification Agreement, dated as of June 12, 2006, among Sedgwick CMS Holdings, Inc., the parties set forth on Schedule A thereto, the parties set forth on Schedule B thereto and Capital Partners, Inc.

[Signature Pages to Amendment No. 19 Follow]

16

SIGNATURE

After reasonable inquiry and to the best of each of the undersigned s knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: June 14, 2006

/s/ Brian D. Fitzgerald
Brian D. Fitzgerald

FGS, INC.

By:	/s/ Brian D. Fitzgerald Name: Brian D. Fitzgerald Title: President and Treasurer

CAPITAL PARTNERS, INC.

By:	/s/ Brian D. Fitzgerald Name: Brian D. Fitzgerald Title: President

CP ACQUISITION, L.P. NO. 1

By:	FGS, Inc.
Its:	General Partner
By:	/s/ Brian D. Fitzgerald Name: Brian D. Fitzgerald Title: President and Treasurer

17

FGS PARTNERS, L.P.

By: Capital Partners, Inc.
Its: General Partner

By:	/s/ Brian D. Fitzgerald Name: Brian D. Fitzgerald Title: President

/s/ A. George Gebauer
A. George Gebauer

/s/ William R. Schlueter
William R. Schlueter

18

SCHEDULE A

FGS, Inc.
Eight Greenwich Office Park
Third Floor
Greenwich, CT 06831

Controlling Persons, Executive Officers and Directors of FGS, Inc., a Delaware corporation:

Brian D. Fitzgerald	President, Treasurer & Director
A. George Gebauer	Vice President, Secretary & Director

FGS, Inc. is a general partner of, and holds investments directly in, CP Acquisition, L.P. No. 1 and other Capital Partners-related entities.

Messrs. Fitzgerald and Gebauer are principally employed as officers of Capital Partners, Eight Greenwich Office Park, Third Floor, Greenwich, CT 06831. Except as reported under Item 5, none of such persons beneficially owns any shares of Class A Common Stock of the Issuer. All of the foregoing individuals are United States citizens.

19

(Schedule A Continued)

Capital Partners, Inc.
Eight Greenwich Office Park
Third Floor
Greenwich, CT 06831

Controlling Persons, Executive Officers and Directors of Capital Partners, Inc., a Connecticut corporation:

Brian D. Fitzgerald	President, Treasurer & Director
A. George Gebauer	VP & Managing Director
William R. Schlueter	VP & Managing Director
Wendy E. Bolton	Secretary

Capital Partners, Inc. is a general partner of, holds investments directly in, and provides administrative services for CP Acquisition, L.P. No. 1 and other Capital Partners-related entities.

Messrs. Fitzgerald, Gebauer, Schlueter and Ms. Bolton are principally employed as officers of Capital Partners, Eight Greenwich Office Park, Third Floor, Greenwich, CT 06831. Except as reported under Item 5, none of such persons beneficially owns any shares of Class A Common Stock of the Issuer. All of the foregoing individuals are United States citizens.

20

(Schedule A Continued)

FGS Partners, L.P.
Eight Greenwich Office Park
Third Floor
Greenwich, CT 06831

FGS Partners, L.P. is a Connecticut limited partnership.

General Partner: Capital Partners, Inc.

FGS Partners, L.P. is general partner of, and holds investments directly in, CP Acquisition, L.P. No. 1 and other Capital Partners-related entities. See the description of Capital Partners, Inc. above for a description of its controlling persons, executive officers and directors.

21

(Schedule A Continued)

CP Acquisition, L.P. No. 1
Eight Greenwich Office Park
Third Floor
Greenwich, CT 06831

CP Acquisition, L.P. No. 1 is a Delaware limited partnership.

General Partners: FGS, Inc., Capital Partners, Inc., FGS Partners, L.P.

CP Acquisition, L.P. No. 1 is the limited partnership which owns the Class A Common Stock of the Issuer. See the description of the three general partners above for a description of the controlling persons, executive officers and directors thereof.

22

(Schedule A Continued)

Brian D. Fitzgerald
c/o Capital Partners, Inc.
Eight Greenwich Office Park
Third Floor
Greenwich, CT 06831

See the descriptions of Mr. Brian D. Fitzgerald under the descriptions of FGS, Inc., Capital Partners, Inc., FGS Partners, L.P. and CP Acquisition, L.P. No. 1 above.

23

(Schedule A Continued)

A. George Gebauer
c/o Capital Partners, Inc.
Eight Greenwich Office Park
Third Floor
Greenwich, CT 06831

See the descriptions of Mr. A. George Gebauer under the descriptions of FGS, Inc. and Capital Partners, Inc. above.

24

(Schedule A Continued)

William R. Schlueter
c/o Capital Partners, Inc.
Eight Greenwich Office Park
Third Floor
Greenwich, CT 06831

See the description of Mr. William R. Schlueter under the description of Capital Partners, Inc. above.

(Schedule A Continued)

Wendy E. Bolton
c/o Capital Partners, Inc.
Eight Greenwich Office Park
Third Floor
Greenwich, CT 06831

See the description of Ms. Wendy E. Bolton under the description of Capital Partners, Inc. above.

26

INDEX OF EXHIBITS TO AMENDMENT NO. 19
TO SCHEDULE 13D

Exhibit No.	**Description**	**Page**
1	Joint Filing Agreement, dated as of June 14, 2006, among the Reporting Persons.	28
2	Agreement and Plan of Merger, dated as of June 12, 2006, among Sedgwick CMS Holdings, Inc., GOSC Merger Corp. and Security Capital Corporation (incorporated by reference to Exhibit 2.1 to the Issuer s Form 8-K Current Report dated June 12, 2006).	
3	Voting Agreement, dated as of June 12, 2006, among Sedgwick CMS Holdings, Inc. GOSC Merger Corp. and the stockholders of Security Capital Corporation whose names appear on Schedule A thereto (incorporated by reference to Exhibit 2.3 to the Issuer s Form 8-K Current Report dated June 12, 2006).	
4	Indemnification Agremeent, dated as of June 12, 2006, among among Sedgwick CMS Holdings, Inc., the parties set forth on Schedule A thereto, the parties set forth on Schedule B thereto and Capital Partners, Inc.	31

27

EXHIBIT 1

JOINT FILING AGREEMENT

JOINT FILING AGREEMENT, dated as of the 14th day of June, 2006, among BRIAN D. FITZGERALD, FGS, INC., CAPITAL PARTNERS, INC., CP ACQUISITION, L.P. NO. 1, FGS PARTNERS, L.P., A. GEORGE GEBAUER and WILLIAM R. SCHLUETER (COLLECTIVELY, THE JOINT FILERS).

WHEREAS, pursuant to Rule 13d-1(k)(1) under the Securities Exchange Act of 1934, as amended (the Exchange Act), the parties hereto desire to satisfy any filing obligation under Section 13(d) of the Exchange Act by a single joint filing;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Joint Filers hereby agree and represent as follows:

1. Amendment No. 19 to the Schedule 13D with respect to the Class A Common Stock, par value $.01 per share, of Security Capital Corporation (to which this Joint Filing Agreement is an exhibit) is filed on behalf of each of the Joint Filers.

2. Each of the Joint Filers is eligible to use Schedule 13D for the filing of information therein.

28

3. Each of the Joint Filers is responsible for the timely filing of Schedule 13D and any amendments thereto, and for the completeness and accuracy of the information concerning such person contained therein, provided that each such person is not responsible for the completeness or accuracy of the information concerning the other persons making the filing, unless such person knows or has reason to believe that such information is inaccurate.

IN WITNESS WHEREOF, each of the undersigned has caused this Joint Filing Agreement to be duly executed and delivered as of the date first above written.

/s/ Brian D. Fitzgerald
Brian D. Fitzgerald
FGS, INC.
By: /s/ Brian D. Fitzgerald
Name: Brian D. Fitzgerald
Title: President and Treasurer
CAPITAL PARTNERS, INC.
By: /s/ Brian D. Fitzgerald
Name: Brian D. Fitzgerald
Title: President

29

CP ACQUISITION, L.P. NO. 1
By: FGS, Inc.
Its: General Partner

By:	/s/ Brian D. Fitzgerald
	Name: Brian D. Fitzgerald
	Title: President and Treasurer

FGS PARTNERS, L.P.
By: Capital Partners, Inc.
Its: General Partner

By:	/s/ Brian D. Fitzgerald
	Name: Brian D. Fitzgerald
	Title: President

/s/ A. George Gebauer
A. George Gebauer
/s/ William R. Schlueter
William R. Schlueter

EXHIBIT 4

Execution Copy

INDEMNIFICATION AGREEMENT

INDEMNIFICATION AGREEMENT, dated as of June 12, 2006 (this **Agreement**), among SEDGWICK CMS HOLDINGS, INC., a Delaware corporation (the **Buyer**), the parties set forth on Schedule A hereto (the **Specified Company Holders**), the parties set forth on Schedule B hereto (the **WC Minority Holders** , and together with the Specified Company Holders, the **Indemnifying Parties**) and Capital Partners, Inc., a Connecticut corporation, as the representative of the Indemnifying Parties. Capitalized terms used but not otherwise defined herein have the meanings ascribed to such terms in the Merger Agreement (as defined below).

RECITALS

WHEREAS, concurrently with the execution and delivery of this Agreement, the Buyer, GOSC Merger Corp., a Delaware corporation (**Merger Sub**), and Security Capital Corporation, a Delaware corporation (the **Company**), are entering into an Agreement and Plan of Merger (the **Merger Agreement**) that provides for, among other things, the merger of Merger Sub with and into the Company (the **Merger**) and the conversion of each Company Share issued and outstanding immediately prior to the Effective Time into the right to receive the Merger Consideration; and

WHEREAS, the Specified Company Holders, in the aggregate, are the record holders of approximately 85% of the outstanding Company Shares; and

WHEREAS, as a condition and inducement to the Buyer and Merger Sub entering into the Merger Agreement and subject to the terms and conditions of this Agreement, the Specified Company Holders have agreed to enter into this Agreement to indemnify the Buyer for certain Losses and Taxes identified herein; and

WHEREAS, the Company is the record owner of 12,507.88 shares of common stock of WC Holdings, Inc., a Delaware corporation (**WC Holdings**), and the Company s primary asset is such ownership interest in WC Holdings; and

WHEREAS, the WC Minority Holders are, in the aggregate, the record owners of all shares of common stock of WC Holdings and options to acquire shares of common stock of WC Holdings not owned by the Company; and

WHEREAS, concurrently with the execution and delivery of this Agreement, the Company, WC Holdings and the WC Minority Holders are entering into a stock purchase agreement (the **WC Minority Purchase Agreement**) pursuant to which, immediately prior to the Closing, the Company will purchase (or WC Holdings will repurchase) all of the shares of WC Holdings common stock and options to acquire shares of common stock of WC Holdings held by the WC Minority Holders; and

WHEREAS, as a condition and inducement to the Company and WC Holdings entering into the WC Minority Purchase Agreement and subject to the terms and conditions of this

Agreement, the WC Minority Holders have agreed to enter into this Agreement to indemnify the Buyer for Losses and Taxes identified herein; and

WHEREAS, at the Closing, the Buyer and the Representative (on behalf of the Indemnifying Parties) will enter into an escrow agreement in the form of Exhibit C hereto (the **Escrow Agreement**), pursuant to which a portion of the Merger Consideration payable to the Specified Company Holders and a portion of the consideration payable to the WC Minority Holders under the WC Minority Purchase Agreement will be placed into an escrow account, which escrow account will serve as the Buyer s sole source for recovery following the Closing for any Losses and Taxes identified herein (except for claims of, or causes of action arising from, fraud).

NOW, THEREFORE, in consideration of the foregoing premises and the respective representations and warranties, covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE I
CERTAIN DEFINITIONS

SECTION 1.1 Certain Definitions.

(a) When used in this Agreement, the following terms will have the meanings assigned to them in this Section 1.1(a):

Actual Debt Amount means an amount equal to the actual amount paid by the Company pursuant to Section 6.19(a) of the Merger Agreement to terminate the Credit Agreement; provided, in the event that such amount is equal to or less than $28,500,000, the Actual Debt Amount shall be deemed to equal $28,500,000.

Actual Special Meeting Expenses means the aggregate amount of Special Meeting Expenses, which amount shall be mutually determined by the Buyer and the Representative no later than 30 days after the Closing.

Adjustment Deductible means (a) if the Final Adjustment Amount is a negative number, an amount equal to the absolute value of the Final Adjustment Amount and (b) if the Final Adjustment Amount is a positive number, an amount equal to zero.

Aggregate Deemed Sales Price has the meaning set forth in Section 6(b) of Exhibit B.

Agreement has the meaning set forth in the preamble.

Applicable Survival Period has the meaning set forth in Section 3.1.

Buyer has the meaning set forth in the preamble.

Closing means the consummation of the Merger.

32

Company has the meaning set forth in the recitals.

Company Escrow Funds has the meaning set forth in Section 2.1(a).

Escrow Funds has the meaning set forth in Section 2.1(b).

Estimated Election Allocations has the meaning set forth in Section 2.5(c) of the Primrose Agreement.

Final Adjustment Amount means an amount (which may be positive or negative) equal to the Final Expense Adjustment Amount plus the Final Debt Adjustment Amount.

Final Debt Adjustment Amount means (a) in the event that the Actual Debt Amount is *greater* than the Target Date Debt Amount, an amount (which shall be a positive number) equal to the amount by which the Actual Debt Amount is *greater* than the Target Date Debt Amount and (b) in the event that the Actual Debt Amount is *less* than the Target Date Debt Amount, an amount (which shall be a negative number) equal to the amount by which the Actual Debt Amount is *less* than the Target Date Debt Amount.

Final Election Allocations has the meaning set forth in Section 2.5(c) of the Primrose Agreement.

Final Expense Adjustment Amount means (a) in the event that the Actual Special Meeting Expenses are at least $75,000 *greater* than the Revised Estimated Special Meeting Expenses, an amount (which shall be a positive number) equal to the amount by which the Actual Special Meeting Expenses is *greater* than the Revised Estimated Special Meeting Expenses, (b) in the event that the Actual Special Meeting Expenses are at least $75,000 *less* than the Revised Estimated Special Meeting Expenses, an amount (which shall be a negative number) equal to the amount by which the Actual Special Meeting Expenses is *less* than the Revised Estimated Special Meeting Expenses and (c) in the event that the Actual Special Meeting Expenses are no more than $75,000 *greater* than the Revised Estimated Special Meeting Expenses or no less than $75,000 *less* than the Revised Estimated Special Meeting Expenses, an amount equal to zero.

General Deductible means an amount equal to $2,000,000.

Indemnifying Parties has the meaning set forth in the preamble.

Indemnitees has the meaning set forth in Section 3.2(a).

Independent Accountant means an independent nationally-recognized accounting firm agreed to by the Representative and the Buyer.

Losses has the meaning set forth in Section 3.2(a).

Merger has the meaning set forth in the recitals.

33

Merger Agreement has the meaning set forth in the recitals.

Merger Sub has the meaning set forth in the recitals.

Notice of Claim has the meaning set forth in Section 3.4.

Notice of Objection has the meaning set forth in Section 3 of Exhibit B.

Notice of Non-Third Party Claim has the meaning set forth in Section 3.4.

Notice of Third Party Claim has the meaning set forth in Section 3.3(a).

Pre-Closing Period has the meaning set forth in Section 3.2(d)(i).

Post-Closing Period means any taxable period or portion thereof beginning after the Closing Date.

Primrose Baseline Tax Amount means an amount equal to $18,946,409.

Primrose Final Tax Amount means (i) the Primrose Updated Tax Amount as shown in the Primrose Tax Statement delivered by the Representative to the Buyer pursuant to Section 1 of Exhibit B, if no Notice of Objection with respect thereto is timely delivered by the Buyer to the Representative pursuant to Section 3 of Exhibit B; or (ii) if a Notice of Objection is so delivered, an amount equal to the Primrose Updated Tax Amount as shown in the Independent Accountant s calculation delivered pursuant to Section 5 of this Exhibit B.

Primrose Tax Amount means the aggregate amount of Taxes owed by the Company to Governmental Entities in connection with the consummation of the transactions contemplated by the Primrose Agreement calculated in accordance with the Principles.

Primrose Tax Balance Sheet has the meaning set forth in Section 6(d) of Exhibit B.

Primrose Tax Deductible means the amount (if any) by which the Primrose Baseline Tax Amount is greater than the Primrose Final Tax Amount.

Primrose Tax Statement has the meaning set forth in Section 1 of Exhibit B.

Primrose Updated Tax Amount has the meaning set forth in Section 1 of Exhibit B.

Principles has the meaning set forth in Section 6 of Exhibit B.

Representative has the meaning set forth in Section 4.1.

Review Period has the meaning set forth in Section 3 of Exhibit B.

34

Security Capital Company means, for purposes of this Agreement only, the Company and its Subsidiaries, including the Primrose Companies while they were Subsidiaries of the Company.

Special Indemnities has the meaning set forth in Section 3.2(a).

Specified Company Holders has the meaning set forth in the preamble.

Taxing Authority means, with respect to any Tax, the governmental entity or political subdivision thereof that imposes such Tax, and any agency charged with the collection of such Tax for such entity or subdivision, including any governmental or quasi-governmental entity or agency that imposes, or is charged with collecting, social security or similar charges or premiums.

Tax Expenses has the meaning set forth in Section 3.2(d).

Third Party Claim has the meaning set forth in Section 3.3(a).

Third Party Defense has the meaning set forth in Section 3.3(b).

Transaction Documents means the Merger Agreement, this Agreement, the Escrow Agreement, the Voting Agreement and any instrument or agreement delivered pursuant to or in connection with any of the foregoing.

WC Holdings has the meaning set forth in the recitals.

WC Holdings Escrow Funds has the meaning set forth in Section 2.1(b).

WC Minority Holders has the meaning set forth in the preamble.

WC Minority Purchase Agreement has the meaning set forth in the recitals.

(b) For purposes of this Agreement, except as otherwise expressly provided herein or unless the context otherwise requires: (i) the meaning assigned to each term defined herein will be equally applicable to both the singular and the plural forms of such term and vice versa, and words denoting any gender will include all genders as the context requires; (ii) where a word or phrase is defined herein, each of its other grammatical forms will have a corresponding meaning; (iii) the terms hereof , herein , hereunder , hereby and herewith and words of similar imp will, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement; (iv) when a reference is made in this Agreement to an Article, Section, paragraph, Schedule or Exhibit without reference to a document, such reference is to an Article, Section, paragraph, Schedule or Exhibit to this Agreement; (v) a reference to a subsection without further reference to a Section is a reference to such subsection as contained in the same Section in which the reference appears, and this rule will also apply to paragraphs and other subdivisions; (vi) the word include , includes or including when used in this Agreement will be deemed to include the words without limitation , unless otherwise specified; and (vii) a reference to any party to this Agreement or

35

any other agreement or document will include such party s predecessors, successors and permitted assigns.

ARTICLE II
ESCROW AGREEMENT

SECTION 2.1 Deposit of the Escrow Funds.

(a) Notwithstanding anything in the Merger Agreement to the contrary, (i) the Merger Consideration payable to the Specified Company Holders in accordance with Sections 3.1(c) and 3.2 of the Merger Agreement will be reduced by an amount equal to $1.76, which will result in a $10,880,656.16 aggregate reduction of the Merger Consideration, (ii) the aggregate amount to be deposited by the Buyer with the Paying Agent pursuant to Section 3.4(a) of the Merger Agreement will be reduced by an amount equal to $10,880,656.16 and (iii) at the Closing, the Buyer will deposit with the Escrow Agent $10,880,656.16 (the **Company Escrow Funds**).

(b) In accordance with Section 2.4(d) of the WC Minority Purchase Agreement, at the closing of the transactions contemplated by the WC Minority Purchase Agreement, the Company will deposit with the Escrow Agent $2,121,703.68 (the **WC Holdings Escrow Funds** , and, together with the Company Escrow Funds, the **Escrow Funds**).

(c) The Escrow Funds will only be used (i) to secure the indemnification obligations of the Indemnifying Parties set forth in this Agreement and (ii) subject to Section 4.1(d), to reimburse the Representative for any out-of-pocket fees and expenses (including reasonable fees and expenses of counsel, accountants and other advisors) and Losses that arise out of or are in connection with the acceptance or administration of the Representative s duties under this Agreement and the Escrow Agreement. The Escrow Funds will be held and released by JPMorgan Chase Bank, N.A., as escrow agent, in accordance with the terms of the Escrow Agreement.

ARTICLE III
INDEMNIFICATION

SECTION 3.1 Survival. All representations, warranties, covenants and agreements contained in the Merger Agreement or in any instrument or agreement delivered pursuant to or in connection with the Merger Agreement, the Special Indemnities and the rights to indemnification for Taxes and Tax Expenses set forth in this Agreement will survive until the twelve (12) month anniversary of the Closing. The period for which a representation, warranty, covenant, agreement or indemnification obligation survives the Closing is referred to herein as the **Applicable Survival Period** . All claims for indemnification made but not resolved prior to the expiration of the Applicable Survival Period will survive until such claim is fully and finally resolved in accordance with this Article III.

SECTION 3.2 Indemnification.

(a) Subject to the limitations set forth herein, after the Closing, the Indemnifying Parties will indemnify and defend the Buyer, the Company and their respective Affiliates and each of their respective stockholders, members, managers, officers, directors, employees, agents, successors and assigns (the **Indemnitees**) against, and will hold the Indemnitees harmless from, any cost, disbursement, obligation, assessment, judgment, injunction, order, decree, sanction, ruling, due, fine, fee, settlement, deficiency, award, loss, liability, claim, charge, action, suit, proceeding, assessed interest, penalty, damage or reasonable expense (including investigation, reasonable attorneys , accountants and other professional fees, and other reasonable costs or expenses incurred in the investigation, collection, prosecution and defense of any action, suit proceeding or claim and amounts paid in settlement thereof) (collectively, **Losses**) resulting from, arising out of, imposed upon or incurred, sustained or suffered by the Indemnitees in connection with, or otherwise with respect to, (i) any breach by the Company of any representation, warranty, covenant or agreement contained in the Merger Agreement or any other Transaction Documents (without regard and without giving effect to any materiality , Material Adverse Effect or similar qualification contained in any such representation or warranty) or (ii) the matters described in Exhibit A and Exhibit B hereto (such matters, the **Special Indemnities**); provided, however, that indemnification for Taxes (other than to the extent arising from a Special Indemnity) shall not be governed by this Section 3.2(a), but shall be governed by Section 3.2(d), and as used herein Losses shall not include Taxes or Tax Expenses.

