Nuance Communications, Inc.
Form S-4/A
August 14, 2007

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As filed with the Securities and Exchange Commission on August 13, 2007

Registration No. 333-143428

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
to
Form S-4
REGISTRATION STATEMENT
Under
The Securities Act of 1933

NUANCE COMMUNICATIONS, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**3577**	**94-3156479**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

1 Wayside Road
Burlington, Massachusetts 01803
(781) 565-5000
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

James R. Arnold, Jr.
Chief Financial Officer
Nuance Communications, Inc.
1 Wayside Road
Burlington, Massachusetts 01803
(781) 565-5000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Wilson Sonsini Goodrich & Rosati
Professional Corporation
1700 K Street, NW
Fifth Floor
Washington, D.C. 20006
(202) 973-8800

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Burlington, Massachusetts 01803
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150 Federal Street
Boston, Massachusetts 02110
(617) 951-8000

Approximate date of commencement of proposed sale to the public: As soon as practical after effectiveness of this registration statement and upon consummation of the merger described herein.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement number for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a) may determine.

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THE INFORMATION IN THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. NUANCE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED AUGUST 13, 2007

NUANCE COMMUNICATIONS, INC.
VOICE SIGNAL TECHNOLOGIES, INC.
August , 2007

Dear Voice Signal Technologies, Inc. Stockholders:

As previously communicated, the boards of directors of Nuance Communications, Inc. and Voice Signal Technologies, Inc. have unanimously approved a merger, which provides for the merger of a subsidiary of Nuance into VoiceSignal. If we complete the merger, VoiceSignal will become a wholly owned subsidiary of Nuance and your shares of VoiceSignal stock will be converted into the right to receive a mix of cash and shares of Nuance common stock, the exact amounts of which will vary and are described in more detail beginning on page 44 of this consent solicitation statement/prospectus.

VoiceSignal stockholders will receive an aggregate of 5,836,576 shares of common stock of Nuance, which represents approximately [3.3%] of the number of shares of Nuance common stock outstanding as of [August , 2007], the last practical date prior to the date of this consent solicitation statement/prospectus for which such data is available, and approximately $210 million in cash, subject to adjustments as described in more detail in the merger agreement. The exact amount to be received by each VoiceSignal stockholder will depend on the class and series of stock held by you, the amount of third-party expenses and the exercise of vested options prior to the closing of the merger, as well as other adjustments described in the merger agreement, which are described in more detail in the section entitled Merger Consideration beginning on page 44 of this consent solicitation statement/prospectus. **The merger is more completely described in the accompanying consent solicitation statement/prospectus, and a copy of the merger agreement is attached as Annex A thereto.**

AFTER CAREFUL CONSIDERATION, YOUR BOARD OF DIRECTORS UNANIMOUSLY APPROVED THE MERGER REFERRED TO ABOVE AND CONCLUDED THAT IT IS IN THE BEST INTERESTS OF VOICESIGNAL AND ITS STOCKHOLDERS. YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU CONSENT TO THE ACTION REFERRED TO ABOVE.

In the material accompanying this letter you will find a consent solicitation statement/prospectus relating to the actions to be taken by the VoiceSignal stockholders pursuant to the enclosed action by written consent. The consent solicitation statement/prospectus more fully describes the merger agreement and the proposed merger and includes information about VoiceSignal and Nuance.

We encourage you to read the consent solicitation statement/prospectus, which includes important information about the merger. IN ADDITION, THE SECTION ENTITLED RISK FACTORS BEGINNING ON PAGE 15 OF THE CONSENT SOLICITATION STATEMENT/PROSPECTUS CONTAINS A DESCRIPTION OF RISKS THAT YOU SHOULD CONSIDER IN EVALUATING THE MERGER.

It is important that you use this opportunity to take part in the affairs of VoiceSignal by voting pursuant to the action by written consent. PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ACCOMPANYING ACTION BY WRITTEN CONSENT IN THE ENCLOSED POSTAGE-PAID ENVELOPE SO THAT YOUR SHARES MAY BE REPRESENTED. YOUR VOTE IS VERY IMPORTANT.

Sincerely,

/s/
Richard J. Geruson
Richard J. Geruson
Chief Executive Officer

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THIS TRANSACTION OR THE SECURITIES OF NUANCE TO BE ISSUED PURSUANT TO THE MERGER, OR DETERMINED IF THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This consent solicitation statement/prospectus is dated August , 2007, and is first being sent to VoiceSignal stockholders on or about August , 2007.

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ADDITIONAL INFORMATION

See the section entitled Where You Can Find More Information on page 145 of this consent solicitation statement/prospectus for more information about the documents referred to in this consent solicitation statement/prospectus.

You should rely only on the information contained in this consent solicitation statement/prospectus in deciding how to vote on the action by written consent of VoiceSignal stockholders. No one has been authorized to provide you with information that is different from that contained in this consent solicitation statement/prospectus. This consent solicitation statement/prospectus is dated August , 2007. You should not assume that the information contained in this consent solicitation statement/prospectus is accurate as of any date other than that date.

This consent solicitation statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Information contained in this consent solicitation statement/prospectus regarding VoiceSignal has been provided by VoiceSignal and information contained in this consent solicitation statement/prospectus regarding Nuance and Vicksburg Acquisition Corporation has been provided by Nuance.

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QUESTIONS AND ANSWERS ABOUT THE MERGER OF VOICESIGNAL AND NUANCE

Q: WHY ARE VOICESIGNAL AND NUANCE PROPOSING THE MERGER?

A: We are proposing the merger because we believe the combination of our two companies will bring together a broad set of speech technologies, products and professional services in a diversified organization that is able to support partners and customers more effectively and efficiently.

Q: WHAT WILL HAPPEN TO VOICESIGNAL AS A RESULT OF THE MERGER?

A: If the merger is completed, VoiceSignal will become a wholly owned subsidiary of Nuance.

Q: WHAT WILL I RECEIVE IN THE MERGER?

A: Upon completion of the merger, VoiceSignal stockholders will be entitled to receive aggregate merger consideration consisting of approximately $210 million in cash and approximately 5,836,576 shares of Nuance common stock. The merger consideration payable to VoiceSignal stockholders upon completion of the merger is subject to a number of adjustments, including adjustments for (i) certain expenses incurred by VoiceSignal in connection with the merger and (ii) the exercise of vested VoiceSignal stock options between the date of the merger agreement and completion of the merger. As a result, the exact consideration that a VoiceSignal stockholder will receive may not be known at the time the written consent is effective and will depend on the magnitude of the adjustments, if any, described above. All VoiceSignal stockholders will also have a portion of the merger consideration that they would otherwise be entitled to receive deposited in an escrow fund that will be used to compensate Nuance if Nuance is entitled to indemnification under the merger agreement.

The maximum number of shares of Nuance common stock to be issued by Nuance in the merger was fixed at the time the merger agreement was signed. Nuance common stock trades on the NASDAQ Global Select Market and is subject to price fluctuation. Therefore, the value of the Nuance common stock you receive as merger consideration cannot be known at the time the written consent is effective. The value of the Nuance common stock you receive in the merger may be equal to, less than or greater than its value on the date the merger agreement was signed and/or the date of the written consent.

Q: WHAT IS THE ESCROW AND HOW DOES IT WORK?

A: Upon completion of the merger, Nuance will withhold $30 million from the cash portion of the consideration to be distributed to the VoiceSignal stockholders in connection with the merger and deposit such amount into an escrow fund. This escrowed amount will be available to compensate Nuance if it is entitled to indemnification under the merger agreement. Any portion of this escrowed amount that, twelve months following the completion of the merger, has not been used to indemnify Nuance and that is not the subject of an unresolved claim for indemnification by Nuance will be distributed to the VoiceSignal stockholders.

Q: WHO IS THE STOCKHOLDERS REPRESENTATIVE?

A: Stata Venture Partners, LLC will serve as the representative of the VoiceSignal stockholders. As such, Stata Venture Partners, LLC will represent your interests after the merger and will be entitled to make decisions regarding the escrow fund. By approving the merger agreement, the merger and related transactions, you are consenting to the appointment of Stata Venture Partners, LLC as your representative.

Q: WHAT HAPPENS TO VOICESIGNAL STOCK OPTIONS IN THE MERGER?

A: All holders of outstanding VoiceSignal stock options that are vested and exercisable at or prior to the effective time of the merger or that become vested and exercisable as a result of the merger, will be provided with the opportunity to exercise the options on a net exercise basis and exchanged for the appropriate amount of merger consideration. All outstanding VoiceSignal stock options that are unvested at the effective time of the merger will, at Nuance s option, either be (i) assumed by Nuance on generally the same terms and conditions governing outstanding options immediately prior to the completion of the merger, except that the number of Nuance common shares into which each outstanding VoiceSignal option will be exercisable and the exercise price will be appropriately adjusted to reflect the ratio of Nuance common shares into which VoiceSignal common shares are converted pursuant to the merger agreement or (ii) fully accelerated and cashed out at their net exercise value.

Q: MAY VOICESIGNAL OPTIONHOLDERS EXERCISE VESTED STOCK OPTIONS BETWEEN NOW AND COMPLETION OF THE MERGER?

A: Yes. Any shares of VoiceSignal stock that an optionholder receives upon exercise of vested stock options prior to completion of the merger will be converted into the right to receive the merger consideration described above, subject to the escrow provisions described above.

Q: WILL I RECEIVE FRACTIONAL SHARES OF NUANCE STOCK IN THE MERGER?

A: No. The number of shares of Nuance common stock that each VoiceSignal stockholder will receive in the merger will be rounded down to the nearest whole share and each holder will receive a cash payment in an amount equal to any fractional share that would otherwise be issued to such holder multiplied by $15.42.

Q: WILL MY RIGHTS AS A NUANCE STOCKHOLDER BE DIFFERENT FROM MY RIGHTS AS A VOICESIGNAL STOCKHOLDER?

A: Yes. Upon completion of the merger, you will become a Nuance stockholder. There are important differences between the rights of stockholders of Nuance and stockholders of VoiceSignal. Please carefully review the description of these differences in the section of this consent solicitation statement/prospectus entitled Comparison of Stockholder Rights beginning on page 140.

Q: WHAT STOCKHOLDER APPROVALS ARE REQUIRED TO COMPLETE THE MERGER?

A: We cannot complete the merger unless, among other things, (i) a majority of the outstanding shares of VoiceSignal capital stock on an as-converted-to-common stock basis and (ii) a majority of the outstanding shares of VoiceSignal Series C preferred stock and Series D preferred stock, voting together as a single class on an as converted-to-common stock basis, vote to adopt the merger agreement and approve the transactions contemplated thereby. As of August 13, 2007, VoiceSignal directors, executive officers and their affiliates were entitled to vote approximately 87% of the outstanding shares of VoiceSignal capital stock on an as-converted-to-common stock basis and approximately 91% of the VoiceSignal Series C preferred stock and Series D preferred stock voting together on an as-converted-to-common basis. VoiceSignal directors, executive officers and their affiliates holding approximately 74% of the outstanding shares of VoiceSignal capital stock on an as-converted-to-common stock basis and approximately 78% of the Series C preferred stock and Series D preferred stock, voting together on an as-converted-to-common stock basis, have already agreed with Nuance and VoiceSignal, in a voting agreement, to vote their shares of VoiceSignal stock in favor of the adoption of the merger agreement and approval of the transactions contemplated thereby. No vote of Nuance stockholders is required to complete the merger.

Q: HOW DOES THE BOARD OF DIRECTORS OF VOICESIGNAL RECOMMEND THAT I VOTE?

A: The VoiceSignal board of directors unanimously recommends that VoiceSignal stockholders vote FOR the proposal to adopt the merger agreement and approve the transactions contemplated thereby.

Q: WHEN DO YOU EXPECT TO COMPLETE THE MERGER?

A: We expect to complete the merger as quickly as possible once all the conditions to the merger, including obtaining the approvals of VoiceSignal stockholders, are fulfilled. While we cannot predict the exact timing, we currently expect to complete the merger in August 2007.

Q: WHERE CAN I FIND MORE INFORMATION ABOUT VOICESIGNAL AND NUANCE?

A: You can find more information about VoiceSignal and Nuance from reading this consent solicitation statement/prospectus and the various sources described in this consent solicitation statement/prospectus under the section entitled Where You Can Find More Information.

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Q: WHERE DO I RETURN VOICESIGNAL S ACTION BY WRITTEN CONSENT AND BY WHEN?

A: We request that the completed and executed action by written consent be received by mail or fax no later than August , 2007, to the following address:

Voice Signal Technologies, Inc.
150 Presidential Way, Suite 310
Woburn, Massachusetts 01801
Attn: Corporate Secretary
Facsimile: (781) 970-2300

Q: CAN VOICESIGNAL S STOCKHOLDERS CHANGE THEIR VOTES AFTER THEY HAVE MAILED THEIR SIGNED ACTION BY WRITTEN CONSENT?

A: Yes. VoiceSignal stockholders can change their votes at any time before a sufficient number of written consents to take a corporation action have been filed with the corporate secretary by delivering a signed written revocation or a later-dated signed written consent to the address set forth in the answer to the previous question.

Q: WHO IS PAYING FOR THE SOLICITATION OF THE ACTION BY WRITTEN CONSENT?

A: Nuance is paying the cost of soliciting the action by written consent, including the printing and filing of this consent solicitation statement/prospectus, and any additional information furnished to VoiceSignal stockholders, except that Nuance and VoiceSignal will pay their respective legal and accounting fees incurred in connection with preparing this consent solicitation statement/prospectus. Neither Nuance nor VoiceSignal has engaged a proxy solicitation firm to solicit the written consents from VoiceSignal s stockholders.

Q: WHAT DO I NEED TO DO TO VOTE?

A: After carefully reading and considering the information contained in this consent solicitation statement/prospectus, please mail your completed and signed action by written consent in the enclosed postage-paid return envelope as soon as possible so that your shares may be voted. In order to assure that we obtain your vote, please vote as instructed on the action by written consent.

Q: ARE THERE RISKS I SHOULD CONSIDER IN DECIDING WHETHER TO VOTE FOR ADOPTION OF THE MERGER AGREEMENT AND APPROVAL OF THE TRANSACTIONS CONTEMPLATED THEREBY?

A: Yes. You should consider the risk factors set out in the section entitled Risk Factors beginning on page 15 of this consent solicitation statement/prospectus.

Q: WILL VOICESIGNAL STOCKHOLDERS BE ABLE TO TRADE THE NUANCE COMMON STOCK THAT THEY RECEIVE PURSUANT TO THE MERGER?

A: Yes. VoiceSignal stockholders will be able to trade the shares of Nuance common stock they receive pursuant to the merger once the stock certificates representing such shares have been received from the exchange agent upon their surrender to the exchange and paying agent of the VoiceSignal stock certificates. The shares of Nuance common stock that VoiceSignal stockholders receive pursuant to the merger will be listed on the NASDAQ Global Select Market under the symbol NUAN. Certain persons who are deemed affiliates of VoiceSignal will be required to comply with Rule 145 promulgated under the Securities Act of 1933, as amended, which we refer to as the Securities Act, if they sell their shares of Nuance common stock received pursuant to the merger.

Q: IS THE MERGER EXPECTED TO BE TAXABLE TO ME?

A: Generally, yes. The receipt of the merger consideration for VoiceSignal capital stock pursuant to the merger will be a taxable transaction for United States federal income tax purposes. For United States federal income tax purposes, generally you will recognize gain or loss as a result of the merger measured by the difference, if any, between (i) the fair market value of the Nuance common stock as of the effective time of the merger and the cash received and (ii) your adjusted tax basis in the VoiceSignal capital stock exchanged therefore in the merger.

You should read The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 38 for a more complete discussion of the United States federal income tax consequences of the merger. Tax matters can be complicated and the tax consequences of the merger to you will depend on your particular tax situation. **You should consult your tax advisor to determine the tax consequences of the merger to you.**

Q: SHOULD I SEND IN MY VOICESIGNAL STOCK CERTIFICATES NOW?

A: No. If VoiceSignal stockholders adopt the merger agreement and approve the transactions contemplated thereby, immediately prior to the completion of the merger, Nuance will send VoiceSignal stockholders written instructions, including a letter of transmittal, that will explain how to exchange VoiceSignal stock certificates for Nuance common stock certificates and cash. Please do not send in any VoiceSignal stock certificates until you receive these written instructions and the letter of transmittal.

Q: AM I ENTITLED TO APPRAISAL RIGHTS IN CONNECTION WITH THE MERGER?

A: Yes. The stockholders of VoiceSignal may be entitled, under certain circumstances, to appraisal rights under Delaware law. For a detailed discussion of appraisal rights under Delaware law, please see The Merger Appraisal Rights beginning on page 41.

Q: WHO CAN HELP ANSWER MY QUESTIONS?

A: If you have any questions about the merger or if you need additional copies of this consent solicitation statement/prospectus or the enclosed action by written consent, you should contact:

VOICE SIGNAL TECHNOLOGIES, INC.
150 Presidential Way, Suite 310
Woburn, Massachusetts 01801
(781) 970-5200
Attention: Damon Pender, Vice President of Finance

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SUMMARY OF THE MERGER

The following is a summary of the information contained in this document relating to the merger of VoiceSignal and Nuance. This summary may not contain all of the information that is important to you. You should carefully read this entire consent solicitation statement/prospectus and the other documents to which we refer. In particular, you should read the annexes attached to this consent solicitation statement/prospectus, including the merger agreement, which is attached as Annex A and is incorporated by reference into this consent solicitation statement/prospectus.

The Companies

Voice Signal Technologies, Inc.
150 Presidential Way, Suite 310
Woburn, Massachusetts 01801
(781) 970-5200
http://www.voicesignal.com

Voice Signal Technologies, Inc. develops and markets voice software solutions for cell phones and other mobile devices. By enabling people to use voice to access phone features and network services through their handsets, VoiceSignal s solutions make it significantly easier to realize the potential of mobile computing on a wide range of handsets and devices. VoiceSignal s products range from VSuite, VoiceSignal s line of small footprint voice interface solutions for voice dialing and voice commands, to VSearch, VoiceSignal s recently announced voice-enabled client-server platform for mobile search.

Nuance Communications, Inc.
1 Wayside Road
Burlington, Massachusetts 01803
(781) 565-5000
http://www.nuance.com

Nuance Communications, Inc. 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.

Vicksburg Acquisition Corporation
1 Wayside Road
Burlington, Massachusetts 01803
(781) 565-5000
http://www.nuance.com

Vicksburg Acquisition Corporation is a wholly owned subsidiary of Nuance recently formed solely for the purpose of effecting the merger. It has no business operations.

Structure of the Merger (See page 44)

The merger is structured as a reverse-triangular merger pursuant to which Vicksburg Acquisition Corporation, a wholly owned subsidiary of Nuance, will merge with and into VoiceSignal, and thereafter will cease to exist as a separate corporate entity. After completion of the merger, VoiceSignal will be a wholly owned subsidiary of Nuance.

The terms and conditions of the merger are contained in the merger agreement, which is attached as Annex A to this consent solicitation statement/prospectus. Please carefully read the merger agreement as it is the legal document that governs the proposed merger.

Consideration in the Merger (See pages 44 and 45)

Upon completion of the merger, VoiceSignal stockholders will be entitled to receive aggregate merger consideration consisting of approximately $210 million in cash and approximately 5,836,576 shares of Nuance common stock, which represents [3.3%] of the outstanding Nuance common stock. The merger consideration payable to VoiceSignal stockholders upon completion of the merger is subject to a number of adjustments, including adjustments for (i) certain expenses incurred by VoiceSignal in connection with the merger and (ii) the exercise of vested VoiceSignal stock options between the date of the merger agreement and completion of the merger. As a result, the exact consideration that a VoiceSignal stockholder will receive may not be known at the time the written consent is effective as it will depend on the magnitude of the adjustments, if any, described above. All VoiceSignal stockholders will also have a portion of the merger consideration that they would otherwise be entitled to receive deposited in an escrow account that will be used to compensate Nuance if Nuance is entitled to indemnification under the merger agreement.

Immediately prior to the consummation of the merger, all outstanding shares of preferred stock of VoiceSignal will convert into shares of VoiceSignal common stock, including all accrued and unpaid dividends, in accordance with VoiceSignal s amended and restated certificate of incorporation. All outstanding shares of Series A, B and D preferred stock will convert into shares of common stock on a 1 for 1 basis, and all outstanding shares of Series C preferred stock will convert to shares of common stock on a 1 for 2.20127 basis. Assuming a closing date of August 29, 2007, the accrued and unpaid dividends for each share of Series C preferred stock will convert into approximately 1.275 shares of VoiceSignal common stock and the accrued and unpaid dividends for each share of the Series D stock will convert into approximately .31 to .39 shares of VoiceSignal common stock, depending on stockholders date of investment. No other class or series of VoiceSignal capital stock have accrued and unpaid dividends.

The stock consideration and cash consideration to be paid per share of VoiceSignal common stock at closing will depend upon numerous variable factors, including the amount of third-party expenses, the actual closing date, the exercise of the outstanding vested options prior to the merger and whether such exercises are on a net or cash basis. Assuming a closing date of August 29, 2007, third-party expenses in the amount of $10,000,000 and the exercise of all vested options on a cash basis, each 100 shares of VoiceSignal common stock at closing will be entitled to receive approximately $111.60 in cash, 3.79 shares of Nuance common stock and $19.46 will be placed in the escrow account. If funds remain in the escrow account after the expiration of the escrow period, the cash consideration received by each VoiceSignal stockholder will increase.

The number of shares of Nuance common stock to which a VoiceSignal stockholder is entitled to receive will be aggregated and any fractional shares will be paid out as set forth below in The Merger Agreement Fractional Shares. The terms and conditions of the Escrow Fund are described in more detail in the Section entitled The Merger Agreement Escrow Fund.

You should be aware that the above per share amounts are estimates only and are subject to change under certain circumstances as described above and set forth more fully in the merger agreement attached as Annex A to this consent solicitation statement/prospectus. The actual consideration you receive in exchange for your VoiceSignal capital stock may be more, less or the same as these estimates.

