NUANCE COMMUNICATIONS, INC.
THIRD QUARTER FISCAL 2010
EARNINGS ANNOUNCEMENT
PREPARED CONFERENCE CALL 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 our results in advance of our quarterly conference call. As previously scheduled, the conference call will begin today, August 9, 2010 at 5:00 pm EDT and will include only brief comments followed by questions and answers. These 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) 230-1074 or (612) 234-9959 at least five minutes prior to the call and referencing conference code 165644. 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 165644.

Opening Remarks

In our press release this afternoon, we reported non-GAAP revenue in Q3 10 of $293.4 million, up 16.8% from $251.3 million a year ago. Total GAAP revenue in Q3 10 was $273.2 million, up 13.4% from $241.0 million in Q3 09. We recognized non-GAAP net income in Q3 10 of $91.3 million, representing $0.30 per diluted share, compared to non-GAAP net income of $73.3 million, or $0.26 per diluted share, in the same period last year. We recognized a GAAP net loss in Q3 10 of ($1.5) million, or ($0.01) per diluted share, compared to Q3 09 GAAP net loss of ($2.8) million, or ($0.01) per diluted share, as adjusted for the retrospective application of FASB ASC 470-20, which Nuance adopted on October 1, 2009. Third quarter non-GAAP operating margin was 32.9%, up from 32.6% a year ago. Third quarter operating cash flow was $64.1 million, up from $53.7 million in the same quarter a year ago. Nuance ended Q3 10 with a cash balance of $492.1 million.

Compared to Q3 09, Nuance's Q3 10 non-GAAP revenue benefited from (1) growth in healthcare product licenses and healthcare on-demand revenue, (2) growth in product and licensing revenue from our imaging business, due to contributions from eCopy, and (3) growth in mobile royalty and services revenue.

Nuance continued to improve operating leverage in the quarter. As discussed in recent quarters, in FY 10 we have increased investments targeted at enhancing growth, while remaining mindful of operating efficiencies.

Discussion of non-GAAP Revenue

In Q3 10, North America contributed 72% of non-GAAP revenue and international contributed 28%. On-demand revenues continued to grow year-over-year, driven by growth in healthcare on-demand and mobile services revenue. Within our enterprise and healthcare solutions, the trend toward customer preference for our subscription and transactional pricing models continues. (Please see the section below, "Discussion of Non-GAAP Financial Measures," for more details on non-GAAP revenue.)

Table: Non-GAAP Revenue by Market

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010	Q2 2010	Q3 2010
Mobile-Enterprise	$ 113.4	$119.5	$125.5	$137.2	$ 495.7	$127.6	$138.9	$131.7
Yr/Yr Organic Growth*	(10)%	2%	2%	(1)%	(2)%	12%	10%	(1)%
Healthcare-Dictation	$ 114.0	$105.2	$108.1	$113.8	$ 441.0	$121.2	$120.0	$125.9
Yr/Yr Organic Growth*	17%	5%	6%	(4)%	6%	7%	13%	14%
Imaging	$ 17.0	$14.1	$17.7	$24.8	$ 73.6	$ 35.8	$ 33.9	$ 35.8
Yr/Yr Organic Growth*	5%	(16)%	0%	16%	1%	7%	11%	6%
Total revenue	$ 244.4	$238.8	$251.3	$275.7	$1,010.3	$ 284.6	$ 292.8	$ 293.4
Yr/Yr Organic Growth*	2%	1%	3%	0%	1%	10%	11%	6%

* *Organic growth is calculated by comparing Nuance's reported non-GAAP revenue to revenue in the same period in the prior year. For purposes of this calculation, revenue in the same period in the prior year is adjusted to include revenue from companies subsequently acquired by Nuance, as if we had owned the acquired business in the prior period.*

Table: Non-GAAP Revenue by Type

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010	Q2 2010	Q3 2010
Product and Licensing	$ 110.4	$ 94.2	$ 95.6	$ 124.2	$ 424.4	$130.2	$128.0	$121.8
% of Revenue	45%	39%	38%	45%	42%	46%	44%	42%
Professional Services and Hosting	$ 91.4	$ 104.2	$ 112.5	$108.2	$ 416.3	$104.5	$118.6	$124.2
% of Revenue	38%	44%	45%	39%	41%	37%	40%	42%
Maintenance and Support	$ 42.6	$ 40.4	$ 43.2	$ 43.4	$ 169.6	$ 49.9	$ 46.2	$ 47.4
% of Revenue	17%	17%	17%	16%	17%	17%	16%	16%
Total revenue	$ 244.4	$ 238.8	$ 251.3	$ 275.7	$1,010.3	$ 284.6	$ 292.8	$ 293.4

Since FY 08, Nuance has pursued and secured significant new on-demand contracts within our healthcare, mobile and enterprise businesses. As noted above, we continue to see a growing preference among healthcare and enterprise customers for subscription and transactional pricing models. Within our mobile market, where additional growth is targeted towards carrier-based services, new bookings also demonstrated a growing emphasis upon transactional models. Typically, associated professional services revenue is recognized over the life of the on-demand customer relationship rather than being recognized as the services are performed, which has contributed to an increase in deferred revenue this fiscal year as professional services are being performed to implement solutions under enterprise on-demand contracts signed in fiscal 2009. As more of our large customers and partners transition to these models, a greater proportion of bookings will contribute revenue over extended periods.