(b) None of the Indemnifying Parties will be liable for any Tax, Tax Expense or Loss unless the claim for such Tax, Tax Expense or Loss is brought within the Applicable Survival Period. None of the Indemnifying Parties will be liable for any Tax, Tax Expense or Loss unless and until the aggregate amount of all Taxes, Tax Expenses and Losses incurred by the Indemnitees exceeds an amount equal to the sum of (i) the Primrose Tax Deductible, if any, plus (ii) the Adjustment Deductible, if any, plus (iii) the General Deductible, and then only to the extent that such Taxes, Tax Expenses and Losses exceed the sum of (A) the Primrose Tax Deductible, if any, plus (B) the Adjustment Deductible, if any, plus (C) the General Deductible. Notwithstanding the foregoing, the General Deductible shall not apply (I) to any Taxes, Tax Expenses or Losses resulting from, arising out of or incurred in connection with, or otherwise with respect to, (1) any breach by the Company of any representation or warranty set forth in Sections 4.3, 4.4 and 4.21 of the Merger Agreement, (2) any breach of any covenant or agreement set forth in the Merger Agreement and (3) the indemnification for Taxes or Tax Expenses set forth in Section 3.2(d) or (II) in connection with any Special Indemnity. All Taxes, Tax Expenses and Losses, for which an Indemnifying Party is obligated to indemnify the Indemnitees under this Agreement will be limited to and satisfied solely from the then-remaining Escrow Funds (except for claims of, or causes of action arising from, fraud). The Buyer acknowledges and agrees that in no event will any Indemnifying Party be obligated to directly satisfy any Taxes, Tax Expenses or Losses (except for claims of, or causes of action arising from, fraud).

(c) In addition to the other limitations on indemnification set forth in this Agreement, the Indemnifying Parties will not be obligated to indemnify the Indemnitees with respect to (i) any covenant or condition expressly waived by the Buyer in writing on or prior to

37

the Closing (except to the extent that any such waiver expressly reserves rights to indemnification in respect thereof) and (ii) any indirect, special, incidental, consequential or punitive damages (except to the extent any of the foregoing damages are included in an award to a third party).

(d) Subject to the limitations set forth herein, after the Closing, the Indemnifying Parties will indemnify and defend the Indemnitees against, and will hold the Indemnitees harmless from:

(i) any and all Taxes (other than Taxes included on originally filed Tax Returns and Taxes arising out of the transactions contemplated by the Primrose Agreement) imposed or due with respect to a Security Capital Company for any Tax Period ending on or before the Closing Date and the portion of the Straddle Period ending on the Closing Date (a **Pre-Closing Period**); provided, however, that the indemnification with respect to any Primrose Company shall be subject to the provisions of Section 3.3(c) hereof; provided, further, that the Indemnitees shall only be entitled to seek indemnification pursuant to this Section 3.2(d)(i) if such Taxes (A) were imposed or increased by reason of an audit or other adverse determination of a Taxing Authority, (B) were discovered by the Indemnitee in the ordinary course of its business and, except as provided in the next clause, not as the result of a special investigation conducted by an Indemnitee with respect to such Taxes or (C) were discovered by the Indemnitee in connection with an indemnification claim for which the Indemnitee is otherwise entitled to indemnification pursuant to this Section 3.2(d)(i) (including through a special investigation arising out of any such indemnification claim); provided, further, that the Indemnitees shall be required to promptly pay to the appropriate Taxing Authority any amounts paid to such Indemnitees pursuant to this Section 3.2(d)(i) unless the indemnified Taxes have already been paid to such Taxing Authority;

(ii) any Taxes imposed on the Buyer or the Company as a result of a determination by a Taxing Authority that the Merger constituted the disposition of a U.S. Real Property Interest as defined in Section 897 of the Code and the Treasury Regulations thereunder;

(iii) any and all Taxes (other than Taxes arising out of the transactions contemplated by the Primrose Agreement) imposed by a Taxing Authority on any Security Capital Company by reason of the application of Treas. Reg. § 1.1502-6 or any similar foreign, state or local law, by reason of an affiliation existing on or before the Closing Date;

(iv) notwithstanding anything to the contrary in this Agreement, any excess loss account triggered into income under Section 1.1502-19 of the Treasury Regulations and any deferred amounts triggered into income under Section 1.1502-13 of the Treasury Regulations in either case resulting from the transactions contemplated by the Primrose Agreement.

If any Indemnitees are entitled to indemnification for Taxes under this Section 3.2(d), such Indemnitees also shall be entitled to indemnification for all reasonable fees and costs (including reasonable outside professional fees and costs) incurred in contesting or otherwise incurred in connection with any such Taxes other than internal costs incurred by the Indemnitee in the ordinary course of its business (such fees and costs, the **Tax Expenses**).

38

(e) The Buyer acknowledges and agrees that, except as expressly set forth in the Merger Agreement and the other Transaction Documents, there are no representations or warranties of any kind, express or implied (including warranties of merchantability or fitness for a particular purpose), (i) with respect to the Company and its Subsidiaries, their respective assets and Liabilities, the transactions contemplated by the Merger Agreement or the Company Shares or (ii) as to the accuracy or completeness of any information regarding the Company and its Subsidiaries furnished or made available to the Buyer and its Representatives.

(f) The Buyer acknowledges and agrees that, after the Closing, the sole and exclusive remedy of the Indemnitees with respect to any and all matters arising out of, relating to or connected with the Merger Agreement or the other Transaction Documents will be pursuant to the indemnification provisions set forth in this Agreement (except for claims of, or causes of action arising from, fraud). In furtherance of the foregoing, the Buyer (on behalf of itself and each of the other Indemnitees) hereby waives, from and after the Closing, any and all rights, claims and causes of action that an Indemnitee may have against the Indemnifying Parties or any of their Affiliates arising under or based upon any Law or otherwise in connection with the Merger Agreement, the other Transaction Documents or the transactions contemplated by the Merger Agreement or the other Transaction Documents (except pursuant to the indemnification provisions set forth in this Agreement and for claims of, or causes of action arising from, fraud).

(g) Notwithstanding anything in this Agreement to the contrary, the parties acknowledge and agree that any Liability of the Indemnifying Parties for claims of, or causes of action arising from, fraud shall be on a several, and not joint, basis.

(h) (i) If the Company and its Subsidiaries (excluding the Primrose Companies) are permitted but not required under applicable state, local, or foreign income Tax Laws to treat the Closing Date as the last day of a Tax Period, then the parties shall treat that day as the last day of a Tax Period.

(ii) In the case of Taxes arising in a Tax Period of the Company and its Subsidiaries (excluding the Primrose Companies) that includes, but does not end on, the Closing Date, except as provided in Section 3.2(h)(iii), the allocation of such Taxes between the Pre-Closing Period and the Post-Closing Period shall be made on the basis of an interim closing of the books as of the end of the Closing Date. If a Tax Period begins on or prior to the Closing Date and ends after the Closing Date, then the portion of the Tax Period that begins on the day following the Closing Date shall constitute a Post-Closing Period. For purposes of this Agreement, any Tax resulting from any election under Section 338 of the Code in connection with the Merger shall be regarded as attributable to the Post-Closing Period.

(iii) In the case of any Taxes that are imposed on a periodic basis and are payable for a Tax Period of the Company and its Subsidiaries (excluding the Primrose Companies) that includes, but does not end on, the Closing Date, the portion of such Tax which relates to the portion of such Tax Period ending on the Closing Date shall in the case of any Taxes based on capitalization, debt or shares of stock authorized, issued or outstanding, or ad valorem Taxes, be deemed to be the amount of such Tax for the entire Tax Period multiplied by a fraction, the numerator of which is the number of days in the Tax Period ending on the Closing Date and the denominator of which is the number of days in the entire Tax Period.

(i) For the avoidance of doubt, the parties acknowledge and agree that the Indemnifying Parties shall have no liability for any breach of any representation or warranty contained in Section 4.8 of the Merger Agreement or in any other representation or warranty contained in the Merger Agreement to the extent such representation or warranty relates to Taxes.

SECTION 3.3 Indemnification Procedure for Third Party Claims.

(a) In the event that any claim or demand, or other circumstance or state of facts that could give rise to any claim or demand, for which the Indemnifying Parties may be liable to an Indemnitee hereunder is asserted or sought to be collected by a third party, including any claim in connection with the Special Indemnities (a **Third Party Claim**), the Indemnitee will as soon as reasonably practicable notify the Representative in writing of such Third Party Claim (a **Notice of Third Party Claim**). Failure or delay in notifying the Representative of any matter required under any provision of this Section 3.3 will not relieve the Indemnifying Parties of any Liability they may have to the Indemnitee, except and only to the extent that such failure or delay causes actual harm to the Indemnifying Parties with respect to such Third Party Claim. The Notice of Third Party Claim will specify in reasonable detail (i) the basis on which indemnification is being asserted, (ii) the nature of the misrepresentation, breach of warranty, breach of covenant, breach of agreement or other claim permitted by this Agreement and (iii) if possible, a good faith estimate of the amount of Losses or Taxes asserted thereunder. The Indemnitee will enclose with the Notice of Third Party Claim a copy of all papers served with respect to such Third Party Claim, if any, and any other documents evidencing such Third Party Claim.

(b) The Representative will have thirty (30) days from the date on which the Representative received the Notice of Third Party Claim to notify the Indemnitee that the Representative desires to assume the defense or prosecution of such Third Party Claim on behalf of the Indemnifying Parties and any litigation resulting therefrom with counsel of the Representative s choice and at the sole cost and expense of the Indemnifying Parties (a **Third Party Defense**); provided that if it is finally determined that the Indemnitee is entitled to indemnification under this Agreement with respect to the matter in question, all reasonable costs and expenses incurred by the Indemnitee prior to the assumption by the Representative (on behalf of the Indemnifying Parties) of the defense or prosecution of such Third Party Claim shall be included as Losses. If the Representative assumes the Third Party Defense in accordance herewith, (i) the Indemnitee may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim but the Representative will control the investigation, defense and settlement thereof; provided, however, that if it is finally determined that the Indemnitee is entitled to indemnification under this Agreement with respect to the matter in question, the reasonable costs and expense of such separate counsel will be included as Losses if (A) legal counsel has advised the Indemnitee that an actual conflict of interest makes representation by the same counsel or the counsel selected by the Representative inappropriate or (B) the Representative shall have authorized the fees, costs and expense of such separate counsel to be included as Losses, (ii) the Indemnitee will not file any papers or consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Representative, which consent shall not be unreasonably withheld, and

(iii) the Representative will not, without the prior written consent of the Indemnitee, consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim if the judgment or settlement does not release the Indemnitee from all liabilities and obligations with respect to such Third Party Claim or the judgment or settlement imposes injunctive or other equitable relief against the Indemnitee or admits any liability by Indemnitee in connection therewith. The parties will act in good faith in responding to, defending against, settling or otherwise dealing with Third Party Claims. The parties will also cooperate in any such defense and give each other reasonable access to all information relevant thereto.

(c) The Indemnitees will use commercially reasonable efforts (including, if requested by the Representative, by pursuing a claim against Primrose under the Primrose Agreement) to minimize Losses; provided that, if it is finally determined that the Indemnitee incurred a Loss or Tax with respect to the matter in question for which the Indemnitee is entitled to indemnification pursuant to this Agreement, the reasonable costs and expenses of such mitigation efforts shall be included as Losses; provided, further, if the Indemnitees are requested by the Representative to pursue claims against Primrose, the Indemnitees shall be entitled to reimbursement from the Escrow Funds of all reasonable costs and expenses of such efforts up to $1,500,000 without any requirement of a final determination that the Indemnitee incurred an indemnifiable Loss hereunder with respect to the matter in question.

(d) If the Representative does not assume the Third Party Defense within thirty (30) days of receipt of the Notice of Third Party Claim, the Indemnitee will be entitled to assume the Third Party Defense, at its sole cost and expense (provided that, if it is finally determined that the Indemnitee incurred a Loss with respect to the matter in question for which the Indemnitee is entitled to indemnification pursuant to this Agreement, such reasonable costs and expenses shall be included as Losses) upon delivery of notice to such effect to the Representative; provided that (i) the Representative will have the right to participate in the Third Party Defense (on behalf of, and at the sole cost and expense of, the Indemnifying Parties) but the Indemnitee will control the investigation, defense and settlement thereof and (ii) the Indemnifying Parties will not be obligated to indemnify the Indemnitee hereunder for any settlement entered into or any judgment that was consented to without the Representative s prior written consent, which consent shall not be unreasonably withheld.

(e) Notwithstanding anything else to the contrary in this Agreement, if any Taxing Authority or other person asserts a Tax claim against a Security Capital Company or the Buyer, then the Buyer shall promptly provide written notice thereof to the Representative. Such notice will specify in reasonable detail the basis for such Tax claim and will include a copy of any relevant correspondence received from the Taxing Authority or other person. If the Tax claim relates to a U.S. federal consolidated income Tax return of the Buyer, then the Buyer will control such contest; provided that the Buyer will permit the Representative to participate in the defense of such Tax claim, to the extent such defense relates to a matter for which an Indemnitee is seeking indemnification under this Agreement, and the Buyer will not settle nor permit to be settled any such claim to the extent such settlement relates to a matter for which an Indemnitee is seeking indemnification under this Agreement without the Representative s prior written consent, which consent shall not be unreasonably withheld. If the Tax claim does not relate to a U.S. federal consolidated income Tax return of the Buyer, then the indemnification procedures for Third Party Claims set forth in this Section 3.3 shall apply, subject to the conditions set forth

41

in this Section 3.3(e). With respect to any Third Party Claim relating to Taxes, if the Representative does not assume the Third Party Defense within thirty (30) days of receipt of the Notice of Third Party Claim, the Indemnitee will be entitled to assume the Third Party Defense and shall be entitled to reimbursement from the Escrow Funds of all Tax Expenses in connection with such defense without any requirement of a final determination that the Indemnitee incurred an indemnifiable Tax hereunder with respect to the matter in question, upon delivery of written notice to such effect to the Representative; provided that (i) the Representative will have the right to participate in the Third Party Defense (on behalf of, and at the sole cost and expense of, the Indemnifying Parties) but the Indemnitee will control the investigation, defense and settlement thereof and (ii) the Indemnifying Parties will not be obligated to indemnify the Indemnitee hereunder for any settlement entered into or any judgment that was consented to without the Representative s prior written consent, which consent shall not be unreasonably withheld. The Representative shall not enter into any compromise or agree to settle any Tax claim pursuant to any audit or administrative or court proceeding which would adversely affect the Buyer (or any of its Affiliates) without the prior written consent of the Buyer, which consent shall not be unreasonably withheld.

SECTION 3.4 Indemnification Procedures for Non-Third Party Claims. The Indemnitee will notify the Representative in writing reasonably promptly of its discovery of any matter that is reasonably likely to lead to a claim under this Agreement (including a claim for a Special Indemnity) which does not involve a Third Party Claim (a **Notice of Non-Third Party Claim** , and together with a Notice of Third Party Claim, a **Notice of Claim**), such Notice of Non-Third Party Claim to specify in reasonable detail (i) the basis on which indemnification is being asserted, (ii) the nature of the misrepresentation, breach of warranty, breach of covenant, breach of agreement or other claim to which each such item is related and (iii) if possible, a good faith estimate of the amount of Losses and/or Taxes asserted therein. Failure or delay in notifying the Representative will not relieve the Indemnifying Parties of any Liability they may have to the Indemnitee, except and only to the extent that such failure or delay causes actual harm to the Indemnifying Parties with respect to such Non-Third Party Claim. The Indemnitee will reasonably cooperate and assist the Representative in determining the validity of any claim for indemnity by the Indemnitee and in otherwise resolving such matters. Such assistance and cooperation will include providing reasonable access to and copies of information, records and documents relating to such matters, furnishing employees to assist in the investigation, defense and resolution of such matters and providing legal and business assistance with respect to such matters.

SECTION 3.5 Calculation of Indemnity Payments.

(a) The Indemnitee agrees to use its commercially reasonable efforts to pursue and collect on any recovery available under any insurance policies or from any other Person alleged to be responsible for any Losses or Taxes; provided that the Indemnifying Parties agree that the Indemnitee will have no obligation beyond any contained in the Merger Agreement to maintain any specific insurance. The amount of Losses or Taxes payable under this Article III by the Indemnifying Parties will be reduced by any and all amounts recovered by the Indemnitee under applicable insurance policies or from any other Person alleged to be responsible therefor and increased by any reasonable costs of the Indemnitee in pursuing and collecting on any such recovery.

42

(b) The amount of Losses or Taxes incurred by an Indemnitee will be reduced to take account of any net Tax benefit actually realized by the Indemnitee arising from the incurrence or payment of any such indemnified amount, and any amount of Losses or Taxes incurred by an Indemnitee will be increased to take account of any net Tax cost actually incurred by the Indemnitee arising from receipt or accrual of such amount.

(c) The Buyer and the Indemnifying Parties agree to treat any indemnification payment hereunder as an adjustment to the Merger Consideration or an adjustment to the Per Share Payment (as defined in the WC Minority Purchase Agreement), as applicable.

SECTION 3.6 Effect of Investigation. Except in the case of fraud, the Indemnitees will have no claim or right to indemnification pursuant to this Agreement or otherwise, and none of the Indemnifying Parties will have or be subject to any Liability, with respect to any information, documents or materials furnished or made available by or on behalf of the Company or its Subsidiaries to the Buyer or its advisors in certain data rooms , management presentations or any other form in contemplation of the transactions contemplated by the Merger Agreement other than to the extent (and solely to such extent) that such information, documents or materials are the specific subject of a representation or warranty contained in the Merger Agreement or the other Transaction Documents and the Indemnifying Parties shall not be deemed to make any additional representation or warranties in relation to such information, documents or other materials which are not specifically contained in the Merger Agreement or the other Transaction Documents. Subject to Section 3.2(c)(i), any investigation or other examination that may have been made or may be made at any time by or on behalf of the Indemnitees shall not limit, diminish or in any way affect or be deemed to modify the representations, warranties and covenants in the Merger Agreement and other Transaction Documents, and the Indemnitees may rely on the representations, warranties and covenants in the Merger Agreement, and any schedule, exhibit or certificate in respect thereto, irrespective of any information obtained by them by any investigation, examination or otherwise.

SECTION 3.7 Certain Tax Matters.

(a) Any Tax Return of or which includes a Security Capital Company (other than just a Primrose Company) which is required to be filed by the Company after the Closing Date, but which covers any portion of a Straddle Period or a Pre-Closing Period for which the Indemnified Parties have any responsibility under Section 3.2(d) hereof, shall be prepared by the Company in a manner consistent with past practices of the Company or the relevant subsidiary of the Company unless the Representative consents otherwise (which consent shall not be unreasonably withheld or delayed) and shall be furnished in draft form, along with related work papers, to the Representative at least twenty (20) Business Days prior to the due date therefore, including extensions. The Representative shall have until ten (10) Business Days before the due date for such Tax Return, as extended, to provide comments in writing, and the Buyer shall cause Security Capital to reflect any reasonable comments of the Representative that bear on the amount of Tax for which the Indemnified Parties may be responsible under Section 3.2(d) or Exhibit B hereof. The Buyer shall cause such Security Capital Company to timely file all such Tax Returns and pay the Taxes shown as due thereon.

(b) (i) The Buyer agrees to cause Security Capital to treat the Primrose Dividend as a distribution to Company Stockholders governed by Section 301 of the Code for all income tax purposes, and shall not take any action inconsistent therewith, except to the extent contrary to any Tax Law.

(ii) The Buyer agrees to cause Security Capital to treat the Primrose Dividend as made out of the earnings and profits, within the meaning of Section 316(a) of the Code, of Security Capital to the extent provided in the Tax Law and shall not take any action inconsistent therewith.

(iii) Solely for purposes of (A) Section (g) of Exhibit B hereto, and (B) determining whether and to what extent the Indemnifying Parties have an indemnity obligation under Section 3.2(d) hereunder, the Buyer and the Indemnifying Parties agree that, in determining the amount of U.S. federal and state tax deductions resulting from the exercise of Company Stock Options prior to or in connection with the Closing, it shall be assumed that the deductions resulting from the exercise of Company Stock Options by Stephen Brown is not, and will not be, subject to restriction or limitation under Section 280G of the Code or any similar provision of state law, regardless of whether for Tax reporting purposes, such provisions apply to such deductions.

ARTICLE IV
REPRESENTATIVE

SECTION 4.1 Representative.

(a) Each Indemnifying Party irrevocably appoints Capital Partners, Inc. (the **Representative**) with power of designation and assignment as his or her true and lawful attorney-in-fact and agent with full power of substitution, to act solely and exclusively on behalf of, and in the name of, such Indemnifying Party with the full power, without the consent of such Indemnifying Party, to exercise as the Representative in its sole discretion deems appropriate, the powers which such Indemnifying Party could exercise under the provisions of this Agreement or the Escrow Agreement and to take all actions necessary or appropriate in the judgment of the Representative in connection with this Agreement and the Escrow Agreement. The Indemnitees will be entitled to rely exclusively upon such notices and other acts of the Representative as being binding acts of the Indemnifying Parties. Notwithstanding the foregoing, the Representative hereby agrees to consult with Stephen Brown, Jonathan R. Wagner and Richard T. Kurth prior to taking any material action under this Agreement or the Escrow Agreement.

(b) Each Indemnifying Party acknowledges and agrees that the Representative will not be liable to the Indemnifying Parties for any act done or omitted hereunder as the Representative while acting in good faith and in the exercise of reasonable judgment, and any act done or omitted pursuant to the advice of counsel will be conclusive evidence of such good faith. The Indemnifying Parties will jointly and severally indemnify the Representative and hold it harmless against any Losses incurred without gross negligence or bad faith on the part of the Representative and arising out of or in connection with the acceptance or administration of its duties under this Agreement and the Escrow Agreement. Subject to Section 4.1(d), the Buyer

44

and the Indemnifying Parties acknowledge that the Representative will be entitled to recover such Losses from the Escrow Funds.

(c) The Indemnifying Parties will reimburse the Representative for their pro rata share (based upon the portion of the Escrow Funds attributable to the consideration that would otherwise have been paid to such Indemnifying Party under the Merger Agreement or the WC Minority Purchase Agreement, as applicable), of any out-of-pocket, independent, third-party fees and expenses (including fees and expenses of counsel, accountants and other advisors) incurred by the Representative that arise out of or are in connection with the acceptance or administration of the Representative s duties under this Agreement and the Escrow Agreement and the Indemnifying Parties acknowledge and agree that such reimbursement shall not be limited to the amounts held in the Escrow Funds. Subject to Section 4.1(d), the Buyer and the Indemnifying Parties acknowledge that the Representative will be entitled to recover such fees and expenses from the Escrow Funds.

(d) Notwithstanding anything in this Agreement to the contrary, the following provisions shall apply to the Representative s recovery of any amounts from the Escrow Funds pursuant to any provision hereunder: (i) if such amounts are related to or arise out of disputes between the Representative (on behalf of the Indemnifying Parties) and the Indemnitees as to the validity of a claim for any indemnification under this Agreement, the Representative shall be entitled to recover a maximum of $250,000, in the aggregate, from the Escrow Funds in relation to all such disputes; (ii) if such amounts are related to or arise out of Third Party Claims, the Representative (on behalf of the Indemnifying Parties) shall be entitled to recover a maximum of $1,500,000, in the aggregate, from the Escrow Funds in relation to all such Third Party Claims; and (iii) the Representative shall be entitled to recover any additional amounts that were otherwise subject to the limitations set forth in clause (i) or (ii) of this Section only from the portion of any Escrow Funds which are to be released to the Specified Company Holders and the WC Minority Holders in accordance with the terms and conditions of the Escrow Agreement at a time that is immediately prior to such release.