The maximum number of shares of Nuance common stock to be issued by Nuance in the merger was fixed at the time the merger agreement was signed. At the time the merger agreement was signed, the parties valued the Nuance common stock at $15.42 per share, the average of the closing price of Nuance common stock 10 days prior to the signing of the merger agreement. Nuance common stock trades on the NASDAQ Global Select Market and is subject to price fluctuation. Therefore, the value of the Nuance common stock you will receive in the merger cannot be known at this time. The value of the Nuance common stock you receive in the merger may be equal to, less than or greater than its value on the date the merger agreement was signed and/or the date the written consent is effective. Below is a comparison of the effect the fluctuations in the per share price the Nuance common stock could have on the per share value of the VoiceSignal capital stock exchanged in the merger.

Nuance common stock price per share	$ 15.00	$ 16.00	$ 17.00	$ 18.00	$ 19.00	$ 20.00
Total Consideration per 100 shares of Voice Signal Common Stock*	$ 188.00	$ 192.00	$ 195.00	$ 199.00	$ 203.00	$ 207.00

* Includes the value of the stock portion of the merger consideration, the cash portion of the merger consideration and the cash portion to be placed in the escrow account for each 100 shares of VoiceSignal common stock. The cash portion of the merger consideration and the amount to be placed in the escrow account remains constant regardless of the fluctuating Nuance share price.

The above per share values are estimates only and are subject to change under certain circumstances as set forth more fully in the merger agreement, including a change in the closing date, a change in the number of shares of VoiceSignal capital stock pursuant to exercises of outstanding vested stock options and the amount of the third party expenses. The actual value of the consideration you receive in exchange for your VoiceSignal capital stock may be more, less or the same as these estimates.

See the section entitled Market Price Data beginning on page 14 for a description of the historical value of Nuance capital stock. VoiceSignal stockholders are urged to obtain current market quotations for Nuance common stock and to review carefully the other information contained in this consent solicitation statement/prospectus or incorporated by reference into this consent solicitation statement/prospectus. See the section entitled Where You Can Find More Information on page 145.

Treatment of Options (See page 47)

Vested VoiceSignal Stock Options

Nuance will not assume or otherwise replace any VoiceSignal stock option that is vested and exercisable as of the effective time of the merger or that becomes vested and exercisable as a result of the merger.

Prior to completion of the merger, VoiceSignal will give each holder of a vested stock option the opportunity to decline to accept an otherwise automatic modification of such holder s vested stock options such that:

immediately prior to the effective time of the merger, and conditioned on the completion of the merger, such holder shall automatically be deemed to have exercised such vested stock option pursuant to a net exercise program whereby such holder will be deemed to have paid the total exercise price required under such vested stock option by relinquishing that number of shares of VoiceSignal common stock underlying such option in an amount necessary to pay the applicable total exercise price and any applicable withholding taxes required because of such net exercise of such vested stock option.

After net exercise, the holder of each such vested VoiceSignal stock option will participate in the merger in the same way, and to the same extent, as if such holder owned the number of shares of VoiceSignal common stock delivered after the automatic deemed net exercise.

Unvested VoiceSignal Options

Nuance will have the opportunity to make a written election prior to the effective time of the merger, either to assume every unvested VoiceSignal option or, instead, to cause all such unvested VoiceSignal options to vest and terminate in exchange for a cash payment to the holder of each such terminated option.

The cash payment Nuance will make to each holder of an unvested option if Nuance elects to terminate the unvested options will be equal to (i) the number of shares of VoiceSignal common stock underlying the VoiceSignal option multiplied by (ii) the amount of merger consideration to which each outstanding share of VoiceSignal stock on an as-converted-to-common-stock-basis is entitled in the merger, minus (iii) the total amount of the exercise price due under such option.

If, instead of terminating the unvested options and making the cash payment described above, Nuance elects to assume all unvested VoiceSignal options, each such assumed option will be converted into an option to purchase a number of shares of Nuance common stock at an exercise price appropriately adjusted for the conversion of VoiceSignal common stock into Nuance common stock in the merger.

If any time after completion of the merger, Nuance or VoiceSignal shall terminate for any reason or no reason, other than for Cause, the employment of any holder of an assumed option that was unvested at the effective time of the merger, or the holder of any assumed option that was unvested at the effective time of the merger shall terminate for Good Reason his or her employment with Nuance or VoiceSignal, then, immediately upon such termination, such unvested option shall automatically become exercisable for all of the shares of Nuance common stock subject to such assumed option.

Cause means a determination by the Nuance board of directors that the holder of an assumed unvested option has (a) engaged in willful misconduct or unlawful or dishonest conduct in connection with the performance of such holder s duties and responsibilities as an employee or consultant of Nuance or VoiceSignal; (b) materially breached any of such holder s obligations under any agreement between such holder and Nuance or VoiceSignal that pertains to such holder s employment or consulting relationship with Nuance or VoiceSignal; (c) been convicted of a felony; or (d) refused to obey or follow a lawful and reasonable directive issued by such holder s direct supervisor.

Good Reason means with regard to a holder of an assumed unvested option: (a) a material change in such holder s position and responsibilities as an employee or consultant of Nuance or VoiceSignal, except in connection with the termination of such holder s employment; (b) a reduction in such holder s base salary or consulting fees not agreed to by such holder; or (c) a material breach by Nuance or VoiceSignal of their obligations under any agreement with such holder.

Voting Requirements (See page 30)

We cannot complete the merger unless, among other things, (i) a majority of the outstanding shares of VoiceSignal common stock and VoiceSignal preferred stock, voting together as a single class with each share of VoiceSignal common stock entitled to cast one vote and each share of VoiceSignal preferred stock entitled to cast that number of votes equal to the number of shares of VoiceSignal common stock into which such share of VoiceSignal preferred stock is convertible and (ii) a majority of the outstanding shares of VoiceSignal Series C preferred stock and Series D preferred stock, voting together as a single class, on an as-converted-to-common-stock basis, vote to adopt the merger agreement and approve the transactions contemplated thereby. As of August 13, 2007, VoiceSignal directors, executive officers and their affiliates were entitled to vote approximately 87% of the outstanding shares of VoiceSignal capital stock, voting on an as-converted-to-common-stock basis, and approximately 91% of the VoiceSignal Series C preferred stock and Series D preferred stock voting together as a single class, on an as-converted-to-common-stock basis. VoiceSignal directors, executive officers and their affiliates holding approximately 74% of the outstanding shares of VoiceSignal capital stock on an as-converted-to-common stock basis and approximately 78% of the Series C preferred stock and Series D preferred stock, voting together on an as-converted-to-common stock basis, have already agreed with Nuance and VoiceSignal, in a voting agreement, to vote their shares of VoiceSignal stock in favor of the adoption of the merger agreement and approval of the transactions contemplated thereby. No vote of Nuance stockholders is required to complete the merger.

Recommendations of the VoiceSignal Board of Directors Regarding the Merger (See page 30)

After careful consideration of numerous factors, the VoiceSignal board of directors has determined that the proposed merger is advisable, and is fair to and in the best interests of VoiceSignal and its stockholders and unanimously recommends that VoiceSignal stockholders vote FOR the proposal to adopt the merger agreement and approve the transactions contemplated thereby.

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Completion and Effectiveness of the Merger (See page 44)

We will complete the merger when all of the conditions to completion of the merger are satisfied or waived. The merger will become effective when the certificate of merger we file with the State of Delaware is accepted for filing or at a later time if we specify a later time in the certificate.

While we cannot predict the exact timing, we currently expect to complete the merger in August 2007.

Conditions to Completion of the Merger (See page 54)

Each of VoiceSignal s and Nuance s obligation to complete the merger is subject to the satisfaction or waiver of a number of conditions, including:

- that no governmental entity shall have enacted, issued, promulgated, enforced or entered any law, decree, injunction or other order that is in effect and that has the effect of making the merger illegal or otherwise prohibiting completion of the merger;

- that no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing completion of the merger shall be in effect, nor shall any proceeding brought by an administrative agency or commission or other governmental entity or instrumentality, domestic or foreign, seeking any of the foregoing be threatened or pending;

- that VoiceSignal stockholders shall have adopted the merger agreement, and approved the transactions contemplated thereby, including the appointment of Stata Venture Partners, LLC as the stockholder representative;

- that the registration statement, of which this consent solicitation statement/prospectus is a part, be effective;

- that the waiting period (and any extension thereof) applicable to the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the HSR Act, and similar merger notification laws or regulations of foreign governmental entities in connection with the merger shall have expired or been terminated;

- that each company s representations and warranties in the merger agreement are true and correct, to the extent set forth in the merger agreement, except when the failure of such representations or warranties to be true and correct have not resulted, and would not reasonably be expected to result in, individually or in the aggregate with other such failures, a material adverse effect, to the other party;

- that each party has complied in all material respects with its covenants and agreements in the merger agreement, to the extent set forth in the merger agreement; and

- that no material adverse effect exist on either company.

Termination of the Merger Agreement (See page 57)

VoiceSignal and Nuance may mutually agree at any time to terminate the merger agreement without completing the merger.

In addition, either of VoiceSignal or Nuance may, without the consent of the other, terminate the merger agreement in either of the following circumstances:

- if the merger is not completed by November 14, 2007; or

- if: (i) there shall be a final non-appealable order of a federal or state court in effect preventing consummation of the merger, or (ii) there shall be any law enacted, promulgated or issued or deemed applicable to completion of the merger by any governmental entity that would make completion of the merger illegal.

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In addition, Nuance may, without the consent of VoiceSignal, terminate the merger agreement in either of the following circumstances:

if there shall be any action taken, or any law enacted, promulgated or issued or deemed applicable to the merger by any governmental entity, that would prohibit Nuance s ownership or operation of the business of VoiceSignal; or

if Nuance is not in material breach of its obligations under the merger agreement and there has been a breach of any representation, warranty, covenant or agreement of VoiceSignal or the stockholders contained in the merger agreement such that the closing conditions regarding such representations, warranties and covenants would not be satisfied and such breach has not been cured within ten calendar days after written notice to VoiceSignal and the stockholder representative, unless the breach, by its nature, cannot be cured.

In addition, VoiceSignal may, without the consent of Nuance, terminate the merger agreement if:

none of VoiceSignal or the stockholders is in material breach of their respective obligations under the merger agreement and there has been a breach of any representation, warranty, covenant or agreement of Nuance contained in the merger agreement such that the closing conditions regarding Nuance s representations, warranties and covenants would not be satisfied and such breach has not been cured within ten calendar days after written notice thereof to Nuance, unless the breach, by its nature, cannot be cured.

Payment of Certain VoiceSignal Expenses following Termination (See page 58)

Nuance has agreed to pay up to $1 million of transaction-related expenses incurred by VoiceSignal if the merger agreement is terminated under certain circumstances.

Prohibition from Soliciting Other Offers (See page 35)

VoiceSignal has agreed that it will not solicit or encourage the initiation of any inquiries regarding any acquisition proposals or proposals by third parties. If VoiceSignal receives an inquiry or proposal, VoiceSignal must immediately suspend any discussions with the party making such inquiry or proposal and notify Nuance of such inquiry or proposal.

Voting Agreements (See page 58)

As an inducement to Nuance entering into the merger agreement, certain of VoiceSignal s executive officers, directors and affiliates entered into a voting agreement with Nuance in which each has agreed, among other things, to vote his, her or its shares of VoiceSignal capital stock in favor of the adoption of the merger agreement and approval of the transactions contemplated thereby and against any action that would delay or prevent the merger and against any alternative transaction. These persons have the right, as of July 31, 2007, to vote a total of approximately 74% shares of VoiceSignal capital stock on an as-converted-to-common-stock basis and approximately 78% of the Series C preferred stock and Series D preferred stock, voting together on an as-converted-to-common stock basis. In connection with the voting agreements, these persons have granted an irrevocable proxy appointing members of the Nuance board of directors, and each of them individually, as their sole and exclusive attorneys and proxies to vote their shares in accordance with the terms of the voting agreements.

Share Ownership of Directors and Executive Officers of VoiceSignal (See page 36)

As of August 13, 2007, VoiceSignal directors, executive officers and their affiliates were entitled to vote approximately 87% of the outstanding shares of VoiceSignal capital stock voting together as a single class, on an as-converted-to-common-stock basis, and approximately 91% of the VoiceSignal Series C preferred stock and Series D preferred stock voting together as a single class, on an as-converted-to-common-stock basis.

The vote required for the adoption of the merger agreement and approval of the transactions contemplated thereby is, (i) a majority of the outstanding shares of VoiceSignal common stock and VoiceSignal preferred stock, voting together as a single class with each share of VoiceSignal common stock entitled to cast one vote and each share of VoiceSignal preferred stock entitled to cast a number of votes equal to the number of shares of VoiceSignal common stock into which such share of VoiceSignal preferred stock is convertible and (ii) a majority of the outstanding shares of VoiceSignal Series C preferred stock and Series D preferred stock, voting together as a single class on an as-converted-to common stock basis.

Interests of Directors and Officers in the Merger (See page 36)

You should be aware that certain VoiceSignal officers and directors have interests in the merger that may be different from, or in addition to, interests of VoiceSignal stockholders generally. These interests include, among others:

- Certain directors and officers each individually beneficially own or control over 5% of VoiceSignal capital stock on an as-converted-to-common stock basis.

- The employment agreements with certain VoiceSignal executive officers entitle them to certain benefits in the event of a Change in Control (as defined in the agreements) of VoiceSignal and severance payments under certain circumstances.

- The agreement of Nuance to honor the obligations of VoiceSignal pursuant to indemnification agreements between Nuance and its directors and officers and to provide directors and officers liability insurance coverage for a period of six years following the effective time of the merger.

- VoiceSignal has entered into a letter agreement, as modified by its Board of Directors, with four senior executives pursuant to which these executives will become entitled to receive bonuses totalling $930,000 upon the effective time of the merger.

- Acceleration of certain VoiceSignal options held by certain officers and the partial acceleration of certain VoiceSignal options held by certain other officers.

The VoiceSignal board of directors was aware of these interests in approving the merger.

Regulatory Approvals (See page 40)

Under the HSR Act, as amended, the merger may not be consummated unless certain filings have been submitted to the Federal Trade Commission, or the FTC, and the Antitrust Division of the Department of Justice, or the Antitrust Division, and certain waiting period requirements have been satisfied. VoiceSignal and Nuance have filed the appropriate notification and report forms with the FTC and with the Antitrust Division.

The FTC and the Antitrust Division frequently evaluate transactions like the proposed merger. At any time before or after the completion of the merger, the FTC or the Antitrust Division could take any action under the antitrust laws that it deems necessary or advisable in the public interest, including seeking to enjoin the completion of the merger or seeking the divestiture of substantial assets of VoiceSignal or Nuance. In addition, certain private parties, as well as states attorneys general and other antitrust authorities, may challenge the transaction under antitrust laws under certain circumstances.

In addition, the merger may be subject to various foreign antitrust laws.

VoiceSignal and Nuance believe that the completion of the merger will not violate any antitrust laws. There can be no assurance that a challenge to the merger on antitrust grounds will not be made, or, if such a challenge is made that the result will be favorable.

Listing of Nuance Common Stock (See page 41)

The authorization of the shares of Nuance common stock to be issued in the merger for listing on the NASDAQ Global Select Market is a condition to the merger.

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Appraisal Rights (See page 46)

Subject to compliance with the procedures set forth in Section 262 of the Delaware General Corporation Law, or DGCL, VoiceSignal stockholders who do not vote in favor of adoption of the merger agreement and approval of the transactions contemplated thereby and otherwise comply with the requirements of the DGCL will be entitled to appraisal rights in connection with the merger, whereby such stockholders may receive the fair value of their VoiceSignal shares in cash. Failure to take any of the steps required under Section 262 of the DGCL on a timely basis may result in a loss of those appraisal rights. The provisions of Delaware law that grant appraisal rights and govern such procedures are attached as Annex B.

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SUMMARY CONSOLIDATED FINANCIAL DATA OF NUANCE

The following table presents summary historical consolidated financial data of Nuance for the five most recent fiscal years and the first nine months of the current fiscal year comparative to the same period in the prior fiscal year. The financial data is derived from Nuance s consolidated financial statements. Since the information in this table is only a summary and does not provide all of the information contained in Nuance s financial statements, including related notes, you should read Management s Discussion and Analysis of Nuance s Financial Condition and Results of Operations beginning on page 77 and Nuance s consolidated financial statements, including related notes beginning on page F-4.

Nuance Communications, Inc.
Selected Summary Historical Financial Data

	Nine Months Ended June 30,		Fiscal Year Ended		Nine Months Ended	Fiscal Year Ended	
	2007	2006	Sep. 30, 2006	Sep. 30, 2005	Sep. 30, 2004	Dec. 31, 2003	Dec. 31, 2002
	(In thousands, except per share data)						
Consolidated Statement of Operations Data:							
Total revenue	$ 422,122	$ 260,377	$ 388,510	$ 232,388	$ 130,907	$ 135,399	$ 106,619
Income (loss) from operations	29,818	1,577	8,370	2,032	(7,993)	(6,462)	6,603
Income (loss) before income taxes	9,141	(6,475)	(7,071)	1,395	(8,045)	(5,787)	6,587
Net income (loss)	$ (10,599)	$ (15,671)	$ (22,887)	$ (5,417)	$ (9,378)	$ (5,518)	$ 6,333
Net income (loss) per share:							
Basic and diluted	$ (0.06)	$ (0.10)	$ (0.14)	$ (0.05)	$ (0.09)	$ (0.07)	$ 0.09
Weighted average common shares outstanding:							
Basic	173,786	162,400	163,873	109,540	103,780	78,398	67,010
Diluted	173,786	162,400	163,873	109,540	103,780	78,398	72,796

As of

	June 30, 2007	Sep. 30, 2006	Sep. 30, 2005	Sep. 30, 2004	Dec. 31, 2003	Dec. 31, 2002
			(In thousands)			
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 168,031	$ 112,334	$ 71,687	$ 22,963	$ 42,584	$ 18,853
Short term investments	7,846		24,127	7,373		
Working capital	113,300	51,273	12,130	27,940	44,305	16,842
Total assets	1,556,356	1,235,074	757,212	392,653	401,940	143,690
Long-term liabilities	580,166	446,430	79,775	45,360	48,340	725
Total stockholders equity	749,615	576,596	514,665	301,745	303,226	119,378

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SUMMARY CONSOLIDATED FINANCIAL DATA OF VOICESIGNAL

The following table presents summary historical consolidated financial data of VoiceSignal for the five most recent fiscal years and the six months ended June 30, 2007 and 2006. The financial data are derived from VoiceSignal s consolidated financial statements, some of which are not included in this consent solicitation statement/prospectus. Because the information in this table is only a summary and does not provide all of the information contained in VoiceSignal s financial statements, including related notes, you should read VoiceSignal s Management s Discussion and Analysis of VoiceSignal s Financial Condition and Results of Operations beginning on page 119 and VoiceSignal s consolidated financial statements, including related notes, beginning on page F-94.

Voice Signal Technologies, Inc.
Selected Summary Historical Financial Data

	Six Months Ended June 30,		Fiscal Year Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002
	(In thousands, except per share data)						
Consolidated Statement of Operations Data:							
Total revenue	$ 12,965	$ 11,257	$ 24,601	$ 11,741	$ 7,467	$ 2,442	$ 2,078
Income (loss) from operations	3,853	2,660	7,205	(3,304)	(2,986)	(5,879)	(4,734)
Income (loss) before income taxes	3,898	2,661	7,195	(3,097)	(2,942)	(5,835)	(5,757)
Net income (loss)	$ 4,190	$ 2,730	$ 7,382	$ 113	$ (2,942)	$ (5,836)	$ (5,758)
Net income (loss) available to common shareholders	$ 3,249	$ 1,788	$ 5,499	$ (1,770)	$ (4,809)	$ (7,252)	$ (6,574)
Net income (loss) per share:							
Basic	$ 0.19	$ 0.11	$ 0.32	$ (0.11)	$ (0.30)	$ (0.45)	$ (0.42)
Diluted	$ 0.03	$ 0.02	$ 0.06	$ (0.11)	$ (0.30)	$ (0.45)	$ (0.42)
Weighted average common shares outstanding:							
Basic	17,325	16,848	16,980	16,507	16,063	15,941	15,681
Diluted	122,997	121,803	121,823	16,507	16,063	15,941	15,681

As of

	June 30, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
			(In thousands)			
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 9,316	$ 3,983	$ 297	$ 1,959	$ 5,049	$ 2,923
Short term investments		3,000	6,117			
Working capital	12,575	8,699	3,178	2,266	4,018	2,223
Total assets	22,482	20,123	16,952	8,089	5,862	4,400
Long-term liabilities	1,590	2,400	4,868	1,267	1,039	617
Total stockholders deficit	(19,495)	(22,975)	(28,704)	(26,950)	(22,227)	(15,049)

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SUPPLEMENTARY FINANCIAL INFORMATION OF VOICESIGNAL

The following table presents historical quarterly consolidated data of VoiceSignal that is derived from unaudited consolidated statements that, in the opinion of management, include all recurring adjustments necessary for a fair statement of such information (in thousands):

	Quarter Ended								
	June 30, 2007	March 31, 2007	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31, 2005	Sept, 30, 2005	June 30, 2005
Total revenue	$ 6,407	$ 6,558	$ 7,223	$ 6,121	$ 5,744	$ 5,513	$ 4,605	$ 2,830	$ 2,198
Gross margin	5,966	6,119	6,792	5,691	5,273	5,020	4,217	2,502	1,883
Net income (loss)	1,957	2,233	2,903	1,749	1,345	1,385	4,121	(374)	(1,982)

SUMMARY UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL DATA

The following table presents summary unaudited pro forma combined financial data which reflects the proposed acquisition of VoiceSignal. The summary unaudited pro forma combined financial data are derived from and should be read in conjunction with the unaudited pro forma combined financial statements and related notes thereto included in this consent solicitation statement/prospectus. See Unaudited Pro Forma Financial Information beginning on page F-243.