In Q3 10, product and licensing revenue grew significantly compared to Q3 09, due primarily to increased healthcare product licenses, mobile royalties, and contributions from eCopy. In Q3 10, professional services and hosting revenue grew compared to both Q3 09 and Q2 10, due to increased on-demand revenue from healthcare solutions, as well as new contributions from hosted mobile services.

Mobile-Enterprise Solutions. Within our mobile business, voicemail-to-text and other connected services contributed to hosting and professional services revenue in the quarter. In addition, Nuance continued to secure significant design wins and penetration onto new products in handset, automobile and other markets, expanding the number of models that include Nuance technology. During Q3 10, mobile royalties grew compared to Q3 09, reflecting increased unit shipments, increased market penetration and pre-payments associated with new contracts. For Q3 10, Nuance reported its highest level of mobile professional services revenue, generated in securing new design wins, and entered Q4 with a solid pipeline of professional services design projects. During Q3 10, Nuance introduced Dragon Dictation for the iPad and Dragon for E-mail for the BlackBerry. In addition to increasing visibility, the success of Nuance's Dragon mobile apps has generated interest from carriers and mobile providers to deliver applications for other mobile platforms, languages and vertical markets. Recently, that interest has resulted in deployments and product announcements, such as the T-Mobile myTouch 3G Slide smartphone, which launched during Q3 10 as the first commercial shipment of Nuance's NVC 2.0 product. This Android-based smartphone features Nuance-powered voice activation and dictation for more than 50 mobile applications such as voice dialing, e-mail, text messages, calendar and web search, as well as text-to-speech readback of incoming messages. T-Mobile advertising has featured the product's speech capabilities, and Nuance transaction rates have been growing, with high user adoption and stickiness for features such as SMS dictation, voice dialing, and voice-powered business and Web search. Market momentum for the connected car has continued, driven by the launch of Ford's myFordTouch system. In predictive text, Nuance signed its first T9 Trace contracts with three handset manufacturers. Nuance also secured several OEM contracts for predictive text with multiple technologies, reflecting early success of our Multimodal User Interface (MMUI) strategy, which offers solutions to support multiple modes of user input (speech, typing, trace and writing) based on common core technology. In addition, Nuance signed its first contract with an OEM to ship XT9 technology in netbook computers. In the voicemail-to-text market, revenue grew compared to Q2 10, and Nuance signed contract amendments with two key customers from the SpinVox acquisition. Nuance began two pilot projects for enterprise voicemail-to-text services based on our Jott service. Key customers and design wins in Q3 10 included Bosch, CHMC, Denso, Elektrobit, Harman Becker, HBAS, HTC, M & Soft, Magneti Marelli, Melco, Modelabs, Nokia, Pantech, Parrot, Reliance, T-Mobile, Times of India, Toshiba, Vietnam Telecom, Vistcom Europe, Vodafone, and ZTE.

Within our enterprise business, customer preference for on-demand solutions continues, which has the effect of delaying revenue from new bookings into future periods. Q3 10 bookings resulted in record backlog hours in enterprise professional services, which stood at approximately 312,000 hours at the end of Q3 10, as compared with approximately 215,000 hours at the end of Q3 09. This represented the largest sequential increase in professional services hours backlog in two years, and Nuance is expanding its professional services staff to address increased backlog and demand. The estimated future value of unimplemented contracts for the Nuance On Demand solution at the end of Q3 10 was $47.1 million, as compared with $45.0 million at the end of Q2 10. The difference resulted from the signing of three new contracts – with an airline and two financial services firms – totaling $28.3 million, minus $26.1 million for one existing contract with a financial services firm, the implementation of which was completed during Q3. Please note that the implemented contract spans a five-year term, so that very little revenue from that contract was recognized in Q3. Nuance's professional services team continues to progress toward implementation of solutions under large contracts for the Nuance On Demand solution signed during FY 09, which will lead to future professional services and hosting revenue. Channel revenues continued to be disappointing due to structural changes in our channel partners. In addition, during Q3 10, hosting revenues reflected erosion in volume from a legacy Nuance On Demand customer. Key enterprise customers in Q3 10 included Air France, Atip, Axis Telecom, BT, CitiGroup, Global Bilgi, HBAS, Morgan Stanley, Orange, Prosodie, PSE&G, T-Mobile, TLM Com, US Air, USAA, and UPS.

