Nuance Announces Third Fiscal Quarter 2009 Results

Results Benefit from Growth in Mobile Care and On-Demand Revenues

BURLINGTON, MA — August 10, 2009 — Nuance Communications, Inc. (NASDAQ: NUAN) today announced financial results for the third fiscal quarter ended June 30, 2009.

Nuance reported GAAP revenue of $241.0 million in the quarter ended June 30, 2009, an 11.2% increase over GAAP revenue of $216.7 million in the quarter ended June 30, 2008. The Company reported non-GAAP revenue of approximately $251.3 million, which includes $10.3 million in revenue lost to accounting treatment in conjunction with the Company's business and technology acquisitions. Non-GAAP revenue grew approximately 9.6% over non-GAAP revenue of $229.2 million in the same quarter last year.

Nuance recognized a GAAP net loss of $1.0 million, or $(0.00) per diluted share, in the quarter ended June 30, 2009, compared with a GAAP net loss of $9.9 million, or $(0.05) per diluted share, in the quarter ended June 30, 2008. For the period ended June 30, 2009, Nuance reported non-GAAP net income of $73.3 million, or $0.26 per diluted share, compared to non-GAAP net income of $51.3 million, or $0.22 per diluted share, in the quarter ended June 30, 2008. Nuance reported cash flow from operations of $53.7 million in the quarter ended June 30, 2009, compared to $48.1 million in the same quarter last year.

Please refer to the "Discussion of Non-GAAP Financial Measures" and to the "GAAP to Non-GAAP Reconciliations," included elsewhere in this release, for more information regarding the Company's use of non-GAAP measures.

"Nuance increased operating margins, operating cash flows and recurring revenue streams in what continues to be a cautious capital purchasing environment," said Paul Ricci, chairman and CEO of Nuance. "Our attention to expense controls and our growth in hosted revenue establish the foundation for continued performance improvements as we complete the fiscal year."

Highlights from the quarter include:

Healthcare-Dictation — Non-GAAP revenue for Nuance's healthcare and dictation solutions was $108.1 million, up 27%, as reported, from the same quarter last year. Revenue in Nuance's healthcare unit grew year-over-year, fueled by hosted, on-demand solutions, as a record number of new customers went live in Nuance's hosted transcription services. Important contracts from the third quarter include Florida Hospital, Harvard Vanguard, HCA MountainStar, Sarasota Memorial Hospital, and UHS Binghamton.

Mobile-Enterprise — Non-GAAP revenue for Nuance's enterprise and mobile solutions was $125.5 million, up slightly, as reported, from the same quarter last year. Nuance experienced continued strength in enterprise on-demand, professional services and maintenance contracts, especially in North America, with wins at customers such as Bank of America, Cigna, TD Ameritrade and United Airlines. Nuance Mobile Care revenue grew as deployment progressed within our carrier customers. National Australia

Bank Personal Banking deployed a voice biometric identification and verification function incorporating Nuance technology to improve customer experience and security. Nuance's mobile revenue streams again reflected the challenges of reduced purchases of mobile devices worldwide. During Q3 2009, millions of new smart phones shipped with Nuance products that enable voice control of various functions. In addition, Nuance won significant new contracts at HTC, LG, MiTAC/Magellan, Samsung and Vodafone.

Imaging — Non-GAAP revenue for Nuance's PDF and document imaging solutions was $17.7 million, down 8%, as reported, from the same quarter last year. The year-over-year decline reflects the continued weakness in Windows-based software sales, as well as reduced sales through its channels as Nuance prepared for upcoming product release launches. The Company did see a strong performance from the launch of OmniPage 17 during Q3 2009.

Operational Achievements — Nuance benefited from its focus on expense controls and accelerating synergies from recent acquisitions to significantly improve non-GAAP margins. Non-GAAP operating margins rose to 32.6%, compared to 27.5% in the third quarter 2008. Cash flows from operations were $53.7 million in the third quarter 2009, compared to $48.1 million a year ago. On a year-to-date basis, cash flows from operations were $184.3 million, compared to $130.1 for the same period in 2008. The Company's cash balance as of June 30, 2009, was $418.6 million.