	Nine Months Ended June 30, 2007	Fiscal Year Ended September 30, 2006
	(In thousands, except per share data)	
Pro Forma Combined Statement of Operations Data:		
Total revenue	$ 451,713	$ 511,224
Income (loss) from operations	21,744	(16,895)
Loss before income taxes	(15,962)	(70,925)
Net loss	$ (35,614)	$ (87,733)
Net loss per share:		
Basic and Diluted	$ (0.20)	$ (0.52)
Weighted average common shares outstanding:		
Basic and Diluted	179,623	169,710

	As of June 30, 2007
Pro Forma Combined Balance Sheet Data:	
Cash and cash equivalents	$ 178,990
Short term investments	7,846
Working capital	141,018
Total assets	1,876,747
Long-term liabilities	803,702
Total stockholders equity	840,467

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COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA

The following table reflects (i) the historical income (loss) from continuing operations and book value per share of Nuance common stock in comparison to the pro forma income (loss) from continuing operations and book value per share after giving effect to the proposed merger with VoiceSignal; and (ii) the historical income (loss) from continuing operations and book value per share of VoiceSignal common stock in comparison with the equivalent pro forma income (loss) from continuing operations and book value per share. The comparative historical and pro forma per share data should be read in conjunction with the unaudited pro forma combined financial statements and related notes thereto and the historical consolidated financial statements of Nuance and notes thereto, which can be found beginning on page F-4 of this consent solicitation statement/prospectus, and the historical consolidated financial statements of VoiceSignal, which information can be found beginning on page F-94 of this consent solicitation statement/prospectus. The pro forma combined financial data are not necessarily indicative of the operating results of future operations or the actual results that would have occurred had the merger been completed at the beginning of the period presented.

Nuance and VoiceSignal did not declare or pay cash dividends on their common stock during the fiscal years ended September 30, 2006 and December 31, 2006, respectively, or during the nine months and six months ended June 30, 2007, respectively. They do not intend to pay dividends on their common stock in the foreseeable future; however, VoiceSignal will convert any accrued dividends into shares of VoiceSignal capital stock prior to the closing of the merger. See Comparative Per Share Market Price Data.

	Nine Months Ended June 30, 2007	Fiscal Year Ended September 30, 2006
Nuance:		
Loss from continuing operations per share:		
Historical basic and diluted	$ (0.06)	$ (0.14)
Pro forma basic and diluted	$ (0.20)	$ (0.52)
Book value per share:		
Historical(1)	$ 4.07	
Pro forma(2)	$ 4.42	
VoiceSignal:		
Income (loss) from continuing operations per share:		
Historical basic for the fiscal year ended December 31, 2006		$ 0.32
Historical diluted for the fiscal year ended December 31, 2006		$ 0.06
Equivalent pro forma for the fiscal year ended September 30, 2006 basic and diluted(3)		$ (0.02)
Book value per share:		
Historical(1)	$ (1.12)	

Equivalent pro forma(3)	$	0.17

(1) The historical book value per share was calculated by dividing stockholders equity (deficit) by the number of shares of common stock outstanding at June 30, 2007.

(2) The pro forma combined book value per share was computed by dividing pro forma stockholders equity by the pro forma number of shares of Nuance common stock which would have been outstanding had the merger been completed as of the balance sheet date.

(3) The equivalent pro forma income (loss) are equal to the pro forma income (loss) per share for the fiscal year ended September 30, 2006 and nine months ended June 30, 2007, after giving effect to the proposed merger with VoiceSignal, multiplied by 0.0379, the number of shares of Nuance common stock to be issued in exchange for each share of VoiceSignal common stock.

MARKET PRICE DATA

Nuance common stock trades on the NASDAQ Global Select Market under the symbol NUAN. The following table sets forth, for each quarter of Nuance s fiscal year indicated, the high and low closing sales prices per Nuance common share, in each case as reported on the Nasdaq Global Select Market.

	High	Low
2005		
First Quarter	$ 4.44	$ 3.40
Second Quarter	$ 4.73	$ 3.57
Third Quarter	$ 4.53	$ 3.46
Fourth Quarter	$ 5.33	$ 3.90
2006		
First Quarter	$ 7.81	$ 4.88
Second Quarter	$ 11.81	$ 7.59
Third Quarter	$ 13.46	$ 7.59
Fourth Quarter	$ 10.35	$ 6.94
2007		
First Quarter	$ 11.95	$ 7.70
Second Quarter	$ 16.20	$ 11.11
Third Quarter	$ 18.47	$ 15.09
Fourth Quarter (through August 10, 2007)	$ 18.53	$ 15.89

Nuance has never declared or paid dividends on its common stock and does not have any current plans to pay any dividends in the future.

VoiceSignal s capital stock is not listed for trading on any exchange or automated quotation service. As of August 13, 2007, there were 41 holders of record of VoiceSignal capital stock. VoiceSignal has never declared or paid cash dividends on its capital stock and does not plan to pay any cash dividends prior to the merger but will convert any accrued dividends into shares of VoiceSignal capital stock prior to closing.

The table below shows the high and low sales prices per share of Nuance common stock as reported on the NASDAQ Global Select Market on (1) May 14, 2007, the last full trading day preceding public announcement that Nuance and VoiceSignal had entered into the merger agreement, and (2) August [_], 2007, the last trading day for which closing prices were available at the time of the printing of this consent solicitation statement/prospectus.

The table also includes the equivalent high and low prices per share of VoiceSignal common stock on those dates. This equivalent high and low price per share reflects the fluctuating value of the Nuance common stock that VoiceSignal stockholders would receive in exchange for each share of VoiceSignal capital stock if the merger was completed on either of these dates applying the exchange ratio of 0.0379 shares of Nuance common stock and $1.3106 of cash, without interest, for each share of VoiceSignal capital stock exchanged in the merger. The values in the table below assume a closing date of August 29, 2007, third-party expenses in the amount of $10,000,000 and the exercise of all outstanding vested options on a cash basis. As discussed in further detail in the section The Merger Agreement Merger Consideration, the stock consideration and cash consideration to be paid per share of VoiceSignal common stock at closing will depend on numerous variable factors, including the amount of third-party expenses, the actual closing date, the exercise of outstanding vested option prior to the merger and whether such exercises are on a net or cash basis.

	Nuance Common Stock		Equivalent Price per Share	
	High	**Low**	**High**	**Low**
May 14, 2007	$ 15.49	$ 15.23	$ 1.98	$ 1.97
August , 2007	$	$	$	$

The foregoing table shows only historical comparisons. These comparisons may not provide meaningful information to you in determining whether to adopt the merger agreement and approve the transactions contemplated thereby. Because the maximum number of shares of Nuance common stock to be issued in the merger is fixed, changes in the market price of Nuance common stock will affect the dollar value of Nuance common stock to be received by VoiceSignal stockholders pursuant to the merger. VoiceSignal stockholders are urged to obtain current market quotations for Nuance common stock and to review carefully the other information contained in this consent solicitation statement/prospectus or incorporated by reference into this consent solicitation statement/prospectus in considering whether to adopt the merger agreement and approve the transactions contemplated thereby. See the section entitled Where You Can Find More Information on page 145.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This consent solicitation statement/prospectus and the documents incorporated by reference into this consent solicitation statement/prospectus contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, as well as assumptions, that, if they never materialize or prove incorrect, could cause the results of Nuance and its consolidated subsidiaries, on the one hand, or VoiceSignal and its consolidated subsidiaries, on the other, to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements generally are identified by the words expects, anticipates, believes, intends, estimates, should, would, strategy, plan and similar expressions. All state than statements of historical fact are statements that could be deemed forward-looking statements. For example, forward-looking statements include projections of earnings, revenues, synergies, accretion or other financial items; any statements of the plans, strategies and objectives of management for future operations, including the execution of integration and restructuring plans and the anticipated timing of filings, approvals relating to, and the closing of, the merger; any statements concerning proposed new products, services, developments or industry rankings; any statements regarding future economic conditions or performance; statements of belief and any statement of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the difficulty of maintaining expense growth while increasing revenues; the challenges of integration and restructuring associated with the merger and the challenges of achieving the anticipated synergies; the possibility that the merger may not close or that Nuance or VoiceSignal may be required to modify some aspect of the acquisition in order to obtain regulatory approval; the challenge of maintaining revenues on a combined company basis following the merger; and other risks and uncertainties described in the section entitled Risk Factors beginning on page 15 of this consent solicitation statement/prospectus.

If any of these risks or uncertainties materializes or any of these assumptions proves incorrect, results of Nuance and VoiceSignal could differ materially from the expectations in these statements. The forward-looking statements included in this consent solicitation statement/prospectus are made only as of the date of this consent solicitation statement/prospectus, and neither Nuance nor VoiceSignal is under any obligation to update their respective forward-looking statements and neither party intends to do so.

RISK FACTORS

You should carefully consider the risks described below before making your decision to vote for adoption of the merger agreement and approval of the transactions contemplated thereby. The risks and uncertainties described below are not the only ones facing Nuance and VoiceSignal. 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 respective business operations. If any of the events, contingencies, circumstances or conditions described in the following risks actually occurs, our respective businesses, financial condition or our results of operations could be seriously harmed. If that happens, the trading price of Nuance common stock could decline and you may lose part or all of the value of any Nuance shares held by you.

Risks Related to the Merger

By voting to adopt the merger agreement and approve the transactions contemplated thereby, VoiceSignal stockholders will be choosing to invest in Nuance common stock. Nuance and VoiceSignal will operate as a combined company in a market environment that cannot be predicted and that involves significant risks, many of which will be beyond the control of the combined company. In addition to the other information contained in this consent solicitation statement/prospectus, you should carefully consider the risks described below before deciding how to vote your shares. Additional risks and uncertainties not presently known to Nuance and VoiceSignal or that are not currently believed to be important to you also may adversely affect the merger and Nuance and VoiceSignal as a combined company.

You should pay particular attention to the following risks relating to the merger.

The Nuance common stock to be received by VoiceSignal stockholders in the merger may fluctuate in value.

The market value of Nuance common stock is likely to change, both before and after the merger, and no one can accurately predict what the market value will be at any given time. Market prices of Nuance common stock may vary for many reasons, including changes in the business, operations or prospects of Nuance, market assessments of the likelihood that the merger will be completed, the timing of regulatory considerations and general market and economic conditions. Because the market price of Nuance common stock may fluctuate, the value of the Nuance common stock to be received by VoiceSignal stockholders will depend upon the market price of the shares at the time they are actually received following the closing of the merger. We urge you to obtain current market quotations for Nuance common stock.

Certain transaction-related expenses of VoiceSignal will reduce the total consideration to be received by VoiceSignal stockholders in the merger.

The total consideration to be received by VoiceSignal stockholders in the merger will be reduced by transaction-related expenses of VoiceSignal. For a description of how these expenses are calculated and how they affect the total consideration to be received by VoiceSignal stockholders in the merger, see the section entitled The Merger Agreement beginning on page 44 of this consent solicitation statement/prospectus and in detail in the merger agreement.

As a result of the escrow provisions and indemnification obligations contained in the merger agreement, the VoiceSignal stockholders may not receive the full consideration in the Merger.

Pursuant to the merger agreement, $30 million of the cash consideration will be deposited on behalf of VoiceSignal stockholders in escrow for a period of twelve months. The escrowed amount will be held by the escrow agent so that it is available to indemnify Nuance and other persons against losses arising out of: (i) any breach or inaccuracy of a representation or warranty of VoiceSignal contained in the merger agreement or in any certificate or other instruments delivered pursuant to the merger agreement, (ii) any failure by VoiceSignal to perform or comply with any covenant applicable to it contained in the merger agreement, (iii) any third party expenses in connection with the merger in excess of those upon which the parties agreed and (iv) any payments to dissenting stockholders. Any escrowed amount that, twelve months following the completion of the merger has not been used to indemnify Nuance or other persons entitled to indemnification and that is not the subject of an unresolved claim for indemnification by Nuance or any such other persons entitled to indemnification will be distributed to the VoiceSignal stockholders. There can be no assurance that VoiceSignal stockholders will receive any of the consideration that is deposited in the escrow account.

If the conditions to the merger are not satisfied or waived, the merger will not occur.

A number of conditions must be either satisfied or waived before the merger can be completed. Most of these conditions relate to actions that must be taken by VoiceSignal and certain of its employees and stockholders. A number of these conditions, including obtaining government approvals, are not within the control of VoiceSignal. A smaller number of conditions relate to actions that must be taken by Nuance. Neither Nuance nor VoiceSignal can assure you that each of the conditions will be satisfied or waived. If the conditions are not satisfied or waived, the merger will not occur. These conditions are described under the section entitled Conditions to Completion of the Merger in the Agreements Related to the Merger section of this consent solicitation statement/prospectus beginning on page 54 and in detail in the merger agreement.

If the merger is not completed, VoiceSignal will be subject to a number of risks.

If the merger is not completed, VoiceSignal will be subject to a number of risks, including: (i) the possible loss of key employees, management personnel and customers; (ii) the accrual of legal, accounting and other fees and costs incurred in connection with the merger in excess of the $1 million that Nuance has agreed to pay if the merger agreement is terminated under certain circumstances; and (iii) the risk of disruption of VoiceSignal s business. In addition, if the merger is not completed, VoiceSignal s business reputation and goodwill could be harmed.

Although Nuance and VoiceSignal expect that the merger will result in benefits to the combined company, the combined company may not realize those benefits because of integration and other challenges.

The failure of the combined company to meet the challenges involved in integrating the operations of Nuance and VoiceSignal successfully or otherwise to realize any of the anticipated benefits of the merger, could seriously harm the results of operations of the combined company. Realizing the benefits of the merger will depend in part on the integration of technology, operations, and personnel. The integration of the companies is a complex, time-consuming and expensive process that, without proper planning and implementation, could significantly disrupt the businesses of Nuance and VoiceSignal. The challenges involved in this integration include the following:

- consolidating and rationalizing corporate IT and administrative infrastructures;
- coordinating sales and marketing efforts to effectively communicate the capabilities of the combined company;
- coordinating and rationalizing research and development activities to enhance introduction of new products and technologies with reduced cost; and
- preserving important relationships of both Nuance and VoiceSignal and resolving potential conflicts that may arise.

The combined company may not successfully integrate the operations of Nuance and VoiceSignal in a timely manner, or at all. The combined company may not realize the anticipated benefits or synergies of the merger to the extent, or in the timeframe, anticipated. These anticipated benefits and synergies are based on projections and assumptions, not actual experience, and assume a successful integration.

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Some directors and officers of VoiceSignal have interests that could have affected their decision to support or approve the merger.

The interests of some VoiceSignal directors and executive officers in the merger and their participation in arrangements are different from, or are in addition to, those of VoiceSignal stockholders generally and could have affected their decision to support or approve the merger. As a result, these directors and officers may be more likely to recommend the proposals relating to the merger than if they did not have these interests. Please see the section entitled Interests of VoiceSignal Directors and Officers in the Merger under The Merger section of this consent solicitation statement/prospectus beginning on page 36.

Nuance and VoiceSignal expect to incur significant costs associated with the merger.

Each of Nuance and VoiceSignal will incur significant transaction costs in connection with the merger. Nuance and VoiceSignal have agreed that all third party expenses incurred by VoiceSignal, including any bonuses paid to VoiceSignal employees in connection with the merger in excess of $397,500, will either be deducted from the merger consideration or the escrow amount described above. Nuance and VoiceSignal believe the combined entity may incur charges to operations, which currently are not reasonably estimable, in the quarter in which the merger is completed or the following quarters, to reflect costs associated with integrating the two companies. There can be no assurance that the combined company will not incur additional material charges in subsequent quarters to reflect additional costs associated with the merger.

Charges to earnings resulting from the application of the purchase method of accounting may adversely affect the market value of Nuance common stock following the merger.

In accordance with United States generally accepted accounting principles, the combined company will account for the merger using the purchase method of accounting, which will result in charges to Nuance s earnings that could harm the market value of Nuance common stock following completion of the merger. Under the purchase method of accounting, the combined company will allocate the total estimated purchase price to VoiceSignal s net tangible assets, amortizable intangible assets, intangible assets with indefinite lives and in-process research and development based on their fair values as of the date of completion of the merger, and record the excess of the purchase price over those fair values as goodwill. The combined company will incur additional depreciation and amortization expense over the useful lives of certain of the net tangible and intangible assets acquired in connection with the merger. In addition, to the extent the value of goodwill or intangible assets with indefinite lives becomes impaired, the combined company may be required to incur material charges relating to the impairment of those assets. These depreciation, amortization, in-process research and development and potential impairment charges could have a material impact on the combined company s results of operations.

To be successful, the combined company must retain and motivate key employees. Any failure to do so could seriously harm the combined company.

To be successful, the combined company must retain and motivate key employees. The market for highly skilled employees is limited, and the loss of any of these key employees could have a significant impact on the combined company s operations. Employee retention may be a particularly challenging issue in connection with the merger. Accordingly, Nuance has developed and adopted retention programs designed to assure the continued dedication of these key employees and to provide them with financial incentives to remain with the combined company following the merger. A number of factors, however, may counteract the benefits of these retention programs. In particular, employees of VoiceSignal may experience uncertainty about their future role with the combined company until or after strategies with regard to the combined company are announced or executed. The combined company also must continue to motivate these employees and keep them focused on the strategies and goals of the combined company, which may be particularly difficult due to the potential distractions of the merger.

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Whether or not the merger is completed, the announcement and pendency of the proposed merger may cause disruptions in the business of VoiceSignal or disruptions in the business of Nuance, which could have material adverse effects on each company s or the combined company s business and operations.

Whether or not the merger is completed, Nuance s and VoiceSignal s customers, in response to the announcement and pendency of the merger, may delay or defer purchase decisions, which could have a material adverse effect on the business of each company or the combined company. The extent of this adverse effect could depend on the length of time prior to completion of the merger or termination of the merger agreement.

Failure to complete the merger could negatively impact Nuance s stock price, and the future business and operation of both Nuance and VoiceSignal.

If the merger is not completed for any reason, both VoiceSignal and Nuance may be subject to a number of material risks, including the following:

- Neither VoiceSignal nor Nuance would realize any anticipated benefits from being a part of a combined company;

- VoiceSignal may experience difficulties in attracting strategic customers and partners who were expecting to use the products proposed to be offered by the combined company;

- VoiceSignal must pay all or a portion of certain costs relating to the merger, such as legal, accounting, financial advisor and printing fees, even if the merger is not completed, which costs will be substantial; however, in the event that the merger agreement is terminated under certain circumstances more specifically set forth in the merger agreement, Nuance has agreed to pay up to $1 million of VoiceSignal s transaction-related expenses; and

- VoiceSignal may not be able to find another buyer willing to pay a price in an alternative transaction that is equivalent to, or higher than, the price that would be paid pursuant to the merger.

On July 12, 2007, Nuance and VoiceSignal received a request from the DOJ for additional information in connection with Nuance s pending acquisition of VoiceSignal. The DOJ request extends the waiting period under the HSR Act until 30 days after Nuance and VoiceSignal have substantially complied with the request, unless that period is extended voluntarily by the parties or terminated sooner by the DOJ.

While Nuance intends to promptly respond to the DOJ request and is working towards the intended close in its fourth fiscal quarter of 2007, there can be no assurance that the waiting period under the HSR Act will be permitted to expire. In addition, the DOJ may impose restrictions or conditions on the acquisition of VoiceSignal. While Nuance does not currently expect that any such restrictions or conditions will be imposed, there can be no assurance that they will not be, and such restrictions or conditions could have the effect of jeopardizing or delaying completion of the merger or reducing the anticipated benefits of the merger. If Nuance becomes subject to any material conditions in order to obtain any approvals required to complete the merger, the business and results of operations of the combined company may be adversely affected. Nuance may also elect to challenge and litigate conditions or changes proposed by governmental authorities. Any such litigation could be costly and divert management s attention from the business. There is also no assurance that Nuance would be successful in any such litigation.

Risks Related to Nuance

Nuance s operating results may fluctuate significantly from period to period, and this may cause its stock price to decline.

Nuance s revenue and operating results have fluctuated in the past and are expected to continue to fluctuate in the future. Given this fluctuation, Nuance believes that quarter to quarter comparisons of revenue and operating results are not necessarily meaningful or an accurate indicator of its future performance. As a result, Nuance s results of operations may not meet the expectations of securities analysts or investors in the

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future. If this occurs, the price of its stock would likely decline. Factors that contribute to fluctuations in operating results include the following:

- slowing sales by Nuance s distribution and fulfillment partners to their customers, which may place pressure on these partners to reduce purchases of its products;
- volume, timing and fulfillment of customer orders;
- Nuance s efforts to generate additional revenue from its portfolio of intellectual property;
- concentration of operations with one manufacturing partner and ability to control expenses related to the manufacture, packaging and shipping of its boxed software products;
- customers delaying their purchasing decisions in anticipation of new versions of its products;
- customers delaying, canceling or limiting their purchases as a result of the threat or results of terrorism;
- introduction of new products by Nuance or its competitors;
- seasonality in purchasing patterns of its customers;
- reduction in the prices of its products in response to competition or market conditions;
- returns and allowance charges in excess of accrued amounts;
- timing of significant marketing and sales promotions;
- impairment charges against goodwill and other intangible assets;
- 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 its customers.

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

Nuance has grown, and may continue to grow, through acquisitions, which could dilute its existing stockholders.

As part of its business strategy, Nuance has in the past acquired, and expects to continue to acquire, other businesses and technologies. In connection with past acquisitions, Nuance issued a substantial number of shares of its common stock as transaction consideration and also incurred significant debt to finance the cash consideration used for its acquisitions of Dictaphone Corporation, BlueStar Resources Limited (the parent company of Focus Enterprises Limited and Focus Infosys India Private Limited, collectively Focus) and BeVocal. Its pending acquisitions of

VoiceSignal and Tegic will require Nuance to issue a substantial number of shares of its common stock incur additional debt and expend a significant amount of cash. Nuance may continue to issue equity securities for future acquisitions, which would dilute existing stockholders, perhaps significantly depending on the terms of such acquisitions. Nuance may also incur additional debt in connection with future acquisitions, which, if available at all, may place additional restrictions on its ability to operate its business.

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Nuance s ability to realize the anticipated benefits of its acquisitions will depend on successfully integrating the acquired businesses.

Nuance s prior acquisitions required substantial integration and management efforts, and Nuance expects its pending and 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, including different and complex accounting and financial reporting systems;
- potential disruption of its 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 its finance, accounting and product distribution systems;
- difficulty in incorporating acquired technology and rights into its products and technology;
- unanticipated expenses and delays in completing acquired development projects and technology integration;
- management of geographically remote business units both in the United States and internationally;
- impairment of relationships with partners and customers;
- customers delaying purchases of its products pending resolution of product integration between its existing and its newly acquired products;
- entering markets or types of businesses in which Nuance has limited experience; and
- potential loss of key employees of the acquired company.