Healthcare-Dictation Solutions. Within our healthcare business, both on-demand solutions and product licenses contributed to revenue growth. During Q3 10, the annualized line run-rate in Nuance's healthcare on-demand business was approximately 3.242 billion lines per year, up 14% from 2.833 billion lines per year during Q3 09. Nuance reported its largest sequential increase in annualized run-rate since Q1 09, driven by implementations of large on-demand subscription contracts signed earlier in the fiscal year. During Q3 10, Dragon Medical and diagnostics products contributed to product license growth, and Nuance signed several new healthcare on-demand contracts. Key customers in Q3 10 included Advocate Illinois Masonic, Appalachian Healthcare, Citrus Valley, Eastern Ohio Health Alliance, Indiana Clinics, Lifespan Healthcare, Mt. Kisco Medical Group, Ochsner Clinical Foundation, Plexus, Providence Alaska, Republic of Ireland Health Service Executive, Universal Health Services, and University of Utah. In addition, Nuance is executing its international expansion plans. During Q3 10, Nuance launched a new version of its Dragon Medical product in the UK, Germany, France and the Netherlands. Pilot eScription projects at the UK's NHS are in the early stages of deployment, and are contributing to new customer interest. During Q3 10, Nuance and our partner McKesson were chosen for a project to upgrade digital imaging and speech recognition systems throughout hospitals in the Republic of Ireland.

In our non-medical Dragon dictation solutions, Q3 10 revenue declined slightly compared to Q3 09, in anticipation of the Q4 10 launch of Dragon NaturallySpeaking version 11. The new version was launched in July 2010, and focuses on increased performance in both accuracy and speed, as well as improving its usability and adding new capabilities for use among students and teachers. Dragon is leveraging momentum and visibility created by mobile apps for Apple and BlackBerry products and increased investments in advertising. Key customers in Q3 10 included the FBI and Texas Department of Family and Protective Services.

Imaging Solutions. Third quarter revenue growth compared to Q3 09 was driven by contributions from eCopy, as well as Nuance's PDF and imaging solutions, and increased contribution from Nuance's OEM channel. Key customers and design wins in Q3 10 included Adelshaw Boggard, AON, Auto Cad, Barclays Portugal, Bond Pearce, Canon, DLA Piper, DP Systems, Estes/IKON, HP, IBM, Infineon, Middletons, Pinsent Marons, Softbank, and UNICREDIT. During Q3 10, eCopy had its best bookings quarter in 6 quarters, including a key design win at HP.

Discussion of non-GAAP Cost of Revenue and Gross Margins

In Q3 10, cost of revenue was $90.3 million, for a gross margin of 69.2%, up from 67.4% in Q3 09, mainly due to a shift in product mix toward product and licensing, as well as a significant increase in gross margin for professional services and hosting. Gross margin for product and licensing declined to 88.8% in Q3 10 from 91.2% a year ago, primarily due to lower gross margins on eCopy products. Gross margin for professional services and hosting improved to 44.3% in Q3 10 from 41.0% a year ago, primarily due to improved margins on professional services. Gross margin for maintenance and support improved to 84.2% in Q3 10 from 83.5% a year ago.

Discussion of non-GAAP Operating Expenses and Operating Margins

In Q3 10, operating margin was 32.9%, up from 32.6% in Q3 09. Compared to Q3 09, Q3 10 research and development expense increased 26.0%, sales and marketing expense increased 25.6%, and general and administrative expense increased 6.7%. The increased expenses reflect Nuance's FY 10 plan to make additional investments in product, sales and marketing, as well as the higher levels of expenses resulting from acquisitions. The improved margins reflect Nuance's FY 10 plan to make those additional investments, targeted at enhancing growth, while remaining mindful of operating efficiencies.

Discussion of Fluctuations in Foreign Exchange Rates

If Q3 10 revenues and expenses had been translated at the same foreign exchange rates used in Q2 10, revenue would have been approximately $3.2 million higher, and net income would have been approximately $0.1 million higher.

Balance Sheet and Cash Flow Highlights

Cash and Cash Flow Activities

Nuance reported Q3 10 cash flow from operations of $64.1 million, compared to $53.7 million in Q3 09. Q3 10 cash flow from operations was negatively impacted due to our acquisition of SpinVox by approximately $8.6 million. However, Q3 10 cash flow from operations did benefit from increased revenue and collections related to our other operations. At the end of Q3 10, our cash balance was approximately $492.1 million. Capital expenditures totaled $8.4 million and depreciation was $5.4 million for Q3 10.

DSOs
In Q3 10, days sales outstanding (DSO) were 39 days, compared to 30 days in Q3 09. We calculate DSOs net of deferred maintenance revenue, based on organic non-GAAP revenue.

Deferred Revenue
Total deferred revenue increased from $165.0 million at the end of Q3 09 to $206.3 million at the end of Q3 10, and long-term deferred revenue increased from $26.0 million to $67.2 million over the same period. The increase in deferred revenue was primarily due to eCopy billings, with additional contribution from deferred set-up fees for enterprise on-demand contracts and other professional services, and increased maintenance and support, offset in part by recognition of deferred revenue due to continued execution under acquired contracts from SNAPin.

Financial Analyst Day
Nuance plans to hold a financial analyst day in Boston, MA on the morning of Thursday, December 9, 2010 and via Webcast. Additional details will follow.