Conference Call and Prepared Remarks

Nuance is providing a copy of prepared remarks in combination with its press release. This process and these remarks are offered to provide shareholders and analysts with additional time and detail for analyzing results in advance of the Company's quarterly conference call. The remarks will be available at www.nuance.com/earningsresults in conjunction with the press release.

As previously scheduled, the conference call will begin today, August 10, 2009 at 5:00 pm ET and will include only brief comments followed by questions and answers. The prepared remarks will not be read on the call. To access the live broadcast, please visit the Investor Relations section of Nuance's Website at www.nuance.com. The call can also be heard by dialing (800) 288-8974 or (612) 332-0345 at least five minutes prior to the call and referencing conference code 107916. A replay will be available within 24 hours of the announcement by dialing (800) 475-6701 or (320) 365-3844 and using the access code 107916.

About Nuance Communications, Inc.

Nuance is a leading provider of speech and imaging solutions for businesses and consumers around the world. Its technologies, applications and services make the user experience more compelling by transforming the way people interact with information and how they create, share and use documents. Every day, millions of users and thousands of businesses experience Nuance's proven applications and professional services. For more information, please visit: www.nuance.com.

Trademark reference: Nuance, the Nuance logo, Dictaphone, and OmniPage are registered trademarks or trademarks of Nuance Communications, Inc. or its affiliates in the United States and/or other countries. All other trademarks referenced herein are the property of their respective owners.

Safe Harbor and Forward-Looking Statements

Statements in this document regarding continued performance improvements and Nuance managements' future expectations, beliefs, goals, plans or prospects constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that are not statements of historical fact (including statements containing the words "believes," "plans," "anticipates," "expects," or "estimates" or similar expressions) should also be considered to be forward-looking statements. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including: fluctuations in demand for Nuance's existing and future products; economic conditions in the United States and abroad; Nuance's ability to control and successfully manage its expenses and cash position; the effects of competition, including pricing pressure; possible defects in Nuance's products and technologies; the ability of Nuance to successfully integrate operations and employees of acquired businesses; the ability to realize anticipated synergies from acquired businesses; and the other factors described in Nuance's annual report on Form 10-K for the fiscal year ended September 30, 2008 and Nuance's quarterly reports on Form 10-Q filed with the Securities and Exchange Commission. Nuance disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this document.

The information included in this press release should not be viewed as a substitute for full GAAP financial statements.

Discussion of Non-GAAP Financial Measures

Management utilizes a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of the business, for making operating decisions and for forecasting and planning for future periods. Our annual financial plan is prepared both on a GAAP and non-GAAP basis, and the non-GAAP annual financial plan is approved by our board of directors. Continuous budgeting and forecasting for revenue and expenses are conducted on a consistent non-GAAP basis (in addition to GAAP) and actual results on a non-GAAP basis are assessed against the annual financial plan. The board of directors and management utilize these non-GAAP measures and results (in addition to the GAAP results) to determine our allocation of resources. In addition and as a consequence of the importance of these measures in managing the business, we use non-GAAP measures and results in the evaluation process to establish management's compensation. For example, our annual bonus program payments are based upon the achievement of consolidated non-GAAP revenue and consolidated non-GAAP earnings per share financial targets. We consider the use of non-GAAP revenue helpful in understanding the performance of our business, as it excludes the purchase accounting impact on acquired deferred revenue and other acquisition-related adjustments to revenue. We also consider the use of non-GAAP earnings per share helpful in assessing the organic performance of the continuing operations of our business. By organic performance we mean performance as if we had owned an acquired asset in the same period a year ago. By continuing operations we mean the ongoing results of the business excluding certain unplanned costs. While our management uses these non-GAAP financial measures as a tool to enhance their understanding of certain aspects of our financial performance, our management does not consider these measures

to be a substitute for, or superior to, the information provided by GAAP revenue and earnings per share. Consistent with this approach, we believe that disclosing non-GAAP revenue and non-GAAP earnings per share to the readers of our financial statements provides such readers with useful supplemental data that, while not a substitute for GAAP revenue and earnings per share, allows for greater transparency in the review of our financial and operational performance. In assessing the overall health of the business during the three months ended June 30, 2009 and 2008, and, in particular, in evaluating our revenue and earnings per share, our management has either included or excluded items in four general categories, each of which are described below.