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

If the closing conditions to Nuance s pending acquisitions of VoiceSignal and Tegic are not satisfied or waived, one or both of the acquisitions may not occur.

A number of customary closing conditions must be either satisfied or waived before the pending acquisitions of VoiceSignal and Tegic, respectively, can be completed. These closing conditions include the absence of a material adverse change, receipt of required financial statements and the receipt of regulatory approval. With respect to the acquisition of VoiceSignal, the merger remains subject to review by the DOJ and a waiting period under the HSR Act before the transaction can be consummated. Nuance cannot assure you that each of the conditions will be satisfied or waived. If the conditions are not satisfied or waived, Nuance may not be able to complete one or both of these acquisitions, in which case it would not achieve the anticipated benefits associated with such acquisition.

Nuance needs additional capital to close its pending acquisitions of VoiceSignal and Tegic.

In conjunction with its pending acquisitions of VoiceSignal and Tegic, Nuance is obligated to pay cash consideration in the aggregate amount of approximately $470 million, plus fees and expenses. Of this amount, $205 million is due in conjunction with the VoiceSignal acquisition and $265 million is due in conjunction with the Tegic acquisition. The proceeds of Nuance s convertible debentures offering, together with cash on hand, will be utilized to satisfy the cash obligations to Tegic shareholders. Nuance is currently targeting closing of the VoiceSignal transaction on or prior to August 29, 2007. To satisfy the cash consideration due in the pending acquisition of VoiceSignal, Nuance previously received a commitment letter, which expires August 30, 2007, that relates to incremental term loans in the amount of $225 million that would be provided under its existing credit agreement upon the closing of the VoiceSignal transaction provided that the transaction closes on or prior to August 30, 2007. If Nuance is unable to finance and close the VoiceSignal

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transaction on or prior to August 30, 2007, then Nuance will need to raise additional capital either through the incurrence of indebtedness, the issuance of equity securities or a combination thereof on terms that may be less attractive than those provided in the commitment letter.

Purchase accounting treatment of Nuance s acquisitions could decrease Nuance s net income or expected revenue in the foreseeable future, which could have a material and adverse effect on the market value of Nuance s common stock.

Under accounting principles generally accepted in the United States of America, Nuance has accounted for its acquisitions using the purchase method of accounting. Under purchase accounting, Nuance records the market value of its common stock or other form of consideration issued in connection with the acquisition and the amount of direct transaction costs as the cost of acquiring the company or business. Nuance has 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. Intangible assets generally will be amortized over a five to ten year period. Goodwill and certain intangible assets with indefinite lives, are not subject to amortization but are subject to at least an annual impairment analysis, which may result in an impairment charge if the carrying value exceeds its implied fair value. As of June 30, 2007, Nuance had identified intangible assets amounting to approximately $259.8 million and goodwill of approximately $883.0 million. In addition, purchase accounting limits Nuance s ability to recognize certain revenue that otherwise would have been recognized by the acquired company as an independent business. Accordingly, due to the purchase method of accounting, the combined company may recognize less revenue than Nuance and the acquired company would have recognized as independent companies.

Nuance s significant debt could adversely affect its financial health and prevent it from fulfilling its obligations under its credit facility.

Nuance has a significant amount of debt. On April 5, 2007, Nuance entered into an amended and restated credit facility which consists of a $441.5 million term loan due March 2013 and a $75.0 million revolving credit line due March 2012. As of June 30, 2007, $440.3 million remained outstanding under the term loan. As of June 30, 2007, there were $17.3 million of letters of credit issued under the revolving credit line and there were no outstanding borrowings under the revolving credit line. Nuance also anticipates incurring $225 million in additional debt under the amended and restated credit facility to fund the cash portion of its pending acquisition of VoiceSignal. Furthermore, the sale of the convertible debentures will increase Nuance s outstanding debt by $220.0 million (or $250.0 million if the initial purchaser exercises its option to purchase additional convertible debentures solely to cover over-allotments, if any, in full). Nuance s debt level could have important consequences, for example it could:

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

Nuance s ability to meet its payment and other obligations under its debt instruments depends on its 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 its control. Nuance cannot assure you that its business will generate cash flow from operations, or that additional capital will be available to it, in an amount sufficient to enable it to meet its payment obligations under its debt and to fund other liquidity needs. If Nuance is not able to generate sufficient cash flow to service its debt obligations, Nuance may need to refinance or restructure its debt, sell assets, reduce or delay capital

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investments, or seek to raise additional capital. If Nuance is unable to implement one or more of these alternatives, Nuance may not be able to meet its payment obligations under the debentures and its other debt.

In addition, a substantial portion of Nuance s debt bears interest at variable rates. If market interest rates increase, Nuance s debt service requirements will increase, which would adversely affect its cash flows. While Nuance has entered into an interest rate swap agreement limiting its exposure for a portion of its debt, such agreement does not offer complete protection from this risk.

Nuance s debt agreements contain covenant restrictions that may limit Nuance s ability to operate its business.

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

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

Nuance s ability to comply with these covenants is dependent on its future performance, which will be subject to many factors, some of which are beyond its control, including prevailing economic conditions.

As a result of these covenants, Nuance s ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and Nuance may be prevented from engaging in transactions that might otherwise be beneficial to it. In addition, Nuance s failure to comply with these covenants could result in a default under its debt, which could permit the holders to accelerate such debt. If any of its debt is accelerated, Nuance may not have sufficient funds available to repay such debt.

Nuance has a history of operating losses, and may incur losses in the future, which may require it to raise additional capital on unfavorable terms.

Nuance reported net losses of approximately $10.6 million for the nine months ended June 30, 2007 and $22.9 million, $5.4 million and $9.4 million for fiscal years 2006, 2005 and 2004, respectively. Nuance had an accumulated deficit of approximately $200.7 million at June 30, 2007. If Nuance is unable to achieve and maintain profitability, the market price for its stock may decline, perhaps substantially. Nuance cannot assure you that its revenue will grow or that it will achieve or maintain profitability in the future. If Nuance does not achieve profitability, Nuance may be required to raise additional capital to maintain or grow its operations. The terms of any transaction to raise 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.

Speech technologies may not achieve widespread acceptance by businesses, which could limit Nuance s ability to grow its speech business.

Nuance has invested and expects to continue to invest heavily in the acquisition, development and marketing of speech technologies. The market for speech technologies is relatively new and rapidly evolving. Nuance s ability to increase revenue in the future depends in large measure on acceptance of speech technologies in general and Nuance s products in particular. The continued development of the market for Nuance s current and future speech solutions will also depend on:

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

Sales of Nuance s speech products would be harmed if the market for speech technologies does not continue to develop or develops more slowly than Nuance expects, and, consequently, its business could be harmed and Nuance may not recover the costs associated with its investment in its speech technologies.

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

There are a number of companies that develop or may develop products that compete in Nuance targeted markets. The individual markets in which Nuance competes are highly competitive, and are rapidly changing. Within speech, Nuance competes with AT&T, Fonix, IBM, Microsoft and Philips. Within healthcare dictation and transcription, Nuance competes with Philips Medical, Spheris and other smaller providers. Within imaging, Nuance competes directly with ABBYY, Adobe, I.R.I.S. and NewSoft. In speech, some of Nuance s partners such as Avaya, Cisco, Edify, Genesys and Nortel develop and market products that can be considered substitutes for Nuance s solutions. In addition, a number of smaller companies in both speech and imaging produce technologies or products that are in some markets competitive with Nuance s 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 Nuance s prospective customers.

The competition in these markets could adversely affect Nuance s operating results by reducing the volume of the products it licenses or the prices it can charge. Some of Nuance s current or potential competitors, such as Adobe, IBM and Microsoft, have significantly greater financial, technical and marketing resources than Nuance does. These competitors may be able to respond more rapidly than Nuance 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 Nuance does.

Some of Nuance s customers, such as IBM and Microsoft, have developed or acquired products or technologies that compete with Nuance s products and technologies. These customers may give higher priority to the sale of these competitive products or technologies. To the extent they do so, market acceptance and penetration of Nuance s products, and therefore its revenue, may be adversely affected.

Nuance s success will depend substantially upon its ability to enhance its 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 advancements. If Nuance is unable to develop new products and enhance functionalities or technologies to adapt to these changes, or if Nuance is unable to realize synergies among its acquired products and technologies, its business will suffer.

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

Nuance s management s assessment of the effectiveness of its internal control over financial reporting, as of September 30, 2005, identified a material weakness in its internal controls related to tax accounting, primarily as a result of a lack of necessary corporate accounting resources and ineffective execution of certain controls designed to prevent or detect actual or potential misstatements in the tax accounts. While Nuance has taken remediation measures to correct this material weakness, which measures are more fully described in Item 9A of Nuance s Annual Report on Form 10-K/A for its fiscal year ended September 30, 2006, Nuance cannot assure you that it will not have material weaknesses in its internal controls in the future. Any failure in the effectiveness of its system of internal control over financial reporting could have a material adverse impact on its ability to report its financial results in an accurate and timely manner.

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

Because Nuance operates worldwide, its business is subject to risks associated with doing business internationally. Nuance anticipates that revenue from international operations will increase upon the closing of the pending acquisitions of Tegic and VoiceSignal. Reported international revenue, classified by the major geographic areas in which Nuance s customers are located, represented approximately $92.8 million, 22% of its total revenue, for the nine months ended June 30, 2007 and approximately $100.2 million, $71.5 million and $39.4 million, representing 26%, 31% and 30% of its total revenue, respectively, for fiscal 2006, 2005 and 2004 respectively. Most of Nuance s international revenue is generated by sales in Europe and Asia. In addition, some of its products are developed and manufactured outside the United States. A significant portion of the development and manufacturing of its speech products are completed in Belgium, and a significant portion of its imaging research and development is conducted in Hungary. In connection with prior acquisitions Nuance has added research and development resources in Aachen, Germany, Montreal, Canada and Tel Aviv, Israel. Accordingly, its 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;
- geopolitical turmoil, including terrorism and war;
- trade protection measures and import or export licensing requirements imposed by the United States or by other countries;
- compliance with foreign and domestic laws and regulations;
- 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.

Nuance is exposed to fluctuations in foreign currency exchange rates.

Because Nuance has international subsidiaries and distributors that operate and sell its products outside the United States, Nuance is exposed to the risk of changes in foreign currency exchange rates or declining economic conditions in these countries. In certain circumstances, Nuance has entered into forward exchange contracts to hedge against foreign currency fluctuations on intercompany balances with its foreign subsidiaries. Nuance uses these contracts to reduce its 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. Nuance does not engage in foreign currency speculation. Hedges are designated and documented at the inception of the hedge and are evaluated for effectiveness monthly. Forward exchange contracts hedging firm commitments qualify for hedge accounting when they are designated as a hedge of the foreign currency exposure and they are effective in minimizing such exposure. With Nuance s increased international presence in a number of geographic locations and with international revenue projected to increase upon the closing of the pending acquisitions of Tegic and VoiceSignal, Nuance is exposed to changes in foreign currencies including the Euro, British Pound, Canadian Dollar, Japanese Yen, Israeli New Shekel, Indian Rupee and the Hungarian Forint. Changes in the value of the Euro or other foreign currencies relative to the value of the U.S. dollar could adversely affect future revenue and operating results.

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

Nuance has 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 patents and core technology, completed technology, customer relationships and trademarks. Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefit of customer relationships are being utilized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives. Nuance assesses the potential impairment of identifiable intangible assets 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 Nuance s overall business;
- significant negative industry or economic trends;
- significant decline in Nuance s stock price for a sustained period; and
- a decline in Nuance s market capitalization below net book value.

Future adverse changes in these or other unforeseeable factors could result in an impairment charge that would impact Nuance s results of operations and financial position in the reporting period identified. As of June 30, 2007, Nuance had identified intangible assets amounting to approximately $259.8 million and goodwill of approximately $883.0 million.

Nuance depends on limited or sole source suppliers for critical components of its healthcare-related products. The inability to obtain sufficient components as required, and under favorable purchase terms, could harm its business.

Nuance is dependent on certain suppliers, including limited and sole source suppliers, to provide key components used in its healthcare-related products. Nuance has experienced, and may continue to experience, delays in component deliveries, which in turn could cause delays in product shipments and require the redesign of certain products. In addition, if Nuance is unable to procure necessary components under favorable purchase terms, including at favorable prices and with the order lead-times needed for the efficient and profitable operation of its business, its results of operations could suffer.

If Nuance is unable to attract and retain key personnel, its business could be harmed.

If any of its key employees were to leave, Nuance could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience. Nuance s employment relationships are generally at-will and Nuance has had key employees leave in the past. Nuance cannot assure you that one or more key employees will not leave in the future. Nuance intends 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 its business.

Nuance s medical transcription services may be subject to legal claims for failure to comply with laws governing the confidentiality of medical records.

Healthcare professionals who use Nuance s medical transcription services deliver to Nuance health information about their patients including information that constitutes a record under applicable law that Nuance may store on its computer systems. Numerous federal and state laws and regulations, the common law and contractual obligations govern collection, dissemination, use and confidentiality of patient-identifiable health information, including:

- state and federal privacy and confidentiality laws;
- Nuance s contracts with customers and partners;
- state laws regulating healthcare professionals;
- Medicaid laws; and
- the Health Insurance Portability and Accountability Act of 1996 and related rules proposed by the Health Care Financing Administration.

The Health Insurance Portability and Accountability Act of 1996 establishes elements including, but not limited to, federal privacy and security standards for the use and protection of protected health information.

Any failure by Nuance or by its personnel or partners to comply with applicable requirements may result in a material liability to Nuance.

Although Nuance systems and policies in place for safeguarding protected health information from unauthorized disclosure, these systems and policies may not preclude claims against Nuance for alleged violations of applicable requirements. There can be no assurance that Nuance will not be subject to liability claims that could have a material adverse affect on its business, results of operations and financial condition.

Risks Related to Nuance Intellectual Property and Technology

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

Nuance s success and competitive position depend in large part on its ability to obtain and maintain intellectual property rights protecting its products and services Nuance relies on a combination of patents, copyrights, trademarks, service marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect its intellectual property and proprietary rights. Unauthorized parties may attempt to copy aspects of Nuance s products or to obtain, license, sell or otherwise use information that Nuance regards as proprietary. Policing unauthorized use of Nuance s products is difficult and Nuance may not be able to protect its technology from unauthorized use. Additionally, Nuance s competitors may independently develop technologies that are substantially the same or superior to its technologies and that do not infringe its rights. In these cases, Nuance would be unable to prevent its competitors from selling or licensing these similar or superior technologies. In addition, the laws of some foreign countries do not protect Nuance s proprietary rights to the same extent as the laws of the United States. Although the source code for its proprietary software is protected both as a trade secret and as a copyrighted work, litigation may be necessary to enforce Nuance intellectual property rights, to protect its 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 Nuance is infringing their intellectual property, and Nuance could be exposed to significant litigation or licensing expenses or be prevented from selling its products if such claims are successful.

From time to time, Nuance is subject to claims that it or its customers may be infringing or contributing to the infringement of the intellectual property rights of others. Nuance may be unaware of intellectual property rights of others that may cover some of its technologies and products. If it appears necessary or desirable, Nuance may seek licenses for these intellectual property rights. However, Nuance may not be able to obtain licenses from some or all claimants, the terms of any offered licenses may not be acceptable to Nuance, and Nuance 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 Nuance s management and key personnel from its business operations. In the event of a claim of intellectual property

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infringement, Nuance may be required to enter into costly royalty or license agreements. Third parties claiming intellectual property infringement may be able to obtain injunctive or other equitable relief that could effectively block Nuances ability to develop and sell its products.

On May 31, 2006, GTX Corporation filed an action against Nuance in the United States District Court for the Eastern District of Texas claiming patent infringement. Damages were sought in an unspecified amount. In the lawsuit, GTX Corporation alleged that Nuance is infringing United States Patent No. 7,016,536 entitled Method and Apparatus for Automatic Cleaning and Enhancing of Scanned Documents. Nuance believes these claims have no merit and intends to defend the action vigorously.

On November 27, 2002, AllVoice Computing plc filed an action against Nuance in the United States District Court for the Southern District of Texas claiming patent infringement. In the lawsuit, AllVoice Computing plc alleges that Nuance is infringing United States Patent No. 5,799,273 entitled Automated Proofreading Using Interface Linking Recognized Words to their Audio Data While Text is Being Changed. Such patent generally discloses techniques for manipulating audio data associated with text generated by a speech recognition engine. Although Nuance has several products in the speech recognition technology field, Nuance believes that its products do not infringe AllVoice Computing plc s patent because, in addition to other defenses, Nuance does not use the claimed techniques. Damages are sought in an unspecified amount. Nuance filed an Answer on December 23, 2002. The United States District Court for the Southern District of Texas entered summary judgment against AllVoice Computing plc and dismissed all claims against Nuance on February 21, 2006. AllVoice Computing plc filed a notice of appeal from this judgment on April 26, 2006. Nuance believes these claims have no merit and intends to defend the action vigorously.

Nuance believes that the final outcome of the current litigation matters described above will not have a significant adverse effect on its financial position and results of operations. However, even if Nuance s defense is successful, the litigation could require significant management time and could be costly. Should Nuance not prevail in these litigation matters, Nuance may be unable to sell and/or license certain of its technologies that it considers to be proprietary, and Nuance s operating results, financial position and cash flows could be adversely impacted.

Nuance s software products may have bugs, which could result in delayed or lost revenue, expensive correction, liability to its customers and claims against it.

Complex software products such as Nuance s may contain errors, defects or bugs. Defects in the solutions or products that Nuance develops and sells to its customers could require expensive corrections and result in delayed or lost revenue, adverse customer reaction and negative publicity about Nuance or its products and services. Customers who are not satisfied with any of Nuance s products may also bring claims against Nuance 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 Nuance s reputation, financial results and competitive position.

Risks Related to Nuance s Corporate Structure, Organization and Common Stock

The holdings of Nuance s two largest stockholders may enable them to influence matters requiring stockholder approval.

On March 19, 2004, Warburg Pincus, a global private equity firm agreed to purchase all outstanding shares of Nuance s stock held by Xerox Corporation for approximately $80 million. Additionally, on May 9, 2005 and September 15, 2005 Nuance sold shares of common stock, and warrants to purchase common stock to Warburg Pincus for aggregate gross proceeds of approximately $75.1 million. As of June 30, 2007, Warburg Pincus beneficially owned approximately 22% of Nuance outstanding common stock, including warrants exercisable for up to 7,066,538 shares of Nuance s common stock and 3,562,238 shares of Nuance s outstanding Series B Preferred Stock, each of which is convertible into one share of Nuance s common stock. Fidelity is Nuance s second largest stockholder, owning 16,146,721 shares of Nuance common stock, representing approximately 9% of Nuance s outstanding common stock. Because of their large holdings of

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Nuance s capital stock relative to other stockholders, each of these two stockholders acting individually, or together, have a strong influence over matters requiring approval by Nuance s stockholders.

The market price of Nuance s common stock has been and may continue to be subject to wide fluctuations.

Nuance s stock price historically has been, and may continue to be, volatile. Various factors contribute to the volatility of the stock price, including, for example, quarterly variations in its financial results, new product introductions by Nuance or its competitors and general economic and market conditions. Sales of a substantial number of shares of Nuance s common stock by its two largest stockholders, or the perception that such sales could occur, could also contribute to the volatility or its stock price. While Nuance cannot predict the individual effect that these factors may have on the market price of its common stock, these factors, either individually or in the aggregate, could result in significant volatility in its 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 Nuance were the subject of such litigation, it could result in substantial costs and divert management s attention and resources.

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, new regulations promulgated by the Securities and Exchange Commission and the rules of the NASDAQ Global Select Market, are resulting in increased general and administrative expenses for companies such as Nuance. 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. Nuance is committed to maintaining high standards of corporate governance and public disclosure. As a result, Nuance intends 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 Nuance s efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies, its business may be harmed.

Nuance has implemented anti-takeover provisions, which could discourage or prevent a takeover, even if an acquisition would be beneficial to its stockholders.

Provisions of Nuance s certificate of incorporation, bylaws and Delaware law, as well as other organizational documents could make it more difficult for a third party to acquire Nuance, even if doing so would be beneficial to Nuance s 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 Nuance s stockholders; and
- establishing advance notice requirements for nominations of directors and for stockholder proposals.

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THE VOICESIGNAL ACTION BY WRITTEN CONSENT OF STOCKHOLDERS

VoiceSignal s board of directors is using this consent solicitation statement/prospectus to solicit an action by written consent from the stockholders of VoiceSignal. This consent solicitation statement/prospectus and accompanying action by written consent are first being mailed to VoiceSignal stockholders on or about August , 2007.

Matters to be Acted on by Written Consent

Purpose of the Written Consent. The purpose of the written consent is for VoiceSignal stockholders to vote on the adoption of the merger agreement and approval of the transactions contemplated thereby.

Recommended Action. The VoiceSignal board of directors has unanimously approved the merger agreement, the merger and the related transactions and has determined that the merger agreement, the merger and the related transactions are fair to, and in the best interests of, VoiceSignal and its stockholders. Accordingly, the VoiceSignal board of directors unanimously recommends to the VoiceSignal stockholders that they vote FOR the adoption of the merger agreement and approval of the transactions contemplated thereby, including the appointment of Stata Venture Partners, LLC, as stockholder representative.

Outstanding Shares on August 13, 2007. As of August 13, 2007, there were 17,628,057 shares of VoiceSignal common stock and 80,084,844 shares of VoiceSignal preferred stock outstanding, for an aggregate of 105,380,961 of shares of VoiceSignal capital stock on an as-converted-to-common stock basis, and there were approximately 41 holders of record.

Shares Entitled to Vote. Only holders of record of VoiceSignal shares are entitled to receive and vote on the action by written consent. You will be entitled to one vote for each share of VoiceSignal stock you own on an as-converted-to-common stock basis.

Vote Requirement. Approval of the adoption of the merger agreement requires the effective vote of (i) a majority of the outstanding shares of VoiceSignal common stock and VoiceSignal preferred stock, voting together as a single class with each share of VoiceSignal common stock entitled to cast one vote and each share of VoiceSignal preferred stock entitled to cast a number of votes equal to the number of shares of VoiceSignal common stock into which such share of VoiceSignal preferred stock is convertible and (ii) a majority of the outstanding shares of VoiceSignal Series C preferred stock and Series D preferred stock, voting together as a single class on an as-converted-to-common stock basis.