Discussion of Q410 Guidance and Fiscal Year Outlook

The improved economic climate, the increased investments in sales and marketing resources, and the strength of our offerings should deliver continued growth in the fourth quarter of fiscal 2010. We expect the improved royalty reports from many of our partners to continue. Favorable backlog, bookings and pipeline in the third quarter also position us well for the balance of the year. During the fourth quarter, revenues should benefit from typical fiscal year-end seasonality, launches of Dragon NaturallySpeaking 11 and PDF Converter Enterprise 7, the growth in mobile services, continued performance of our healthcare on-demand offering, and increased penetration of our Dragon Medical offerings. Weighing on our fourth quarter growth will likely be the continued migration towards on-demand solutions in our enterprise business, which results in revenue recognized over the life of the contract. In addition, we benefited in the first half of fiscal 2010 from payments associated with new design wins and contracts in our mobile business. While we anticipate further design and contract wins, the timing and effect of those can not be certain.

In recent quarters, we signaled our intention to increase expenses in sales, services and R&D related to additional hiring. We anticipate that hiring will continue in these areas in the fourth quarter. Additionally, we expect advertising and promotions expenses to rise, especially associated with product launch activities for Dragon NaturallySpeaking 11.

With these factors in mind, we expect full-year, FY 10 GAAP revenues in the range of $1,106 million to $1,126 million. We now expect FY 10 non-GAAP revenues between $1,180 million and $1,200 million. Reminding investors of our seasonality comments above, as well as product launches in the fourth quarter, we expect Q4 10 GAAP revenues between $297.5 million and $317.5 million, and we anticipate Q4 10 non-GAAP revenues between $310 million and $330 million.

Last quarter we advised investors to expect expense growth in three primary areas: sales personnel, advertising and demand creation, and research and development personnel. Our third quarter results did, in fact, reflect these investments. We anticipate that they will continue in the fourth quarter. We expect FY 10 GAAP EPS to be in the range of ($0.09) and ($0.06) and FY 10 non-GAAP EPS to be in the range of $1.17 and $1.20. We expect Q4 10 GAAP EPS to be in the range of ($0.01) and $0.02 and Q4 10 non-GAAP EPS to be in the range of $0.31 and $0.34.

This ends the prepared conference call remarks.

Definitions

Certain supplemental data provided in the prepared call remarks above are based upon internal Nuance definitions that are important for the reader to understand.

> *Enterprise professional services backlog hours.* Nuance defines its enterprise professional services backlog hours as the accumulated estimated professional services hours necessary to fulfill all of its existing, executed professional services contracts within the enterprise business, including those that are cancelable by customers, based on the original estimate of hours sold. Nuance believes its professional services backlog hours are useful in forecasting its internal professional services needs, as well as for projecting future professional services revenues.
>
> *Estimated future value of unimplemented Nuance On-Demand contracts*. Nuance considers contracts for its Nuance On Demand solutions to be unimplemented for the time period from execution of the contract with the customer until such time as implementation and set-up services are complete and the customers have begun utilizing the on-demand platform. Once a contract is implemented, the entire estimated value of the contract is deducted from the total. Because contracts for our Nuance On Demand solutions are generally large, multi-year contracts, the aggregate estimated value of these contracts can materially increase or decrease from period to period as contracts are executed and implemented.
>
> *Annualized line run-rate in Nuance's healthcare on-demand business.* Nuance determines this run-rate using sourced transcription net line counts, as defined in our customer contracts. The annualized line run-rate is determined by the number of lines actually billed in a given quarter, multiplied by four.

Safe Harbor and Forward-Looking Statements

Statements in this document regarding enterprise professional services backlog, the value of unimplemented Nuance On Demand contracts, continued growth for the balance of the fiscal year, new product launches, growth in mobile services, continued migration to on-demand solutions in our enterprise business, additional design wins in our mobile business, future increases in expenses associated with sales, services, and research and development, increases in advertising and promotion expenses, revenue contributions from our acquisition of SpinVox, our financial performance in the fourth quarter, the future demand for, performance of, and opportunities for growth in our product offerings and solutions in healthcare, mobile, enterprise and imaging, the general economic condition, 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, 2009 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 and nine months ended June 30, 2010 and 2009, and, in particular, in evaluating our revenue and earnings per share, our management has either included or excluded items in six 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 eCopy and SpinVox for the three and nine months ended June 30, 2010, 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, although we cannot be certain that customers will renew their contracts, the Company historically has experienced high renewal rates on maintenance and support agreements and other customer 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 Costs, Net.

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 costs and adjustments, 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, the Company does not consider these acquisition-related costs and adjustments to be related to the organic continuing operations of the acquired businesses and are generally not relevant to assessing or estimating the long-term performance of the acquired assets. In addition, the size, complexity and/or volume of past acquisitions, which often drives the magnitude of acquisition-related costs, may not be indicative of the size, complexity and/or volume of future acquisitions. By excluding acquisition-related costs and adjustments 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. The Company 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.

These acquisition-related costs are included in the following categories: (i) transition and integration costs; (ii) professional service fees; and (iii) acquisition-related adjustments. Although these expenses are not recurring with respect to past acquisitions, the Company generally will incur these expenses in connection with any future acquisitions. These categories are further discussed as follows:

(i) *Transition and integration costs.* Transition and integration costs include retention payments, transitional employee costs, earn-out payments treated as compensation expense, as well as the costs of integration-related services provided by third parties.