ARTICLE V
MISCELLANEOUS

SECTION 5.1 Termination of Agreement. This Agreement will automatically terminate upon the termination of the Merger Agreement in accordance with its terms. Following the Closing, this Agreement will automatically terminate upon the termination of the Escrow Agreement in accordance with its terms. In the event of termination of this Agreement, this Agreement will forthwith become void and have no effect, without any Liability on the part of any party hereto.

SECTION 5.2 Amendments. This Agreement may be amended by the parties hereto, by action taken or authorized, in the case of the Buyer, by its board of directors, and in the case of the Indemnifying Parties or the Representative, by the Representative; provided that no such amendment shall have an adverse impact on any of the WC Minority Holders or impose any personal liability on any of the WC Minority Holders without the approval of WC Minority Holders who, as of the date hereof, own a majority of the number of fully diluted shares of WC Holdings common stock held in the aggregate by the WC Minority Holders. This Agreement

45

may not be amended except by an instrument in writing signed on behalf of the Buyer and the Representative.

SECTION 5.3 Waiver. At any time, the Buyer may waive compliance with any of the agreements or covenants of the Indemnifying Parties or the Representative under this Agreement. Any agreement on the part of the Buyer to any such waiver will be valid only if such waiver is set forth in an instrument in writing signed on behalf of the Buyer by its duly authorized officer. At any time, the Representative may (on behalf of itself and the Indemnifying Parties) waive compliance with any of the agreements or covenants of the Buyer under this Agreement; provided that no such waiver shall have an adverse impact on any of the WC Minority Holders or impose any personal liability on any of the WC Minority Holders without the approval of WC Minority Holders who, as of the date hereof, own a majority of the number of fully diluted shares of WC Holdings common stock held in the aggregate by the WC Minority Holders. Any agreement on the part of the Representative (on behalf of itself and the Indemnifying Parties) to any such waiver will be valid only if such waiver is set forth in an instrument in writing signed on behalf of the Representative by its duly authorized officer. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise will not constitute a waiver of such rights. The waiver of any such right with respect to particular facts and other circumstances will not be deemed a waiver with respect to any other facts and circumstances, and each such right will be deemed an ongoing right that may be asserted at any time and from time to time.

SECTION 5.4 Press Releases and Public Announcement. In connection with any proposed press release or public announcement, (a) the Buyer will not issue any press release or make any public announcement relating to this Agreement or the transactions contemplated by this Agreement without the prior written approval of the Representative and (b) neither the Representative nor the Indemnifying Parties will issue any press release or make any public announcement relating to this Agreement or the other transactions contemplated by this Agreement without the prior written approval of the Buyer; provided, that the Representative or the Buyer may issue any such press release or make such public announcement it believes in good faith is required to be made by applicable Law or any applicable rule or regulation promulgated by any applicable national securities exchange after consultation with legal counsel, in which case the disclosing party will advise and consult with the other party regarding any such press release or other announcement prior to making any such disclosure.

SECTION 5.5 No Third-Party Beneficiaries. Except with respect to the Indemnitees, which are intended third party beneficiaries of this Agreement, this Agreement will not confer any rights or remedies upon any Person other than the parties hereto and their respective successors and permitted assigns.

SECTION 5.6 Entire Agreement. This Agreement (together with the Schedules and Exhibits hereto) constitutes the entire agreement among the parties hereto and supersedes any prior understandings, agreements or representations by or among the parties hereto, written or oral, to the extent they related in any way to the subject matter hereof.

SECTION 5.7 Succession and Assignment. This Agreement will be binding upon and inure to the benefit of the parties named herein and their respective successors and permitted assigns. No party hereto may assign either this Agreement or any of its rights, interests or obligations hereunder; provided that the Representative will be entitled to assign its rights, interests or obligations hereunder in accordance with Section 4.1.

SECTION 5.8 Construction. The parties have participated jointly in the negotiation and drafting of this Agreement, and, in the event an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the parties, and no presumption or burden of proof will arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

SECTION 5.9 Notices. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally against written receipt or by facsimile transmission or mailed (by registered or certified mail, postage prepaid, return receipt requested) or delivered by reputable overnight courier, fee prepaid, to the parties hereto at the following addresses or facsimile numbers:

If to any Indemnifying Party or the Representative, to:

Capital Partners, Inc.
Eight Greenwich Office Park, Third Floor
Greenwich, Connecticut 06831
Facsimile: (203) 625-0423
Attention: Brian D. Fitzgerald

President

with copies to:

Morgan, Lewis & Bockius LLP
101 Park Avenue
New York, New York 10178-0060
Facsimile: (212) 309-6001
Attention: Christopher T. Jensen, Esq. and

George G. Yearsich, Esq.

and

Richards, Layton & Finger, P.A.
One Rodney Square
920 North King Street
Wilmington, DE 19801
Facsimile: (302) 498-7748
Attention: Srinivas M. Raju, Esq.

If to the Buyer, to:

Sedgwick CMS Holdings, Inc.
c/o Fidelity National Financial, Inc.

47

601 Riverside Avenue
Jacksonville, Florida 32204
Facsimile: (904) 357-1026
Attention: Christopher A. Rose, Senior Vice President

with copies to:

LeBoeuf, Lamb, Greene & MacRae LLP
125 West 55th Street
New York, New York 10019
Facsimile: (212) 424-8500
Attention: Robert S. Rachofsky, Esq. and

Gary D. Boss, Esq.

Any party may change the address to which notices, requests, demands, claims and other communications hereunder are to be delivered by giving the other parties notice in the manner set forth herein.

SECTION 5.10 Governing Law. This Agreement will be governed by, and construed in accordance with, the Laws of the State of Delaware, without giving effect to any choice of Law or conflict of Law provision or rule that would cause the application of the Laws of any jurisdiction other than the State of Delaware.

SECTION 5.11 Consent to Jurisdiction and Service of Process. EACH OF THE PARTIES HERETO CONSENTS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE STATE OF DELAWARE AND IRREVOCABLY AGREES THAT ALL ACTIONS OR PROCEEDINGS RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT MAY BE LITIGATED IN SUCH COURTS. EACH OF THE PARTIES HERETO ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS RESPECTIVE PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE EXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY FINAL AND NONAPPEALABLE JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH OF THE PARTIES HERETO FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO SUCH PARTY AT THE ADDRESS SPECIFIED IN THIS AGREEMENT, SUCH SERVICE TO BECOME EFFECTIVE 15 CALENDAR DAYS AFTER SUCH MAILING. NOTHING HEREIN WILL IN ANY WAY BE DEEMED TO LIMIT THE ABILITY OF ANY PARTY HERETO TO SERVE ANY SUCH LEGAL PROCESS, SUMMONS, NOTICES AND DOCUMENTS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW OR TO OBTAIN JURISDICTION OVER OR TO BRING ACTIONS, SUITS OR PROCEEDINGS AGAINST ANY OTHER PARTY HERETO

IN SUCH OTHER JURISDICTIONS, AND IN SUCH MANNER, AS MAY BE PERMITTED BY ANY APPLICABLE LAW.

SECTION 5.12 Headings. The descriptive headings contained in this Agreement are included for convenience of reference only and will not affect in any way the meaning or interpretation of this Agreement.

SECTION 5.13 Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future Law (a) such provision will be fully severable, (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (d) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms of such illegal, invalid or unenforceable provision as may be possible.

SECTION 5.14 Incorporation of Schedules and Exhibits. The Schedules and Exhibits identified in this Agreement are incorporated herein by reference and made a part hereof.

SECTION 5.15 Limited Recourse. Notwithstanding anything in this Agreement to the contrary, the obligations and Liabilities of the parties hereunder will be without recourse to any stockholder of such party or any of such stockholder s Affiliates (other than such party), or any of their respective Representatives or agents (in each case, in their capacity as such).

SECTION 5.16 Counterparts. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed will be deemed to be an original but all of which taken together will constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile will be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 5.17 Waiver of Jury Trial. Each of the parties hereby waives to the fullest extent permitted by applicable Law any right it may have to a trial by jury with respect to any litigation directly or indirectly arising out of, under or in connection with this Agreement. Each of the parties (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties have been induced to enter into this Agreement by, among other things, the mutual waivers and certifications in this Section 5.17.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the date first above written.

BUYER:

SEDGWICK CMS HOLDINGS, INC.

By: /s/ Paul J. Posey
Name: Paul J. Posey
Title: Secretary

REPRESENTATIVE:

CAPITAL PARTNERS, INC.

By: /s/ Brian D. Fitzgerald
Name: Brian D. Fitzgerald
Title: President

SPECIFIED COMPANY HOLDERS:

CP ACQUISITION, L.P. NO. 1
By: Capital Partners, Inc.,
its general partner

By: /s/ Brian D. Fitzgerald
Name: Brian D. Fitzgerald
Title: President

FGS, INC.

By: /s/ Brian D. Fitzgerald
Name: Brian D. Fitzgerald
Title: President

/s/ Brian D. Fitzgerald
Brian D. Fitzgerald

/s/ A. George Gebauer
A. George Gebauer

/s/ Samuel B. Fortenbaugh III
Samuel B. Fortenbaugh III

/s/ John H. F. Haskell, Jr.
John H. F. Haskell, Jr.

/s/ Edward W. Kelley, Jr.
Edward W. Kelley, Jr.

/s/ M. Paul Kelly
M. Paul Kelly

/s/ Robert M. Williams, Sr.
Robert M. Williams, Sr.

/s/ William R. Schlueter
William R. Schlueter

/s/ Stephen Brown
Stephen Brown

50

WC MINORITY HOLDERS:

/s/ Peter Barr Peter Barr	/s/ Robert J. Bossart Robert J. Bossart
/s/ Terri Case Terri Case	/s/ Steve Cochran Steve Cochran
/s/ Paul Collins Paul Collins	/s/ Randy E. Jones Randy E. Jones
/s/ Richard T. Kurth Richard T. Kurth	/s/ Paul A. Miller Paul A. Miller
/s/ Frank Pagnatta Frank Pagnatta	/s/ Robert Rissmeyer Robert Rissmeyer
/s/ Daniel R. Sullivan Daniel R. Sullivan	/s/ Jonathan R. Wagner Jonathan R. Wagner

51

Schedule A

Specified Company Holders

1. CP Acquisition, L.P. No. 1
2. FGS, Inc.
3. Brian D. Fitzgerald
4. A. George Gebauer
5. Samuel B. Fortenbaugh III
6. John H. F. Haskell, Jr.
7. Edward W. Kelley, Jr.
8. M. Paul Kelly
9. Robert M. Williams, Sr.
10. William R. Schlueter
11. Stephen Brown

52

Schedule B

WC Minority Holders

1. Peter Barr

2. Robert J. Bossart

3. Terri Case

4. Steve Cochran

5. Paul Collins

6. Randy E. Jones

7. Richard T. Kurth

8. Paul A. Miller

9. Frank Pagnatta

10. Robert Rissmeyer

11. Daniel R. Sullivan

12. Jonathan R. Wagner

53

Exhibit A

1. Any Losses (other than costs relating to any remediation or compliance programs), arising in connection with any suit, proceeding, investigation or other action brought by any Governmental Entity or any other Person alleging the unauthorized practice of law by the Company or any of its Subsidiaries as the result of any conduct occurring prior to the Closing; provided that Losses arising from the matter captioned *Cleveland Bar Assoc. v. CompManagement, Inc., before the Board on the Unauthorized Practice of Law of the Supreme Court of Ohio*, shall be solely governed by Section 2 of this Exhibit A.

2. Any Losses (other than costs relating to any remediation or compliance programs), arising in connection with the matter captioned *Cleveland Bar Assoc. v. CompManagement, Inc., before the Board on the Unauthorized Practice of Law of the Supreme Court of Ohio*; provided that Losses arising out of the defense of such matter (as opposed to any amounts payable as penalties or fines or to settle such matter) shall only be deemed Losses to the extent that the amount of such Losses exceeds $132,000 per year.

3. Any Losses, whether arising in connection with any matters occurring before or after the Closing, which result, arise out of, are imposed upon or are incurred, sustained or suffered, at any time by the Indemnitees in connection with, or otherwise with respect to, the Primrose Companies, including as a result of the Primrose Agreement; provided that Taxes arising out of the transactions contemplated by the Primrose Agreement shall be solely governed by Exhibit B.

4. In the event that the Final Adjustment Amount is a positive number, the Representative and the Buyer will cause the Escrow Agent to release to the Buyer from the Escrow Funds an amount equal to the Final Adjustment Amount. In the event that the Final Adjustment Amount is a negative number, then the Adjustment Deductible will be deemed to be equal to the absolute value of the Final Adjustment Amount.

Exhibit B

1. Not later than 30 days after the Closing, the Representative will deliver to the Buyer a statement (the **Primrose Tax Statement**) setting forth the Representative s updated good faith estimate of the Primrose Tax Amount as of such date (the **Primrose Updated Tax Amount**). The Primrose Tax Statement will (i) be prepared in accordance with the Principles, (ii) include in detail the amounts underlying the calculation of the Primrose Updated Tax Amount (including the Final Election Allocations together with a workpaper detailing the difference between the Estimated Election Allocations and the Final Election Allocations) and (iii) include the specific underlying differences between the calculation of the Primrose Baseline Tax Amount and the Primrose Updated Tax Amount.

2. At the Buyer s request, from the date of this Agreement until the final determination of the Primrose Updated Tax Amount in accordance with this Exhibit B, the Company will provide the Buyer with any information reasonably requested by the Buyer that is relevant to the calculation of the Primrose Updated Tax Amount. At the Representative s request, from the Closing Date until the final determination of the Primrose Updated Tax Amount in accordance with this Exhibit B, the Company will provide (and the Buyer will cause the Company to provide) the Representative with any information reasonably requested by the Representative that is relevant to the calculation of the Primrose Updated Tax Amount.

3. The Buyer will have until the twelve (12) month anniversary of the Closing to review the Primrose Tax Statement (the **Review Period**). If the Buyer disagrees with the Representative s computation of the Primrose Updated Tax Amount set forth on the Primrose Tax Statement, the Buyer may, on or prior to the last day of the Review Period, deliver a written notice to the Representative (the **Notice of Objection**), which sets forth its specific objections to the Representative s calculation of the Primrose Updated Tax Amount; provided, that the Notice of Objection will include only objections based on (i) non-compliance with the Principles and (ii) mathematical errors in the computation of the Primrose Updated Tax Amount. Any Notice of Objection will specify those items or amounts with which the Buyer disagrees, together with a reasonably detailed written explanation of the reasons for disagreement with each such item or amount, and will set forth the Buyer s calculation of the Primrose Updated Tax Amount (including, in detail, the amounts underlying such calculation). To the extent not set forth in the Notice of Objection, the Buyer will be deemed to have agreed with the Company s calculation of all other items and amounts contained in the Primrose Tax Statement.

4. Unless the Buyer delivers the Notice of Objection to the Representative within the Review Period, the Buyer will be deemed to have accepted the Representative s calculation of the Primrose Updated Tax Amount, and the Primrose Updated Tax Amount will be deemed to be the Primrose Final Tax Amount**.** If the Buyer delivers the Notice of Objection to the Representative within the Review Period, the Buyer and the Representative will refer their disagreements to the Independent Accountant, who will be instructed to review this Exhibit B and to determine, solely with respect to the disputed items and amounts so submitted, whether and to what extent, if any, the Primrose Updated Tax Amount set forth in the Primrose Tax Statement requires adjustment. The Independent Accountant will base its determination solely on written submissions by the Buyer and the Representative and not on an independent review.

The Buyer and the Representative will make (and the Buyer will cause the Company to make) available to the Independent Accountant all relevant books and records and other items reasonably requested by the Independent Accountant. As promptly as practicable the Independent Accountant will deliver to the Buyer and the Representative a report that sets forth its resolution of the disputed items and amounts and its calculation of the Primrose Final Tax Amount; provided, that in no event will the Primrose Final Tax Amount as determined by the Independent Accountant be less than the Representative s calculation of the Primrose Updated Tax Amount set forth in the Primrose Tax Statement nor more than the Buyer s calculation of the Primrose Updated Tax Amount set forth in the Notice of Objection. The decision of the Independent Accountant will be final, conclusive and binding. Fifty percent of the costs and expenses of the Independent Accountant will be paid by the Buyer and fifty percent of the costs and expenses of the Independent Accountant will be paid from the Escrow Funds.

5. In the event that the Primrose Final Tax Amount is *greater* than the Primrose Baseline Tax Amount, the Representative and the Buyer will cause the Escrow Agent to release to the Buyer from the Escrow Funds an amount equal to the amount by which the Primrose Final Tax Amount is greater than the Primrose Baseline Tax Amount. In the event that the Primrose Final Tax Amount is *less* than the Primrose Baseline Tax Amount, then the Primrose Tax Deductible will be deemed to be equal to the amount by which the Primrose Baseline Tax Amount is greater than the Primrose Final Tax Amount. After final determination of the Primrose Final Tax Amount and the release of funds (if any) by the Escrow Agent in accordance with this section, the Buyer and the other Indemnitees will have no further right to make any claims against the Indemnifying Parties in respect of the Primrose Tax Amount.

6. The principles, methodologies, policies and assumptions set forth in this Section 6 of Exhibit B will be used in the computation of the Primrose Final Tax Amount pursuant to this Agreement (the **Principles**):

(a) The Primrose Final Tax Amount will be an amount equal to 36.9719% of the gain from the deemed sale of the assets of Primrose and its Subsidiaries, determined under the rules contained in Section 338(h)(10) of the Code and the Treasury Regulations thereunder.

(b) The **Aggregate Deemed Sales Price** will be equal to the sum of (i) the grossed-up amount realized by the Company on the sale of Primrose pursuant to the Primrose Agreement as computed pursuant to Treasury Regulation Section 1.338-4(b), and (ii) Primrose s liabilities as computed pursuant to Treasury Regulation Section 1.338-4(d).

(c) The Representative will determine the Aggregate Deemed Sales Price for each asset as of the beginning of the day after the closing date of the sale of Primrose pursuant to the Primrose Agreement, based upon the amounts determined in the Final Election Allocations; provided that the Representative shall be entitled to make adjustments to the Aggregate Deemed Sales Price in accordance with Section 6(g) of this Exhibit B.

(d) Within 30 days after the Closing Date, the Representative will provide to the Buyer a balance sheet, as of the beginning of the day after the closing date of the sale of

56

Primrose pursuant to the Primrose Agreement, showing the Tax basis of each of the assets of Primrose and its Subsidiaries (the **Primrose Tax Balance Sheet**).

(e) The Representative will compute gain or loss on each asset as the difference between the Aggregate Deemed Sales Price as determined under clause (c) above allocated to that asset, which allocation is governed by the rules of Treasury Regulation Section 1.338-6 and the Tax basis in each asset as determined in clause (d) above and as shown on the Primrose Tax Balance Sheet, subject to clause (f) below and the Buyer s rights to object to the Representative s computations pursuant to this Agreement.

(f) For the purposes of this Exhibit B, noncompliance with the Principles shall mean: (i) the failure to calculate the Aggregate Deemed Sales Price in accordance with Section 338 of the Code, the regulations thereunder and the other relevant general principles of Tax Law, (ii) the failure of the amount on the Primrose Tax Balance Sheet to reflect the actual Tax basis of an asset as of the beginning of the day after the closing date of the sale of Primrose pursuant to the Primrose Agreement and (iii) the failure of the rate set forth in Section 6(a) of this Exhibit B to reflect the combined federal and state income tax rate applicable to the transactions contemplated by the Primrose Agreement; provided, however, that for all purposes of this Exhibit B the parties hereto agree that (A) the income from the sale of the Primrose Companies resulting from the elections under Section 338(h)(10) of the Code with respect to these entities is for Georgia income tax purposes business (apportionable) income, and (B) the numerator and denominator of the gross receipts factor of the Georgia apportionment formula shall be calculated excluding proceeds/gain realized in the transaction. General principles of Tax Law shall apply in determining the timing and amount of the elements of the Aggregate Deemed Sales Price.

(g) Notwithstanding the foregoing, for purposes of determining the Aggregate Deemed Sales Price, the Representative and the Buyer shall apply against the Aggregate Deemed Sales Price the U.S. federal and state income tax deductions resulting from (i) the stay pay bonuses paid in connection with the Primrose Agreement, (ii) the amounts paid in connection with the cancellation of stock options of the Primrose Companies in connection with the Primrose Agreement and (iii) the exercise of Company Stock Options prior to or in connection with the Closing.

Exhibit C

ESCROW AGREEMENT

ESCROW AGREEMENT, dated as of ______ __, 2006, (this Agreement), by and among Sedgwick CMS Holdings, Inc., a Delaware corporation (the Buyer), Capital Partners, Inc., a Connecticut corporation, as the representative of the Indemnifying Parties (the Representative , and together with the Buyer, collectively referred to as the Escrow Parties), and JPMorgan Chase Bank, N.A., a National Banking Association, as escrow agent (the Escrow Agent).

WHEREAS, the Buyer, the parties set forth on Schedule I hereto under the heading WC Minority Holders (the WC Minority Holders), the parties set forth on Schedule I hereto under the heading Specified Company Holders (the Specified Company Holders , and together with the WC Minority Holders, the Indemnifying Parties) and the Representative have entered into an Indemnification Agreement, dated as of June 12, 2006 (the Indemnification Agreement); and

WHEREAS, in accordance with Section 2.1 of the Indemnification Agreement, the Buyer will deposit with the Escrow Agent on the date hereof an amount equal to $10,880,656.16 in immediately available funds (the Company Escrow Funds) and Security Capital Corporation, a Delaware corporation (the Company), will deposit with the Escrow Agent on the date hereof an amount equal to $2,121,703.68 in immediately available funds (the WC Holdings Escrow Funds , and together with the Company Escrow Funds, the Escrow Funds); and

WHEREAS, the Escrow Parties desire that the Escrow Agent receive, hold and dispose of the Escrow Funds in accordance with the terms, conditions and provisions of this Agreement, and the Escrow Agent desires to do so.

NOW THEREFORE, in consideration of the representations, warranties and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Appointment and Agreement of Escrow Agent; Identifying Information; Delivery of Escrow; Investment of Escrow.

(a) The Escrow Parties hereby jointly appoint the Escrow Agent to serve hereunder and the Escrow Agent hereby accepts such appointment and agrees to perform all duties that are expressly set forth in this Agreement to be performed by it. Notwithstanding anything herein to the contrary, the Buyer and the Representative may jointly direct the Escrow Agent, in writing, to perform any action contemplated herein, and upon receipt of such joint written direction, the Escrow Agent shall comply with the joint written direction.