Failure to return a signed written consent to VoiceSignal will have the same effect as a vote AGAINST the matters submitted for approval to the VoiceSignal stockholders.

Revocability Of Action By Written Consent. The stockholder actions on which you are being asked to act by written consent will be effective at the time when written consents sufficient to approve the required corporate action have been filed with the corporate secretary of VoiceSignal. You may revoke your written consent at any time prior to the effective time of the stockholder action by delivering to the corporate secretary of VoiceSignal at the address set forth below a signed written revocation or a later-dated, signed written consent.

All written notices of revocation and other communications with respect to revocation of written consents should be addressed Voice Signal Technologies, Inc., Attn: Corporate Secretary, 150 Presidential Way, Woburn, MA 01801.

Shares Beneficially Owned by VoiceSignal Directors and Executive Officers as of August 13, 2007. As of August 13, 2007, directors and executive officers of VoiceSignal and their affiliates beneficially owned, and were entitled to vote, 92,146,389 shares of VoiceSignal common stock, on an as-converted-to-common stock basis, or approximately 87% of the total outstanding VoiceSignal common stock and approximately 91% of the Voice Signal Series C preferred stock and Series D preferred stock voting together as a single class on an-as-converted-to-common stock basis.

You should also be aware that as of close of business on May 31, 2007, ten of VoiceSignal s directors, executive officers and stockholders affiliated with certain VoiceSignal directors have already agreed to vote an

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aggregate of approximately 13,900,000 shares of VoiceSignal common stock, 1,000,000 shares of VoiceSignal Series A preferred stock, 6,094,718 shares of VoiceSignal Series C preferred stock and 49,614,300 shares of VoiceSignal Series D preferred stock for an aggregate total of 77,930,422 shares of VoiceSignal capital stock on an as-converted-to-common stock basis, in favor of adoption of the merger agreement and approval of the transactions contemplated thereby. These shares represent approximately 74% of the VoiceSignal capital stock outstanding, on an as-converted-to-common stock basis and approximately 78% of the outstanding Series C preferred stock and Series D preferred stock, voting together as a single class on an as-converted-to-common stock basis, as of May 31, 2007. See the section entitled VoiceSignal Voting Agreements in this consent solicitation statement/prospectus.

Do not send in any stock certificates with your action by written consent. The exchange agent for the merger will mail transmittal forms with instructions for the surrender of stock certificates representing VoiceSignal shares to former VoiceSignal stockholders as soon as practicable prior to the completion of the merger.

THE MERGER

The following is a description of the material aspects of the proposed merger and related transactions. The following description may not contain all of the information that is important to you. You should read this entire consent solicitation statement/prospectus, including the section entitled Agreements Related to the Merger, and the other documents we refer to carefully for a more complete understanding of the merger and the related transactions.

Background of the Merger

Both Nuance and VoiceSignal regularly evaluate strategic opportunities, including potential mergers with other companies, acquisitions of other companies or assets, and licensing, marketing and development alliances.

From time to time since 2003, VoiceSignal and Nuance have engaged in preliminary discussions regarding a possible business combination. Since February 2004, VoiceSignal and Nuance have been engaged in litigation regarding various patent and trade secret disputes.

In April 2006, Nuance approached VoiceSignal about a possible merger. The VoiceSignal board of directors subsequently decided it was appropriate to engage a financial advisor to assist with evaluation of the Nuance offer and other unsolicited offers being received. In August 2006, VoiceSignal engaged Goldman, Sachs & Co., a financial advisor, to evaluate strategic opportunities and to assist VoiceSignal with the possible sale of all or a portion of VoiceSignal or the undertaking of an initial public offering of its common stock.

On June 13, 2006, Nuance and VoiceSignal entered into a Mutual Non-Disclosure and FRE 408 Agreement in order to facilitate preliminary discussions regarding a potential strategic transaction.

From time to time between September 2006 and March 2007, representatives of Nuance and VoiceSignal engaged in preliminary discussions regarding a potential strategic transaction between the companies. Prior to March 2007, the VoiceSignal board of directors did not view the proposed merger consideration as beneficial to the VoiceSignal stockholders or adequately representative of the value of VoiceSignal.

On November 2, 2006, Nuance and VoiceSignal entered into a new Mutual Non-Disclosure and FRE 408 Agreement in order to facilitate additional preliminary discussions regarding a potential strategic transaction.

During March 2007, representatives of Nuance s management team and representatives of Lehman Brothers, Nuance s financial advisor, met several times to discuss financial analyses regarding a potential acquisition of VoiceSignal. On March 23, 2007, Nuance contacted VoiceSignal and delivered a formal, non-binding, offer to Richard Geruson, Chief Executive Officer and a member of the board of directors of VoiceSignal, offering to purchase VoiceSignal for $290 million and presented a term sheet and draft merger agreement outlining the proposed transaction.

On March 26, 2007, the VoiceSignal board of directors discussed via conference call the term sheet that had been received from Nuance and the conditions for the proposed acquisition. The board of directors consulted with outside legal counsel, and requested their counsel to review the term sheet and proposed merger agreement.

On March 27, 2007, the VoiceSignal board of directors met telephonically to discuss the high-level issues identified by its legal counsel. Representatives from Goldman, Sachs also telephonically attended the meeting of the board of directors. The board of directors discussed several aspects of the proposed merger with Goldman, Sachs and legal counsel. The board of directors then reviewed the proposed transaction without the outside advisors. After the meeting, the board of directors directed management to engage in negotiations with Nuance to attempt to resolve any outstanding issues and attempt to reach a definitive merger agreement with Nuance.

On March 28, 2007, Paul Ricci, Nuance s Chairman and Chief Executive Officer, and Richard Palmer, Nuance s Senior Vice President of Corporate Development, met telephonically with representatives of

Goldman, Sachs, VoiceSignal s financial advisor, to discuss the terms of the proposed transaction and the process the companies would follow to complete the transaction.

Between March 28, 2007 and April 4, 2007, representatives of Nuance, Lehman Brothers, Goldman, Sachs and legal advisors to VoiceSignal and Nuance met telephonically several times to negotiate the major economic terms of the transaction and the terms under which VoiceSignal would agree to enter into an exclusive negotiating period.

On April 4, 2007, VoiceSignal and Nuance entered into an exclusivity agreement. Pursuant to the terms of the agreement, Nuance was not allowed to perform diligence of VoiceSignal until a non-disclosure agreement among the parties had been executed and a mutually satisfactory form of the merger agreement had been reached.

On April 16 and 17, 2007, Mr. Ricci, Lee Barbieri, a member of VoiceSignal s board of directors, Mr. Geruson, and their respective financial and legal advisors met telephonically to negotiate certain open points of the merger agreement.

On April 19, 2007, the VoiceSignal board of directors met telephonically to review the status of the negotiations with Nuance. Mr. Geruson reviewed the timetable for reaching a transaction with Nuance and updated the board of directors on the diligence process to be completed prior to the execution of a merger agreement. Mr. Geruson and the VoiceSignal board of directors considered the total purchase price, the mix of proposed merger consideration, the treatment of vested and unvested stock options at closing and the size of the proposed escrow to cover indemnification claims.

On April 30, 2007, the parties agreed to an updated Non-Disclosure and FRE 408 Agreement. The agreement set forth the process and procedures for the receipt of the diligence information by Nuance and its advisors.

On May 2, 2007, the Nuance board of directors held a regular meeting via conference call, at which it considered the possible acquisition of VoiceSignal. Among other matters, the directors discussed: (1) the strategic benefits of the transaction; (2) financial analyses and other information with respect to the companies presented by Lehman Brothers; (3) the financing alternatives available to Nuance in order to consummate the transaction; and (4) the impact of the transaction on Nuance and its stockholders.

On May 4, 2007, pursuant to the terms of the exclusivity agreement between the parties, VoiceSignal, through its legal advisor, notified Nuance that VoiceSignal had received an acquisition inquiry, offer or proposal from a third party.

On May 5, 2007, Nuance and VoiceSignal agreed on the form of a merger agreement. Pursuant to the terms of the non-disclosure agreement, Nuance s legal counsel and financial advisors began the review of VoiceSignal s diligence material in the offices of VoiceSignal s legal counsel. From May 6, 2007 through May 11, 2007, these advisors continued their diligence review of VoiceSignal.

On May 10, 2007, representatives of VoiceSignal and Goldman, Sachs met telephonically with Mr. Ricci and representatives of Lehman Brothers to discuss an overview of Nuance s business.

On May 12, 2007, VoiceSignal, through its legal advisor, notified Nuance that VoiceSignal had received another acquisition inquiry, offer or proposal from a third party.

On May 12, 2007, the VoiceSignal board of directors met telephonically to review the status of the proposed merger. Mr. Geruson informed the board of directors that a merger agreement had been negotiated with respect to the potential transaction and that Nuance s diligence review had been completed. Mr. Geruson requested that VoiceSignal s outside legal counsel update the board of directors with the terms of the merger agreement and review any changes that had occurred during the negotiations. The board of directors also considered the letter agreement between VoiceSignal and certain executive officers with respect to transaction bonuses payable upon closing of the merger and the acceleration of the option awards to certain founders upon the closing of the merger. The VoiceSignal board of directors then unanimously approved the transactions

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contemplated by the merger agreement and the appointment of Stata Venture Partners, LLC as the stockholder representative.

On May 12, 2007, the Nuance board of directors held a special meeting, at which it reviewed the terms and status of the negotiations. The board requested additional information from management and then agreed to reconvene the following day.

On the evening of May 12, 2007, Mr. Ricci, Steve Chambers, President of Nuance s Speech Division, Helgi Bloom, Director of Corporate Development for Nuance, Messrs. Barbieri and Geruson, and Damon Pender, VoiceSignal s Vice President of Finance, held a conference call to discuss certain aspects of VoiceSignal s business.

On May 13, 2007, the Nuance board of directors held a special meeting, at which management and representatives of Lehman Brothers and Nuance s accounting consultants and legal advisors discussed the findings of Nuance s diligence of VoiceSignal, the strategic benefits of the acquisition and reported on the final terms of the merger agreement and related agreements. Representatives of Lehman Brothers reviewed financial analyses with respect to the proposed acquisition. After consideration of these presentations, the Nuance board of directors unanimously approved the acquisition and merger agreement.

On May 14, 2007, Nuance, VoiceSignal and Vicksburg Acquisition Corporation entered into the merger agreement.

On May 14, 2007, certain executive officers, directors and related stockholder affiliates holding approximately 74% of the capital stock of VoiceSignal on an as-converted-to-common stock basis and approximately 78% of the Series C preferred stock and Series D preferred stock, voting together as a single class on an as-converted-to-common stock basis entered into voting agreements with Nuance pursuant to which they have agreed to vote in favor of the merger upon presentation to the VoiceSignal stockholders.

Consideration of the Merger by Nuance

The Nuance board of directors considered a number of alternatives for enhancing its competitive position in the speech technology markets and increasing stockholder value. The Nuance board of directors believes that the proposed merger is in the best interest of Nuance and its stockholders. The Nuance board of directors unanimously approved the merger agreement and the merger. This decision was based on a number of factors, including the potential benefits that the Nuance board of directors believes will contribute to the future success of the combined company. These benefits include:

- the ability to better serve the customer base of each company with a comprehensive portfolio of technologies, applications and expertise that will enable customers to effectively deploy innovative speech-solutions;

- the ability of the combined company to bring together an array of technical resources, including scientists and engineers and an expanded intellectual property portfolio;

- the complementary nature of the technologies of the combined company;

- the ability to leverage a unified sales infrastructure to expand sales coverage and create improved opportunities for selling the products of the combined company;

- the ability to leverage combined technical assets and expertise to focus on technology specific to specific verticals, increased ability to develop applications more efficiently and optimization of technology to improve performance;

the ability of the combined company to employ the skills and resources of both companies management teams; and

the transaction is expected to achieve synergies from the combined research and development, marketing, sales and administrative areas of the company following the merger.

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The Nuance board of directors evaluated all of the potential benefits described above in light of their knowledge of VoiceSignal s business, financial condition and prospects, Nuance s business, financial condition and prospects, and the market for speech technology solutions. The Nuance board of directors also identified and considered potentially negative factors that could result from the merger, including the risks posed by the necessary integration of the businesses and operations of the two companies and the risk that the combined company will not be able to fully realize potential synergies and cost saving opportunities. In addition, the Nuance board of directors considered a number of other factors in evaluating the proposed merger, including presentations given by Nuance s management. In view of the variety of factors considered by the Nuance board of directors in its evaluation of the merger, the Nuance board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weight to the specific factors considered in reaching its decision. In addition, individual members of the Nuance board of directors may have given different weight to different factors. While the list of potential benefits described in this section as having been considered by the Nuance board of directors is not intended to be the complete list of all of the potential benefits considered, it is believed to include the potential benefits considered by the Nuance board of directors to be material.

The Nuance board of directors believes that the merger is advisable, and is fair to and in the best interests of Nuance and its stockholders.

Consideration of the Merger by VoiceSignal

VoiceSignal has been in operation since 1995, and has historically raised capital through private financings. The VoiceSignal board of directors considered a number of alternatives for enhancing its competitive position in the speech technology market and increasing stockholder value. Prior to March 2007, the board of directors considered several acquisitions of companies to grow the company and increase the value of the company for stockholders. The VoiceSignal board of directors also considered raising capital and increasing stockholder liquidity through an initial public offering of its common stock.

The VoiceSignal board of directors believes that the proposed merger is in the best interests of VoiceSignal and its stockholders. The VoiceSignal board of directors unanimously approved the proposed merger and related merger agreement. This decision was based on a number of factors, including:

- the total merger consideration of approximately $300 million, to be comprised of $210 million in cash and $90 million in shares of Nuance common stock;
- the opportunity for VoiceSignal s stockholders to gain liquidity and participate in the future performance of a larger provider of speech and imaging solutions;
- the relative financial conditions, results of operations and prospects of VoiceSignal and Nuance;
- the board of director s belief that the merger would allow VoiceSignal and Nuance to achieve synergies in the form of cost savings and other efficiencies;
- the general market conditions and changes in the outlook for the industries in which Nuance s and VoiceSignal s businesses operate;
- the requested escrow amount for Nuance indemnification claims of $30 million for a period of twelve months subsequent to the closing of the merger;

the treatment of VoiceSignal outstanding stock options, which includes: the assumption of unvested options by Nuance and the opportunity for holders of vested options to net exercise their vested options in order to pay the applicable total exercise price and receive their pro rate share of the merger consideration; and

the ability for the parties to close the merger after signing the merger agreement.

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In reaching its decision to approve and adopt the merger agreement and the transactions contemplated thereby, the VoiceSignal board of directors also identified and considered a number of potentially negative factors that could result from the merger, including the following:

- the risks that the integration of the businesses, products and personnel of the two companies will not be successfully implemented and may require a significant amount of management time and resources;
- the risk that the potential synergies and cost-saving opportunities identified by Nuance and VoiceSignal will not be fully realized or not fully realized in the time frame anticipated;
- in the event that the transaction is not consummated, the possible negative effects of the announcement of the merger on VoiceSignal s relationships with customers and suppliers, employee morale and potential loss of key employees, and the impact on our sales, operating results and stock price, and the negative impact that the transaction costs incurred in connection with the proposed merger would have on Voice Signal s cash reserves and operating results;
- because VoiceSignal stockholders will receive shares of Nuance common stock as part of the merger consideration, the price volatility of Nuance s common stock which may reduce the market price of the Nuance common stock that VoiceSignal stockholders will receive upon the closing of the merger;
- the restrictions that the merger agreement imposes on actively soliciting competing bids;
- the limitations that the merger agreement imposes on VoiceSignal s ability to operate its business until the transaction closes or is terminated;
- the risk of diverting management s attention from other strategic priorities to implement merger integration efforts; and
- the other risks described in this consent solicitation statement/prospectus in the section entitled Risk Factors.

The VoiceSignal board of directors evaluated all of the factors described above in light of its knowledge of VoiceSignal s business, financial condition and prospects, Nuance s business, financial condition and prospects, and the market opportunities for speech technology solutions. In view of the variety of factors considered by the VoiceSignal board of directors in its evaluation of the merger, the VoiceSignal board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weight to the specific factors considered in reaching its decision. In addition, individual members of the VoiceSignal board of directors may have given different weight to different factors. The list of factors described in this section as having been considered by the VoiceSignal board of directors is not intended to be the complete list of all factors considered but is believed to include all of the factors considered by the VoiceSignal board of directors to be material.

After considering all of the information and factors described in this section, the VoiceSignal board of directors unanimously approved the merger, the merger agreement and the other transactions contemplated by the merger agreement. The VoiceSignal board of directors believes that the merger agreement and the merger are fair to, advisable and in the best interests of VoiceSignal and its stockholders. The VoiceSignal board of directors has unanimously recommended that the VoiceSignal stockholders vote FOR the adoption of the merger agreement and approval of the transactions contemplated thereby.

Interests of VoiceSignal Directors and Officers in the Merger

When VoiceSignal stockholders consider the recommendation of the board of directors of VoiceSignal with respect to the merger, they should be aware that some of the officers and directors of VoiceSignal have interests in connection with the merger, that are different from, or in addition to, the interests of their stockholders, as summarized below. In making their decision to recommend the merger, the board of directors of VoiceSignal was aware of these interests and considered them among the other matters described above under the section entitled The Merger Consideration of the Merger by VoiceSignal on page 35.

The table below sets forth the interests of the directors and officers of VoiceSignal in VoiceSignal s capital stock as of August 13, 2007.

Name	Aggregate Shares of Voice Signal Common Stock*	Aggregate Shares Subject to Options Outstanding	Aggregate Shares Subject to Unvested Options	Weighted Average Exercise Price of Outstanding Options	Relationship to VoiceSignal
Lee Barbieri(1)	37,513,664			n/a	Director
Thomas DiBenedetto(2)	12,647,281			n/a	Director
Frank Boyer		275,000	137,500	$ 0.09	Director
Richard Geruson		8,316,114	519,757	$ 0.09	Director, Chief Executive Officer
Jason Martin(3)	23,018,936			n/a	Director
Daniel L. Roth	7,090,133	2,019,103	43,750	$ 0.09	Director, President
Victor Zue		90,000		$ 0.45	Director
Thomas Lazay	7,090,133	639,701		$ 0.09	Vice President of Product Management
Damon Pender	50,000	104,920	32,812	$ 0.26	Vice President of Finance

* Includes shares of preferred stock on an as-converted-to-common stock basis.

(1) Shares beneficially owned consists of the 37,513,664 shares held by Stata Venture Partners, LLC.

(2) Shares beneficially owned includes 3,189,815 held in various trusts for the benefit of family members of Mr. DiBenedetto.

(3) Shares beneficially owned consists of 23,018,936 shares held by Argonaut Holdings LLC.

Accelerated Vesting of Stock Options. All outstanding vested stock options will terminate following the completion of the merger if not exercised before such time. Certain outstanding stock options held by directors and officers of VoiceSignal are subject to acceleration benefits in connection with the merger. The table above identifies, for each VoiceSignal director and officer, as of August 13, 2007, the aggregate number of shares subject to outstanding options of VoiceSignal common stock that may contain acceleration of vesting benefits in connection with the merger.

Stock Option Acceleration Agreements with Executive Officers. On May 12, 2007, VoiceSignal s board of directors approved the acceleration of all stock option awards held by Thomas Lazay and Daniel Roth, providing that upon the completion of the merger, all unvested stock options held by both Mr. Lazay and Mr. Roth will be 100% vested.

Employment Agreement with VoiceSignal s CEO. The letter agreement with Richard Geruson, VoiceSignal s Chief Executive Officer and a member of the board of directors, dated September 4, 2003, provides that if VoiceSignal terminates Mr. Geruson s employment without cause or if his employment terminates due to resignation for good reason, death or disability, Mr. Geruson shall receive (i) one times his annual compensation; (ii) continuing benefits for a period of twelve months of termination; (iii) his target bonus for the year of termination of employment; and (iv) a six month acceleration of vesting for his then unvested equity. Upon a change in control of VoiceSignal, 50% of Mr. Geruson s then unvested equity will immediately vest. If such termination occurs within two years following a change of control, 100% of his unvested equity will vest in full.

Employment Agreements. VoiceSignal has also entered into agreements with certain officers and key employees that provide severance benefits if such officer s or key employee s employment is terminated under certain circumstances.

Under the following employment agreements, if VoiceSignal terminates the employment of any of these employees without cause or their employment terminates due to resignation for good reason (including a

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voluntary resignation for any reason within three (3) months after a change in control) or disability, such employee shall receive the following severance benefits:

Agreement with Daniel Roth, dated as of September 6, 2003, provides that Mr. Roth will receive twelve months base salary, target bonus for the year and continuing health benefits for the twelve months following termination of employment.

Agreement with Thomas Lazay, dated as of September 6, 2003, provides that Mr. Lazay will receive twelve months base salary, target bonus for the year and continuing health benefits for twelve months following termination of employment.

In addition, VoiceSignal entered into a Change in Control Separation Agreement with Damon Pender, dated as of April 20, 2004, that provides that if Mr. Pender is terminated by VoiceSignal within six months of a change in control, Mr. Pender will receive six months salary and continuing health benefits for six months following termination of employment.

Change in Control Bonuses. VoiceSignal has entered into a letter agreement, as modified by the VoiceSignal Board of Directors, with the following officers and directors providing that upon the effective date of the merger, each of the following officers and directors will receive payments, as set forth below:

Individual	**Title**	**Amount**
Richard Geruson	Chief Executive Officer, Director	$630,000
Damon Pender	Vice President of Finance	$250,000
Frank Boyer	Director	$25,000
Victor Zue	Director	$25,000

Voting Agreements. Certain of VoiceSignal directors and officers have entered into voting agreements with Nuance in connection with the merger. See the section entitled Agreements Related to the Merger VoiceSignal Voting Agreements beginning on page 58 for a description of these agreements.