Acquisition-Related Revenue and Cost of Revenue.

The Company provides supplementary non-GAAP financial measures of revenue which include revenue related to acquisitions, primarily from Zi, Tegic and Phillips Speech Recognition Systems that would otherwise have been recognized but for the purchase accounting treatment of these transactions. Non-GAAP revenue also includes revenue that the Company would have otherwise recognized had the Company not acquired intellectual property and other assets from the same customer during the same quarter. Because GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of the Company's economic activities. These non-GAAP adjustments are intended to reflect the full amount of such revenue. The Company includes non-GAAP revenue and cost of revenue to allow for more complete comparisons to the financial results of historical operations, forward looking guidance and the financial results of peer companies. The Company believes these adjustments are useful to management and investors as a measure of the ongoing performance of the business because the Company historically has experienced high renewal rates on maintenance and support agreements and other customer contracts, although we cannot be certain that customers will renew these contracts. Additionally, although acquisition related revenue adjustments are non-recurring with respect to past acquisitions, the Company generally will incur these adjustments in connection with any future acquisitions.

Acquisition-Related Expenses.

In recent years, the Company has completed a number of acquisitions, which result in operating expenses which would not otherwise have been incurred. The Company provides supplementary non-GAAP financial measures which exclude certain transition, integration and other acquisition-related expense items resulting from acquisitions to allow more accurate comparisons of the financial results to historical operations, forward-looking guidance and the financial results of less acquisitive peer companies. The Company considers these types of expenses, to a great extent, to be unpredictable and dependent on a significant number of factors that are outside of the control of the Company. Furthermore, such costs are generally not relevant to assessing or estimating the long-term performance of the acquired assets as part of the Company. In addition, the size, complexity and/or volume of past acquisitions, which often drives the magnitude of acquisition-related expenses, may not be indicative of the size, complexity and/or volume of future acquisitions. By excluding the above referenced expenses from our non-GAAP measures, management is better able to evaluate the Company's ability to utilize its existing assets and estimate the long-term value that acquired assets will generate for the Company.

These items are included in the following categories: (i) acquisition-related transition and integration costs; (ii) amortization of intangible assets; (iii) in-process research and

development; and (iv) costs associated with regulatory matters related to acquired entities. These categories are further discussed as follows:

(i) Acquisition-related transition and integration costs. The Company excludes transition and integration costs such as retention and earnout bonuses for employees from acquisitions. The Company does not consider these expenses to be related to the organic continuing operation of its business, and believes it is useful to management and investors to understand the effects of these items on total operating expenses. Although acquisition-related transition and integration costs are not recurring with respect to past acquisitions, the Company generally will incur these expenses in connection with any future acquisitions.

(ii) Amortization of intangible assets. The Company excludes the amortization of intangible assets from non-GAAP expense and income measures. These amounts are inconsistent in amount and frequency and are significantly impacted by the timing and size of acquisitions. Providing a supplemental measure which excludes these charges allows management and investors to evaluate results “as-if” the acquired intangible assets had been developed internally rather than acquired and, therefore, provides a supplemental measure of performance in which the Company’s acquired intellectual property is treated in a comparable manner to its internally developed intellectual property. Although the Company excludes amortization of intangible assets from its non-GAAP expenses, the Company believes that it is important for investors to understand that such intangible assets contribute to revenue generation. Amortization of intangible assets that relate to past acquisitions will recur in future periods until such intangible assets have been fully amortized. Future acquisitions may result in the amortization of additional intangible assets.