(b) The Escrow Parties acknowledge that, to help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

58

(c) The Escrow Agent hereby acknowledges receipt from the Buyer of $10,880,656.16 and receipt from the Company (or the Buyer on behalf of the Company) of $2,121,703.68. The Escrow Agent shall establish at its offices located at 4 New York Plaza, 21st Floor, New York, New York 10004 an interest-bearing escrow account (the Escrow Account) in which it shall hold the cash delivered by the Buyer and the Company. The Escrow Agent agrees to hold and dispose of the Escrow Funds, and to act as Escrow Agent, in accordance with all the terms, conditions and provisions of this Agreement. The Escrow Agent in its capacity as escrow agent hereunder shall not have any liability for any loss sustained as a result of any investment made pursuant hereto except for such losses that may result from its own gross negligence, bad faith, willful misconduct or violation of applicable law.

(d) During the term of this Agreement, the Escrow Funds shall be invested and reinvested by the Escrow Agent in any of the following investments (collectively, Permitted Investments), in each case, at the joint written direction of the Representative and the Buyer (provided that if such parties do not agree on such Permitted Investments, then the Escrow Funds shall be invested in the instruments described in (i) below):

(i) JPMorgan Money Market Account;

(ii) A money market mutual fund, including without limitation a JPMorgan money market mutual fund or any other mutual fund for which the Escrow Agent or any affiliate of the Escrow Agent serves as investment manager, administrator, shareholder servicing agent and/or custodian or subcustodian, notwithstanding that (x) the Escrow Agent or an affiliate of the Escrow Agent receives fees from such funds for services rendered, (y) the Escrow Agent charges and collects fees for services rendered pursuant to this Escrow Agreement, which fees are separate from the fees received from such funds, and (z) services performed for such funds and pursuant to this Escrow Agreement may at times duplicate those provided to such funds by the Escrow Agent or its affiliates; or

(iii) any other investment that is mutually approved in writing by the Representative and the Buyer and agreeable to the Escrow Agent.

Monthly statements shall be provided to the Escrow Parties reflecting transactions executed on behalf of and related to the Escrow Funds. The Escrow Agent shall have a right to liquidate any investments held in order to provide funds necessary to make required payments under this Agreement. The Escrow Agent shall not be liable for any liquidation of any investment prior to its maturity or for the failure of the parties to give the Escrow Agent instructions to invest or reinvest the Escrow Funds. In the event that no investment instructions are given, Escrow Funds shall be invested in a JPMorgan Money Market Account.

2. <u>Interest</u>. Upon distribution of all or any portion of the Escrow Funds in accordance with this Agreement, the Escrow Agent shall pay from the Escrow Account to the Person(s) receiving such distribution all of the interest earned on the portion of the Escrow Funds being distributed net of previous distributions to the Indemnifying Parties relating to taxes in respect of such interest (and if cash for the distribution of such interest is not available, the Escrow Agent shall liquidate such investments of the Escrow Account as are necessary to make

such payment). All interest and any other income, gains or losses earned or incurred by the Escrow Funds shall be treated for all tax purposes as earned by the Indemnifying Parties and shall be reported as such by the Indemnifying Parties. The Indemnifying Parties shall be entitled to withdraw from time to time from the Escrow Fund (taking into account estimated and final tax payment obligations) an amount equal to the cumulative interest and other income earned by the Escrow Fund through the date of withdrawal multiplied by 40% (less amounts previously withdrawn pursuant to this sentence), and the Buyer and the Representative shall jointly, in writing, instruct the Escrow Agent of any such withdrawal. In addition, the Escrow Agent or the Indemnifying Parties, as the case may be, shall withhold any taxes they deem appropriate and shall remit such taxes to the appropriate authorities. To the extent that amounts are so withheld, they shall be treated as having been paid to the relevant Escrow Party. Simultaneous with the execution of this Agreement, each of the Buyer and the Indemnifying Parties shall provide the Escrow Agent with a fully executed IRS Form W-8 or IRS Form W-9, as appropriate, which shall include such person s TIN.

3. Release of Escrow. The Escrow Agent shall not release any of the Escrow Funds, except in accordance with and subject to the terms and conditions in this Section 3:

(a) Instruction Certificate. Concurrently with or promptly following the delivery of a notice of claim by an Indemnitee (as defined in the Indemnification Agreement) under the Indemnification Agreement (a Notice of Claim), the Buyer shall execute and deliver to the Escrow Agent a certificate in substantially the form of Annex I attached hereto (an Instruction Certificate). Any amount claimed to be owed by the Indemnifying Parties under an Instruction Certificate is referred to herein as an Owed Amount . No Instruction Certificates received by the Escrow Agent from the Buyer after 5:00 p.m., Eastern Standard Time, on [the twelve (12) month anniversary of the Closing], (the Termination Date) shall be valid.

(b) Payment. If the Escrow Agent (i) shall have received from the Buyer and the Representative a certificate substantially in the form of Annex II attached hereto (a Release Certificate) stating that the Buyer and the Representative have agreed that the Owed Amount (or a specified portion thereof) referred to in such Instruction Certificate is payable to the Indemnitee out of the Escrow Account or (ii) shall have received from the Buyer a copy of a final and nonappealable order of a Governmental Entity of competent jurisdiction (accompanied by a certificate of the Buyer substantially in the form of Annex III attached hereto (a Resolution Certificate)) stating that the Owed Amount (or a specified portion thereof) referred to in such Instruction Certificate is payable to an Indemnitee out of the Escrow Account, then the Escrow Agent shall, on the third Business Day following the Escrow Agent s receipt of a Release Certificate or a Resolution Certificate, as the case may be, pay to the Buyer, on behalf of the Indemnitee, from the Escrow Funds, the Owed Amount or, if such Release Certificate or Resolution Certificate specifies that a lesser amount is payable from the Escrow Funds, such lesser amount. Notwithstanding the foregoing, the Escrow Agent shall give written notice to the Representative of its receipt of a Resolution Certificate not later than the second Business Day following receipt thereof, together with a copy of such Resolution Certificate.

(c) Cancellation Upon Payment. Upon receipt by the Escrow Agent of a Release Certificate or a Resolution Certificate and the payment by the Escrow Agent of the

60

amount equal to the Owed Amount referred to therein (or such lesser amount as may be required to be paid in accordance with Section 3(b)), the related Instruction Certificate shall be deemed canceled.

(d) Cancellation by Mutual Consent. Upon the Representative s and the Buyer s mutual determination that the Indemnitee has no claim or has released its claim with respect to an Owed Amount referred to in an Instruction Certificate (or a specified portion thereof), the Representative and the Buyer shall promptly deliver to the Escrow Agent a certificate substantially in the form of Annex IV attached hereto (a Mutual Cancellation Certificate) canceling such Instruction Certificate or such specified portion thereof, as the case may be, and such Instruction Certificate (or portion thereof) shall thereupon be deemed canceled.

(e) Cancellation by Representative. Following the issuance of an final and nonappealable order of a Governmental Entity of competent jurisdiction the result of which is that none of the Owed Amount referred to in a Instruction Certificate shall be payable to the Indemnitee, the Representative may deliver to the Escrow Agent and the Buyer a copy of such order (accompanied by a certificate of the Representative substantially in the form of Annex V attached hereto (a Representative Cancellation Certificate)), and such Instruction Certificate shall be deemed to be canceled. The Escrow Agent shall give written notice to the Buyer of its receipt of a Representative Cancellation Certificate not later than the second Business Day following receipt thereof, together with a copy of such Representative Cancellation Certificate.

(f) Final Adjustment Amount. If the Escrow Agent shall have received from the Buyer and the Representative a certificate substantially in the form of Annex VI attached hereto (an Adjustment Certificate) stating that the Buyer and the Representative have agreed that the Final Adjustment Amount (as defined in the Indemnification Agreement) is a positive number, then the Escrow Agent shall, on the third Business Day following the Escrow Agent s receipt of an Adjustment Certificate pay to the Buyer from the Escrow Funds, the amount set forth on the Adjustment Certificate as the Final Adjustment Amount.

(g) Release. On the Termination Date, the Escrow Agent shall, subject to Section 6(c), release to the Indemnifying Parties in accordance with Section 5(a) all Escrow Funds that remain in the Escrow Account less the sum of all Owed Amounts (together with interest earned on such Owed Amounts) that are designated in Instruction Certificates received by the Escrow Agent prior to 5:00 p.m., Eastern Standard Time, on the Termination Date, to the extent that the portions of such Instruction Certificates relating to such Owed Amounts have not been canceled in accordance with subsection (c), (d) or (e) of this Section 3. If at any time after the Termination Date the value of the Escrow Funds remaining in the Escrow Account exceeds the sum at that time of all Owed Amounts (together with interest earned on such Owed Amounts) that are designated in Instruction Certificates received by the Escrow Agent prior to 5:00 p.m., Eastern Standard Time, on the Termination Date (to the extent that the portions of such Instruction Certificates relating to such Owed Amounts have not been canceled in accordance with subsection (c), (d) or (e) of this Section 3), the

Escrow Agent shall promptly release to the Indemnifying Parties in accordance with Section 5(a) the amount of cash representing such excess. At such time, on or following the Termination Date, that all such Instruction Certificates received by the Escrow Agent prior to 5:00 p.m., Eastern Standard Time, on the Termination Date have been canceled in accordance with subsection (c), (d) or (e) of this Section 3, the Escrow Agent shall promptly reimburse the Representative for any amounts provided for in Section 4 and, following such reimbursement release to the Indemnifying Parties all Escrow Funds remaining in the Escrow Account in accordance with Section 5(a).

4. Reimbursement of Representative Expenses. The following provisions shall apply to the Representative s recovery of any amounts from the Escrow Funds pursuant to any provision of the Indemnification Agreement or this Agreement:

(a) If such amounts are related to or arise out of disputes between the Representative (on behalf of the Indemnifying Parties) and the Indemnitees as to the validity of a claim for any indemnification under the Indemnification Agreement (such amounts, Dispute Expenses), the Dispute Expenses shall be paid by the Escrow Agent to the Representative from the Escrow Funds on the third Business Day following the Escrow Agent s receipt from the Representative of a certificate substantially in the form of Annex VII attached hereto (a Dispute Reimbursement Certificate); provided that, except as set forth in Section 4(c) of this Agreement, in no event shall the Representative be entitled to receive from the Escrow Funds an amount in excess of $250,000, in the aggregate, in relation to all Dispute Expenses. Notwithstanding the foregoing, the Escrow Agent shall give written notice to the Buyer of its receipt of a Dispute Reimbursement Certificate not later than the second Business Day following receipt thereof, together with a copy of such Dispute Reimbursement Certificate.

(b) If such amounts are related to or arise out of Third Party Claims (as defined in the Merger Agreement) (Defense Expenses), the Defense Expenses shall be paid by the Escrow Agent to the Representative from the Escrow Funds on the third Business Day following the Escrow Agent s receipt from the Representative of a certificate substantially in the form of Annex VIII attached hereto (a Defense Reimbursement Certificate); provided that except as set forth in Section 4(c) of this Agreement, in no event shall the Representative be entitled to receive from the Escrow Funds an amount in excess of $1,500,000, in the aggregate, in relation to all Defense Expenses. Notwithstanding the foregoing, the Escrow Agent shall give written notice to the Buyer of its receipt of a Defense Reimbursement Certificate not later than the second Business Day following receipt thereof, together with a copy of such Defense Reimbursement Certificate.

(c) In the event that the Representative did not receive any Dispute Expenses or Defense Expenses from the Escrow Funds as a result of the limitations set forth in the provisos to Section 4(a) or Section 4(b), then immediately prior to the release of any Escrow Funds to the Indemnifying Parties pursuant to Section 3(g), the Escrow Agent shall pay to the Representative an amount equal to the aggregate amount of Dispute Expenses and Defense Expenses not previously paid to the Representative, which amounts will be set forth on the most recent Dispute Reimbursement Certificate or Defense Reimbursement Certificate, as applicable, delivered to the Escrow Agent.

5. Payments.

(a) Any amount of cash to be paid to the Indemnifying Parties pursuant to this Agreement shall not be paid by the Escrow Agent until its receipt of a letter of instruction executed by the Representative (on behalf of the Specified Company Holders) and either

62

Jonathan R. Wagner or Richard T. Kurth (on behalf of the WC Minority Holders), which letter shall specify the amounts to be distributed to each of the Indemnifying Parties and wire instructions for such Indemnifying Parties.

(b) Any amount of cash to be paid to the Buyer, the Representative or the Escrow Agent pursuant to this Agreement shall be paid to such party pursuant to the instructions set forth for such party in Schedule II hereto or any further instructions given by such party in writing to the Escrow Agent.

6. The Escrow Agent.

(a) The Escrow Agent shall have no duties or obligations hereunder except those specifically set forth herein and such duties and obligations shall be determined solely by the express provisions of this Agreement and no duties shall be implied. The Escrow Agent shall have no liability under and no duty to inquire as to the provisions of any agreement other than this Agreement. In connection with its duties hereunder, the Escrow Agent shall be protected in acting or refraining from acting upon any written notice, request, consent, certificate, order, affidavit, letter, telegram or other document furnished to it hereunder and reasonably believed by it to be genuine and to have been signed or sent by the proper party or parties, and the Escrow Agent shall not be liable for anything it may do or refrain from doing in connection with its duties hereunder, except to the extent that a court of competent jurisdiction determines that the Escrow Agent s gross negligence, bad faith, willful misconduct or violation of applicable laws was the primary cause of any loss to the parties. In the administration of the Escrow Account, the Escrow Agent may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Escrow Agent shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons.

(b) In the event the Escrow Agent shall be uncertain as to its duties or rights under this Agreement or shall receive any instruction, claim or demand that, in the opinion of the Escrow Agent, is in conflict with the provisions of this Agreement (any of the foregoing, an Escrow Agent Dispute), the Escrow Agent shall be entitled to refrain from taking any action with respect to such Escrow Agent Dispute and its sole obligation shall be to keep safely all property held under the terms of this Agreement until it shall be directed otherwise by a final and nonappealable order of a Governmental Entity of competent jurisdiction or by an instrument signed by all of the Escrow Parties. In the event of any Escrow Agent Dispute, the Escrow Agent shall be entitled to petition a court of competent jurisdiction in the State of Delaware to resolve such Escrow Agent Dispute, and each of the Escrow Parties consent to the jurisdiction of any such court with respect to any such Escrow Agent Dispute.

(c) The Escrow Agent shall be reimbursed for all reasonable fees and expenses, including without limitation those fees set forth on Schedule III hereto and reasonable counsel fees and disbursements, incurred by the Escrow Agent in connection with the performance of its duties and obligations under this Agreement. Fifty percent (50%) of all such fees and expenses shall be paid by the Buyer and fifty percent (50%) of all such fees and expenses shall be paid by the Indemnifying Parties from the Escrow Fund.

63

(d) The Escrow Agent may be removed at any time upon the joint written action of the Buyer and the Representative. The Escrow Agent may resign at any time by giving at least 30 days prior written notice to the Escrow Parties, which resignation shall become effective upon the acceptance of appointment by the successor Escrow Agent as provided in this Section 6(d). The resigning Escrow Agent may appoint a successor Escrow Agent, reasonably acceptable to the Escrow Parties or the Escrow Parties may in their sole discretion jointly appoint a successor Escrow Agent. If a successor Escrow Agent shall not have been appointed within 20 days after such notice of resignation, the Escrow Agent or any of the Escrow Parties may apply to any court of competent jurisdiction to appoint a successor Escrow Agent. Notwithstanding the foregoing, any successor Escrow Agent shall be a financial institution organized under the laws of the United States of America and having a combined capital and surplus of not less than US $100,000,000. Any successor Escrow Agent, however appointed, shall execute and deliver to the predecessor Escrow Agent, with a copy to each of the Escrow Parties, an instrument accepting such appointment, and thereupon such successor Escrow Agent shall, without further act, become fully vested with all the rights, powers, obligations and duties of the predecessor Escrow Agent hereunder with the same effect as if originally named the Escrow Agent herein. The Escrow Agent shall have the right to withhold an amount equal to any amount due and owing to the Escrow Agent, plus any reasonable costs and expenses the Escrow Agent incurred by the Escrow Agent in connection with termination of this Agreement.

7. <u>Notices</u>. All notices, requests and other communications to any party hereunder shall be in writing and shall be deemed to be effective and to have been duly given on (i) the third Business Day following dispatch if delivered by registered or certified mail (return receipt requested), postage prepaid, (ii) the next Business Day if delivered by a nationally recognized overnight courier, or (iii) on the same day if delivered by hand against written receipt, or sent by facsimile, addressed as follows:

(a) if to the Buyer, addressed to it at the following address, or at such other address as it shall have furnished to the Escrow Agent and the Representative in writing:

Sedgwick CMS Holdings, Inc.
c/o Fidelity National Financial, Inc.
601 Riverside Avenue
Jacksonville, Florida 32204
Facsimile: (904) 357-1026
Attention: Christopher A. Rose, Senior Vice President
with copies to:
LeBoeuf, Lamb, Greene & MacRae LLP
125 West 55th Street
New York, New York 10019
Facsimile: (212) 424-8500
Attention: Robert S. Rachofsky, Esq. and
Gary D. Boss, Esq.

64

(b) if to the Representative, addressed to it at the following address, or at such other address as it shall have furnished to the Escrow Agent and the Buyer in writing:

Capital Partners, Inc.
Eight Greenwich Office Park, Third Floor
Greenwich, Connecticut 06831
Facsimile: (203) 625-0423
Attention: Brian D. Fitzgerald
President

with copies to:

Morgan, Lewis & Bockius LLP
101 Park Avenue
New York, New York 10178-0060
Facsimile: (212) 309-6001
Attention: Christopher T. Jensen, Esq. and
George G. Yearsich, Esq.

and

Richards, Layton & Finger, P.A.
One Rodney Square

100% of net cash proceeds from asset sales, 100% of net cash proceeds from issuance or incurrence of debt, and 100% of extraordinary receipts. We may voluntarily prepay borrowings under the Credit Facility without premium or penalty other than breakage costs, as defined with respect to LIBOR-based loans.

The Credit Facility includes a provision for an annual excess cash flow sweep, as defined in the agreement, payable in the first quarter of each fiscal year, based on the excess cash flow generated in the previous fiscal year. No excess cash flow sweep was required in the first quarter of fiscal year 2015 as no excess cash flow, as defined in the agreement, was generated in fiscal year 2014. At the current time, we are unable to predict the amount of the outstanding principal, if any, that we may be required to repay in future fiscal years pursuant to the excess cash flow sweep provisions.

11. Stockholders' Equity

Share Repurchases

On April 29, 2013, our Board of Directors approved a share repurchase program for up to $500.0 million of our outstanding shares of common stock. On April 29, 2015, our Board of Directors approved an additional $500.0 million under our share repurchase program. We repurchased 16.5 million shares for $242.7 million during the nine months ended June 30, 2015. Since the commencement of the program, we have repurchased 27.9 million shares for $453.5 million. Approximately $546.5 million remained available for share repurchases as of June 30, 2015 pursuant to our share repurchase program. Under the terms of the share repurchase program, we expect to continue to repurchase shares from time to time through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated stock repurchase transactions, or any combination of such methods. The timing and the amount of any purchases will be determined by management based on an evaluation of market conditions, capital allocation alternatives, and other factors. The share repurchase program does not require us to acquire any specific number of shares and may be modified, suspended, extended or terminated by us at any time without prior notice.

12. Net Loss Per Share

Common equivalent shares are excluded from the computation of diluted net loss per share if their effect is anti-dilutive. Potentially dilutive common equivalent shares aggregating to 10.0 million and 12.1 million shares for the three months ended June 30, 2015 and 2014, respectively, and 10.4 million and 12.1 million shares for the nine months ended June 30, 2015 and 2014, respectively, have been excluded from the computation of diluted net loss per share because their inclusion would be anti-dilutive.

13. Stock-Based Compensation

We recognize stock-based compensation expense over the requisite service period. Our share-based awards are accounted for as equity instruments. The amounts included in the consolidated statements of operations relating to stock-based compensation are as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Cost of product and licensing	$148	$238	$331	$1,200
Cost of professional services and hosting	7,833	10,528	20,185	24,346
Cost of maintenance and support	1,002	1,290	2,576	2,480
Research and development	9,210	12,960	26,387	33,703
Selling and marketing	11,760	13,656	32,176	39,110
General and administrative	11,748	16,710	38,317	46,702
Total	$41,701	$55,382	$119,972	$147,541

15

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

Stock Options

The table below summarizes activity relating to stock options for the nine months ended June 30, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value[a]
Outstanding at September 30, 2014	3,723,342	$13.46		
Exercised	(327,844)	$10.33		
Forfeited	(892)	$20.04		
Expired	(30,976)	$19.30		
Outstanding at June 30, 2015	3,363,630	$13.71	1.5 years	$12.9 million
Exercisable at June 30, 2015	3,362,385	$13.71	1.5 years	$12.9 million
Exercisable at June 30, 2014	3,749,438	$13.45	2.5 years	$20.0 million

(a) The aggregate intrinsic value in this table was calculated based on the positive difference, if any, between the closing market value of our common stock on June 30, 2015 ($17.51) and the exercise price of the underlying options.

The weighted-average intrinsic value of stock options exercised during the nine months ended June 30, 2015 and 2014 was $2.1 million and $3.1 million, respectively.

Restricted Units

Restricted units are not included in issued and outstanding common stock until the shares are vested and released. The purchase price for vested restricted units is $0.001 per share. The table below summarizes activity relating to restricted units for the nine months ended June 30, 2015:

	Number of Shares Underlying Restricted Units — Contingent Awards	Number of Shares Underlying Restricted Units — Time-Based Awards
Outstanding at September 30, 2014	5,726,385	8,349,107
Granted	1,771,610	7,375,369
Earned/released	(1,891,051)	(6,493,760)
Forfeited	(646,222)	(552,253)
Outstanding at June 30, 2015	4,960,722	8,678,463
Weighted average remaining recognition period of outstanding restricted units	1.4 years	1.7 years
Unearned stock-based compensation expense of outstanding restricted units	$65.2 million	$94.5 million
Aggregate intrinsic value of outstanding restricted units[a]	$86.9 million	$152.0 million

(a) The aggregate intrinsic value in this table was calculated based on the positive difference between the closing market value of our common stock on June 30, 2015 ($17.51) and the purchase price of the underlying Restricted Units.