(ii) *Professional service fees.* Professional service fees include direct costs of the acquisition, as well as post-acquisition legal and other professional service fees associated with disputes and regulatory matters related to acquired entities.

(iii) *Acquisition-related adjustments.* Acquisition-related adjustments include 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, such as gains or losses on settlements of pre-acquisition contingencies.

Amortization of Acquired Intangible Assets.
The Company excludes the amortization of acquired 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 acquired 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.

Costs Associated with IP Collaboration Agreement.
In order to gain access to a third party's extensive speech recognition technology and research organization, Nuance has entered into a six-and-a-half-year agreement to accelerate development of new speech technologies. All intellectual property derived from the collaboration will be jointly owned by the two parties, but Nuance will have sole rights to commercialize this intellectual property during the term of

the agreement. For non-GAAP purposes, Nuance considers this long-term contract and the resulting acquisition of intellectual property from this third-party over the agreement's term to be an investing activity, outside of its normal, organic, continuing operating activities, and is therefore presenting this supplemental information to show the results excluding this expense. Nuance does not exclude from its non-GAAP results the corresponding revenue, if any, generated from the collaboration efforts. Although the Company's bonus program and other performance-based incentives for executives are based on the non-GAAP results that exclude these costs, certain engineering senior management are responsible for execution and results of the collaboration agreement and have incentives based on those results.

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 stock-based compensation allows for more accurate comparisons of operating results to peer companies, as well as to times in the Company's history when stock-based compensation was 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 and restricted awards granted are influenced by the Company's stock price and other factors such as volatility 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 unplanned events to measure operating performance and current and future liquidity both with and without these expenses; 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 its organic, continuing operations. Included in these expenses are items such as restructuring charges, asset impairments 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 instruments relating to the issuance of our common stock with security price guarantees payable in cash.

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Nine months ended June 30, 2010	Nine months ended June 30, 2009
Revenue:				
Product and licensing	$ 108,840	$ 87,387	$ 335,228	$ 259,987
Professional services and hosting	117,875	110,966	337,798	304,162
Maintenance and support	46,488	42,687	136,159	122,870
Total revenue	273,203	241,040	809,185	687,019
Cost of revenue:				
Product and licensing	10,901	8,414	34,194	26,222
Professional services and hosting	71,353	68,321	206,349	189,584
Maintenance and support	7,631	7,207	23,335	21,387
Amortization of intangible assets	11,893	10,017	35,095	27,444
Total cost of revenue	101,778	93,959	298,973	264,637
Gross profit	171,425	147,081	510,212	422,382
Operating expenses:				
Research and development	38,916	27,742	113,797	85,622
Sales and marketing	67,219	50,233	196,680	160,850
General and administrative	29,887	24,507	88,643	75,333
Amortization of intangible assets	21,459	19,931	65,786	56,313
Acquisition-related costs, net	6,125	4,659	26,892	13,889
Restructuring and other charges, net	3,257	2,893	16,244	5,241
Total operating expenses	166,863	129,965	508,042	397,248
Income from operations	4,562	17,116	2,170	25,134
Other expense, net	(4,261)	(13,261)	(18,915)	(31,704)
Income (loss) before income taxes	301	3,855	(16,745)	(6,570)
Provision for income taxes	1,831	6,670	4,459	17,283
Net loss	$ (1,530)	$ (2,815)	$ (21,204)	$ (23,853)
Net loss per share:				
Basic and diluted	$ (0.01)	$ (0.01)	$ (0.07)	$ (0.10)
Weighted average common shares outstanding:				
Basic and diluted	291,610	260,750	285,202	249,105

Financial statements for the three and nine months ended June 30, 2009 have been adjusted for the retrospective application of FASB ASC 470-20.

Nuance Communications, Inc.
Condensed Consolidated Balance Sheets
(in thousands)
Unaudited

ASSETS	June 30, 2010	September 30, 2009
Current assets:		
Cash and cash equivalents	$ 492,074	$ 527,038
Restricted cash	21,974	-
Accounts receivable and unbilled receivables, net	222,511	208,719
Inventories, net	8,323	8,525
Prepaid expenses and other current assets	52,553	51,545
Total current assets	797,435	795,827
Land, building and equipment, net	56,372	53,468
Goodwill	2,041,590	1,891,003
Intangible assets, net	667,879	706,805
Other assets	67,628	52,361
Total assets	$ 3,630,904	$ 3,499,464
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital leases	$ 8,209	$ 6,862
Contingent and deferred acquisition payments	2,093	91,431
Accounts payable and accrued expenses	207,059	164,393
Deferred and unearned revenue	139,096	144,395
Other short term liabilities	9,574	12,144
Total current liabilities	366,031	419,225
Long-term portion of debt and capital leases	850,400	848,898
Long-term deferred revenue	67,197	33,904
Other long term liabilities	152,095	154,436
Total liabilities	1,435,723	1,456,463
Stockholders' equity	2,195,181	2,043,001
Total liabilities and stockholders' equity	$ 3,630,904	$ 3,499,464

Financial statements as of September 30, 2009 have been adjusted for the retrospective application of FASB ASC 470-20.