(iii) In-Process research and development. The Company excludes expenses associated with acquired in-process research and development from non-GAAP expense and income measures. These amounts are inconsistent in amount and frequency and are significantly impacted by the timing, size and nature of acquisitions. Providing a supplemental measure which excludes these charges allows management and investors to evaluate results “as-if” the acquired research and development had been conducted internally rather than acquired. Although expenses associated with acquired in-process research and development are generally not recurring with respect to past acquisitions, the Company may incur these expenses in connection with any future acquisitions.

(iv) Costs associated with regulatory matters related to acquired entities. The Company excludes expenses incurred as a result of the investigation and, if necessary, restatement of the financial results of acquired entities. The Company also incurs post-closing legal and other professional services fees for non-recurring compliance and regulatory matters associated with acquisitions. The Company does not consider these expenses to be related to the organic continuing operations of the acquired businesses, and believes that providing a supplemental non-GAAP measure which excludes these items allows management and investors to consider the ongoing operations of the business both with, and without, such expenses. Although these expenses are not recurring with respect to past acquisitions, the Company may incur these expenses in connection with any future acquisitions.

Non-Cash Expenses.
The Company provides non-GAAP information relative to the following non-cash

expenses: (i) stock-based compensation; (ii) certain accrued interest; and (iii) certain accrued income taxes. These items are further discussed as follows:

(i) Stock-based compensation. Because of varying available valuation methodologies, subjective assumptions and the variety of award types, the Company believes that the exclusion of share-based payments allows for more accurate comparisons of operating results to peer companies, as well as to times in the Company's history when share based payments were more or less significant as a portion of overall compensation than in the current period. The Company evaluates performance both with and without these measures because compensation expense related to stock-based compensation is typically non-cash and the options granted are influenced by factors such as volatility and risk-free interest rates that are beyond the Company's control. The expense related to stock-based awards is generally not controllable in the short-term and can vary significantly based on the timing, size and nature of awards granted. As such, the Company does not include such charges in operating plans. Stock-based compensation will continue in future periods.

(ii and iii) Certain accrued interest and income taxes. The Company also excludes certain accrued interest and certain accrued income taxes because the Company believes that excluding these non-cash expenses provides senior management as well as other users of the financial statements, with a valuable perspective on the cash-based performance and health of the business, including the current near-term projected liquidity. These non-cash expenses will continue in future periods.

Other Expenses.
The Company excludes certain other expenses that are the result of other, unplanned events to measure operating performance as well as current and future liquidity both with and without these expenses. Included in these expenses are items such as non-acquisition-related restructuring and other charges (credits), net. These events are unplanned and arose outside of the ordinary course of continuing operations. These items also include adjustments from changes in fair value of share-based liabilities relating to the issuance of our common stock with security price guarantees payable in cash. The Company assesses operating performance with these amounts included, but also excluding these amounts; the amounts relate to costs which are unplanned, and therefore by providing this information the Company believes management and the users of the financial statements are better able to understand the financial results of what the Company considers to be organic continuing operations.

The Company believes that providing the non-GAAP information to investors, in addition to the GAAP presentation, allows investors to view the financial results in the way management views the operating results. The Company further believes that providing this information allows investors to not only better understand the Company's financial performance but more importantly, to evaluate the efficacy of the methodology and information used by management to evaluate and measure such performance.