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

	Nine Months Ended June 30,	
	2015	2014

Weighted-average grant-date fair value per share	$15.36	$15.39
Total intrinsic value of shares vested (in millions)	$125.1	$82.7

16

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

Restricted Stock Awards

Restricted stock awards are included in the issued and outstanding common stock at the date of grant. The table below summarizes activity related to restricted stock awards for the nine months ended June 30, 2015:

	Number of Shares Underlying Restricted Stock	Weighted Average Grant Date Fair Value
Outstanding at September 30, 2014	750,000	$21.28
Vested	(250,000)	$25.80
Outstanding at June 30, 2015	500,000	$19.01
Weighted average remaining recognition period of outstanding restricted stock awards	0.3 years	
Unearned stock-based compensation expense of outstanding restricted stock awards	$2.2 million	
Aggregate intrinsic value of outstanding restricted stock awards	$8.8 million	

A summary of weighted-average grant-date fair value for awards granted and intrinsic value of all restricted stock awards vested during the periods noted is as follows:

	Nine Months Ended June 30,	
	2015	2014
Weighted-average grant-date fair value per share	$—	$15.71
Total intrinsic value of shares vested (in millions)	$3.9	$3.9

14. Income Taxes

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Domestic	$(65,222)	$(51,233)	$(166,157)	$(172,860)
Foreign	32,365	3,945	85,580	40,304
Loss before income taxes	$(32,857)	$(47,288)	$(80,577)	$(132,556)

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Domestic	$1,728	$4,710	$11,414	$8,505
Foreign	4,805	2,249	11,992	7,826
Provision for income taxes	$6,533	$6,959	$23,406	$16,331
Effective tax rate	(19.9)%	(14.7)%	(29.0)%	(12.3)%

The effective income tax rate was (19.9)% and (29.0)% for the three and nine months ended June 30, 2015, respectively. Our current effective tax rate differs from the U.S. federal statutory rate of 35% primarily due to current period losses in the U.S. that require an additional valuation allowance that provide no benefit to the provision and our earnings in foreign operations that are subject to a significantly lower tax rate than the U.S. statutory tax rate, driven primarily by our subsidiaries in Ireland. In addition, the three and nine months ended June 30, 2015 also include $3.5 million and $10.6 million, respectively, of deferred tax expense related to tax deductible goodwill in the U.S., offset by the release of $2.1 million in reserves for the settlement of a state tax audit during the three months ended June 30, 2015.

Our effective income tax rate is based upon the income for the year, the composition of income in different countries, changes relating to valuation allowances for certain countries if and as necessary, and adjustments, if any, for potential tax consequences resulting from audits or other tax contingencies. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States. Our effective tax rate may be adversely affected by earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated in countries where we have higher statutory tax rates.

17

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

At June 30, 2015 and September 30, 2014, we had gross tax effected unrecognized tax benefits of $21.9 million and $21.2 million, respectively, and is included in other long term liabilities. If these benefits were recognized, they would favorably impact the effective tax rate. We do not expect a significant change in the amount of unrecognized tax benefits within the next 12 months.

15. Commitments and Contingencies

Litigation and Other Claims

Similar to many companies in the software industry, we are involved in a variety of claims, demands, suits, investigations and proceedings that arise from time to time relating to matters incidental to the ordinary course of our business, including actions with respect to contracts, intellectual property, employment, benefits and securities matters. We have estimated the amount of probable losses that may result from all currently pending matters, and such amounts are reflected in our consolidated financial statements. These recorded amounts are not material to our consolidated financial position or results of operations and no additional material losses related to these pending matters are reasonably possible. While it is not possible to predict the outcome of these matters with certainty, we do not expect the results of any of these actions to have a material adverse effect on our results of operations or financial position. However, each of these matters is subject to uncertainties, the actual losses may prove to be larger or smaller than the accruals reflected in our consolidated financial statements, and we could incur judgments or enter into settlements of claims that could adversely affect our financial position, results of operations or cash flows.

Guarantees and Other

We include indemnification provisions in the contracts we enter into with customers and business partners. Generally, these provisions require us to defend claims arising out of our products' infringement of third-party intellectual property rights, breach of contractual obligations and/or unlawful or otherwise culpable conduct. The indemnity obligations generally cover damages, costs and attorneys' fees arising out of such claims. In most, but not all cases, our total liability under such provisions is limited to either the value of the contract or a specified, agreed upon amount. In some cases our total liability under such provisions is unlimited. In many, but not all cases, the term of the indemnity provision is perpetual. While the maximum potential amount of future payments we could be required to make under all the indemnification provisions is unlimited, we believe the estimated fair value of these provisions is minimal due to the low frequency with which these provisions have been triggered.

We indemnify our directors and officers to the fullest extent permitted by Delaware law, which provides among other things, indemnification to directors and officers for expenses, judgments, fines, penalties and settlement amounts incurred by such persons in their capacity as a director or officer of the company, regardless of whether the individual is serving in any such capacity at the time the liability or expense is incurred. Additionally, in connection with certain acquisitions we have agreed to indemnify the former officers and members of the boards of directors of those companies, on similar terms as described above, for a period of six years from the acquisition date. In certain cases we purchase director and officer insurance policies related to these obligations, which fully cover the six year period. To the extent that we do not purchase a director and officer insurance policy for the full period of any contractual indemnification, and such directors and officers do not have coverage under separate insurance policies, we would be required to pay for costs incurred, if any, as described above.

16. Segment and Geographic Information

We operate in, and report financial information for, the following four reportable segments: Healthcare, Mobile and Consumer, Enterprise, and Imaging. Segment profit is an important measure used for evaluating performance and for decision-making purposes and reflects the direct controllable costs of each segment together with an allocation of sales and corporate marketing expenses, and certain research and development project costs that benefit multiple product offerings. Segment profit represents income from operations excluding stock-based compensation, amortization of intangible assets, acquisition-related costs, net, restructuring and other charges, net, costs associated with intellectual property collaboration agreements, other income (expense), net and certain unallocated corporate expenses.

In October 2014, we realigned certain of our product offerings which were previously reported in the Mobile and Consumer segment into the Enterprise segment. Accordingly, the segment results in prior periods have been reclassified to conform to the current period segment reporting presentation.

18

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Segment revenues[(a)]:				
Healthcare	$236,855	$240,099	$696,439	$704,382
Mobile and Consumer	108,577	106,978	332,614	326,690
Enterprise	86,966	87,286	260,911	269,020
Imaging	56,258	52,451	175,785	166,740
Total segment revenues	488,656	486,814	1,465,749	1,466,832
Acquisition-related revenues	(10,717)	(11,310)	(38,732)	(45,695)
Total consolidated revenues	477,939	475,504	1,427,017	1,421,137
Segment profit:				
Healthcare	81,846	84,916	239,966	254,853
Mobile and Consumer	26,959	19,677	72,468	48,507
Enterprise	24,895	18,346	68,909	59,019
Imaging	21,762	16,887	63,770	60,271
Total segment profit	155,462	139,826	445,113	422,650
Corporate expenses and other, net	(31,226)	(25,292)	(102,344)	(86,624)
Acquisition-related revenues and cost of revenues adjustment	(10,198)	(10,450)	(36,576)	(42,319)
Stock-based compensation	(41,701)	(55,382)	(119,972)	(147,541)
Amortization of intangible assets	(42,147)	(42,293)	(125,064)	(126,872)
Acquisition-related costs, net	(2,423)	(9,110)	(13,702)	(18,710)
Restructuring and other charges, net	(10,808)	(8,622)	(12,703)	(17,178)
Costs associated with IP collaboration agreements	(2,625)	(4,937)	(8,501)	(14,811)
Other expense, net	(47,191)	(31,028)	(106,828)	(101,151)
Loss before income taxes	$(32,857)	$(47,288)	$(80,577)	$(132,556)

(a) Segment revenues differ from reported revenues due to certain revenue adjustments related to acquisitions that will not be fully recognized in accordance with authoritative guidance for the purchase accounting of business combinations. Segment revenues also include revenue that the business would have otherwise recognized had we not acquired intellectual property and other assets from the same customer. These revenues are included to allow for more complete comparisons to the financial results of historical operations and in evaluating management performance.

There were no countries outside of the United States that provided greater than 10% of our total revenues. Revenues, classified by the major geographic areas in which our customers are located, were as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
United States	$352,033	$350,363	$1,052,155	$1,040,135
International	125,906	125,141	374,862	381,002
Total revenues	$477,939	$475,504	$1,427,017	$1,421,137

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q including the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosure About Market Risk" under Items 2 and 3, respectively, of Part I of this report, and the sections entitled "Legal Proceedings" and "Risk Factors," under Items 1 and 1A, respectively, of Part II of this report, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks, uncertainties and assumptions that, if they never materialize or if they prove incorrect, could cause our consolidated results to differ materially from those expressed or implied by such forward-looking statements. These forward-looking statements include predictions regarding:

- our future bookings, revenues, cost of revenues, research and development expenses, selling, general and administrative expenses, amortization of intangible assets and gross margin;
- our strategy relating to our segments;
- our transformation program to reduce costs and optimize processes;
- market trends;
- technological advancements;
- the potential of future product releases;
- our product development plans and the timing, amount and impact of investments in research and development;
- future acquisitions, and anticipated benefits from acquisitions;
- international operations and localized versions of our products; and
- the conduct, timing and outcome of legal proceedings and litigation matters.

You can identify these and other forward-looking statements by the use of words such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "continue" or the negative of such terms, or o comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks described in Item 1A — "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.

You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

OVERVIEW

Business Overview

We are a leading provider of voice and language solutions for businesses and consumers around the world. Our solutions are used in the healthcare, mobile, consumer, enterprise customer service, and imaging markets. We are seeing several trends in our markets, including (i) the growing adoption of cloud-based, connected services and highly interactive mobile applications, (ii) deeper integration of virtual assistant capabilities and services, and (iii) the continued expansion of our core technology portfolio from speech recognition to natural language understanding, semantic processing, domain-specific reasoning and dialog management capabilities.

- Healthcare. Trends in our healthcare business include continuing customer preference for hosted solutions and other time-based licenses and increasing interest in the use of mobile devices to access healthcare systems and records. We continue to see strong demand for transactions which involve the sale and delivery of both software and non-software related services or products, as well as transactions which involve the sale of multiple solutions, such as both hosted transcription services and Dragon Medical licenses. Although the volume processed in our hosted transcription services has steadily increased due to the expanding customer base, we have experienced some erosion in lines processed when customers adopt electronic medical record ("EMR") systems and when in some cases customers use our licensed Dragon Medical product to support input into the EMR. We believe an important trend in the healthcare market is the desire to improve efficiency in the coding and revenue cycle management process. Our solutions reduce costs by increasing

20

Table of Contents

automation of this important workflow, and also enable hospitals to improve documentation used to support billings. In addition to improved efficiency, there is an impending change in the industry coding standard from ICD-9 to ICD-10, which will significantly increase the number of possible codes, and therefore, increase the complexity of this process, which in turn reinforces our customers' desire for improved efficiency. We are investing to expand our product set to address the various healthcare opportunities, including deeper integration with our clinical documentation solutions, as well as expand our international capabilities, and reduce our time from contract signing to initiation of billable services.

- Mobile and Consumer. Trends in our mobile and consumer segment include device manufacturers requiring custom applications to deliver unique and differentiated products such as virtual assistants, broadening keyboard technologies to take advantage of touch screens, increasing hands-free capabilities on cell phones and in automobiles, the adoption of our technology for use on and with a broadening scope of devices, such as televisions, set-top boxes, e-book readers, tablet and laptop computers, cameras and third-party applications. The more powerful capabilities of mobile devices require us to supply a broader set of technologies to support the increasing scope and complexity of the solutions. These technologies include cloud-based speech recognition, natural language understanding, dialog management, text-to-speech and enhanced text input. Within given levels of our technology set, we have seen pricing pressures from our OEM partners in our mobile handset business. We continue to see an increasing proportion of revenue from on-demand and transactional arrangements as opposed to traditional upfront licensing of our mobile products and solutions. Although this has a negative impact on near-term revenue, we believe this model will build stronger and more predictable revenues over time. We are investing to increase our capabilities and capacity to help device manufacturers build custom applications, to increase the capacity of our data centers, to increase the number, kinds and capacity of network services, to enable developers to access our technology, and to expand both awareness and channels for our direct-to-consumer products.
- Enterprise. Trends in our enterprise business include increasing interest in the use of mobile applications and web sites to access customer care systems and records, voice-based authentication of users, increasing interest in coordinating actions and data across customer care channels, and the ability of a broader set of hardware providers and systems integrators to serve the market. In fiscal year 2014, revenues and bookings from on-demand solutions increased significantly, as a growing proportion of customers chose our cloud-based solutions for call center, Web and mobile customer care solutions. We expect these trends to continue in fiscal year 2015. We are investing to expand our product set to address these opportunities, to increase efficiency of our hosted applications, expand our capabilities and capacity to help customers build custom applications, and broaden our relationships with new hardware providers and systems integrator partners serving the market.
- Imaging. The imaging market is evolving to include more networked solutions, mobile access to networked solutions, multi-function devices, and away from packaged software. We expect to expand our traditional packaged software sales with subscription versions. We are investing to improve mobile access to our networked products, expand our distribution channels and embedding relationships, and expand our language coverage.

Confronted by dramatic increases in electronic information, consumers, business personnel and healthcare professionals must use a variety of resources to retrieve information, transcribe patient records, conduct transactions and perform other job-related functions. We believe that the power of our solutions can transform the way people use the Internet, telecommunications systems, EMRs, wireless and mobile networks and related corporate infrastructure to conduct business.

The areas in which we are focusing investments include connected services in automobiles and consumer electronics, Healthcare clinical documentation and clinical information management, automated multi-channel customer care, and MFP Print and Scan management. We continue to expect some volume erosion in our healthcare on-demand base, as users migrate toward use of electronic medical records, often in combination with our Dragon Medical solution. Our growth opportunity in mobile handsets is limited by the consolidation of this market to a limited number of customers. In addition, our Dragon NaturallySpeaking business has been challenged by market conditions, and our Enterprise on-premise business has been challenged by customers’ growing preference for on-demand implementations. Although on-demand revenue has trended upward over the last several quarters, on-demand revenue has been negatively affected by the volume erosion in our Healthcare transcription on-demand base and some migration of our

Healthcare transcription on-demand and mobile operator services businesses from semi-automated services to lower-priced, fully automated solutions. In contrast, on-demand revenue from Mobile connected services and Enterprise customer care solutions has grown. These trends are also reflected in the recent declines in our Estimated 3-Year Value of Total On-Demand contracts, with reduced Healthcare on-demand and mobile operator services expectations offsetting strong net new bookings in Mobile connected services and Enterprise on-demand contracts.

Table of Contents

Strategy

During fiscal year 2015, we continue to focus on growth by providing market-leading, value-added solutions for our customers and partners through a broad set of technologies, service offerings and channel capabilities. We have increased our focus on operating efficiencies, expense and hiring discipline and acquisition synergies to improve gross margins and operating margins. As part of this effort, during the third quarter of fiscal year 2015, we began a transformation program. In addition, we have started to reallocate investments to our highest growth opportunities from more mature businesses. We intend to continue to pursue growth through the following key elements of our strategy:

- Extend Technology Leadership. Our solutions are recognized as among the best in their respective categories. We intend to leverage our global research and development organization and our broad portfolio of technologies, applications and intellectual property to foster technological innovation and to maintain customer preference for our solutions. We also intend to continue to invest in our engineering resources and to seek new technological advancements that further expand the addressable markets for our solutions.
- Broaden Expertise in Vertical Markets. Businesses are increasingly turning to us for comprehensive solutions rather than for a single technology product. We intend to broaden our expertise and capabilities to continue to deliver targeted solutions for a range of industries including mobile device manufacturers, healthcare, telecommunications, financial services and government administration. We also intend to expand professional services capabilities to help our customers and partners design, integrate and deploy innovative solutions.
- Increase Subscription and Transaction Based Recurring Revenue. We intend to increase our subscription and transaction based offerings in all of our segments. This will enable us to deliver applications that our customers use, and pay for, on a repeat basis, providing us with the opportunity to enjoy the benefits of recurring revenue streams.
- Expand Global Presence. We intend to further expand our international resources to better serve our global customers and partners and to leverage opportunities in established markets such as Europe, and also emerging markets within Asia and Latin America. We continue to add regional sales employees across geographic regions to better address demand for voice and language based solutions and services.
- Pursue Strategic Acquisitions and Partnerships. We have selectively pursued strategic acquisitions to expand our technology, solutions and resources and to complement our organic growth. We use these acquisitions to deliver enhanced value to our customers, partners, employees and shareholders. We intend to continue to pursue acquisitions that enhance our solutions, serve specific vertical markets and strengthen our technology portfolio. We have, however, recently slowed the pace and reduced the size of acquisitions to focus our resources more on driving organic growth. We also have formed key partnerships with other important companies in our markets of interest and intend to continue to do so in the future where it will enhance the value of our business.

Key Metrics

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

For the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014:

- Total revenues increased by $5.9 million to $1,427.0 million;
- Net loss decreased by $44.9 million to a loss of $104.0 million;
- Gross margins increased by 1.3 percentage points to 56.7%;
- Operating margins increased by 4.0 percentage points to 1.8%; and
- Cash provided by operating activities increased $73.8 million to $336.0 million.

As of June 30, 2015, as compared to June 30, 2014:

- Total deferred revenue increased 23.7% from $523.4 million to $647.6 million driven by Mobile connected services, maintenance and support contracts and Enterprise on-demand services.

In addition to the above key financial metrics, we also focus on certain operating metrics. A summary of these key operating metrics for the period ended June 30, 2015, as compared to the period ended June 30, 2014, is as follows:

Table of Contents

- Annualized line run-rate in our on-demand healthcare solutions decreased 1% from one year ago to approximately 5.5 billion lines per year. The annualized line run-rate is determined using billed equivalent line counts in a given quarter, multiplied by four;
- Net new bookings increased 46.6% from one year ago to $484.4 million. Our net new bookings depend on the timing of large multi-year contracts, resulting in quarter-to-quarter variability. Net new bookings performance was impacted by a large booking in our connected car business last year. In addition, current year net new bookings was impacted by fluctuation in currency exchange rates.

Bookings represent the estimated gross revenue value of transactions at the time of contract execution, except for maintenance and support offerings. For fixed price contracts, the bookings value represents the gross total contract value. For contracts where revenue is based on transaction volume, the bookings value represents the contract price multiplied by the estimated future transaction volume during the contract term, whether or not such transaction volumes are guaranteed under a minimum commitment clause. Actual results could be different than our initial estimate. The maintenance and support bookings value represents the amounts billed in the period the customer is invoiced. Because of the inherent estimates required to determine bookings and the fact that the actual resultant revenue may differ from our initial bookings estimates, we consider bookings one indicator of potential future revenue and not as an arithmetic measure of backlog.

Net new bookings represents the estimated revenue value at the time of contract execution from new contractual arrangements or the estimated revenue value incremental to the portion of value that will be renewed under pre-existing arrangements;

- Estimated three-year value of on-demand contracts increased 2.4% from one year ago to approximately $2.3 billion. We determine this value as of the end of the period reported, by using our best estimate of three years of anticipated future revenue streams under signed on-demand contracts then in place, whether or not they are guaranteed through a minimum commitment clause. Our best estimate is based on estimates used in evaluating the contracts and determining sales compensation, adjusted for changes in estimated launch dates, actual volumes achieved and other factors deemed relevant. For contracts with an expiration date beyond three years, we include only the value expected within three years. For other contracts, we assume renewal consistent with historic renewal rates unless there is a known cancellation. Contracts are generally priced by volume of usage and typically have no or low minimum commitments. Actual revenue could vary from our estimates due to factors such as cancellations, non-renewals or volume fluctuations; and
- Total recurring revenue represented 65.9% and 64.3% of total revenue for nine months ended June 30, 2015 and June 30, 2014, respectively. Total recurring revenue represents the sum of recurring product and licensing, on-demand, and maintenance and support revenues as well as the portion of professional services revenue that is delivered under ongoing subscription contracts.

RESULTS OF OPERATIONS

Total Revenues

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Dollar Change	Percent Change	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 2014	Dollar Change	Percent Change
Product and licensing	$162.8	$168.2	$(5.4)	(3.2)%	$506.9	$521.5	$(14.6)	(2.8)%
Professional services and hosting	234.3	231.7	2.6	1.1%	684.9	677.3	7.6	1.1%
Maintenance and support	80.9	75.6	5.3	7.0%	235.1	222.3	12.8	5.8%
Total Revenues	$477.9	$475.5	$2.4	0.5%	$1,427.0	$1,421.1	$5.9	0.4%
United States	$352.0	$350.4	$1.6	0.5%	$1,052.2	$1,040.1	$12.1	1.2%
International	125.9	125.1	0.8	0.6%	374.9	381.0	(6.1)	(1.6)%
Total Revenues	$477.9	$475.5	$2.4	0.5%	$1,427.0	$1,421.1	$5.9	0.4%

The geographic split for the three months ended June 30, 2015 and 2014 was 74% of total revenues in the United States and 26% internationally. International revenue was negatively impacted by weakening foreign currencies offset by an increase in revenue driven by a recent acquisition.

23

Table of Contents

The geographic split for the nine months ended June 30, 2015 was 74% of total revenues in the United States and 26% internationally, compared to 73% of total revenues in the United States and 27% internationally for the same period last year. International revenue was negatively impacted by weakening foreign currencies.

Product and Licensing Revenue

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Dollar Change	Percent Change	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 2014	Dollar Change	Percent Change
Product and licensing revenue	$162.8	$168.2	$(5.4)	(3.2)%	$506.9	$521.5	$(14.6)	(2.8)%
As a percentage of total revenue	34.1%	35.4%			35.5%	36.7%		

Product and licensing revenue for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, was primarily driven by a $5.4 million decrease in the Mobile and Consumer segment and a $3.5 million decrease in the Healthcare segment. This was offset by a $3.8 million increase in the Enterprise segment. The decrease in Mobile and Consumer revenue was driven primarily by lower embedded license sales. The decrease in Healthcare revenue was driven primarily by lower license sales of our clinical documentation solutions as we continue to see a migration to hosted solutions. The increase in Enterprise revenue was driven primarily by strong on-premise sales.

The decrease in product and licensing revenue for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014, was primarily driven by a $14.6 million decrease in the Healthcare segment and a $2.2 million decrease in Mobile and Consumer segment. This decrease was offset by a $3.2 million increase in Enterprise segment. Within our Healthcare segment, license sales of our clinical documentation solutions decreased $16.8 million, offset by a $2.2 million increase in our Clintegrity sales. Within our Mobile and Consumer segment, automotive license sales increased $21.7 million, partially offset by an $11.3 million decrease in mobile handset license sales as the handset market continues to consolidate, as well as a $9.9 million decrease in Dragon desktop consumer products sales. The increase in Enterprise revenue was driven primarily by strong on-premise license sales during the three months ended June 30, 2015.