Nuance Communications, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
Unaudited

	Nine months ended June 30, 2010	Nine months ended June 30, 2009
Cash flows from operating activities:		
Net loss	$ (21,204)	$ (23,853)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	116,738	97,398
Stock-based compensation	72,868	52,584
Non-cash interest expense	9,746	9,330
Non-cash restructuring expense	6,833	-
Gain on foreign currency forward contracts	-	(8,049)
Deferred tax provision	(2,321)	8,117
Other	1,671	1,624
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(13,023)	47,713
Inventories	280	(2,261)
Prepaid expenses and other assets	(5,149)	(5,746)
Accounts payable	(3,960)	22,744
Accrued expenses and other liabilities	(7,825)	(9,217)
Deferred revenue	30,044	(6,124)
Net cash provided by operating activities	184,698	184,260
Cash flows from investing activities:		
Capital expenditures	(16,284)	(15,682)
Payments for acquisitions, net of cash acquired	(155,882)	(113,886)
Proceeds from maturities of marketable securities	-	56
Payments for equity investment	(14,970)	(159)
Payments for acquired technology	(14,850)	(65,257)
Increase in restricted cash	(22,070)	-
Net cash used in investing activities	(224,056)	(194,928)
Cash flows from financing activities:		
Payments of debt and capital leases	(6,376)	(5,261)
Purchases of treasury stock	(575)	(144)
Payments of other long-term liabilities	(7,319)	(6,915)
Proceeds from settlement of shared-based derivatives	6,391	-
Proceeds from issuance of common stock, net of issuance costs	12,350	175,111
Proceeds from issuance of common stock from employee stock options and purchase plan	22,832	10,995
Cash used to net share settle employee equity awards	(17,465)	(6,186)
Net cash provided by financing activities	9,838	167,600
Effects of exchange rate changes on cash and cash equivalents	(5,444)	115
Net increase (decrease) in cash and cash equivalents	(34,964)	157,047
Cash and cash equivalents at beginning of period	527,038	261,540
Cash and cash equivalents at end of period	$ 492,074	$ 418,587

Financial statements for the three and nine months ended June 30, 2009 have been adjusted for the retrospective application of FASB ASC 470-20.

Nuance Communications, Inc.
Supplemental Consolidated Statements of Cash Flows
(in thousands)
Unaudited

	Three Months Ended				
	6/30/10	3/31/10	12/31/09	9/30/09	6/30/09
Cash flows from operating activities:					
Net income (loss)	$ (1,530)	$ (15,396)	$ (4,278)	$ 4,466	$ (2,815)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	38,761	39,747	38,230	36,661	34,465
Stock-based compensation	28,094	24,708	20,066	18,823	17,582
Non-cash interest expense	3,222	3,245	3,279	3,162	3,015
Non-cash restructuring expense	-	6,833	-	-	-
Deferred tax provision	(1,210)	(800)	(311)	17,601	6,505
Other	1,005	(25)	691	342	(290)
Changes in operating assets and liabilities, net of effects from acquisitions:					
Accounts receivable	(4,482)	(2,274)	(6,267)	(14,232)	13,931
Inventories	(429)	135	574	893	(800)
Prepaid expenses and other assets	(721)	(4,329)	(99)	(6,913)	2,553
Accounts payable	(1,711)	1,460	(3,709)	3,838	(2,755)
Accrued expenses and other liabilities	2,532	(17,760)	7,403	4,210	(6,385)
Deferred revenue	587	19,984	9,473	5,578	(11,311)
Net cash provided by operating activities	64,118	55,528	65,052	74,429	53,695
Net cash provided by (used in) investing activities	(34,534)	(30,075)	(159,447)	10,318	(57,570)
Net cash provided by (used in) financing activities	5,897	10,372	(6,431)	21,816	(1,140)
Effects of exchange rate changes on cash and cash equivalents	(5,211)	(923)	690	1,888	2,620
Net increase (decrease) in cash and cash equivalents	30,270	34,902	(100,136)	108,451	(2,395)
Cash and cash equivalents at beginning of period	461,804	426,902	527,038	418,587	420,982
Cash and cash equivalents at end of period	$ 492,074	$ 461,804	$ 426,902	$ 527,038	$ 418,587

Financial statements for the three month periods during fiscal 2009 have been adjusted for the retrospective application of FASB ASC 470-20.

Nuance Communications, Inc.
Supplemental Financial Information - GAAP to Non-GAAP Reconciliations
(in thousands, except per share amounts)
Unaudited