Financial Tables Follow

Nuance Communications, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)

Unaudited

Nuance Communications, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)

Unaudited

	Three months ended June 30		Nine months ended June 30	
	2009	2008	2009	2008
Revenue:				
Product and licensing	$87,387	$96,396	$259,987	$288,587
Professional services and subscription and hosting	110,966	82,320	304,162	216,942
Maintenance and support	42,687	38,028	122,870	109,541
Total revenue	241,040	216,744	687,019	615,070
Cost of revenue:				
Product and licensing	8,414	10,214	26,222	32,485
Professional services and subscription and hosting	68,321	55,511	189,584	156,777
Maintenance and support	7,207	7,912	21,387	24,266
Amortization of intangible assets	10,017	5,248	27,444	17,995
Total cost of revenue	93,959	78,885	264,637	231,523

Gross profit	147,081	137,859	422,382	383,547
Operating expenses:				
Research and development	28,584	27,068	87,363	85,822
Sales and marketing	50,376	55,526	161,991	168,299
General and administrative	28,181	27,323	86,340	80,631
Amortization of intangible assets	19,931	14,386	56,313	40,040
Restructuring and other charges, net	2,893	2,646	5,241	8,124
Total operating expenses	129,965	126,949	397,248	382,916
Income from operations	17,116	10,910	25,134	631
Other expense, net	(11,455)	(11,649)	(26,343)	(38,191)
Income (loss) before income taxes	5,661	(739)	(1,209)	(37,560)
Provision for income taxes	6,670	9,127	17,283	14,521
Net loss	$(1,009)	$(9,866)	$(18,492)	$(52,081)
Net loss per share:				

Basic and diluted	$(0.00)	$(0.05)	$(0.07)	$(0.25)
Weighted average common shares outstanding:				
Basic and diluted	260,750	213,683	249,105	204,843

Nuance Communications, Inc.

Supplement Financial Information - GAAP to Non-GAAP Reconciliations

(in thousands, except per share amounts)

Unaudited

	Three months ended June 30		Nine months ended June 30	
	2009	2008	2009	2008
GAAP revenue	$ 241,040	$ 216,744	$ 687,019	$ 615,070
Acquisition-related revenue adjustments: product & licensing	8,264	10,012	40,217	33,230
Acquisition-related revenue adjustments: professional services and subscription and hosting	1,506	1,774	3,956	7,571
Acquisition-related revenue adjustments: maintenance and support	519	710	3,370	2,289
Non-GAAP revenue	$ 251,329	$ 229,240	$ 734,562	$ 658,160
GAAP cost of revenue	$ 93,959	$ 78,885	$ 264,637	$ 231,523
Cost of revenue from amortization of intangible assets	(10,017)	(5,248)	(27,444)	(17,995)

Cost of revenue adjustments: product & licensing (1,2,3)	(2)	107	(13)	445
Cost of revenue adjustments: professional services and subscription and hosting (1,2,3)	(1,953)	(1,484)	(6,321)	(4,474)
Cost of revenue adjustments: maintenance & support (1,2,3)	(92)	(218)	(425)	(1,239)
Non-GAAP cost of revenue	$ 81,895	$ 72,042	$ 230,434	$ 208,260
GAAP gross profit	$ 147,081	$ 137,859	$ 422,382	$ 383,547
Gross profit adjustments (1,2,3)	22,353	19,339	81,746	66,353
Non-GAAP gross profit	$ 169,434	$ 157,198	$ 504,128	$ 449,900
GAAP income from operations	$ 17,116	$ 10,910	$ 25,134	$ 631
Gross profit adjustments (1,2,3)	22,353	19,339	81,746	66,353
Research and development (1, 2)	2,855	2,800	9,381	13,010
Sales and marketing (1, 2)	6,830	6,522	21,387	19,971
General and administrative (1, 2)	10,020	6,403	27,811	21,226
Amortization of intangible assets	19,931	14,386	56,313	40,040
Restructuring and other charges, net	2,893	2,646	5,241	8,124
Non-GAAP income from operations	$ 81,998	$ 63,006	$ 227,013	$ 169,355
GAAP provision for income taxes	$ 6,670	$ 9,127	$ 17,283	$ 14,521
Non-cash taxes	(4,170)	(7,804)	(6,125)	(10,864)
Non-GAAP provision for income taxes	$ 2,500	$ 1,323	$ 11,158	$ 3,657
GAAP net loss	$ (1,009)	$ (9,866)	$ (18,492)	$ (52,081)