Professional Services and Hosting Revenue

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Dollar Change	Percent Change	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 2014	Dollar Change	Percent Change
Professional services and hosting revenue	$234.3	$231.7	$2.6	1.1%	$684.9	$677.3	$7.6	1.1%
As a percentage of total revenue	49.0%	48.7%			48.0%	47.7%		

The increase in professional services and hosting revenue for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, was primarily driven by a $7.7 million increase in hosting revenue, partially offset by a $5.1 million decrease in professional services revenue. In our hosting business, on-demand revenue in our Mobile and Consumer segment increased by $9.9 million primarily driven by a recent acquisition and growth in our Mobile connected services business. This increase in on-demand revenue was partially offset by a $2.6 million decrease in the Healthcare hosting revenue as we continue to experience some volume erosion in our transcription services. In our professional services business, the decrease in revenue was driven by lower professional services from our Enterprise on-premise offerings.

The increase in professional services and hosting revenue for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014, was primarily driven by a $12.8 million increase in hosting revenue, partially offset by a $5.3 million decrease in professional services revenue. In our hosting business, on-demand revenue in our Mobile and Consumer segment increased by $11.6 million primarily driven by a growth in our Mobile connected services business. On-demand revenue in our Enterprise segment also increased $6.4 million driven by growth in our automated multi-channel customer care services. These increases were partially offset by a $5.1 million decrease in the Healthcare hosting revenue as we continue to experience some volume erosion in our transcription services.

Table of Contents

Maintenance and Support Revenue

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

	Three Months Ended June 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended June 30, 2015	2014	Dollar Change	Percent Change
Maintenance and support revenue	$80.9	$75.6	$5.3	7.0 %	$235.1	$222.3	$12.8	5.8 %
As a percentage of total revenue	16.9 %	15.9 %			16.5 %	15.6 %		

The increase in maintenance and support revenue for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, included a $3.6 million increase in the Healthcare segment and a $1.9 million increase in the Imaging segment.

The increase in maintenance and support revenue for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014, included an $8.5 million increase in the Healthcare segment, primarily driven by sales of clinical documentation solutions, as well as an increase of $4.6 million in the Imaging segment.

Costs and Expenses

Cost of Product and Licensing Revenue

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

	Three Months Ended June 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended June 30, 2015	2014	Dollar Change	Percent Change
Cost of product and licensing revenue	$21.3	$23.9	$(2.6)	(10.9)%	$68.5	$74.6	$(6.1)	(8.2)%
As a percentage of product and licensing revenue	13.1 %	14.2 %			13.5 %	14.3 %		

The decrease in cost of product and licensing revenue for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, primarily consisted of a $1.7 million decrease in the Imaging segment and a $1.2 million decrease in the Mobile and Consumer segment.

The decrease in cost of product and licensing revenue for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014, consisted of a $3.1 million decrease in both the Mobile and Consumer segment and the Imaging segment.

Cost of Professional Services and Hosting Revenue

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

	Three Months Ended June 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended June 30, 2015	2014	Dollar Change	Percent Change
Cost of professional services and hosting revenue	$153.9	$163.6	$(9.7)	(5.9)%	$462.2	$475.6	$(13.4)	(2.8)%
As a percentage of professional services and hosting revenue	65.7 %	70.6 %			67.5 %	70.2 %		

25

Table of Contents

The decrease in the cost of professional services and hosting revenue for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, included a decrease of $5.4 million in the Healthcare segment, a decrease of $3.9 million in the Enterprise segment, and a decrease of $2.7 million related to stock-based compensation driven by lower bonus related costs. Gross margins increased 4.9 percentage points primarily driven by improved gross margin in our Healthcare transcription services.

The decrease in the cost of professional services and hosting revenue for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014, included a decrease of $8.8 million in the Enterprise segment, a decrease of $4.8 million in the Healthcare segment, and a decrease of $4.2 million related to stock-based compensation driven by lower bonus related costs. Gross margins increased 2.7 percentage points primarily driven by lower stock-based compensation expense and improved margin within our Mobile & Consumer segment.

Cost of Maintenance and Support Revenue

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

	Three Months Ended June 30,		Dollar Change	Percent Change	Nine Months Ended June 30,		Dollar Change	Percent Change
	2015	2014			2015	2014		
Cost of maintenance and support revenue	$13.7	$13.6	$0.1	0.7 %	$41.2	$38.5	$2.7	7.0 %
As a percentage of maintenance and support revenue	16.9 %	18.0 %			17.5 %	17.3 %		

Cost of maintenance and support revenue for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, was flat.

The increase in the cost of maintenance and support revenue for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014, included a $2.6 million increase in costs related to an acquisition in our Imaging segment that was completed during the fourth quarter of fiscal year 2014.

Research and Development Expense

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

	Three Months Ended June 30,		Dollar Change	Percent Change	Nine Months Ended June 30,		Dollar Change	Percent Change
	2015	2014			2015	2014		
Research and development expense	$79.1	$87.1	$(8.0)	(9.2)%	$236.4	$252.2	$(15.8)	(6.3)%
As a percentage of total revenue	16.6 %	18.3 %			16.6 %	17.7 %		

The decrease in research and development expense for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, was primarily attributable to a reduction of $4.3 million in costs associated with the expiration of collaboration agreements and a $3.2 million decrease in compensation costs driven by lower stock-based compensation.

The decrease in research and development expense for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014, was primarily attributable to a reduction of $12.3 million in costs associated with the expiration of collaboration agreements and a $7.3 million decrease in stock-based compensation driven by lower bonus related costs.

Table of Contents

Sales and Marketing Expense

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

	Three Months Ended June 30,		Dollar Change	Percent Change	Nine Months Ended June 30,		Dollar Change	Percent Change
	2015	2014			2015	2014		
Sales and marketing expense	$99.3	$99.8	$(0.5)	(0.5)%	$303.8	$317.0	$(13.2)	(4.2)%
As a percentage of total revenue	20.8%	21.0%			21.3%	22.3%		

Sales and marketing expense for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, was flat. For the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, marketing and channel program spending decreased $2.1 million and stock-based compensation decreased $1.9 million driven by lower bonus related costs. These decreases were offset by an increase of $2.0 million in expense for exclusive commercialization rights under a collaboration agreement and an increase of $1.3 million in consulting and professional services fees.

The decrease in sales and marketing expense for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014, was primarily attributable to a $15.8 million decrease in marketing and channel program spending and a $6.9 million decrease in stock-based compensation expense driven by lower bonus related costs. These decreases were partially offset by an increase of $6.0 million in expense for exclusive commercialization rights under a collaboration agreement.

General and Administrative Expense

General and administrative expense primarily consists of personnel costs for administration, finance, human resources, general management, fees for external professional advisers including accountants and attorneys, and provisions for doubtful accounts. The following table shows general and administrative expense, in dollars and as a percentage of total revenues (dollars in millions):

	Three Months Ended June 30,		Dollar Change	Percent Change	Nine Months Ended June 30,		Dollar Change	Percent Change
	2015	2014			2015	2014		
General and administrative expense	$41.0	$43.7	$(2.7)	(6.2)%	$137.3	$131.9	$5.4	4.1%
As a percentage of total revenue	8.6%	9.2%			9.6%	9.3%		

The decrease in general and administrative expense for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, was primarily attributable to a $5.0 million decrease in stock-based compensation expense driven by lower bonus related costs, partially offset by a $2.2 million increase in consulting and professional services fees.

The increase in general and administrative expense for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014, was primarily attributable to a $11.0 million increase in consulting and professional services fees, partially offset by an $8.4 million decrease in stock-based compensation expense driven by lower bonus related costs.

Amortization of Intangible Assets

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

	Three Months Ended June 30,		Dollar Change	Percent Change	Nine Months Ended June 30,		Dollar Change	Percent Change
	2015	2014			2015	2014		
Cost of revenue	$15.8	$15.0	$0.8	5.3 %	$46.5	$45.5	$1.0	2.2 %
Operating expenses	26.4	27.3	(0.9)	(3.3)%	78.5	81.3	(2.8)	(3.4)%
Total amortization expense	$42.2	$42.3	$(0.1)	(0.2)%	$125.1	$126.8	$(1.7)	(1.3)%
As a percentage of total revenue	8.8 %	8.9 %			8.8 %	8.9 %		

27

Table of Contents

The decrease in total amortization of intangible assets for the three and nine months ended June 30, 2015, as compared to the same periods in 2014, was primarily attributable to certain intangible assets becoming fully amortized in the period.

Acquisition-Related Costs, Net

Acquisition-related costs include costs related to business and other acquisitions, including potential acquisitions. These costs consist of (i) transition and integration costs, including retention payments, transitional employee costs and earn-out payments treated as compensation expense, as well as the costs of integration-related services provided by third-parties; (ii) professional service fees, including third-party costs related to the acquisition, and legal and other professional service fees associated with disputes and regulatory matters related to acquired entities; and (iii) adjustments to acquisition-related items that are required to be marked to fair value each reporting period, such as contingent consideration, and other items related to acquisitions for which the measurement period has ended.

Acquisition-related costs were recorded as follows (dollars in millions):

	Three Months Ended June 30,		Dollar Change	Percent Change	Nine Months Ended June 30,		Dollar Change	Percent Change
	2015	2014			2015	2014		
Transition and integration costs	$2.9	$5.6	$(2.7)	(48.2)%	$9.2	$14.0	$(4.8)	(34.3)%
Professional service fees	1.4	3.4	(2.0)	(58.8)%	7.1	9.1	(2.0)	(22.0)%
Acquisition-related adjustments	(1.9)	0.1	(2.0)	(2,000.0)%	(2.6)	(4.4)	1.8	(40.9)%
Total acquisition-related costs, net	$2.4	$9.1	$(6.7)	(73.6)%	$13.7	$18.7	$(5.0)	(26.7)%
As a percentage of total revenue	0.5%	1.9%			1.0%	1.3%		

Included in acquisition-related adjustments for the nine months ended June 30, 2014, is income of $7.7 million related to the elimination of contingent liabilities established in the original allocation of purchase price for acquisitions closed in fiscal year 2008, following the expiration of the applicable statute of limitations.

Restructuring and Other Charges, Net

Restructuring and other charges, net include restructuring expenses together with other charges that are unusual in nature and are the result of unplanned events, and arise outside of the ordinary course of continuing operations. Restructuring expenses consist of employee severance costs and may also include charges for excess facility space and other contract termination costs. Other charges may include gains or losses on non-controlling strategic equity interests, litigation contingency reserves and gains or losses on the sale or disposition of certain non-strategic assets or product lines.

The following table sets forth the accrual activity relating to our restructuring reserve for the nine months ended June 30, 2015 (dollars in millions):

	Personnel	Facilities	Total
Balance at September 30, 2014	$3.3	$1.5	$4.7
Restructuring charges	8.5	0.9	9.4
Cash payments	(9.3)	(1.6)	(11.0)
Balance at June 30, 2015	$2.4	$0.8	$3.1

During May 2015, our management approved a restructuring plan, as part of our initiatives to reduce costs and optimize processes, under which we reduced headcount by approximately 200 employees and closed certain excess facility space resulting in a charge of $7.5 million for the three months ended June 30, 2015. We expect that the remaining severance payments of $2.4 million will be substantially paid by the end of fiscal year 2015. The annualized cash savings related to the reduced headcount is expected to be approximately $25.0 million.

In addition, during the three months ended June 30, 2015, we have recorded certain other charges that totaled $3.3 million for the impairment of certain long-lived assets as a result of our strategic realignment of our product portfolio.

28

Table of Contents

Other Expense, Net

Other expense, net consists of interest income, interest expense, gain (loss) from security price guarantee derivatives, gain (loss) from foreign exchange, and gain (loss) from other non-operating activities. The following table shows other expense, net, in dollars and as a percentage of total revenues (dollars in millions):

	Three Months Ended June 30,		Dollar Change	Percent Change	Nine Months Ended June 30,		Dollar Change	Percent Change
	2015	2014			2015	2014		
Interest income	$0.7	$0.5	$0.2	40.0 %	$1.9	$1.7	$0.2	11.8 %
Interest expense	(29.5)	(31.9)	2.4	(7.5)%	(89.4)	(99.9)	10.5	(10.5)%
Other (expense) income, net	(18.4)	0.4	(18.8)	(4,700.0)%	(19.3)	(3.0)	(16.3)	543.3 %
Total other expense, net	$(47.2)	$(31.0)	$(16.2)	52.3 %	$(106.8)	$(101.2)	$(5.6)	5.5 %
As a percentage of total revenue	9.9 %	6.5 %			7.5 %	7.1 %		

Interest expense decreased $2.4 million and $10.5 million for the three and nine months ended June 30, 2015, as compared to the three and nine months ended June 30, 2014, primarily driven by the reduction in interest expense resulting from the redemption of the $250.0 million 2.75% convertible senior debentures in the fourth quarter of fiscal year 2014. Other (expense) income, net decreased by $18.8 million and $16.3 million for the three and nine months ended June 30, 2015, as compared to the three and nine months ended June 30, 2014, primarily due to a $17.7 million loss on extinguishment of debt resulting from the partial exchange of our 2031 Debentures during the three months ended June 30, 2015.

Provision for Income Taxes

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

	Three Months Ended June 30,		Dollar Change	Percent Change	Nine Months Ended June 30,		Dollar Change	Percent Change
	2015	2014			2015	2014		
Provision for income taxes	$6.5	$7.0	$(0.5)	(7.1)%	$23.4	$16.3	$7.1	43.6 %
Effective income tax rate	(19.9)%	(14.7)%			(29.0)%	(12.3)%		

The effective income tax rate was (19.9)% and (29.0)% for the three and nine months ended June 30, 2015, respectively. Our current effective tax rate differs from the U.S. federal statutory rate of 35% primarily due to current period losses in the U.S. that require an additional valuation allowance that provide no benefit to the provision and our earnings in foreign operations that are subject to a significantly lower tax rate than the U.S. statutory tax rate, driven primarily by our subsidiaries in Ireland. In addition, the three and nine months ended June 30, 2015 also include $3.5 million and $10.6 million, respectively, of deferred tax expense related to tax deductible goodwill in the U.S., offset by the release of $2.1 million in reserves for the settlement of a state tax audit.

Our effective income tax rate is based upon the income for the year, the composition of income in different countries, changes relating to valuation allowances for certain countries if and as necessary, and adjustments, if any, for potential tax consequences resulting from audits or other tax contingencies. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States. Our effective tax rate may be adversely affected by earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated in countries where we have higher statutory tax rates.

SEGMENT ANALYSIS

We operate in, and report financial information for, the following four reportable segments: Healthcare, Mobile and Consumer, Enterprise, and Imaging. Segment profit is an important measure used for evaluating performance and for decision-making purposes and reflects the direct controllable costs of each segment together with an allocation of sales and corporate marketing expenses, and certain research and development project costs that benefit multiple product offerings. Segment profit represents income from operations excluding stock-based compensation, amortization of intangible assets, acquisition-related costs, net, restructuring and other charges, net, costs associated with intellectual property collaboration agreements, other income (expense), net and certain unallocated corporate expenses.

In October 2014, we realigned certain of our product offerings which were previously reported in the Mobile and Consumer segment into the Enterprise segment. Accordingly, the segment results in prior periods have been reclassified to conform to the current period segment reporting presentation.

29

Table of Contents

Segment revenues differ from reported revenues due to certain revenue adjustments related to acquisitions that will not be fully recognized in accordance with authoritative guidance for the purchase accounting of business combinations. Segment revenues also include revenue that the business would have otherwise recognized had we not acquired intellectual property and other assets from the same customer. These revenues are included to allow for more complete comparisons to the financial results of historical operations, forward-looking guidance, the financial results of peer companies, and in evaluating management performance.

The following table presents segment results (dollars in millions):

	Three Months Ended June 30, 2015	2014	Change	Percent Change	Nine Months Ended June 30, 2015	2014	Change	Percent Change
Segment Revenues								
Healthcare	$236.8	$240.1	$(3.3)	(1.4)%	$696.4	$704.4	$(8.0)	(1.1)%
Mobile and Consumer	108.5	107.0	1.5	1.4 %	332.6	326.7	5.9	1.8 %
Enterprise	87.0	87.3	(0.3)	(0.3)%	260.9	269.0	(8.1)	(3.0)%
Imaging	56.3	52.4	3.9	7.4 %	175.8	166.7	9.1	5.5 %
Total segment revenues	$488.7	$486.8	$1.8	0.4 %	$1,465.7	$1,466.8	$(1.1)	(0.1)%
Acquisition-related revenues adjustments	(10.8)	(11.3)	0.5	(4.4)%	(38.7)	(45.7)	7.0	(15.3)%
Total revenues	$477.9	$475.5	$2.4	0.5 %	$1,427.0	$1,421.1	$5.9	0.4 %
Segment Profit								
Healthcare	$81.8	$84.9	$(3.1)	(3.7)%	$240.0	$254.9	$(14.9)	(5.8)%
Mobile and Consumer	27.0	19.7	7.3	37.1 %	72.5	48.5	24.0	49.5 %
Enterprise	24.9	18.3	6.6	36.1 %	68.9	59.0	9.9	16.8 %
Imaging	21.8	16.9	4.9	29.0 %	63.8	60.3	3.5	5.8 %
Total segment profit	$155.5	$139.8	$15.7	11.2 %	$445.2	$422.7	$22.5	5.3 %
Segment Profit Margin								
Healthcare	34.5 %	35.4 %	(0.9)		34.5 %	36.2 %	(1.7)	
Mobile and Consumer	24.9 %	18.4 %	6.5		21.8 %	14.8 %	7.0	
Enterprise	28.6 %	21.0 %	7.6		26.4 %	21.9 %	4.5	
Imaging	38.7 %	32.3 %	6.4		36.3 %	36.2 %	0.1	
Total segment profit margin	31.8 %	28.7 %	3.1		30.4 %	28.8 %	1.6	

Segment Revenue

Three months ended June 30, 2015

- Healthcare segment revenues decreased $3.3 million for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014. Product and licensing revenues decreased $4.6 million driven by lower revenues from our clinical documentation solutions. Professional services and hosting revenues decreased by $2.2 million as we continue to experience some erosion of volumes in our transcription services. Maintenance and support revenues increased $3.5 million driven by strong renewals in clinical documentation.
- Mobile and Consumer segment revenues increased $1.5 million for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014. Hosting revenues increased by $10.3 million driven primarily by our recent acquisition and growth in our Mobile connected services business. This increase was partially offset by a $5.4 million decrease in product and licensing revenues and a $2.5 million decrease in professional services revenue. The decrease was primarily driven by lower license sales and professional services in our automotive business as we continue to see shift to our connected services.
- Enterprise segment revenues decreased $0.3 million for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014. Professional services revenues decreased $4.1 million driven by lower sales in customer care on-premise implementation which has been challenged by customers' growing preference for on-demand implementation. Product and licensing revenues increased $3.8 million driven by strong license sales in customer care solutions and our voice-based authentication solutions.

30

Table of Contents

- Imaging segment revenues increased $3.9 million for the three months ended June 30, 2015, as compared to the three months ended June 30, 2014, primarily driven by revenue from a recent acquisition, partially offset by continued declines in our desktop product sales.

Nine months ended June 30, 2015

- Healthcare segment revenues decreased $8.0 million for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014. Product and licensing revenues decreased $18.2 million driven by lower revenues from our clinical documentation solutions. Professional services and hosting revenues increased $1.7 million primarily driven by an increase of $5.6 million in professional services from our Clintegrity solutions, offset by a $3.8 million decrease in hosting revenues as we continue to experience some erosion of volumes in our transcription services. Maintenance and support revenues increased $8.5 million driven by strong renewals in clinical documentation.

- Mobile and Consumer segment revenues increased $5.9 million for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014. Hosting revenues increased by $11.8 million driven primarily by growth in our on-demand connected services. Product and licensing revenues decreased $2.2 million and maintenance and support revenue decreased $2.1 million primarily driven by a decrease in mobile handset license sales as the handset market continues to consolidate.

- Enterprise segment revenues decreased $8.1 million for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014. Professional services and hosting revenues decreased $13.2 million driven by lower sales in customer care on-premise implementations which has been challenged by customers' growing preference for on-demand implementation. Product and licensing revenues and maintenance and support revenues increased $3.2 million and $1.8 million, respectively, driven by our voice-based authentication solutions.

- Imaging segment revenues increased $9.1 million for the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014, primarily driven by revenues from a recent acquisition, partially offset by continued declines in our desktop product sales.

Segment Profit

Three months ended June 30, 2015

- Healthcare segment profit for the three months ended June 30, 2015 decreased 3.7% from the same period last year, primarily driven by increased research and development spending. Segment profit margin decreased 0.9 percentage points, from 35.4% for the same period last year to 34.5% during the current period. The decrease in segment profit margin was primarily driven by a decrease of 1.6 percentage points in margin due to increased research and development spending driven by incremental costs associated with a collaboration agreement, partial offset by an increase of 1.3 percentage points in margin due to improved segment gross margin related to our transcription services.
- Mobile and Consumer segment profit for the three months ended June 30, 2015 increased 37.1% from the same period last year, primarily driven by increased revenues together with reductions in expenses. Segment profit margin increased 6.5 percentage points, from 18.4% for the same period last year to 24.9% during the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 3.9 percentage points related to decreased research and development spending, 2.1 percentage points related to lower sales and marketing expenses and 0.4 percentage point in gross margin.
- Enterprise segment profit for the three months ended June 30, 2015 increased 36.1% from the same period last year, driven by lower cost of revenues and lower sales and marketing expenses. Segment profit margin increased 7.6 percentage points, from 21.0% for the same period last year to 28.6% in the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 5.2 percentage points due to higher segment gross margins, 1.7 percentage points due to lower sales and marketing expenses and 0.7 percentage point due to decreased research and development spending.
-

Imaging segment profit for the three months ended June 30, 2015 increased 29.0% from the same period last year driven by increased revenues and lower sales and marketing expenses. Segment profit margin increased 6.4 percentage points, from 32.3% for the same period last year to 38.7% in the current period. The increase in segment profit margin was driven by 3.5 percentage points improvement in gross margin due to increased revenues, 2.2 percentage points in sales and marketing and 0.7 percentage point in research and development.