Material U.S. Federal Income Tax Consequences of the Merger

The following discussion summarizes certain U.S. federal income tax consequences of the merger that are generally applicable to holders of VoiceSignal capital stock. This discussion is based on currently existing provisions of the Internal Revenue Code of 1986, as amended, which is referred to as the Code, existing Treasury regulations thereunder, and current administrative rulings and court decisions, all as of the date hereof and all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences to holders of VoiceSignal capital stock as described herein. Stockholders should be aware that this discussion does not deal with all U.S. federal income tax consequences that may be relevant to the individual stockholders in light of each stockholder s particular circumstances, including, for example, for a stockholder who is a foreign person or entity, a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) or a partner in such partnership, an estate, a trust, a tax-exempt entity, a financial institution, an insurance company, a dealer in securities, a stockholder who acquired VoiceSignal capital stock in connection with a stock option or stock purchase plan or otherwise in connection with the performance of services, who is subject to the alternative minimum tax provisions of the Code or who holds shares of VoiceSignal capital stock as part of a hedge, straddle, or other risk reduction, constructive sale or conversion transaction. This discussion assumes that the shares of VoiceSignal capital stock are held as capital assets (generally, for investment). In addition, the following discussion does not address the tax consequences of transactions effectuated prior or subsequent to, or concurrently with, the merger (whether or not such transactions are in connection with the merger), including without limitation transactions in which shares of VoiceSignal capital stock are acquired or shares of Nuance common stock are disposed of. Moreover, this summary does not address the tax consequences of the merger or related transactions to holders of promissory notes, options or warrants to purchase VoiceSignal capital stock, or to stockholders who receive consideration other than the merger Consideration or other than in exchange for VoiceSignal capital stock. Furthermore, no foreign, state or local tax considerations are addressed herein.

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Taxable sale of VoiceSignal capital stock. The receipt of the merger consideration pursuant to the merger, or the receipt of cash pursuant to the exercise of appraisal rights under Delaware law, in exchange for shares of VoiceSignal capital stock will be taxable to the stockholders of VoiceSignal. Stockholders generally will recognize gain or loss equal to the difference between their adjusted tax basis in the surrendered VoiceSignal capital stock and the proceeds received pursuant to the merger or the exercise of appraisal rights, including any cash and the fair market value of any shares of Nuance common stock. Except for the portion of any payment from the escrow fund taxed as interest income (as described below), and the payment of interest as directed by a Delaware court with respect to dissenting shares, such gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if the stockholder s holding period for the VoiceSignal capital stock is more than one year as of the completion of the merger. For non-corporate stockholders, long-term capital gain is currently subject to a maximum federal income tax rate of 15%. The deductibility of capital losses is subject to limitations.

Gain or loss must be calculated separately for each block of VoiceSignal capital stock (i.e., shares of VoiceSignal capital stock acquired at the same time in a single transaction). Stockholders who own separate blocks of VoiceSignal capital stock should consult their tax advisors with respect to these rules.

Installment Sale Reporting. Because the cash deposited in the escrow fund is to be received by the stockholders, if at all, after the close of the taxable year in which the merger occurs, any gain realized by a stockholder on the sale of VoiceSignal capital stock should be reported under the installment method, unless the stockholder affirmatively elects out of or is otherwise ineligible for installment method reporting. The installment method does not apply to any stockholder who will recognize a loss upon the sale of such stockholder s VoiceSignal capital stock.

Generally, under the installment method, a portion of each payment received is taxable as gain in the year of receipt, a portion represents a tax-free recovery of the stockholder s basis in the shares of VoiceSignal capital stock and, with respect to any payment more than six months after the completion of the merger, a portion is taxable as imputed interest (as discussed below). The gain to a stockholder generally would be calculated by multiplying the value of any payment received (excluding the portion of such payment treated as interest income under the imputed interest rules described below) by the gross profit ratio. The gross profit ratio is the ratio that (1) the selling price less the stockholder s adjusted basis in the shares of VoiceSignal capital stock bears to (2) the total selling price of the stockholder s shares of VoiceSignal capital stock. When a maximum sales price is stated, Treasury regulations regarding the installment method generally require stockholders to assume, for purposes of calculating the selling price and the gross profit ratio, that they will receive the maximum possible amount of sale proceeds at the earliest possible times under the terms of the merger agreement. However, the selling price does not include amounts treated as interest income under the imputed interest rules described below.

One significant effect of the installment method of which stockholders should be aware is that the amount of gain attributable to the merger consideration paid on completion of the merger may be reduced by only a portion of the stockholder s basis in the shares of VoiceSignal capital stock. To the extent the installment sale rules result in a net over inclusion of gain, a stockholder generally would be entitled to a capital loss.

Imputed Interest. Under the installment method, a portion of any payment more than six months after the completion of the merger will be treated as interest income taxable at ordinary income rates when received, and will reduce the amount of gain (or increase the amount of loss) otherwise recognizable. The portion of any payment more than six months after the completion of the merger that will be treated as interest income is determined by discounting the actual amount of the payment, using the appropriate applicable federal rate, from the date the payment becomes fixed to the date of the completion of the merger. The discounted amount is then subtracted from the actual amount of the payment, and the remainder is the portion of the payment treated as interest income.

Section 453A Additional Interest Charges on Deferred Taxes. Under Section 453A of the Code, additional annual interest charges may be imposed on the portion of a stockholder s tax liability that is deferred by the installment method in connection with sales of any property (including the shares of VoiceSignal capital stock) with a sales price greater than $150,000, to the extent that the aggregate face

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amount of installment receivables that arise from all $150,000 sales by the stockholder (including sales of shares of VoiceSignal capital stock) during the year and that remain outstanding as of the close of the year exceeds $5 million.

Electing Out of Installment Method. Stockholders may elect not to use the installment method for U.S. federal income tax purposes. Such election not to use the installment method should be made on a stockholder s return for the taxable year in which the completion of the merger occurs. A stockholder who elects out of the installment method must recognize gain on the sale (including gain based on the fair market value of the escrow fund) in accordance with such stockholder s method of accounting. To the extent that a payment from the escrow fund is more or less than the amount previously taken into income, a stockholder would be required to recognize additional gain or loss.

STOCKHOLDERS WHO ANTICIPATE RECOGNIZING A GAIN AS A RESULT OF THE MERGER ARE STRONGLY ENCOURAGED TO CONSULT THEIR OWN TAX ADVISORS WITH REGARD TO THE EFFECT TO THEM OF THE APPLICATION OF THE INSTALLMENT METHOD AND WHETHER THEY SHOULD ELECT OUT THE INSTALLMENT METHOD BASED ON THEIR PARTICULAR SITUATIONS.

Backup Withholding. In order to avoid backup withholding of U.S. federal income tax on payments to VoiceSignal stockholders, unless an exception applies, each stockholder must provide such stockholder s correct taxpayer identification number, or TIN, on IRS Form W-9 (or, if appropriate, another withholding form) and certify under penalties of perjury that such number is correct and that such stockholder is not subject to backup withholding. If a VoiceSignal stockholder fails to provide the correct taxpayer or certification, payments received may be subject to backup withholding, currently at a 28% rate. Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the IRS.

Accounting Treatment of the Merger

Nuance will account for the merger using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. As such, the assets acquired and liabilities assumed of VoiceSignal will be recorded at their fair values as of the date of the merger. Any excess of the purchase price over the fair value of the net tangible assets and identifiable intangible assets acquired will be recorded as goodwill. The results of operations of VoiceSignal will be included in Nuance s results of operations from the date of the closing of the merger.

Regulatory Approvals

Under the HSR Act, the merger may not be consummated unless certain filings have been submitted to the FTC and the Antitrust Division and certain waiting period requirements have been satisfied. Nuance and VoiceSignal filed the appropriate notification and report forms with the FTC and with the Antitrust Division and are awaiting the expiration, or notice of the early termination, of the waiting period.

The FTC and the Antitrust Division frequently evaluate transactions like the merger. At any time before or after the completion of the merger, the FTC or the Antitrust Division could take any action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the completion of the merger or seeking the divestiture of substantial assets of Nuance or VoiceSignal. In addition, certain private parties, as well as state attorneys general and other antitrust authorities, may challenge the transaction under antitrust laws under certain circumstances.

In addition, the merger may be subject to various foreign antitrust laws.

Nuance and VoiceSignal believe that the completion of the merger will not violate any antitrust laws. There can be no assurance, however, that a challenge to the merger on antitrust grounds will not be made, or, if such a challenge is made, what the result will be.

Listing on the Nasdaq National Market of Nuance Shares Issued Pursuant to the Merger

The authorization for listing of the shares of Nuance common stock to be issued in the merger on the NASDAQ Global Select Market, subject to official notice of issuance, is a condition to the merger.

Restrictions on Sales of Shares of Nuance Common Stock Received in the Merger

The shares of Nuance common stock to be issued in connection with the merger will be registered under the Securities Act and will be freely transferable, except for shares of Nuance common stock issued to any person who is deemed to be an affiliate of VoiceSignal prior to the merger. Persons who may be deemed to be affiliates of VoiceSignal prior to the merger include individuals or entities that control, are controlled by, or are under common control of VoiceSignal prior to the merger, and may include officers and directors, as well as principal stockholders of VoiceSignal prior to the merger. Affiliates of VoiceSignal will be notified separately of their affiliate status.

Persons who may be deemed to be affiliates of VoiceSignal prior to the merger may not sell any of the shares of Nuance common stock received by them in connection with the merger except pursuant to:

- an effective registration statement under the Securities Act covering the resale of those shares;
- an exemption under paragraph (d) of Rule 145 under the Securities Act; or
- any other applicable exemption under the Securities Act.

Nuance s registration statement on Form S-4, of which this consent solicitation statement/prospectus is a part, does not cover the resale of shares of Nuance common stock to be received in connection with the merger by persons who may be deemed to be affiliates of VoiceSignal prior to the merger.

Appraisal Rights

Holders of record of VoiceSignal capital stock who do not vote in favor of adopting the merger agreement, the merger, and approving the transactions contemplated by the merger agreement, and who otherwise comply with the applicable provisions of Section 262 of the Delaware General Corporation Law, which we refer to throughout this consent solicitation statement/prospectus as the DGCL, will be entitled to exercise appraisal rights under Section 262 of the DGCL.

This means that those who do not provide written consent in favor of the proposal relating to approval of the adoption of merger agreement, the merger and the transactions contemplated by the merger agreement and who comply with the other provisions of Section 262 will have the right to seek payment of the fair market value of their stock if the merger is completed. A copy of Section 262 is attached hereto as Annex B. A stockholder s execution of the written consent provided with this consent solicitation statement/prospectus will constitute a waiver of applicable dissenters rights. Only stockholders as of the date the merger is approved are eligible to assert dissenters rights.

Appraisal Rights Under Delaware Law. The following is a summary of the procedures to be followed under Section 262, the full text of which is attached hereto as Annex B and is incorporated herein by reference. The summary does not purport to be a complete statement of, and is qualified in its entirety by reference to, Section 262 and to any amendments to such section after the date of this consent solicitation statement/prospectus. Failure to follow any of the procedures of Section 262 may result in termination or waiver of appraisal rights under Section 262.

VoiceSignal stockholders should assume that VoiceSignal will take no action to perfect any appraisal rights of any stockholder. Any VoiceSignal stockholder who desires to exercise his, her or its appraisal rights should review carefully Section 262 and is urged to consult his, her or its legal advisor before electing or attempting to exercise such rights.

Only a holder of record of shares of VoiceSignal capital stock who has not consented to the merger will be entitled to seek appraisal. The demand for appraisal must be executed by or for the holder of record, fully and correctly, as such holder s name appears on the holder s certificates evidencing shares of VoiceSignal capital stock. If the shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, the demand should be made in that capacity, and if the shares are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand must be made by or for all owners of record. An authorized agent, including one or more joint owners, may execute the demand for appraisal for a holder of record; however, such agent must identify the record owner or owners and expressly disclose in such demand that the agent is acting as agent for the record owner or owners of such shares.

A record holder, such as a broker who holds shares of VoiceSignal capital stock as a nominee for beneficial owners, some or all of whom desire to demand appraisal, must exercise rights on behalf of such beneficial owners with respect to the shares held for such beneficial owners. In such case, the written demand for appraisal should set forth the number of shares covered by such demand. Unless a demand for appraisal specifies a number of shares, such demand will be presumed to cover all shares held in the name of such record owner.

Under Sections 228(d) and 262(d)(2) of the DGCL, VoiceSignal is required to mail to each holder of VoiceSignal capital stock who has not consented in writing to the adoption and approval of the merger agreement, and the merger and the transactions contemplated thereby, a Notice of Corporate Action Taken Without a Meeting and Notice of Availability of Appraisal and Dissenters Rights, referred to as the Notice of Action Taken and Appraisal Rights. The Notice of Action Taken and Appraisal Rights must be delivered to the applicable VoiceSignal stockholders by either VoiceSignal following receipt of the requisite approval of the adoption and approval of the merger agreement, the merger and the transactions contemplated thereby, or by VoiceSignal within 10 days following the consummation of the merger. Any stockholder entitled to appraisal rights may, on or before 20 days after the date of mailing of the Notice of Action Taken and Appraisal Rights, demand in writing from VoiceSignal an appraisal of his, her or its shares of VoiceSignal capital stock. Such demand will be sufficient if it reasonably informs VoiceSignal of the identity of the stockholder and that the stockholder intends to demand an appraisal of the fair value of the stockholder s shares. Failure to make such a demand on or before the expiration of such twenty-day period will foreclose a stockholder s rights to appraisal. Stockholders should not expect to receive any additional notice with respect to the deadline for demanding appraisal rights.

A VoiceSignal stockholder who elects to exercise appraisal rights must mail or deliver the written demand for appraisal to:

Voice Signal Technologies, Inc.
150 Presidential Way, Suite 310
Woburn, MA 01801
Attn: Corporate Secretary
Telephone: (781) 970-5200
Facsimile: (781) 970-5300

A stockholder may withdraw a demand for appraisal within 60 days after the effective time of the merger. Thereafter, the approval of VoiceSignal will be needed for such a withdrawal. Upon withdrawal of a demand for appraisal, a VoiceSignal stockholder will be entitled to receive the consideration set forth in the merger agreement in exchange for his, her or its shares of VoiceSignal capital stock.

Within 120 days after the effective time of the merger, referred to as the 120-Day Period, in compliance with Section 262, any VoiceSignal stockholder who has properly demanded an appraisal and who has not withdrawn the stockholder s demand as provided above (such stockholders being referred to collectively as the Dissenting Stockholders) and VoiceSignal each have the right to file in the Delaware Court of Chancery a petition demanding a determination of the value of the shares held by all of the Dissenting Stockholders. If, within the 120-day Period, no petition shall have been filed as provided above, all rights to appraisal will cease and all of the Dissenting Stockholders who owned shares of VoiceSignal capital stock will become entitled to receive the consideration set forth in the merger agreement in exchange for his, her or its shares of VoiceSignal capital stock. VoiceSignal is not obligated and does not currently intend to file a petition. Any Dissenting Stockholder is entitled, within the 120-day Period and upon written request to VoiceSignal, to receive from VoiceSignal a statement setting forth the aggregate number of shares not voted in favor of the merger and with respect to which demands for appraisal have been received and the aggregate number of Dissenting Stockholders.

Upon the filing of a petition by a Dissenting Stockholder, the Delaware Court may order a hearing and that notice of the time and place fixed for the hearing on the petition be mailed to VoiceSignal and all the Dissenting Stockholders. Notice will also be published at least one week before the day of the hearing in a newspaper of general circulation published in the City of Wilmington, Delaware, or in another publication deemed advisable by the Delaware Court. The costs relating to these notices will be borne by VoiceSignal.

If a hearing on the petition is held, the Delaware Court is empowered to determine which Dissenting Stockholders have complied with the provisions of Section 262 and are entitled to an appraisal of their shares. The Delaware Court may require that Dissenting Stockholders submit their share certificates for notation thereon of the pendency of the appraisal proceedings. The Delaware Court is empowered to dismiss the proceedings as to any Dissenting Stockholder who does not comply with such requirement. Accordingly, Dissenting Stockholders are cautioned to retain their share certificates pending resolution of the appraisal proceedings.

The shares will be appraised by the Delaware Court at the fair value thereof as of the effective time of the merger exclusive of any element of value arising from the accomplishment or expectation of the merger. In determining the value, the court is to take into account all relevant factors. In *Weinberger v. UOP, Inc. et al.*, decided February 1, 1983, the Delaware Supreme Court expanded the considerations that could be considered in determining fair value in an appraisal proceeding, stating that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered and that fair price obviously requires consideration of all relevant factors involving the value of a company. The Delaware Supreme Court stated, in making this determination of fair value, that the court must consider market value, asset value, dividends, earnings, prospects, the nature of the enterprise and any other factors which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. The Delaware Supreme Court noted that Section 262 provides that fair value is to be determined exclusive of any element of value arising from the accomplishment or expectation of the merger. In *Weinberger*, the Delaware Supreme Court held that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered.

VoiceSignal stockholders considering seeking appraisal should bear in mind that the fair value of their shares determined under Section 262 could be more, the same or less than the consideration payable pursuant to the merger agreement.

The Delaware Court may also (i) determine a fair rate of interest (simple or compound), if any, to be paid to Dissenting Stockholders in addition to the fair value of the shares for the period from the effective time of the merger to the date of payment, (ii) assess costs of the proceeding among the parties as the Delaware Court deems equitable, and (iii) order all or a portion of the expenses incurred by any Dissenting Stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys fees and fees and expenses of experts, to be charged *pro rata* against the value of all shares entitled to appraisal. Determinations by the Delaware Court are subject to appellate review by the Delaware Supreme Court.

Dissenting Stockholders are generally permitted to participate in the appraisal proceedings. No appraisal proceedings in the Delaware Court shall be dismissed as to any Dissenting Stockholder without the approval of the Delaware Court, and this approval may be conditioned upon terms which the Delaware Court deems just. From and after the effective time of the merger, Dissenting Stockholders will not be entitled to vote their shares for any purpose and will not be entitled to receive payment of dividends or other distributions in respect of such shares payable to stockholders of record thereafter.

Failure to follow the steps required by Section 262 of the DGCL for perfecting appraisal rights may result in the loss of these rights, in which event a VoiceSignal stockholder will be entitled to receive the consideration payable with respect to their shares of VoiceSignal capital stock in accordance with the merger agreement (without interest).

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Consequently, any VoiceSignal stockholder willing to exercise appraisal rights is urged to consult with legal counsel prior to attempting to exercise such rights.

AGREEMENTS RELATED TO THE MERGER

The Merger Agreement

The following is a summary of the material provisions of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, a copy of which is attached as Annex A to this consent solicitation statement/prospectus and is incorporated into this consent solicitation statement/prospectus by reference. You should read the merger agreement in its entirety, as it is the legal document governing this merger, and the provisions of the merger agreement are not easily summarized.

Structure of the Merger

The merger is structured as a reverse-triangular merger pursuant to which Vicksburg Acquisition Corporation, a wholly owned subsidiary of Nuance, will merge with and into VoiceSignal. Thereafter, Vicksburg Acquisition Corporation will cease to exist as a separate corporate entity and VoiceSignal will continue as the surviving corporation and as a wholly owned subsidiary of Nuance. Unless otherwise determined by Nuance, prior to the effective time of the merger, the certificate of incorporation of the combined company shall be amended and restated as of the effective time of the merger to be identical to the certificate of incorporation of Vicksburg Acquisition Corporation as in effect immediately prior to the effective time of the merger; provided, however, that at the effective time of the merger, Article I of the certificate of incorporation of the combined company shall be amended and restated in its entirety to read as follows: The name of the corporation is Voice Signal Technologies, Inc.

Effective Time and Timing of Closing

The merger will be completed and become effective when the certificate of merger related to the merger of Vicksburg Acquisition Corporation with and into VoiceSignal is filed with the Secretary of State of the State of Delaware, or at such later time as we may agree and as is specified in the certificate of merger, in accordance with Delaware law. The closing of the merger will take place as soon as practicable after all conditions to the merger have been satisfied or waived, or on such other date as we may agree. We currently anticipate that we will complete the merger promptly after the action by written consent has been obtained, assuming VoiceSignal s stockholders give their requisite approvals and all conditions to the merger have been satisfied or waived.

Merger Consideration

Upon completion of the merger, VoiceSignal stockholders will be entitled to receive aggregate merger consideration consisting of approximately $210 million in cash and approximately 5,836,576 shares of Nuance common stock. The merger consideration actually payable to VoiceSignal stockholders upon completion of the merger is subject to the following adjustments:

- the $210 million in cash will be increased by an amount equal to any cash proceeds received by VoiceSignal in respect of the exercise of any stock options between the date of the merger agreement and completion of the merger as well as any cash paid in lieu of fractional shares of Nuance common stock that would otherwise be issued in the merger;

the $210 million in cash will be decreased by an amount equal to all fees and expenses incurred by VoiceSignal in connection with the negotiating and completing the merger, such as legal, accounting financial advisory, consulting and all other fees and expenses of third parties; and

the number of shares of Nuance common stock may be reduced to account for the rounding of share distributions and payment in cash of fractional shares to VoiceSignal stockholders.

As a result of these adjustments as well as adjustments in the allocation of the merger consideration among VoiceSignal stockholders resulting from dividend obligations to certain holders of VoiceSignal preferred stock that fluctuate depending upon the actual date on which the merger is completed, the exact consideration that a VoiceSignal stockholder will receive will not be known at the time the written consent is effective and will depend on the magnitude of these adjustments.

All VoiceSignal stockholders will also have a portion of the merger consideration that they would otherwise be entitled to receive deposited in an escrow account that will be used to compensate Nuance if Nuance is entitled to indemnification under the merger agreement.

Immediately prior to the consummation of the merger, all outstanding shares of preferred stock of Voice Signal will convert into shares of VoiceSignal common stock, including all accrued and unpaid dividends, in accordance with VoiceSignal s amended and restated certificate of incorporation. All outstanding shares of Series A, B and D preferred stock will convert into shares of common stock on a 1 for 1 basis, and all outstanding shares of Series C preferred stock will convert to shares of common stock on a 1 for 2.20127 basis. Assuming a closing date of August 20, 2007, the accrued and unpaid dividends for each share of Series C preferred stock will convert into approximately 1.275 shares of common stock and the accrued and unpaid dividends for each share of the Series D stock will convert into approximately .31 to .39 shares of common stock, depending on stockholders date of investment. No other class or series of VoiceSignal stock have accrued and unpaid dividends.