Cost of revenue from amortization of intangible assets	10,017	5,248	27,444	17,995
Amortization of intangible assets	19,931	14,386	56,313	40,040
Non-cash share-based payments (1)	17,582	15,028	52,584	53,447
Non-cash interest expense, net	1,425	1,313	4,364	4,344
Change in fair value of share-based liabilities	3,782	-	3,782	-
Restructuring and other charges, net	2,893	2,646	5,241	8,124
Non-cash income taxes	4,170	7,804	6,125	10,864
Acquisition-related adjustment - cost of revenue (3)	(514)	(616)	(1,159)	(2,908)
Acquisition-related adjustment - revenue (3)	10,290	12,496	47,544	43,090
Acquisition-related expenses (2)	4,684	2,908	13,913	8,936
Non-GAAP net income	$ 73,251	$ 51,347	$ 197,659	$ 131,851
Non-GAAP diluted net income per share	$ 0.26	$ 0.22	$ 0.74	$ 0.58
Diluted weighted average common shares outstanding	281,151	237,264	268,699	229,037

Nuance Communications, Inc.

Supplement Financial Information - GAAP to Non-GAAP Reconciliations, continued

(in thousands)

Unaudited

	Three months ended	Nine months ended

	June 30		June 30	
	2009	2008	2009	2008
(1) Non-Cash Share-Based Payments				
Cost of product and licensing	$ 2	$ 2	$ 8	$ 16
Cost of professional services and subscription and hosting	2,402	1,304	7,329	6,325
Cost of maintenance and support	132	218	557	1,125
Research and development	2,013	2,517	7,640	11,621
Sales and marketing	6,687	5,925	20,246	17,487
General and administrative	6,346	5,062	16,804	16,873
Total	$ 17,582	$ 15,028	$ 52,584	$ 53,447
(2) Acquisition-Related Expenses				
Cost of product and licensing	$ -	$ -	$ 1	$ -
Cost of professional services and subscription and hosting	20	687	9	596
Cost of maintenance and support	5	-	14	114
Research and development	842	283	1,741	1,389
Sales and marketing	143	597	1,141	2,484
General and administrative	3,674	1,341	11,007	4,353
Total	$ 4,684	$ 2,908	$ 13,913	$ 8,936
(3) Acquisition-Related Revenue and Cost of Revenue				
Revenue	$ 10,290	$ 12,496	$ 47,544	$ 43,090
Cost of product and licensing	-	(109)	4	(461)

Cost of professional services and subscription and hosting	(469)	(507)	(1,017)	(2,447)
Cost of maintenance and support	(45)	-	(146)	-
Total	$ 9,776	$ 11,880	$ 46,385	$ 40,182

Nuance Communications, Inc.

Condensed Consolidated Balance Sheets

(in thousands)

Unaudited

ASSETS	June 30, 2009	September 30, 2008
Current assets:		
Cash and cash equivalents	$ 418,587	$ 261,540
Marketable securities	-	56
Accounts receivable and unbilled receivables, net	184,738	217,999
Inventories, net	9,370	7,152
Prepaid expenses and other current assets	44,441	28,536
Total current assets	657,136	515,283
Land, building and equipment, net	51,733	46,485
Goodwill	1,869,344	1,655,773
Intangible assets, net	685,056	585,023
Other assets	42,984	43,635

Total assets	$ 3,306,253	$ 2,846,199

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt and capital leases	$ 6,878	$ 7,006
Contingent and deferred acquisition payments	62,711	113,074
Accounts payable and accrued expenses	151,471	133,616
Deferred and unearned revenue	138,977	118,902
Other short term liabilities	9,324	9,166
Total current liabilities	369,361	381,764
Long-term portion of debt and capital leases	889,957	894,184
Long-term deferred revenue	26,028	18,134
Other long term liabilities	144,273	127,209
Total liabilities	1,429,619	1,421,291
Stockholders' equity	1,876,634	1,424,908
Total liabilities and stockholders' equity	$ 3,306,253	$ 2,846,199