31

Table of Contents

Nine months ended June 30, 2015

- Healthcare segment profit for the nine months ended June 30, 2015 decreased 5.8% from the same period last year, primarily driven by lower revenue and increased research and development spending. Segment profit margin decreased 1.7 percentage points, from 36.2% for the same period last year to 34.5% during the current period. The decrease in segment profit margin was primarily driven by a decrease of 1.2 percentage points in margin due to increased research and development spending driven by incremental costs associated with a collaboration agreement and continued investments to support innovation and new product launches, and a 0.3 percentage point decrease in margin due to higher sales and marketing expenses.
- Mobile and Consumer segment profit for the nine months ended June 30, 2015 increased 49.5% from the same period last year, primarily driven by lower sales and marketing expenses together with increased revenues for the period. Segment profit margin increased 7.0 percentage points, from 14.8% for the same period last year to 21.8% during the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 4.9 percentage points related to lower sales and marketing expenses, 1.1 percentage points related to decreased research and development spending and 0.9 percentage point in gross margin improvement.
- Enterprise segment profit for the nine months ended June 30, 2015 increased 16.8% from the same period last year, driven by lower cost of revenues and lower operating expenses. Segment profit margin increased 4.5 percentage points, from 21.9% for the same period last year to 26.4% in the current period. The increase in segment profit margin was primarily driven by our cost savings and process optimization initiatives with improvements of 2.7 percentage points due to higher segment gross margins, 1.2 percentage points due to lower sales and marketing expenses and 0.5 percentage point due to decreased research and development spending.
- Imaging segment profit for the nine months ended June 30, 2015 increased 5.8% from the same period last year, driven by increased revenues for the period partially offset by higher sales and marketing expenses. Segment profit margin increased 0.1 percentage points, from 36.2% for the same period last year to 36.3% during the current period.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and marketable securities totaled $488.7 million as of June 30, 2015, a decrease of $99.5 million as compared to $588.2 million as of September 30, 2014. Our working capital was $365.4 million as of June 30, 2015, as compared to $522.5 million as of September 30, 2014. Cash and cash equivalents and marketable securities held by our international operations totaled $68.0 million and $71.5 million at June 30, 2015 and September 30, 2014, respectively. We expect the cash held overseas will continue to be used for our international operations and therefore do not anticipate repatriating these funds. If we were to repatriate these funds, we do not believe that the resulting taxes payable would have a material impact on our liquidity. As of June 30, 2015, our total accumulated deficit was $715.1 million. We do not expect our accumulated deficit to impact our future ability to operate the business given our strong cash and operating cash flow positions and we believe our current cash and cash equivalents and marketable securities on-hand are sufficient to meet our operating needs for at least the next twelve months.

Cash Provided by Operating Activities

Cash provided by operating activities for the nine months ended June 30, 2015 was $336.0 million, an increase of $73.8 million, as compared to cash provided by operating activities of $262.2 million for the nine months ended June 30, 2014. The net increase was primarily driven by the following factors:

- An increase in cash flows of $50.6 million resulting from lower net loss, exclusive of non-cash adjustment items;
- An increase in cash flows of $14.0 million generated by changes in working capital excluding deferred revenue; and
- An increase in cash flows of $9.1 million from an overall increase in deferred revenue. The increase in deferred revenue was primarily attributable to continued growth in new mobile on-demand service offerings where a portion of the fees are collected upfront, and recognized as revenue over the life of the contract.

Cash Used in Investing Activities

Cash used in investing activities for the nine months ended June 30, 2015 was $195.5 million, a decrease of $31.2 million, as compared to cash used in investing activities of $164.3 million for the nine months ended June 30, 2014.

The net decrease was primarily driven by the following factors:

- A decrease in cash outflows of $54.1 million for business and technology acquisitions resulting from our strategy to slow the pace and reduce the size of acquisitions; and

32

Table of Contents

- Offset by an increase in cash outflows of $95.2 million from purchases of marketable securities.

Cash Used in Financing Activities

Cash used in financing activities for the nine months ended June 30, 2015 was $285.5 million, an increase of $225.9 million, as compared to cash used in financing activities of $59.6 million for the nine months ended June 30, 2014. The net increase was primarily driven by the following factors:

- An increase in cash outflows of $211.7 million related to our share repurchase program announced in April 2013. During the nine months ended June 30, 2015, we repurchased 16.5 million shares of our common stock for total cash outflows of $238.2 million; and

- An increase in cash outflows of $18.0 million as a result of higher cash payments required to net share settle employee equity awards, due to an increase in vesting activities during the nine months ended June 30, 2015 as compared to the same period in the prior year, including the impact of the lower bonus and performance-based award vesting in fiscal year 2014 as a result of weaker than planned operating results in fiscal year 2013.

Credit Facilities and Debt

1.50% Convertible Debentures due in 2035

In June 2015, we issued $263.9 million in aggregate principal amount of 1.50% Senior Convertible Debentures due in 2035 (the “2035 Debentures”) in exchange for $256.2 million in aggregate principal amount of our 2.75% Senior Convertible Debentures due in 2031 (the “2031 Debentures”). Total proceeds, net of debt issuance costs, were $253.5 million. The 2035 Debentures were issued at 97.09% of the principal amount, which resulted in a discount of $7.7 million. The 2035 Debentures bear interest at 1.50% per year, payable in cash semi-annually in arrears, beginning on November 1, 2015. In addition to ordinary interest and default additional interest, beginning with the semi-annual interest period commencing on November 1, 2021, contingent interest will accrue during any regular semi-annual interest period where the average trading price of our 2035 Debentures for the ten trading day period immediately preceding the first day of such semi-annual period is greater than or equal to $1,200 per $1,000 principal amount of our 2035 Debentures, in which case, contingent interest will accrue at a rate of 0.50% per annum of such average trading price. The 2035 Debentures mature on November 1, 2035, subject to the right of the holders to require us to redeem the 2035 Debentures on November 1, 2021, 2026, or 2031. The 2035 Debentures are general senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 2035 Debentures. The 2035 Debentures will be effectively subordinated to indebtedness and other liabilities of our subsidiaries.

We account separately for the liability and equity components of the 2035 Debentures in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature and record the remainder in stockholders’ equity. At issuance, we allocated $208.6 million to long-term debt, and $55.3 million has been recorded as additional paid-in capital. The aggregate debt discount of $63.0 million is being amortized to interest expense using the effective interest rate method through November 2021. As of June 30, 2015, the ending unamortized discount was $62.7 million and the ending unamortized deferred debt issuance costs were $2.2 million.

If converted, the principal amount of the 2035 Debentures is payable in cash and any amounts payable in excess of the principal amount, will (based on an initial conversion rate, which represents an initial conversion price of approximately $23.26 per share, subject to adjustment) be paid in cash or shares of our common stock, at our election, only in the following circumstances and to the following extent: (i) prior to May 1, 2035, on any date during any fiscal quarter beginning after September 30, 2015 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for $1,000 principal amount of the 2035 Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 2035 Debentures; or (iv) at the option of the holder at any time on or after May 1, 2035. Additionally, we may redeem the 2035 Debentures, in whole or in part, on or after November 5, 2021 for cash at a price equal to 100% of the principal amount of the 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. Each holder shall have the right, at such holder’s option, to require us to repurchase all or any portion of the 2035 Debentures held by such holder on November 1, 2021, November 1, 2026, or November 1, 2031 at par plus accrued and unpaid interest. Upon repurchase, we will pay the principal amount in cash and any amounts payable in excess of the million principal amount will be paid in cash or shares of our common stock, at our election, with the exception that we may not elect to pay cash in lieu of more than 80% of the number of our common shares we would be obligated to deliver. If we undergo a fundamental change (as described in the indenture for the 2035 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the 2035 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of June 30, 2015, none of the conversion criteria were met for the 2035 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

2.75% Convertible Debentures due in 2031

In June 2015, we entered into separate privately negotiated agreements with certain holders of our 2031 Debentures to exchange, in a private placement, $256.2 million in aggregate principal amount of our 2031 Debentures for approximately $263.9 million in aggregate principal amount of our new 2035 Debentures. In accordance with the authoritative guidance for convertible debt instruments, a loss on extinguishment is equal to the difference between the reacquisition price and the net carrying amount of the extinguished debt for our 2031 Debentures, including any unamortized debt discount or issuance costs, and $17.7 million was recorded in other (expense) income, net. Following the closings of the exchange, $433.8 million in aggregate principal amount of our 2031 Debentures remain outstanding. As of June 30, 2015 and September 30, 2014 the ending unamortized discount was $43.4 million and $88.8 million, respectively, and the ending unamortized deferred debt issuance costs were $2.6 million and $5.5 million, respectively. The 2031 Debentures bear interest at 2.75% per year, payable in cash semiannually in arrears, beginning on May 1, 2012. The 2031 Debentures mature on November 1, 2031, subject to the right of the holders to require us to redeem the 2031 Debentures on November 1, 2017, 2021, and 2026.

If converted, the principal amount of the 2031 Debentures is payable in cash and any amounts payable in excess of the $256.2 million principal amount, will (based on an initial conversion rate, which represents an initial conversion price of approximately $32.30 per share, subject to adjustment) be paid in cash or shares of our common stock, at our election, only in the following circumstances and to the following extent: (i) on any date during any fiscal quarter (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for $1,000 principal amount of the Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 2031 Debentures; or (iv) at the option of the holder at any time on or after May 1, 2031. Additionally, we may redeem the 2031 Debentures, in whole or in part, on or after November 6, 2017 for cash at a price equal to 100% of the principal amount of the 2031 Debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. Each holder shall have the right, at such holder's option, to require us to repurchase all or any portion of the 2031 Debentures held by such holder on November 1, 2017, November 1, 2021, and November 1, 2026 at par plus accrued and unpaid interest. If we undergo a fundamental change (as described in the indenture for the 2031 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of June 30, 2015 and September 30, 2014, none of the conversion criteria were met for the 2031 Debentures. If the conversion criteria were met, we could be required to repay all or some of the aggregate principal amount in cash prior to the maturity date.

Credit Facility

The Credit Facility includes a term loan and a $75 million revolving credit line, including letters of credit. The term loans mature on August 7, 2019 and the revolving credit line matures on August 7, 2018. As of June 30, 2015, there were $5.7 million of letters of credit issued, and there were no other outstanding borrowings under the revolving credit line.

Under the terms of the amended and restated credit agreement, interest is payable monthly at a rate equal to the applicable margin plus, at our option, either (a) the base rate which is the corporate base rate of Morgan Stanley, the Administrative Agent, or (b) LIBOR (equal to (i) the British Bankers' Association Interest Settlement Rates for deposits in U.S. dollars divided by (ii) one minus the statutory reserves applicable to such borrowing). The applicable margin for the borrowings at June 30, 2015 is as follows:

Description	Base Rate Margin	LIBOR Margin
Term loans maturing August 2019	1.75%	2.75%
Revolving facility due August 2018	0.50% - 0.75%	1.50% - 1.75%

(a) The margin is determined based on our net leverage ratio at the date the interest rates are reset on the revolving credit line.

At June 30, 2015, the applicable margin for the term loans was 2.75%, with an effective rate of 2.94%, on the outstanding balance of $473.8 million maturing in August 2019. We are required to pay a commitment fee for unutilized commitments under

34

Table of Contents

the revolving credit facility at a rate ranging from 0.250% to 0.375% per annum, based upon our net leverage ratio. As of June 30, 2015, the commitment fee rate was 0.375%.

The Credit Facility contains covenants including, among other things, covenants that restrict our ability and those of our subsidiaries to incur certain additional indebtedness or issue guarantees, create or permit liens on assets, enter into sale-leaseback transactions, make loans or investments, sell assets, make certain acquisitions, pay dividends, repurchase stock, or merge or consolidate with any entity, and enter into certain transactions with affiliates. The agreement also contains events of default, including failure to make payments of principal or interest, failure to observe covenants, breaches of representations and warranties, defaults under certain other material indebtedness, failure to satisfy material judgments, a change of control and certain insolvency events. As of June 30, 2015, we were in compliance with the covenants under the Credit Facility. The covenants on our other long-term debt are less restrictive, and as of June 30, 2015, we were in compliance with the requirements of our other long-term debt.

Our obligations under the Credit Facility are unconditionally guaranteed by, subject to certain exceptions, each of our existing and future direct and indirect wholly-owned domestic subsidiaries. The Credit Facility and the guarantees thereof are secured by first priority liens and security interests in the following: 100% of the capital stock of substantially all of our domestic subsidiaries and 65% of the outstanding voting equity interests and 100% of the non-voting equity interests of first-tier foreign subsidiaries, all our material tangible and intangible assets and those of the guarantors, and any present and future intercompany debt. The Credit Facility also contains provisions for mandatory prepayments of outstanding term loans upon receipt of the following, and subject to certain exceptions: 100% of net cash proceeds from asset sales, 100% of net cash proceeds from issuance or incurrence of debt, and 100% of extraordinary receipts. We may voluntarily prepay borrowings under the Credit Facility without premium or penalty other than breakage costs, as defined with respect to LIBOR-based loans.

The Credit Facility includes a provision for an annual excess cash flow sweep, as defined in the agreement, payable in the first quarter of each fiscal year, based on the excess cash flow generated in the previous fiscal year. No excess cash flow sweep was required in the first quarter of fiscal year 2015 as no excess cash flow, as defined in the agreement, was generated in fiscal year 2014. At the current time, we are unable to predict the amount of the outstanding principal, if any, that we may be required to repay in future fiscal years pursuant to the excess cash flow sweep provisions.

Share Repurchase Program

On April 29, 2013, our Board of Directors approved a share repurchase program for up to $500.0 million of our outstanding shares of common stock. On April 29, 2015, our Board of Directors approved an additional $500.0 million under our share repurchase program. We repurchased 16.5 million shares for $242.7 million during the nine months ended June 30, 2015. Since the commencement of the program, we have repurchased 27.9 million shares for $453.5 million. Approximately $546.5 million remained available for share repurchases as of June 30, 2015 pursuant to our repurchase program. Under the terms of the repurchase program, we expect to continue to repurchase shares from time to time through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated stock repurchase transactions, or any combination of such methods. The timing and the amount of any purchases will be determined by management based on an evaluation of market conditions, capital allocation alternatives, and other factors. The share repurchase program does not require us to acquire any specific number of shares and may be modified, suspended, extended or terminated by us at any time without prior notice.

Table of Contents

Off-Balance Sheet Arrangements, Contractual Obligations

Contractual Obligations

The following table outlines our contractual payment obligations (dollars in millions):

	Payments Due by Fiscal Year Ended September 30,				
Contractual Obligations	Total	2015	2016 and 2017	2018 and 2019	Thereafter
Credit Facility[1]	$473.8	$1.2	$9.6	$463.0	$—
Convertible Debentures[2]	697.7	—	—	433.8	263.9
Senior Notes	1,050.0	—	—	—	1,050.0
Interest payable on long-term debt[3]	424.5	31.9	173.2	153.1	66.3
Letter of Credit[4]	5.7	5.7	—	—	—
Lease obligations and other liabilities:					
Operating leases	234.9	10.2	72.2	43.1	109.4
Operating leases under restructuring[5]	47.9	1.2	9.3	8.8	28.6
Purchase Commitments for inventory, property and equipment[6]	9.5	8.4	1.1	—	—
Total contractual cash obligations	2,944.0	58.6	265.4	1,101.8	1,518.2

(1) Principal is paid on a quarterly basis under the Credit Facility.

(2) Holders of the 2035 Debentures have the right to require us to redeem the Debentures on November 1, 2021, 2026, and 2031.

(3) Interest on the Credit Facility is due and payable monthly and is estimated using the effective interest rate as of June 30, 2015. Interest is due and payable semi-annually under 2031 Debentures at a rate of 2.75%, and under 2035 Debentures at a rate of 1.50%. Interest is due and payable semi-annually on the Senior Notes at a rate of 5.375%.

(4) Letters of Credit are in place primarily to secure future operating lease payments.

(5) Obligations include contractual lease commitments related to facilities that were part of restructuring plans. As of June 30, 2015, we have subleased certain of the facilities with total sublease income of $54.0 million through fiscal year 2025.

(6) These amounts include non-cancelable purchase commitments for property and equipment as well as inventory in the normal course of business to fulfill customers' orders currently scheduled in our backlog.

The gross liability for unrecognized tax benefits as of June 30, 2015 was $21.9 million. We do not expect a significant change in the amount of unrecognized tax benefits within the next 12 months. We estimate that none of this amount will be paid within the next year and we are currently unable to reasonably estimate the timing of payments for the remainder of the liability.

Contingent Liabilities and Commitments

In connection with certain acquisitions, we may be required to make up to $36.0 million of additional payments to the selling shareholders contingent upon the achievement of specified objectives, including the achievement of future bookings and sales targets related to the products of the acquired entities. In addition, there are deferred payment obligations to certain former shareholders, contingent upon their continued employment. These deferred payment obligations, totaling $7.2 million, are recorded as compensation expense over the applicable employment period.

Off-Balance Sheet Arrangements

Through June 30, 2015, we have not entered into any off-balance sheet arrangements or material transactions with unconsolidated entities or other persons.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Generally accepted accounting principles in the United States ("GAAP") require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates, assumptions and judgments, including those related to: revenue recognition; allowance for doubtful accounts and sales returns; accounting for deferred costs; accounting for internal-use software; the valuation of goodwill and intangible assets;

36

Table of Contents

accounting for business combinations; accounting for stock-based compensation; accounting for derivative instruments; accounting for income taxes and related valuation allowances; and loss contingencies. Our management bases its estimates on historical experience, market participant fair value considerations, projected future cash flows and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Information about those accounting policies we deem to be critical to our financial reporting may be found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014. Based on events occurring subsequent to September 30, 2014, we are updating certain of the Critical Accounting Policies, Judgments and Estimates.
Goodwill, Intangible and Other Long-Lived Assets and Impairment Assessments. We have significant long-lived tangible and intangible assets, including goodwill with indefinite lives, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The most significant finite-lived tangible and intangible assets are customer relationships, licensed technology, patents and core technology, completed technology, fixed assets and trade names. All finite-lived intangible assets are amortized over the estimated economic lives of the assets, generally using the straight-line method except where the pattern of the expected economic benefit is readily identifiable, primarily customer relationship intangibles, whereby amortization follows that pattern. The values of intangible assets determined in connection with a business combination, with the exception of goodwill, were initially determined by a risk-adjusted, discounted cash flow approach. We assess the potential impairment of intangible and fixed assets whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Goodwill and indefinite-lived intangible assets are assessed for potential impairment at least annually, but also whenever events or changes in circumstances indicate the carrying values may not be recoverable. Factors we consider important, which could trigger an impairment of such assets, include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of or use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- a decline in our market capitalization below net book value.

Future adverse changes in these or other unforeseeable factors could result in an impairment charge that would materially impact future results of operations and financial position in the reporting period identified.
We test goodwill for impairment annually in the fourth quarter, and between annual tests if indicators of potential impairment exist. The impairment test for goodwill compares the fair value of identified reporting unit(s) to its (their) carrying amount to assess whether such assets are impaired. We have six reporting units based on the level of information provided to, and review thereof, by our segment management.
We determine fair values for each of the reporting units using an income approach. When available and appropriate, we also use a comparative market approach to derive the fair values. For purposes of the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk adjusted rate. We use our internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on our most recent views of the long--term outlook for each business. Actual results may differ from those assumed in our forecasts. We derive our discount rates using a capital asset pricing model and analyzing published rates for industries relevant to our reporting units to estimate the cost of equity financing. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in our internally developed forecasts. Discount rates used in our reporting unit valuations ranged from 10.1% to 17.5%. For purposes of the market approach, we use a valuation technique in which values are derived based on market prices of comparable publicly traded companies. We also use a market based valuation technique in which values are determined based on relevant observable information generated by market transactions involving comparable businesses. Compared to the market approach, the income approach more closely aligns each reporting unit valuation to our business profile, including geographic markets served and product offerings. Required rates of return, along with uncertainty inherent in the forecasts of future cash flows, are reflected in the selection of the discount rate. Equally important, under this approach, reasonably likely scenarios and associated sensitivities can be developed for alternative future states that

may not be reflected in an observable market price. A market approach allows for comparison to actual market transactions and multiples. It can be somewhat more limited in its application because the population of potential comparable entities is often limited to publicly-traded companies where the characteristics of the comparative business and ours can be significantly different, market data is usually not available for divisions within larger conglomerates or non-public subsidiaries that could otherwise qualify as comparable, and the specific circumstances surrounding a market transaction (e.g., synergies between the parties, terms and conditions of the transaction, etc.) may be different or irrelevant with respect to our business. It can also be difficult, under certain market conditions, to identify orderly transactions between market participants in similar businesses. We assess each valuation methodology based upon the relevance and availability of the data at the time we perform the valuation and weight the methodologies appropriately.

Table of Contents

The carrying values of the reporting units were determined based on an allocation of our assets and liabilities through specific allocation of certain assets and liabilities, to the reporting units and an apportionment method based on relative size of the reporting units' revenues and operating expenses compared to the Company as a whole. Goodwill was initially allocated to our reporting units based on the relative fair value of the units at the date we implemented the current reporting unit structure. Goodwill subsequently acquired through acquisitions is allocated to the applicable reporting unit based upon the relative fair value of the acquired business. Certain corporate assets that are not instrumental to the reporting units' operations and would not be transferred to hypothetical purchasers of the reporting units were excluded from the reporting units' carrying values.

Based on our assessments, we have not had any impairment charges during our history as a result of our impairment evaluation of goodwill. Significant adverse changes in our future revenues and/or cash flow results, or significant degradation in the enterprise values of comparable companies within our segments, could result in the determination that all or a portion of our goodwill is impaired. As of our fiscal year 2014 annual impairment assessment date, our estimated fair values of our reporting units substantially exceeded their carrying values. In October 2014, we realigned certain of our product offerings between reporting units. As required by Accounting Standards Codification 350-20, "Intangibles - Goodwill and Other", we have reallocated goodwill among the affected reporting units, based on their relative fair value. We reallocated $29.9 million of goodwill from our Dragon Consumer reporting unit into our Mobile reporting unit, and reallocated $10.5 million of goodwill from our Mobile reporting unit to our Enterprise reporting unit.

As a result of this change, we determined that we had a triggering event requiring us to perform an impairment test on our DNS, Mobile, and Enterprise reporting units. We completed our impairment test during the first quarter of fiscal year 2015, and the fair value of the reorganized reporting units substantially exceeded their carrying values.

We periodically review long-lived assets other than goodwill for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of those assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded carrying value for the asset or asset group. Asset groups utilized in this analysis are identified as the lowest level grouping of assets for which largely independent cash flows can be identified. If impairment is indicated, the asset or asset group is written down to its estimated fair value.

Determining the fair value of a reporting unit or asset group involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. Significant judgments and estimates are involved in determining the useful lives of our long-lived assets, determining the reporting units, determining the asset groups and assessing when events or circumstances would require an interim impairment analysis of goodwill or other long-lived assets to be performed. Changes in our organization or management reporting structure, as well as other events and circumstances, including but not limited to technological advances, increased competition and changing economic or market conditions, could result in (a) shorter estimated useful lives, (b) changes to reporting units or asset groups, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit, and/or (c) other changes in previous assumptions or estimates. In turn, this could have a significant impact on our consolidated financial statements through accelerated amortization and/or impairment charges.

RECENTLY ISSUED ACCOUNTING STANDARDS

Refer to Note 2 to the unaudited consolidated financial statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Exchange Rate Sensitivity

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

Table of Contents

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

A hypothetical change of 10% in appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at June 30, 2015 would not have a material impact on our revenue, operating results or cash flows in the coming year.

Periodically, we enter into forward exchange contracts to hedge against foreign currency fluctuations. These contracts may or may not be designated as cash flow hedges for accounting purposes. We have in place a program which primarily uses forward contracts to offset the risks associated with foreign currency exposures that arise from transactions denominated in currencies other than the functional currencies of our worldwide operations. The program is designed so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts. The outstanding contracts are not designated as accounting hedges and generally are for periods less than 90 days. The notional contract amount of outstanding foreign currency exchange contracts not designated as cash flow hedges was $161.9 million at June 30, 2015. Based on the nature of the transactions for which the contracts were purchased, a hypothetical change of 10% in exchange rates would not have a material impact on our financial results.