The stock consideration and cash consideration to be paid per share of VoiceSignal common stock at closing will depend upon numerous variable factors, including the amount of third-party expenses, the actual closing date, the exercise of the outstanding vested options prior to the merger and whether such exercises are on a net or cash basis. Assuming a closing date of August 29, 2007, third-party expenses in the amount of $10,000,000 and the exercise of all vested options on a cash basis, each 100 shares of VoiceSignal common stock at closing will be entitled to receive approximately $111.60 in cash, 3.79 shares of Nuance common stock and $19.46 will be placed in escrow. If funds remain in the escrow account after the expiration of the escrow period, the cash consideration received by each VoiceSignal stockholder will increase.

The number of shares of Nuance common stock to which a VoiceSignal stockholder is entitled to receive will be aggregated and any fractional shares will be paid out as set forth below in The Merger Agreement Fractional Shares. The terms and conditions of the Escrow Fund are described in more detail in the Section entitled The Merger Agreement Escrow Fund.

You should be aware that the above per share amounts are estimates only and are subject to change under certain circumstances as described above and set forth more fully in the merger agreement attached as Annex A to this consent solicitation statement/prospectus. The actual consideration you receive in exchange for your VoiceSignal capital stock may be more, less or the same as these estimates.

The maximum number of shares of Nuance common stock to be issued by Nuance in the merger was fixed at the time the merger agreement was signed. At the time the merger agreement was signed, the parties valued the Nuance common stock at $15.42 per share based on the average closing price per share of Nuance common stock on the NASDAQ Global Select Market for the 10 trading days immediately preceding May 14, 2007. However, Nuance common stock trades on the NASDAQ Global Select Market and is subject to price fluctuation. Therefore, the value of the Nuance common stock you receive in the merger cannot be known at the time the written consent is effective. The value of the Nuance common stock you receive in the merger may be equal to, less than or greater than its value on the date the merger agreement was signed and/or the time the written consent is effective. Below is a comparison of the effect the fluctuations in the per share price the Nuance common stock could have on the per share value of the

VoiceSignal capital stock exchanged in the merger.

Nuance common stock price per share	$ 15.00	$ 16.00	$ 17.00	$ 18.00	$ 19.00	$ 20.00
Total Consideration per 100 shares of Voice Signal Common Stock*	$ 188.00	$ 192.00	$ 195.00	$ 199.00	$ 203.00	$ 207.00

* Includes the value of the stock portion of the merger consideration, the cash portion of the merger consideration and the cash portion to be placed in escrow for each 100 shares of VoiceSignal common stock. The cash portion of the merger consideration and the amount to be placed in escrow shall remain constant regardless of the fluctuating Nuance share price.

The above per share values are estimates only and are subject to change under certain circumstances as set forth more fully in the merger agreement, including a change in the closing date, a change in the number of shares of VoiceSignal capital stock, including exercises of outstanding stock options and a change in the third party expenses. The actual value of the consideration you receive in exchange for your VoiceSignal capital stock may be more, less or the same as these estimates.

See the section entitled Market Price Data beginning on page 14 for a description of the historical value of Nuance capital stock. VoiceSignal stockholders are urged to obtain current market quotations for Nuance common stock and to review carefully the other information contained in this consent solicitation statement/prospectus or incorporated by reference into this consent solicitation statement/prospectus. See the section entitled Where You Can Find More Information on page 145.

Fractional Shares

Nuance will not issue any fractional shares of common stock in connection with the merger. Instead, each holder of VoiceSignal capital stock who would otherwise be entitled to receive a fraction of a share of Nuance common stock will be entitled to receive cash, without interest, in an amount equal to such fraction multiplied by $15.42.

Exchange of VoiceSignal Stock Certificates for Nuance Stock Certificates

Immediately prior to the completion of the merger, the exchange agent for the merger will mail to each record holder of VoiceSignal capital stock a letter of transmittal and instructions for surrendering the record holder s VoiceSignal stock certificates in exchange for the consideration to be received by VoiceSignal stockholders in the merger. Only those holders of VoiceSignal capital stock who properly surrender their VoiceSignal stock certificates in accordance with the exchange agent s instructions will receive:

- certificates representing the number of whole shares of Nuance common stock to which they are entitled pursuant to the merger agreement;
- cash representing the cash portion of the consideration to which they are entitled pursuant to the merger agreement; and
- cash in lieu of any fractional share of Nuance common stock.

The surrendered certificates representing VoiceSignal capital stock will be canceled. After the effective time of the merger, each certificate representing shares of VoiceSignal capital stock that has not been surrendered will represent only the right to receive each of the items, as the case may be, enumerated above. Following the completion of the merger, VoiceSignal will not register any transfers of VoiceSignal capital stock on its stock transfer books. Holders of VoiceSignal capital stock should not send in their VoiceSignal stock certificates until they receive a letter of transmittal from the exchange agent for the merger, with instructions for the surrender of VoiceSignal stock certificates.

Appraisal Rights

Subject to compliance with the procedures set forth in Section 262 of the Delaware General Corporation Law, or DGCL, VoiceSignal stockholders who do not vote in favor of, or consent to, the adoption of the merger agreement and approval of the transactions contemplated thereby and otherwise comply with the requirements of the DGCL will not receive the merger consideration in exchange for their shares, but instead will be entitled to appraisal rights in connection with the merger, whereby such stockholders may receive the appraised value of their shares of VoiceSignal capital stock held by them in accordance with the provisions of such Section 262 of the DGCL. Failure to take any of the steps required under Section 262 of the DGCL on a timely basis may result in a loss of those appraisal rights.

Distributions with Respect to Unexchanged Shares; Adjustments

Holders of VoiceSignal capital stock are not entitled to receive any dividends or other distributions on Nuance common stock until the merger is completed. Such holders will not receive interest in respect of the cash portion of the merger consideration. In the event of any stock split, reverse stock split, stock dividend, reorganization, reclassification, combination, recapitalization or other like change with respect to VoiceSignal capital stock or Nuance common stock occurring after May 14, 2007 and prior to the closing of the merger, all calculations in the merger agreement that are based upon numbers of shares of any class or series (or trading prices therefore) affected by such event will be equitably adjusted to the extent necessary to provide the same economic effect as contemplated by the merger agreement prior to such stock split, reverse stock split, stock dividend, reorganization, reclassification, combination, recapitalization or other like change.

Transfers of Ownership and Lost Stock Certificates

If the payment of the portion of the merger consideration to which a VoiceSignal stockholder is entitled is to be paid to a person other than the person in whose name the certificates surrendered in exchange therefore are registered, it will be a condition of payment that the certificates so surrendered be properly endorsed and otherwise in proper form for transfer (including, if requested, a medallion guarantee), and that the persons requesting such payment will have paid to Nuance or any agent designated by it any transfer or other taxes required. In the event that any certificates representing VoiceSignal capital stock shall have been lost, stolen or destroyed, the holder of such certificate may need to deliver a bond prior to receiving any merger consideration.

Vested VoiceSignal Stock Options

Nuance will not assume or otherwise replace any VoiceSignal stock option that is vested and exercisable as of the effective time of the merger or that becomes vested and exercisable as a result of the merger.

Prior to completion of the merger, VoiceSignal will give each holder of a vested stock option the opportunity to decline to accept an otherwise automatic modification of such holders vested stock options such that:

> immediately prior to the effective time of the merger, and conditioned on the completion of the merger, such holder shall automatically be deemed to have exercised such vested stock option pursuant to a net exercise program whereby such holder will be deemed to have paid the total exercise price required under such vested stock option by relinquishing that number of shares of VoiceSignal common stock underlying such option in an amount necessary to pay the applicable total exercise price and any applicable withholding taxes required because of such net exercise of such vested stock option.

After net exercise, the holder of each such vested VoiceSignal stock option will participate in the merger in the same way, and to the same extent, as if such holder owned the number of shares of VoiceSignal common stock delivered after the automatic deemed net exercise.

Unvested VoiceSignal Options

Nuance will have the opportunity to make a written election prior to the effective time of the merger, to either assume every unvested VoiceSignal option or, instead, cause all such unvested VoiceSignal options to vest and terminate in exchange for a cash payment to the holder of each such terminated option.

The cash payment Nuance will make to each holder of an unvested option if Nuance elects to terminate the unvested options will be equal to (i) the number of shares of VoiceSignal common stock underlying the VoiceSignal option multiplied by (ii) amount of merger consideration to which each outstanding share of VoiceSignal stock on an as-converted-to-common stock basis is entitled in the merger, minus (iii) the total amount of the exercise price due under such option.

If, instead of terminating the unvested options and making the cash payment described above, Nuance elects to assume all unvested VoiceSignal options, each such assumed option will be converted into an option to purchase a number of shares of Nuance common stock at an exercise price appropriately adjusted for the conversion of VoiceSignal common stock into Nuance common stock in the merger.

If any time after completion of the merger, Nuance or VoiceSignal shall terminate for any reason, other than for Cause, the employment of any holder of an assumed option that was unvested at the effective time of the merger, or the holder of any assumed option that was unvested at the effective time of the merger shall terminate for Good Reason his or her employment with Nuance or VoiceSignal, then, immediately upon such termination, such unvested option shall automatically become exercisable for all of the shares of Nuance common stock subject to such assumed option.

Cause means a determination by the Nuance board of directors that the holder of an assumed unvested option has (a) engaged in willful misconduct or unlawful or dishonest conduct in connection with the performance of such holder s duties and responsibilities as an employee or consultant of Nuance or VoiceSignal; (b) materially breached any of such holder s obligations under any agreement between such holder and Nuance or VoiceSignal that pertains to such holder s employment or consulting relationship with Nuance or VoiceSignal; (c) been convicted of a felony; or (d) refused to obey or follow a lawful and reasonable directive issued by such holder s direct supervisor.

Good Reason means with regard to a holder of an assumed unvested option: (a) a material change in such holder s position and responsibilities as an employee or consultant of Nuance or VoiceSignal, except in connection with the termination of such holder s employment; (b) a reduction in such holder s base salary or consulting fees not agreed to by such holder; or (c) a material breach by Nuance or VoiceSignal of their obligations under any agreement with such holder.

Representations and Warranties

The merger agreement contains representations and warranties made by each of Nuance and Vicksburg Acquisition Corporation on the one hand, and VoiceSignal, on the other, regarding aspects of their respective businesses, financial condition and structure, as well as other facts pertinent to the merger. The representations and warranties are subject, in some cases, to specified exceptions and qualifications.

Representations and warranties made by both VoiceSignal and Nuance relate to, among other things:

Nuance s and VoiceSignal s due incorporation, good standing and possession of all governmental licenses, authorizations, permits, consents and approvals required to carry such organizations respective businesses;

Nuance s and VoiceSignal s corporate power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;

the possession by Nuance and VoiceSignal of any required consents or approvals of government entities necessary to consummate the transactions contemplated by the merger agreement;

the absence of any violations of or conflicts with Nuance s or VoiceSignal s organizational documents, applicable laws and certain agreements as a result of entering into the merger agreement and the escrow agreement and consummating the transactions contemplated by the merger agreement;

the accuracy of Nuance s and VoiceSignal s financial statements and other information contained in such documents;

the absence of litigation or outstanding court orders; and

the absence of undisclosed liabilities of Nuance and VoiceSignal.

The merger agreement also contains representations and warranties made by VoiceSignal relating to, among other things:

- its capitalization, including in particular the number of shares of VoiceSignal common and preferred stock and stock options outstanding;
- the existence of any subsidiaries;
- the requisite approval of its stockholders and the unanimous approval by its board of directors of the merger agreement and the transactions contemplated by the merger agreement;
- sufficient internal accounting controls;
- the absence of certain changes or events since December 31, 2006, including:
  - any transaction by VoiceSignal made outside the ordinary course;
  - any capital expenditure or expenditures in excess of specified amounts;
  - any payment, discharge or satisfaction of any liabilities in excess of specified amounts;
  - any damage, destruction or loss of material assets;
  - any change in any method of accounting, except as required by generally accepted accounting principles;
  - any changes to VoiceSignal s tax reporting or tax accounting;
  - any material revaluation of VoiceSignal s assets;
  - any increase in salary or compensation to VoiceSignal officers, directors or employees;
  - any incurrence of indebtedness for borrowed money;
  - any waiver or release of any rights or claims of VoiceSignal in excess of specified amounts;
  - commencement or settlement of any lawsuit;
  - any receipt by VoiceSignal of any claim of infringement; and
  - any sale or license of VoiceSignal s intellectual property or modification or amendment of any existing agreement relating to intellectual property, other than in the ordinary course;
- certain tax representations with respect to VoiceSignal;
- any restrictions on business practices or distribution of technology or products of VoiceSignal;
- its leased real property;

its intellectual property;

the significant contractual agreements to which VoiceSignal is a party;

certain interests of certain officers, directors or stockholders of VoiceSignal;

its minute books;

certain environmental matters with respect to VoiceSignal;

the absence of finders fees;

employment and labor matters, including matters relating to the Employee Retirement Income Security Act and VoiceSignal s employee benefit plans;

its insurance coverage;

absence of any notices of violation of laws;

its bank accounts;

the accuracy of the information supplied by VoiceSignal and contained in this consent solicitation statement/prospectus; and

disclaimer of representations and warranties related to pending litigation between Nuance and VoiceSignal.

The merger agreement further contains representations and warranties made by Nuance and Vicksburg Acquisition Corporation relating to, among other things:

their capital structure;

the sufficiency of capital held by Nuance to pay the cash consideration in connection with the merger;

the timely filing of appropriate documents with the Securities and Exchange Commission;

the absence of certain changes or events between December 31, 2006, and the date of the merger agreement, including:

any material adverse effect;

any declaration or payment of a dividend with respect to Nuance common stock;

any amendment of Nuance s certificate of incorporation or bylaws, or material term of any outstanding security;

any material change in Nuance s method of accounting;

any split, combination or reclassification of Nuance capital stock;

the due authorization and valid issuance of fully paid and nonassessable Nuance common stock to be issued as merger consideration;

the formation of merger sub solely for purposes of the merger; and

the accuracy of the information supplied by Nuance and contained in this registration and information statement.

The representations and warranties of each of VoiceSignal and Nuance contained in the merger agreement will survive the merger for a period of twelve months from completion of the merger.

Covenants of VoiceSignal

Except as contemplated by the merger agreement, VoiceSignal has agreed that, until completion of the merger or termination of the merger agreement, it will use commercially reasonable efforts to (i) conduct its and its subsidiaries business in the usual, regular and ordinary course, in substantially the same manner as previously conducted, (ii) in the ordinary course of business consistent with past practices pay its debts and pay or perform other material obligations and, when due, its taxes (subject to good faith disputes over such debts, taxes or obligations), (iii) preserve intact its present business organization, (iv) use commercially reasonable efforts to keep available the services of its present executive officers and other key employees, and (v) use commercially reasonable efforts to preserve in the ordinary course of business its relationships with customers, suppliers, licensors, licensees, and others with which it has business dealings. In addition, VoiceSignal shall promptly notify Nuance in writing of any material adverse effect involving its business or operations.

Under the merger agreement, VoiceSignal also agreed that, until the earlier of the completion of the merger or termination of the merger agreement, or unless Nuance consents in writing, VoiceSignal will not:

- adopt or propose any change to its certificate of incorporation or bylaws;
- make any expenditures or commitments in excess of the amounts in the merger agreement;

other than as specifically described in the merger agreement, pay, discharge, waive or satisfy any indebtedness in excess of the amounts in the merger agreement;

adopt or change accounting methods other than as required by generally accepted accounting practices;

make or change any material tax election;

materially revalue any of its assets;

declare, set aside or pay any dividends on shares of capital stock;

split, combine or reclassify any shares of VoiceSignal capital stock;

issue or authorize the issuance of any securities in substitution of VoiceSignal capital stock;

repurchase, redeem or otherwise acquire shares of VoiceSignal capital stock;

increase the salary or other compensation of any officer, director employee or advisor, except in the ordinary course;

sell, lease, license or dispose of any properties or assets, except in the ordinary course and consistent with past practices;

make any loans, purchase debt securities or amend the terms of existing loan agreements;

incur any indebtedness for borrowed money, guarantee any indebtedness or issue any debt securities;

waive or release any material right or claim of VoiceSignal;

commence or settle any lawsuit, except as described in the merger agreement;

issue, grant, deliver or purchase any shares of VoiceSignal capital stock of any class, except in connection with the exercise of outstanding options;

issue, grant, deliver or purchase any options, warrants, convertible securities or other rights to acquire any shares of VoiceSignal capital stock;

sell, lease, license or transfer any right to VoiceSignal s intellectual property or modify any existing agreement to do the same;

purchase or license the intellectual property of a third party or modify any existing agreement to do the same;

enter any agreement or modify an existing agreement related to the development of any intellectual property;

change the pricing or royalties charged by VoiceSignal to its customers or licensees, other than as described in the merger agreement;

enter into or amend any exclusive marketing, distribution, development, manufacturing agreement;

purchase or sell any real estate or enter into or modify any existing lease;

amend or terminate existing material contractual arrangements;

acquire any business or corporation;

adopt or amend any plan providing for employee benefits;

enter into strategic alliances affiliate agreements or joint marketing agreements, except as described in the merger agreement;

promote, demote, hire or terminate any employees, except as described in the merger agreement;

alter any interest VoiceSignal may have in any corporation or association;

cancel, amend or renew any material insurance policy; or

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take any or agree to any actions that would prevent VoiceSignal from performing its obligations under the merger agreement or result in any conditions under the merger agreement not to be satisfied.

Alternative Transactions VoiceSignal

VoiceSignal has agreed that neither it, nor any of its subsidiaries, nor any of the executive officers or directors of it or its subsidiaries shall, and that it shall use its commercially reasonable efforts to cause all other employees and any investment banker, attorney, accountant or other representative retained by VoiceSignal not to, directly or indirectly:

solicit, encourage, seek, entertain, support, assist, initiate or participate in any inquiry, negotiations or discussions, or enter into any agreement, with respect to any acquisition proposal, as defined below, or effect any such transaction;

disclose any information not customarily disclosed to any person concerning the business, technologies or properties of VoiceSignal, or afford to any person access to its properties, technologies, books or records, not customarily afforded such access;

assist or cooperate with any person to make any proposal to purchase all or any part of the VoiceSignal capital stock or assets (other than inventory in the ordinary course of business); or

enter into any agreement with any person regarding an acquisition proposal.

An acquisition proposal means any offer or proposal relating to any transaction or series of related transactions, other than the merger, involving:

any offer or proposal to acquire all or any part of the business, properties or technologies of VoiceSignal, other than transactions in the ordinary course and consistent with past practices; or

any offer or proposal to acquire any amount of the capital stock of Vicksburg (whether or not outstanding), whether by merger, purchase of assets, enter offer, license or otherwise.

VoiceSignal also has agreed to suspend immediately all negotiations, discussions or agreements regarding an acquisition proposal and notify Nuance immediately after receiving such acquisition proposal or any request regarding the business, technologies or properties of VoiceSignal, and to provide Nuance with the identity of the offeror or the party and the specific terms of such offer or proposal.

Other Covenants

The merger agreement contains a number of other covenants by Nuance and VoiceSignal including:

Preparation of Registration Statement and Information Statement. Nuance and VoiceSignal agreed to promptly prepare and file this consent solicitation statement/prospectus and the registration statement of which it is a part, and Nuance agreed to promptly prepare and file the registration statement following the execution of the merger agreement. Both parties also agreed to use commercially reasonable efforts to have the registration statement declared effective by the SEC as promptly as practicable. VoiceSignal agreed to furnish information regarding VoiceSignal and its stockholders as reasonably required.

VoiceSignal Stockholders Vote. VoiceSignal agreed to obtain sufficient stockholder votes to adopt the merger agreement and approve the merger and the transactions contemplated thereby and to prepare and distribute appropriate solicitation material relating thereto. Such vote will be obtained either through a VoiceSignal special meeting or written consent.

Parachute Payment Approval. VoiceSignal agreed to use commercially reasonable efforts to obtain stockholder approval for certain payments to certain executive officers of VoiceSignal such that these payments will not be declared parachute payments under the Code.

Access to Information. VoiceSignal agreed to afford Nuance reasonable access during the period prior to the effective time of the merger to an employee list, officers and other employees for discussion regarding VoiceSignal s core business and processes, and officers and other employees of VoiceSignal for limited technical discussions to facilitate integration of VoiceSignal technology in the combined company.

Confidentiality. Nuance and VoiceSignal agreed that any information obtained from the other during the period prior to the effective time of the merger shall be governed by confidential nondisclosure agreements.

Expenses. Whether or not the merger is consummated, Nuance and VoiceSignal agreed that all transaction-related expenses incurred by a party shall be borne by such party, excluding certain disclosed expenses as provided in more detail in the merger agreement. If the Merger Agreement is terminated under certain circumstances, Nuance has agreed to reimburse VoiceSignal for up to $1 million of transaction-related expenses incurred by VoiceSignal.

FIRPTA Compliance. On the effective date of the merger, VoiceSignal shall deliver to Nuance a FIRPTA compliance certificate in a form reasonably acceptable to Nuance.

Public Announcements. Nuance and VoiceSignal have agreed to consult with one another before issuing any press release or otherwise making any public statements about the merger or related transactions, unless otherwise required by any applicable laws or regulations.

Nuance Notification of Certain Matters. Nuance agreed to use commercially reasonable efforts to give prompt notice to VoiceSignal of the occurrence or non-occurrence of any event which would cause Nuance not to satisfy a closing condition to the consummation of the merger.

Third Party Consents. VoiceSignal agreed to use all commercially reasonable efforts to obtain any material consents, waivers or approvals under any of its contracts which are required to be obtained in connection with the consummation of the merger.

Termination of 401(k) Plans and Other Plans. VoiceSignal agreed to adopt resolutions to terminate its 401(k) and other group severance, separation and salary continuation plans effective no later than the date immediately preceding the effective date of the merger.

Financials. VoiceSignal agreed to provide, as soon as practicable, the unaudited balance sheet as of June 30, 2007 and the related unaudited statement of income, cash flow and changes in redeemable convertible preferred stock, stockholders deficit and comprehensive income (loss) for the six-month period then ended, within thirty days from the end of such quarter, the unaudited balance sheet and the related unaudited statement of income, cash flow and changes in redeemable convertible preferred stock, stockholders deficit and comprehensive income (loss) for the fiscal quarters ending thereafter, in each case reviewed by VoiceSignal s independent accountants, and promptly upon the completion of such audit, the audited consolidated balance sheets as of December 31, 2006 and related consolidated statements of income, cash flow and changes in redeemable convertible preferred stock, stockholders deficit and comprehensive income (loss) for the twelve-month period then ended.