	Three months ended June 30,		Nine months ended June 30,	
	2010	2009	2010	2009
GAAP revenue	$ 273,203	$ 241,040	$ 809,185	$ 687,019
Acquisition-related revenue adjustments: product and licensing	12,922	8,264	44,726	40,217
Acquisition-related revenue adjustments: professional services and hosting	6,359	1,506	9,632	3,956
Acquisition-related revenue adjustments: maintenance and support	900	519	7,269	3,370
Non-GAAP revenue	$ 293,384	$ 251,329	$ 870,812	$ 734,562
GAAP cost of revenue	$ 101,778	$ 93,959	$ 298,973	$ 264,637
Cost of revenue from amortization of intangible assets	(11,893)	(10,017)	(35,095)	(27,444)
Cost of revenue adjustments: product and licensing (1,2)	2,794	(2)	8,920	(13)
Cost of revenue adjustments: professional services and hosting (1,2)	(2,181)	(1,953)	(7,086)	(6,321)
Cost of revenue adjustments: maintenance and support (1,2)	(165)	(93)	(582)	(425)
Non-GAAP cost of revenue	$ 90,333	$ 81,894	$ 265,130	$ 230,434
GAAP gross profit	$ 171,425	$ 147,081	$ 510,212	$ 422,382
Gross profit adjustments (1,2)	31,626	22,354	95,470	81,746
Non-GAAP gross profit	$ 203,051	$ 169,435	$ 605,682	$ 504,128
GAAP income from operations	$ 4,562	$ 17,116	$ 2,170	$ 25,134
Gross profit adjustments (1,2)	31,626	22,354	95,470	81,746
Research and development (1)	2,282	2,013	6,731	7,640
Sales and marketing (1)	12,516	6,687	29,813	20,246
General and administrative (1)	10,512	6,346	27,544	16,804
Amortization of intangible assets	21,459	19,931	65,786	56,313
Costs related to research and development collaborative agreement	4,208	-	12,208	-
Acquisition-related costs, net	6,125	4,659	26,892	13,889
Restructuring and other charges, net	3,257	2,893	16,244	5,241
Non-GAAP income from operations	$ 96,547	$ 81,999	$ 282,858	$ 227,013
GAAP provision for income taxes	$ 1,831	$ 6,670	$ 4,459	$ 17,283
Non-cash taxes	3,471	(4,170)	6,772	(6,125)
Non-GAAP provision for income taxes	$ 5,302	$ 2,500	$ 11,231	$ 11,158
GAAP net loss	$ (1,530)	$ (2,815)	$ (21,204)	$ (23,853)
Acquisition-related adjustment - revenue (2)	20,181	10,289	61,627	47,543
Acquisition-related adjustment - cost of revenue (2)	(3,232)	(488)	(10,032)	(1,135)
Acquisition-related costs, net	6,125	4,659	26,892	13,889
Cost of revenue from amortization of intangible assets	11,893	10,017	35,095	27,444
Amortization of intangible assets	21,459	19,931	65,786	56,313
Non-cash stock-based compensation (1)	28,094	17,582	72,868	52,584
Non-cash interest expense, net	3,222	3,231	9,746	9,724
Non-cash income taxes	(3,471)	4,170	(6,772)	6,125
Costs from IP collaboration agreement	4,208	-	12,208	-
Change in fair value of share-based instruments	1,044	3,782	(3,663)	3,782
Restructuring and other charges, net	3,257	2,893	16,244	5,241
Non-GAAP net income	$ 91,250	$ 73,251	$ 258,795	$ 197,657
Non-GAAP diluted net income per share	$ 0.30	$ 0.26	$ 0.86	$ 0.74
Diluted weighted average common shares outstanding	305,427	281,151	300,511	268,699

Financial statements for the three and nine months ended June 30, 2009 have been adjusted for the retrospective application of FASB ASC 470-20.

Nuance Communications, Inc.
Supplemental Financial Information - GAAP to Non-GAAP Reconciliations, continued
(in thousands)
Unaudited

	Three months ended June 30,		Nine months ended June 30,	
	2010	2009	2010	2009
(1) Non-Cash Stock-Based Compensation				
Cost of product and licensing	$ 7	$ 2	$ 25	$ 8
Cost of professional services and hosting	2,612	2,402	8,173	7,329
Cost of maintenance and support	165	132	582	557
Research and development	2,282	2,013	6,731	7,640
Sales and marketing	12,516	6,687	29,813	20,246
General and administrative	10,512	6,346	27,544	16,804
Total	$ 28,094	$ 17,582	$ 72,868	$ 52,584
(2) Acquisition-Related Revenue and Cost of Revenue				
Revenue	$ 20,181	$ 10,289	$ 61,627	$ 47,543
Cost of product and licensing	(2,801)	-	(8,945)	5
Cost of professional services and hosting	(431)	(449)	(1,087)	(1,008)
Cost of maintenance and support	-	(39)	-	(132)
Total	$ 16,949	$ 9,801	$ 51,595	$ 46,408

Nuance Communications, Inc.
Supplemental Financial Information – GAAP to Non-GAAP Reconciliations, continued
(in millions)
Unaudited

Total Revenue	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010	Q2 2010	Q3 2010
GAAP Revenue…………	$216.8	$229.1	$241.0	$263.3	$950.4	$263.0	$273.0	$273.2
Adjustment …………….	$27.6	$9.7	$10.3	$12.4	$59.9	$21.6	$19.8	$20.2
Non-GAAP Revenue …..	$244.4	$238.8	$251.3	$275.7	$1,010.3	$284.6	$292.8	$293.4

Mobile-Enterprise Revenue	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010	Q2 2010	Q3 2010
GAAP Revenue…………	$99.8	$114.5	$118.0	$129.9	$462.3	$125.0	$136.0	$125.7
Adjustment …………….	$13.6	$5.0	$7.5	$7.3	$33.4	$2.6	$2.9	$6.0
Non-GAAP Revenue …..	$113.4	$119.5	$125.5	$137.2	$495.7	$127.6	$138.9	$131.7