Interest Rate Sensitivity

We are exposed to interest rate risk as a result of our significant cash and cash equivalents, marketable securities and the outstanding debt under the Credit Facility.

At June 30, 2015, we held approximately $488.7 million of cash and cash equivalents and marketable securities primarily consisting of cash and money-market funds. Due to the low current market yields and the short-term nature of our investments, a hypothetical change in market rates of one percentage point would not have a material effect on the fair value of our portfolio. Assuming a one percentage point increase in interest rates, our interest income on our investments classified as cash and cash equivalents and marketable securities would increase by approximately $3.5 million per annum, based on the June 30, 2015 reported balances of our investment accounts.

At June 30, 2015, our total outstanding debt balance exposed to variable interest rates was $473.8 million. A hypothetical change in market rates would have an impact on interest expense and amounts payable. Assuming a one percentage point increase in interest rates, our interest expense relative to our outstanding variable rate debt would increase $4.7 million per annum.

Equity Price Risk

We are exposed to equity price risk as a result of security price guarantees that we enter into from time to time. Generally, these price guarantees are for a period of six months or less, and require payment from either us to a third party, or from the third party to us, based upon changes in our stock price during the contract term. As of June 30, 2015, we have no security price guarantees outstanding.

2031 Debentures and 2035 Debentures

The fair values of our 2031 Debentures and 2035 Debentures are dependent on the price and volatility of our common stock as well as movements in interest rates. The fair market values of these debentures will generally increase or decrease as the market price of our common stock changes. The fair market values of these debentures will generally increase as interest rates fall and decrease as interest rates rise. The market value and interest rate changes affect the fair market values of these debentures, but do not impact our financial position, results of operations or cash flows due to the fixed nature of the debt obligations. However, increases in the value of our common stock above the stated trigger price for each issuance for a specified period of time may provide the holders of these debentures the right to convert each bond using a conversion ratio and payment method as defined in the debenture agreement.

Our debentures trade in the financial markets, and the fair value at June 30, 2015 was $439.9 million for the 2031 Debentures, based on an average of the bid and ask prices for the issuances on that day. This compares to conversion values on June 30, 2015 of approximately $235.2 million. A 10% increase in the stock price over the June 30, 2015 closing price of $17.51 would have an estimated $4.9 million increase to the fair value and a $23.5 million increase to the conversion value of the debentures. The fair value at June 30, 2015 was $272.7 million for the 2035 Debentures, based on an average of the bid and ask prices for the issuances on that day. This compares to conversion values on June 30, 2015 of approximately $198.7 million. A 10% increase in the stock

Table of Contents

price over the June 30, 2015 closing price of $17.51 would have an estimated $13.8 million increase to the fair value and a 19.9 million increase to the conversion value of the debentures.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision of, and with the participation of, management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to meet the requirements of Rule 13a-15 under the Exchange Act.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1.Legal Proceedings

This information is included in Note 15, Commitments and Contingencies, in the accompanying notes to unaudited consolidated financial statements and is incorporated herein by reference from Item 1 of Part I.

Item 1A. Risk Factors

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

Risks Related to Our Business

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

There are a number of companies that develop or may develop products that compete in our targeted markets. The markets for our products and services are characterized by intense competition, evolving industry standards, emerging business and distribution models, disruptive software and hardware technology developments, short product and service life cycles, price sensitivity on the part of customers, and frequent new product introductions, including alternatives with limited functionality available at lower costs or free of charge. Within voice and language, we compete with AT&T, Baidu, Google, Microsoft and other smaller providers. Within healthcare, we compete with 3M, M*Modal, Optum and other smaller providers. Within imaging, we compete with ABBYY, Adobe, I.R.I.S. and NewSoft. In our enterprise business, some of our partners such as Avaya, Cisco, Intervoice and Genesys develop and market products that can be considered substitutes for our solutions. In addition, a number of smaller companies in voice, language and imaging produce technologies or products that are in some markets competitive with our solutions. Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers. Furthermore,

40

Table of Contents

there has been a trend toward industry consolidation in our markets for several years, we expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations.

The competition in these markets could adversely affect our operating results by reducing the volume of the products we license or the prices we can charge. Some of our current or potential competitors, such as 3M, Adobe, Baidu, Google and Microsoft, have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than we do.

Some of our customers, such as Google and Microsoft, have developed or acquired products or technologies that compete with our products and technologies. These customers may give higher priority to the sale of their competitive products or technologies. To the extent they do so, market acceptance and penetration of our products, and therefore our revenue and bookings, may be adversely affected. Our success will depend substantially upon our ability to enhance our products and technologies and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing customer requirements and incorporate technological enhancements. If we are unable to develop new products and enhance functionalities or technologies to adapt to these changes, or if we are unable to realize synergies among our acquired products and technologies, our business will suffer.

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

Our revenue, bookings and operating results have fluctuated in the past and are expected to continue to fluctuate in the future. Given this fluctuation, we believe that quarter to quarter comparisons of revenue, bookings and operating results are not necessarily meaningful or an accurate indicator of our future performance. As a result, our results of operations may not meet the expectations of securities analysts or investors in the future. If this occurs, the price of our stock would likely decline. Factors that contribute to fluctuations in operating results include the following:

- the pace of the transition to an on-demand and transactional revenue model;
- slowing sales by our distribution and fulfillment partners to their customers, which may place pressure on these partners to reduce purchases of our products;
- volume, timing and fulfillment of customer orders and receipt of royalty reports;
- customers delaying their purchasing decisions in anticipation of new versions of our products;
- contractual counterparties are unable to, or do not, meet their contractual commitments to us;
- introduction of new products by us or our competitors;
- seasonality in purchasing patterns of our customers;
- reduction in the prices of our products in response to competition, market conditions or contractual obligations;
- returns and allowance charges in excess of accrued amounts;
- timing of significant marketing and sales promotions;
- impairment charges against goodwill and intangible assets;
- delayed realization of synergies resulting from our acquisitions;
- write-offs of excess or obsolete inventory and accounts receivable that are not collectible;
- increased expenditures incurred pursuing new product or market opportunities;
- general economic trends as they affect retail and corporate sales; and
- higher than anticipated costs related to fixed-price contracts with our customers.

Table of Contents

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

Voice and language technologies may not continue to garner widespread acceptance, which could limit our ability to grow our voice and language business.

We have invested and expect to continue to invest heavily in the acquisition, development and marketing of voice and language technologies. The market for voice and language technologies is relatively new and rapidly evolving. Our ability to increase revenue and bookings in the future depends in large measure on the continuing acceptance of these technologies in general and our products in particular. The continued development of the market for our current and future voice and language solutions in general, and our solutions in particular, will also depend on:

- consumer and business demand for speech-enabled applications;
- development by third-party vendors of applications using voice and language technologies; and
- continuous improvement in voice and language technology.

Sales of our voice and language solutions would be harmed if the market for these technologies does not continue to increase or increases slower than we expect, or if we fail to develop new technologies faster than our competitors, and consequently, our business could be harmed and we may not achieve a level of profitability necessary to successfully operate our business.

If our efforts to design and execute cost savings and process optimization are not successful, our business could be harmed.

We have been designing and executing on initiatives under the transformation program in order to improve revenue growth with an increasing emphasis on improving operational efficiencies and cost controls. The design of this program requires numerous assumptions and estimates. There can be no assurance that we will be successful in designing and executing this transformation program or able to realize any of the anticipated benefits of this program, within the expected timeframes, or at all. As a result, our financial results may not meet our or the expectations of securities analysts or investors in the future and our business could be harmed.

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

If any of our key employees were to leave, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience. Our employment relationships are generally at-will and we have had key employees leave in the past. We cannot assure you that one or more key employees will not leave in the future. We intend to continue to hire additional highly qualified personnel, including software engineers and operational personnel, but may not be able to attract, assimilate or retain qualified personnel in the future. Any failure to attract, integrate, motivate and retain these employees could harm our business.

Security and privacy breaches may damage client relations and inhibit our growth.

The uninterrupted operation of our hosted solutions and the confidentiality and security of third-party information is critical to our business. Any failures in our security and privacy measures or policies could have a material adverse effect on our financial position and results of operations. If we are unable to protect, or our clients perceive that we are unable to protect, the security and privacy of our confidential information, our growth could be materially adversely affected. A security or privacy breach may:

- cause our clients to lose confidence in our solutions;
- harm our reputation;
- expose us to liability; and
- increase our expenses from potential remediation costs.

While we believe we use proven applications designed for data security and integrity to process electronic transactions, there can be no assurance that our use of these applications will be sufficient to address changing market conditions or the security and privacy concerns of existing and potential clients.

Table of Contents

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

Because we operate worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenue and bookings from international operations could increase in the future. Most of our international revenue and bookings are generated by sales in Europe and Asia. In addition, some of our products are developed and manufactured outside the United States and we have a large number of employees in India that provide transcription services. We also have a large number of employees in Canada, Germany and United Kingdom that provide professional services. A significant portion of the development of our voice and language solutions is conducted in Canada and Germany, and a significant portion of our imaging research and development is conducted in Hungary. We also have significant research and development resources in Austria, Belgium, Italy, and United Kingdom. Accordingly, our future results could be harmed by a variety of factors associated with international sales and operations, including:

- changes in a specific country's or region's economic conditions;
- compliance with laws and regulations in many countries and any subsequent changes in such laws and regulations;
- geopolitical turmoil, including terrorism and war;
- trade protection measures and import or export licensing requirements imposed by the United States or by other countries;
- negative consequences from changes in applicable tax laws;
- difficulties in staffing and managing operations in multiple locations in many countries;
- difficulties in collecting trade accounts receivable in other countries; and
- less effective protection of intellectual property than in the United States.

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

We reported net losses of $150.3 million and $115.2 million in fiscal years 2014 and 2013, respectively, and net income of $207.1 million for the fiscal year 2012, and have a total accumulated deficit of $715.1 million as of June 30, 2015. If we are unable to return to profitability, the market price for our stock may decline, perhaps substantially. We cannot assure you that our revenue or bookings will grow or that we will return to profitability in the future. If we do not achieve profitability, we may be required to raise additional capital to maintain or grow our operations. Additional capital, if available at all, may be highly dilutive to existing investors or contain other unfavorable terms, such as a high interest rate and restrictive covenants.

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

We currently serve our customers from data center hosting facilities. Any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their on-demand services and adversely affect our renewal rates and our ability to attract new customers.

Our business is subject to a variety of U.S. and international laws, rules, policies and other obligations regarding data protection.

We are subject to federal, state and international laws relating to the collection, use, retention, disclosure, security and transfer of personally identifiable information. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between the Company and its subsidiaries, and among the Company, its subsidiaries and other parties with which we have relations. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to evolve and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing requirements may cause us to incur substantial costs or require us to change our business practices. Noncompliance could result in penalties or significant legal liability.

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

Table of Contents

Our ability to realize the anticipated benefits of our acquisitions will depend on successfully integrating the acquired businesses.

Our prior acquisitions required, and our recently completed acquisitions continue to require, substantial integration and management efforts and we expect future acquisitions to require similar efforts. Acquisitions of this nature involve a number of risks, including:

- difficulty in transitioning and integrating the operations and personnel of the acquired businesses;
- potential disruption of our ongoing business and distraction of management;
- potential difficulty in successfully implementing, upgrading and deploying in a timely and effective manner new operational information systems and upgrades of our finance, accounting and product distribution systems;
- difficulty in incorporating acquired technology and rights into our products and technology;
- potential difficulties in completing projects associated with in-process research and development;
- unanticipated expenses and delays in completing acquired development projects and technology integration and upgrades;
- management of geographically remote business units both in the United States and internationally;
- impairment of relationships with partners and customers;
- assumption of unknown material liabilities of acquired companies;
- accurate projection of revenue and bookings plans of the acquired entity in the due diligence process;
- customers delaying purchases of our products pending resolution of product integration between our existing and our newly acquired products;
- entering markets or types of businesses in which we have limited experience; and
- potential loss of key employees of the acquired business.

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

We are exposed to fluctuations in foreign currency exchange rates.

Because we have international subsidiaries and distributors that operate and sell our products outside the United States, we are exposed to the risk of changes in foreign currency exchange rates. In certain circumstances, we have entered into forward exchange contracts to hedge against foreign currency fluctuations. We use these contracts to reduce our risk associated with exchange rate movements, as the gains or losses on these contracts are intended to offset any exchange rate losses or gains on the hedged transaction. We do not engage in foreign currency speculation. With our increased international presence in a number of geographic locations and with international revenue and costs projected to increase, we are exposed to changes in foreign currencies including the euro, British pound, Canadian dollar, Japanese yen, Indian rupee and Hungarian forint. Changes in the value of foreign currencies relative to the value of the U.S. dollar could adversely affect future revenue and operating results.

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

The agreement governing our senior credit facility contains, and any of our other future debt agreements may contain, covenant restrictions that limit our ability to operate our business, including restrictions on our ability to:

- incur additional debt or issue guarantees;
- create liens;
- make certain investments;
- enter into transactions with our affiliates;
- sell certain assets;
- repurchase capital stock or make other restricted payments;
- declare or pay dividends or make other distributions to stockholders; and
- merge or consolidate with any entity.

Table of Contents

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

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

We have a significant amount of debt. As of June 30, 2015, we had a total of $2,221.4 million face value of debt outstanding, $473.8 million in term loans due in August 2019, $1,050.0 million of senior notes due in 2020 and $697.7 million in convertible debentures. Investors may require us to redeem the 2031 Debentures or 2035 Debentures, totaling $433.8 million and $263.9 million, respectively, in aggregate principal amount in November 2017 or November 2021, respectively, or sooner if the closing sale price of our common stock is more than 130% of the then current conversion price for certain specified periods. If a holder elects to convert, we will be required to pay the principal amount in cash and any amounts payable in excess of the principal amount will be paid in cash or shares of our common stock, at our election. We also have a $75.0 million revolving credit line available to us through August 2018. As of June 30, 2015, there were $5.7 million of letters of credit issued, but there were no other outstanding borrowings under the revolving credit line. Our debt level could have important consequences, for example it could:

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

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

In addition, approximately $473.8 million of our debt outstanding as of June 30, 2015 bears interest at variable rates. If market interest rates increase, our debt service requirements will increase, which would adversely affect our results of operations and cash flows.

We have grown, and may continue to grow, through acquisitions, which could dilute our existing stockholders.

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

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

Under accounting principles generally accepted in the United States of America, we record the market value of our common stock or other form of consideration issued in connection with an acquisition as the cost of acquiring the company or business. We have allocated that cost to the individual assets acquired and liabilities assumed, including various identifiable intangible assets such as acquired technology, acquired trade names and acquired customer relationships based on their respective fair values. Our

45

Table of Contents

estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain. After we complete an acquisition, the following factors could result in material charges and may adversely affect our operating results and cash flows:

- costs incurred to combine the operations of businesses we acquire, such as transitional employee expenses and employee retention, redeployment or relocation expenses;
- impairment of goodwill or intangible assets;
- amortization of intangible assets acquired;
- a reduction in the useful lives of intangible asset acquired;
- identification of or changes to assumed contingent liabilities, both income tax and non-income tax related after our final determination of the amounts for these contingencies or the conclusion of the measurement period (generally up to one year from the acquisition date), whichever comes first;
- charges to our operating results to eliminate certain duplicative pre-merger activities, to restructure our operations or to reduce our cost structure;
- charges to our operating results resulting from expenses incurred to effect the acquisition; and
- charges to our operating results due to the expensing of certain stock awards assumed in an acquisition.

Intangible assets are generally amortized over a five to fifteen year period. Goodwill is not subject to amortization but is subject to an impairment analysis, at least annually, which may result in an impairment charge if the carrying value exceeds its implied fair value. As of June 30, 2015, we had identified intangible assets of approximately $0.8 billion, net of accumulated amortization, and goodwill of approximately $3.4 billion. In addition, purchase accounting limits our ability to recognize certain revenue that otherwise would have been recognized by the acquired company as an independent business. As a result, the combined company may delay revenue recognition or recognize less revenue than we and the acquired company would have recognized as independent companies.

Current uncertainty in the global financial markets and the global economy may negatively affect our financial results.

Our investment portfolio, which primarily includes investments in money market funds, is generally subject to credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by the recent global financial crisis. If the banking system or the fixed income, credit or equity markets deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected.

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

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

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

Table of Contents

Future adverse changes in these or other unforeseeable factors could result in an impairment charge that would impact our results of operations and financial position in the reporting period identified.

Tax matters may cause significant variability in our financial results.

Our businesses are subject to income taxation in the U.S., as well as in many tax jurisdictions throughout the world. Tax rates in these jurisdictions may be subject to significant change. Our effective income tax rate can vary significantly between periods due to a number of complex factors including, but not limited to: (i) projected levels of taxable income; (ii) pre-tax income being lower than anticipated in countries with lower statutory rates or higher than anticipated in countries with higher statutory rates; (iii) increases or decreases to valuation allowances recorded against deferred tax assets; (iv) tax audits conducted by various tax authorities; (v) adjustments to income taxes upon finalization of income tax returns; (vi) the ability to claim foreign tax credits; (vii) the repatriation of non-U.S. earnings for which we have not previously provided for income taxes and (viii) changes in tax law and its interpretation. If our effective tax rate increases, our operating results and cash flow could be adversely affected.

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

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

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

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report of management on internal control over financial reporting in their annual reports on Form 10-K that contains an assessment by management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Any failure in the effectiveness of our system of internal control over financial reporting could have a material adverse impact on our ability to report our financial statements in an accurate and timely manner, could subject us to regulatory actions, civil or criminal penalties, shareholder litigation, or loss of customer confidence, which could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact our stock price.

Risks Related to Our Intellectual Property and Technology

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

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

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

From time to time, we are subject to claims that we or our customers may be infringing or contributing to the infringement of the intellectual property rights of others. We may be unaware of intellectual property rights of others that may cover some of

47

Table of Contents

our technologies and products. If it appears necessary or desirable, we may seek licenses for these intellectual property rights. However, we may not be able to obtain licenses from some or all claimants, the terms of any offered licenses may not be acceptable to us, and we may not be able to resolve disputes without litigation. Any litigation regarding intellectual property could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Third party intellectual property disputes could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from manufacturing or licensing certain of our products, cause severe disruptions to our operations or the markets in which we compete, or require us to satisfy indemnification commitments with our customers including contractual provisions under various license arrangements. Any of these could seriously harm our business.

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

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

Risks Related to our Corporate Structure, Organization and Common Stock

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

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

The holdings of our largest stockholder may enable them to influence matters requiring stockholder approval.

As of June 30, 2015, High River Limited Partnership, Hopper Investments LLC, Barberry Corp., Icahn Partners LP, Icahn Partners Master Fund LP, Icahn Partners Master Fund II LP, Icahn Partners Master Fund III LP, Icahn Enterprises G.P. Inc., Icahn Enterprises Holdings L.P., IPH GP LLC, Icahn Capital LP, Icahn Onshore LP, Icahn Offshore LP, and Beckton Corp. (collectively, the “Icahn Group”), beneficially owned approximately 19.5% of the outstanding shares of our common stock. Brett Icahn and David Schechter of the Icahn Group have been appointed as directors of the Company. Because of its large holdings of our capital stock relative to other stockholders, the Icahn Group has a strong influence over matters requiring approval by our stockholders.

Our business could be negatively affected as a result of the actions of activist stockholders.

Responding to actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Furthermore, any perceived uncertainties as to our future direction could result in the loss of potential business opportunities, and may make it more difficult to attract and retain qualified personnel and business partners.

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

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

Table of Contents

We have implemented anti-takeover provisions, which could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders.
Provisions of our certificate of incorporation, bylaws and Delaware law, as well as other organizational documents could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

- authorized “blank check” preferred stock;
- prohibiting cumulative voting in the election of directors;
- limiting the ability of stockholders to call special meetings of stockholders;
- requiring all stockholder actions to be taken at meetings of our stockholders; and
- establishing advance notice requirements for nominations of directors and for stockholder proposals.

In addition, we have adopted a stockholder rights plan, also called a poison pill, that may have the effect of discouraging or preventing a change of control by, among other things, making it uneconomical for a third party to acquire us without the consent of our Board of Directors.
Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.
Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, new regulations promulgated by the Securities and Exchange Commission and the rules of the Nasdaq Marketplace, are resulting in increased general and administrative expenses for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies, our business may be harmed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
The following is a summary of our share repurchases for the three months ended June 30, 2015 (in thousands, except per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program [1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program[1]
April 1, 2015 - April 30, 2015	4,649	$14.46	4,649	$601,670
May 1, 2015 - May 31, 2015	2,124	$16.29	2,124	$567,057
June 1, 2015 - June 30, 2015	1,162	$17.68	1,162	$546,512
Total	7,935		7,935	

[1] On April 30, 2013, we announced a share repurchase program for up to $500.0 million of our outstanding shares of common stock. The plan has no expiration date. On April 29, 2015, our Board of Directors approved an additional $500.0 million under our share repurchase program.
For the majority of restricted stock units granted to employees, the number of shares issued on the date the restricted stock units vest is net of the minimum statutory income withholding tax requirements that we pay in cash to the applicable taxing authorities on behalf of our employees. We do not consider these transactions to be common stock repurchases.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures

49

Not applicable.

Item 5. Other Information
None.

Item 6. Exhibits
The exhibits listed on the Exhibit Index are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

50

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Burlington, Commonwealth of Massachusetts, on August 7, 2015.

Nuance Communications, Inc.

By: /s/ Daniel D. Tempesta
Daniel D. Tempesta
Executive Vice President and Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	000-27038	3.2	5/11/2001	
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	000-27038	3.1	8/9/2004	
3.3	Certificate of Ownership and Merger.	8-K	000-27038	3.1	10/19/2005	
3.4	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant.	S-3	333-142182	3.3	4/18/2007	
3.5	Amended and Restated Bylaws of the Registrant.	8-K	000-27038	3.1	11/13/2007	
3.6	Certificate of Elimination of the Series A Participating Preferred Stock	8-K	000-27038	3.1	8/20/2013	
3.7	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock	8-K	000-27038	3.2	8/20/2013	
4.8.	Indenture, dated as of June 16, 2015, by and between Nuance Communications, Inc. and U.S. Bank National Association (including form of 1.50% Senior Convertible Debentures due 2035)	8-K	001-36056	4.1	6/22/2015	
10.2	Amendment No. 2 to Employment Agreement, dated June 18, 2015 by and between Nuance Communications, Inc. and Paul A. Ricci*					X
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a).					X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a).					X
32.1	Certification Pursuant to 18 U.S.C. Section 1350.					X
101	The following materials from Nuance Communications, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Loss, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.					X

* Denotes management compensatory plan or arrangement

52