Healthcare-Dictation Revenue	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010	Q2 2010	Q3 2010
GAAP Revenue…………	$100.0	$100.6	$105.6	$112.3	$418.4	$120.0	$118.5	$125.1
Adjustment …………….	$14.0	$4.6	$2.5	$1.5	$22.6	$1.2	$1.5	$0.8
Non-GAAP Revenue …..	$114.0	$105.2	$108.1	$113.8	$441.0	$121.2	$120.0	$125.9

Imaging Revenue	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010	Q2 2010	Q3 2010
GAAP Revenue…………	$17.0	$14.1	$17.4	$21.1	$69.7	$18.0	$18.5	$22.4
Adjustment …………….	$0.0	$0.0	$0.3	$3.7	$3.9	$17.8	$15.4	$13.4
Non-GAAP Revenue …..	$17.0	$14.1	$17.7	$24.8	$73.6	$35.8	$33.9	$35.8

Product and Licensing Revenue	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010	Q2 2010	Q3 2010
GAAP Revenue…………	$85.6	$87.0	$87.3	$113.4	$373.4	$113.2	$113.2	$108.8
Adjustment …………….	$24.8	$7.2	$8.3	$10.8	$51.0	$17.0	$14.8	$13.0
Non-GAAP Revenue …..	$110.4	$94.2	$95.6	$124.2	$424.4	$130.2	$128.0	$121.8

Professional Services and Hosting Revenue	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010	Q2 2010	Q3 2010
GAAP Revenue…………	$90.2	$103.0	$111.0	$107.2	$411.4	$103.7	$116.2	$117.9
Adjustment …………….	$1.2	$1.2	$1.5	$1.0	$4.9	$0.8	$2.4	$6.3
Non-GAAP Revenue …..	$91.4	$104.2	$112.5	$108.2	$416.3	$104.5	$118.6	$124.2

Maintenance and Support Revenue	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010	Q2 2010	Q3 2010
GAAP Revenue…………	$41.1	$39.1	$42.7	$42.8	$165.6	$46.1	$43.6	$46.5
Adjustment …………….	$1.5	$1.3	$0.5	$0.6	$4.0	$3.8	$2.6	$0.9
Non-GAAP Revenue …..	$42.6	$40.4	$43.2	$43.4	$169.6	$49.9	$46.2	$47.4

Nuance Communications, Inc.
Reconciliation of Supplemental Financial Information
GAAP and non-GAAP Revenue and Net Income (Loss) per Share Guidance
(in thousands, except per share amounts)
Unaudited

	Three months ended September 30, 2010	
	Low	High
GAAP revenue	$ 297,500	$ 317,500
Acquisition-related adjustment - revenue	12,500	12,500
Non-GAAP revenue	$ 310,000	$ 330,000
GAAP net income (loss), per share	$ (0.01)	$ 0.02
Acquisition-related adjustment - revenue	0.04	0.04
Acquistion-related adjustment - cost of revenue	(0.01)	(0.01)
Acquisition-related costs, net	0.02	0.02
Cost of revenue from amortization of intangible assets	0.04	0.04
Amortization of intangible assets	0.07	0.07
Non-cash stock-based compensation	0.10	0.10
Non-cash interest expense	0.01	0.01
Non-cash income taxes	0.04	0.04
Costs from IP collaboration agreement	0.01	0.01
Non-GAAP net income (loss), per share	$ 0.31	$ 0.34
Shares used in computing GAAP and non-GAAP net income (loss) per share:		
Weighted average common shares: basic	295,000	295,000
Weighted average common shares: diluted	309,000	309,000

Nuance Communications, Inc.
Reconciliation of Supplemental Financial Information
GAAP and non-GAAP Revenue and Net Income (Loss) per Share Guidance
(in thousands, except per share amounts)
Unaudited

	Twelve months ended September 30, 2010	
	Low	High
GAAP revenue	$ 1,106,000	$ 1,126,000
Acquisition-related adjustment - revenue	74,000	74,000
Non-GAAP revenue	$ 1,180,000	$ 1,200,000
GAAP net income (loss), per share	$ (0.09)	$ (0.06)
Acquisition-related adjustment - revenue	0.24	0.24
Acquistion-related adjustment - cost of revenue	(0.04)	(0.04)
Acquisition-related costs, net	0.12	0.12
Cost of revenue from amortization of intangible assets	0.16	0.16
Amortization of intangible assets	0.29	0.29
Non-cash stock-based compensation	0.34	0.34
Non-cash interest expense	0.04	0.04
Non-cash income taxes	0.02	0.02
Costs from IP collaboration agreement	0.05	0.05
Change in fair value of share-based instruments	(0.01)	(0.01)
Restructuring and other charges, net	0.05	0.05
Non-GAAP net income (loss), per share	$ 1.17	$ 1.20

Shares used in computing GAAP and non-GAAP net income (loss) per share:

Weighted average common shares: basic	288,000	288,000
Weighted average common shares: diluted	303,000	303,000

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