Disclosure Supplements. VoiceSignal agreed to supplement the disclosure schedules to disclose any matter arising prior to the effective date of the merger that would have been required to be set forth in the disclosure schedules or that has become inaccurate.

Non-Disparagement. Until the earlier of the effective time of the merger or termination of the merger agreement, Nuance and VoiceSignal will not, and will not cause their respective affiliates, directors, officers, employees and representatives to, disparage, deprecate or make any negative comments with respect to the business, operations, properties, assets, technologies, products or services of the other party.

Stockholder Arrangements. VoiceSignal shall take any actions necessary to termination any voting agreements, investor rights agreements, stockholders agreements and similar agreements so that following the effective time of the merger neither Nuance nor the combined company will have any obligations or liabilities thereunder.

Indemnification and Insurance

The merger agreement provides that after the completion of the merger, Nuance will, and will cause VoiceSignal (as a wholly owned subsidiary) to fulfill all obligations of VoiceSignal to indemnify its present and former officers, directors, employees, agents and their heirs, devisees, legatees, executors and assigns. Nuance has agreed that the certificate of incorporation and bylaws of VoiceSignal following the merger will contain provisions with respect to indemnification, contribution, advancement of expenses and elimination of liability for monetary damages at least as favorable as those contained in the certificate of incorporation and bylaws of VoiceSignal prior to the merger. Subject to certain limitations, for six years after completion of the merger, Nuance and VoiceSignal (as a wholly owned subsidiary) will, to the fullest extent permitted under applicable law, indemnify and hold harmless (including advancement of expenses) each present or former officer or director of VoiceSignal from and against all damages suffered by any of them for actions taken or omitted to be taken in their capacities as officers or directors of VoiceSignal. Nuance has agreed to purchase a directors and officers insurance tail policy under VoiceSignal s existing directors and officers insurance policy which will provide coverage no less advantageous overall than the existing coverage for a period of six years following the merger, so long as the tail policy does not cost more than $100,000.

Employment Arrangements

Nuance and VoiceSignal agreed that Nuance and VoiceSignal s chief executive officer will jointly approach VoiceSignal s employees to discuss the terms and conditions on which Nuance proposes to continue the employment of each employee, if at all. Any offers will have terms and conditions determined by Nuance and consistent with standard Nuance employment arrangements and will supersede any prior employment agreements and other arrangements with such employees in effect prior to the closing of the merger, subject to any existing individual retention and severance agreements. All communications with employees will be done by Nuance and VoiceSignal cooperatively, constructively and proactively.

Regulatory Approvals

Each of Nuance and VoiceSignal agreed to use all commercially reasonable efforts to take promptly all actions to consummate and make effective the transactions contemplated by the merger agreement, to obtain all necessary consents, waivers and approvals, to effect all necessary registrations and filings, and to file with the FTC and the Antitrust Division of the United States Department of Justice Notification and Report Forms relating to the transactions contemplated in the merger agreement by the HSR Act; provided, however, that Nuance shall not be required to agree to any divestiture by Nuance or VoiceSignal or any of Nuance s subsidiaries or affiliates, of shares of capital stock or of any business, assets or property of Nuance or its subsidiaries or affiliates, or of VoiceSignal or its affiliates, or of the imposition of any material limitation on the ability of any of them to conduct their own business or own or exercise control of such assets, properties and stock.

Conditions to Completion of the Merger

The respective obligations of Nuance and Vicksburg Acquisition Corporation, on the one hand, and VoiceSignal, on the other, to complete the merger are subject to the satisfaction or waiver, by the each party entitled to waive such condition, of each of the following conditions before completion of the merger:

- that no governmental entity shall have enacted, issued, promulgated, enforced or entered any law, decree, injunction or other order that is in effect and that has the effect of making the merger illegal or otherwise prohibiting completion of the merger;

that no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing completion of the merger shall be in effect, nor shall any proceeding brought by an administrative agency or commission or other governmental entity or instrumentality, domestic or foreign, seeking any of the foregoing be threatened or pending;

that VoiceSignal stockholders shall have adopted the merger agreement, and approved the merger and related transactions, including the appointment of Stata Venture Partners, LLC as the stockholder representative;

that the registration statement, of which this consent solicitation statement/prospectus is a part, be declared effective by the SEC;

that the waiting period (and any extension thereof) applicable to the merger under the HSR Act and similar merger notification laws or regulations of foreign governmental entities in connection with the merger shall have expired or been terminated;

that each company s representations and warranties in the merger agreement are true and correct, to the extent set forth in the merger agreement, except when the failure of such representations or warranties to be true and correct have not resulted, and would not reasonably be expected to result in, individually or in the aggregate with other such failures, a material adverse effect, to the other party;

that each company has complied in all material respects with its covenants and agreements in the merger agreement, to the extent set forth in the merger agreement;

that VoiceSignal shall have terminated certain agreements with its stockholders; and

that no material adverse effect shall exist with respect to each company.

Survival of Representations and Warranties; Indemnification.

Under the merger agreement, VoiceSignal s and Nuance s representations and warranties will survive until one year after the effective time of the merger, which we refer to as the expiration date. If either VoiceSignal delivers to Nuance or Nuance delivers to VoiceSignal written notice of a claim for indemnification prior to the expiration date, then the relevant representations and warranties will survive as to such claim until such claim has been finally resolved.

The merger agreement provides that Nuance and its affiliates, officers, directors, employees, agents, successors and assigns will be indemnified by VoiceSignal s stockholders, severally for any damages incurred by Nuance arising out of:

any breach or inaccuracy of any representation or warranty made by VoiceSignal or its stockholders in the merger agreement or any related document;

any breach of a covenant or agreement made or to be performed by VoiceSignal or its stockholders contained in the merger agreement;

the failure to subtract from the merger consideration before completion of the merger all third party expenses incurred by VoiceSignal in connection with negotiation of the merger agreement and completion of the merger and related transactions; or

the obligation to pay any amounts to VoiceSignal stockholders who have had their shares of VoiceSignal stock appraised in accordance with Delaware law if those amounts are greater than the amount of merger consideration that would have been allocated to the appraised shares under the merger agreement.

Nuance s right to receive indemnification payments under the merger agreement is subject to a number of limitations, including the following:

Nuance may not receive any indemnification payments for breaches of representations or warranties unless the aggregate amount of damages arising out of all breaches of representations and warranties exceeds $3 million and then Nuance is not entitled to indemnification for the first $500,000 of such damages;

except in the case of fraud or intentional breach of a covenant, the maximum amount of damages for which Nuance is entitled to indemnification is the amount in the escrow fund;

any damages for which Nuance is entitled to indemnification shall generally be reduced by amounts actually recovered by Nuance under applicable insurance policies, but Nuance will not have any obligation to carry any insurance or make any insurance claims;

Nuance will not be entitled to indemnification for any matter that was disclosed by VoiceSignal under its covenant to supplement the disclosure schedules if Nuance has had the option not to complete the merger, either because the matter in the supplemental disclosure causes the failure of a closing condition or because VoiceSignal has given Nuance the choice not to complete the merger because of the supplemental disclosure;

Nuance will not be entitled to indemnification under the merger agreement if the merger is not completed; and

Nuance may not recover for diminution in value to the extent caused by any business interruption, loss of future revenue, cash flows or profits.

The merger agreement also provides that the VoiceSignal stockholders will be indemnified by Nuance for any damages incurred by them arising out of:

any breach or inaccuracy of a representation of Nuance or Vicksburg Acquisition Corporation contained in the merger agreement or any related document; or

any failure by Nuance or Vicksburg Acquisition Corporation to perform or comply with any covenant made under the merger agreement.

The VoiceSignal stockholders right to indemnification payments under the merger agreement is subject to a number of limitations, including the following:

the maximum amount the VoiceSignal stockholders can recover from Nuance is limited to $30 million, except in the case of Nuance s failure to honor its obligations to indemnify the former officers and directors of VoiceSignal or in the case of Nuance s failure to deliver the merger consideration; and

the VoiceSignal stockholders will not be entitled to indemnification under the merger agreement if the merger is not completed.

Escrow Fund

Upon completion of the merger, Nuance will withhold $30 million in cash from the consideration to be distributed to the VoiceSignal stockholders in connection with the merger and deposit such amount into an escrow fund. This escrowed amount will be available to compensate Nuance if it is entitled to indemnification under the merger agreement. Any portion of this escrowed amount that, twelve months following the completion of the merger, has not been used to indemnify Nuance and that is not the subject of an unresolved claim for indemnification by Nuance will be distributed to the VoiceSignal stockholders. The escrowed amount will be held by US Bank, National Association, as the escrow agent under the terms of the merger agreement. The amount of the escrow fund contributed by each VoiceSignal stockholder will be proportional to each such holder s pro rata portion of the total merger consideration.

VoiceSignal Board of Directors Recommendations

The merger agreement requires the VoiceSignal board of directors:

to unanimously recommend that its stockholders vote in favor of the adoption of the merger agreement and approval of the merger; and

to determine that that the terms and conditions of the Merger are fair to, and in the best interests of, the VoiceSignal stockholders.

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Definition of Material Adverse Change

As it Pertains to Nuance:

Nuance Material Adverse Effect means any change, event or effect that (i) is materially adverse to the business, assets (whether tangible or intangible), financial condition, or results of operations of Nuance and its subsidiaries, taken as a whole or (ii) will or is reasonably likely to materially impede the ability of Nuance to timely consummate the transactions contemplated by the merger agreement in accordance with the terms hereof; provided, however, that, for purposes of clause (i) above, in no event shall any of the following be taken into account in determining whether there has been or will be a Nuance Material Adverse Effect: (A) any effect resulting from changes or effects in general worldwide or United States economic, capital market or political conditions (which changes or effects do not disproportionately affect Nuance), (B) any effect resulting from changes or effects generally affecting the industries or markets in which Nuance operates (which changes or effects do not disproportionately affect Nuance), (C) any effect resulting from any act of war or terrorism (or, in each case, any escalation thereof) (which changes or effects do not disproportionately affect Nuance), (D) any changes in applicable laws or generally accepted accounting principles, (E) any effect resulting directly from the announcement or pendency of the merger, (F) any change in and of itself in Nuance s Stock price or trading volume, or (G) any change, event or effect resulting from or arising out of any action on the part of VoiceSignal or any of its affiliates, including, without limitation, actions taken in the ordinary course of business.

As it Pertains to VoiceSignal:

VoiceSignal Material Adverse Effect means any change, event or effect that is materially adverse to the business, assets (whether tangible or intangible), financial condition, operations or capitalization of VoiceSignal and any subsidiaries, taken as a whole; provided, however, that, in no event shall any of the following be taken into account in determining whether there has been or will be a VoiceSignal Material Adverse Effect: (A) any effect resulting from changes or effects in general worldwide or United States economic, capital market or political conditions (which changes or effects do not disproportionately affect VoiceSignal), (B) any effect resulting from changes or effects generally affecting the industries or markets in which VoiceSignal operates (which changes or effects do not disproportionately affect VoiceSignal), (C) any effect resulting from any act of war or terrorism (or, in each case, any escalation thereof) (which changes or effects do not disproportionately affect VoiceSignal), (D) any changes in applicable laws or generally accepted accounting principles, (E) any effect resulting directly from the announcement or pendency of the merger, or (F) any change, event or effect resulting from or arising out of any action on the part Nuance or any of its affiliates, including, without limitation, actions taken in the ordinary course of business.

Termination of the Merger Agreement

The merger agreement may be terminated in accordance with its terms at any time, except as set forth below, prior to completion of the merger, whether before or after the approval of stockholders:

VoiceSignal and Nuance may mutually agree at any time to terminate the merger agreement without completing the merger.

In addition, either of VoiceSignal or Nuance may, without the consent of the other, terminate the merger agreement in either of the following circumstances:

if the merger is not completed by November 14, 2007; or if: (i) there shall be a final non-appealable order of a federal or state court in effect preventing consummation of the merger, or (ii) there shall be any law enacted, promulgated or issued or deemed applicable to completion of the merger by any governmental entity that would make completion of the merger illegal.

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In addition, Nuance may, without the consent of VoiceSignal, terminate the merger agreement in either of the following circumstances:

if there shall be any action taken, or any law enacted, promulgated or issued or deemed applicable to the merger by any governmental entity, that would prohibit Nuance s ownership or operation of the business of VoiceSignal; or

if Nuance is not in material breach of its obligations under the merger agreement and there has been a breach of any representation, warranty, covenant or agreement of VoiceSignal or the stockholders contained in the merger agreement such that the closing conditions regarding such representations, warranties and covenants would not be satisfied and such breach has not been cured within ten calendar days after written notice to VoiceSignal and the stockholder representative, unless the breach, by its nature, cannot be cured.

In addition, VoiceSignal may, without the consent of Nuance, terminate the merger agreement if:

none of VoiceSignal or the stockholders is in material breach of their respective obligations under the merger agreement and there has been a breach of any representation, warranty, covenant or agreement of Nuance contained in the merger agreement such that the closing conditions regarding Nuance s representations, warranties and covenants would not be satisfied and such breach has not been cured within ten calendar days after written notice thereof to Nuance, unless the breach, by its nature, cannot be cured.

Payment of Certain VoiceSignal Expenses

Nuance has agreed to pay up to $1 million of transaction-related expenses incurred by VoiceSignal if the merger agreement is terminated under certain circumstances.

Costs and Expenses

In general, all costs and expenses incurred in connection with the merger agreement will be paid by the party incurring such expenses whether or not the merger is consummated. Notwithstanding the foregoing, Nuance and VoiceSignal have agreed that third party expenses incurred by VoiceSignal, including bonuses payable to certain members of VoiceSignal management upon the consummation of the merger, in excess of $397,500 will either be deducted from the merger consideration or the escrow amount described above.

VoiceSignal Voting Agreements

The following is a summary of certain material provisions of the VoiceSignal voting agreements. This summary is qualified in its entirety by reference to the form of voting agreement, a copy of which is attached as Annex C to this consent solicitation statement/prospectus and is incorporated into this consent solicitation statement/prospectus by reference.

Agreement to Vote

Each of Argonaut Holdings LLC, Daniel Roth, Thomas J. Lazay, Stata Venture Partners, LLC, DiBenedetto Family Trust U/A 11/01/91 FBO Thomas A. DiBenedetto, DiBenedetto Family Trust U/A 11/01/91 FBO Christian R. DiBenedetto, DiBenedetto Family Trust U/A 11/01/91 FBO Cory J. DiBenedetto, DiBenedetto Family Trust U/A 11/01/91 FBO Marc A. DiBenedetto, DiBenedetto 1993 Family Trust and Lawrence DiBenedetto has entered into a voting agreement with Nuance.

Each of these VoiceSignal directors, executive officers and affiliates has agreed to vote his, her or its shares of VoiceSignal capital stock, and any and all options, warrants and other rights to acquire shares of VoiceSignal capital stock, (i) in favor of adoption of the merger agreement and approval of the transactions contemplated thereby, (ii) against any proposal made in opposition to or in competition with the merger, (iii) against any merger, consolidation, business combination, sale of assets, reorganization or recapitalization of VoiceSignal with any party, (iv) against any sale, lease or transfer of any significant part of the assets of

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VoiceSignal, (v) against any reorganization, recapitalization, dissolution, liquidation or winding up VoiceSignal, (vi) against any material change in the capitalization of VoiceSignal or VoiceSignal s corporate structure, (vii) against any other action that is intended, or could reasonably be expected to, impede, interfere with, delay, postpone, discourage or adversely affect the merger or any of the other transactions contemplated by the merger agreement, (viii) in favor of waiving any notices that may have been or may be required as a result of or relating to the merger and the transactions contemplated by the merger agreement, and (ix) in favor of Stata Venture Partners, LLC as the agent and attorney-in-fact for and on and behalf of the stockholders in connection with the merger agreement. These persons have the right, as of July 31, 2007, to vote a total of 77,930,422 shares of VoiceSignal capital stock on an as-converted-to-common-stock basis, or approximately 74% of the outstanding shares of VoiceSignal stock on an as-converted-to-common stock basis and approximately 78% of the outstanding shares of Series C preferred stock and Series D preferred stock, voting together on an as-converted-to-common stock basis.

In connection with the voting agreements, these persons have granted an irrevocable proxy appointing members of the Nuance board of directors, and each of them individually, as their sole and exclusive attorneys and proxies to vote their shares in accordance with the terms of the voting agreements.

Transfer Restrictions

The voting agreement, subject to certain exceptions, restricts or limits the ability of each stockholder that is a party to the agreement to sell, transfer, pledge, encumber, grant an option with respect to or otherwise dispose of any of his or her shares of VoiceSignal capital stock, or to agree to do the foregoing. Several exceptions to this restriction exist, such as the right to transfer to a family member, a trust for the benefit of family members, a charitable trust or a charity if the transferee agrees in writing to be bound by the voting agreement.

The irrevocable proxy and voting agreement will terminate upon the earlier to occur of:

- the completion of the merger; or
- the termination of the merger agreement in accordance with its terms.

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SELECTED FINANCIAL DATA OF NUANCE

The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Nuance s Financial Condition and Results of Operations beginning on page 77 and the consolidated financial statements of Nuance and related notes thereto included elsewhere in this consent solicitation statement/prospectus. The financial data for interim periods presented is derived from unaudited financial statements and is not necessarily indicative of the results expected for any other interim period or for the fiscal year as a whole.

	Nine Months Ended June 30,		Fiscal Year Ended		Nine Months Ended	Fiscal Year Ended	
	2007	2006	September 30, 2006	September 30, 2005	September 30, 2004	December 31, 2003	December 31, 2002
	(In thousands, except per share data)						
Revenues:							
Product and licensing	$ 220,931	$ 162,271	$ 235,825	$ 171,200	$ 98,262	$ 128,681	$ 101,524
Professional services, subscription and hosting(2)	110,078	55,071	81,320	47,308	25,358		
Maintenance and support	91,113	43,035	71,365	13,880	7,287		
Related parties						6,718	5,095
Total revenue	422,122	260,377	388,510	232,388	130,907	135,399	106,619
Costs and Expenses:							
Cost of revenue:							
Cost of product and licensing(1)	31,734	18,290	31,394	20,378	10,348	26,123	16,419
Cost of professional services, subscription and hosting(1)	75,458	41,846	59,015	34,737	20,456		
Cost of maintenance and support(1)	20,512	9,871	17,723	4,938	2,559		
Cost of revenue from amortization of intangible assets	9,209	7,419	12,911	9,150	8,431	10,516	9,470
Total cost of revenue	136,913	77,426	121,043	69,203	41,794	36,639	25,889
Gross margin	285,209	182,951	267,467	163,185	89,113	98,760	80,730
Operating expenses:							
	53,748	41,516	59,403	39,190	26,390	33,938	27,633

Research and development(1)							
Sales and marketing(1)	132,454	90,159	128,412	78,797	49,554	48,706	32,990
General and administrative(1)	52,630	40,571	55,343	31,959	18,394	16,258	10,678
Amortization of other intangible assets	16,613	10,361	17,172	3,984	1,967	2,297	1,682
Stock-based compensation expense						330	103
Restructuring and other charges (credits), net	(54)	(1,233)	(1,233)	7,223	801	3,693	1,041
Total operating expenses	255,391	181,374	259,097	161,153	97,106	105,222	74,127
Income (loss) from operations	29,818	1,577	8,370	2,032	(7,993)	(6,462)	6,603
Other income (expense):							
Interest income	4,100	2,393	3,305	1,244	429	465	354
Interest expense	(24,301)	(9,584)	(17,614)	(1,644)	(340)	(793)	(369)
Other (expense) income, net	(476)	(861)	(1,132)	(237)	(141)	1,003	(1)
Income (loss) before income taxes	9,141	(6,475)	(7,071)	1,395	(8,045)	(5,787)	6,587

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	Nine Months Ended June 30, 2007	Nine Months Ended June 30, 2006	Fiscal Year Ended September 30, 2006	Fiscal Year Ended September 30, 2005	Nine Months Ended September 30, 2004	Fiscal Year Ended December 31, 2003	Fiscal Year Ended December 31, 2002
	(In thousands, except per share data)						
Provision for (benefit from) income taxes	19,740	8,524	15,144	6,812	1,333	(269)	254
Income (loss) before cumulative effect of accounting change	(10,599)	(14,999)	(22,215)	(5,417)	(9,378)	(5,518)	6,333
Cumulative effect of accounting change		(672)	(672)				
Net income (loss)	$ (10,599)	$ (15,671)	$ (22,887)	$ (5,417)	$ (9,378)	$ (5,518)	$ 6,333
Net income (loss) per share, basic and diluted	$ (0.06)	$ (0.10)	$ (0.14)	$ (0.05)	$ (0.09)	$ (0.07)	$ 0.09
Weighted average common shares outstanding, basic	173,786	162,400	163,873	109,540	103,780	78,398	67,010
Weighted average common shares outstanding, diluted	173,786	162,400	163,873	109,540	103,780	78,398	72,796

(1) Excludes stock-based compensation expense as follows:

	$	$	$	$	$	$ 11	$

Cost of product and licensing							
Cost of professional services, subscription and hosting							
Research and development							
Sales and marketing						15	
General and administrative						116	
Restructuring and other charges, net						188	103
	$	$	$	$	$	$ 330	$ 103

(2) As a result of the acquisition of Speechworks in August 2003, professional services became a material component of Nuance s business. As a result of the acquisition, beginning in Fiscal 2004, Nuance began to separately track and disclose professional services revenues and cost of revenue. Prior to Fiscal 2004, it did not separately disclose professional services revenue and cost of revenue as they were immaterial and it is not practical to reclassify these revenues and associated costs, retrospectively.

	As of June 30, 2007	**September 30, 2006**	**September 30, 2005**	**As of September 30, 2004**	**December 31 2003**	**December 31 2002**
			(In thousands)			
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 168,031	$ 112,334	$ 71,687	$ 22,963	$ 42,584	$ 18,853
Short term investments	7,846		24,127	7,373		
Working capital	113,300	51,273	12,130	27,940	44,305	16,842
Total assets	1,556,356	1,235,074	757,212	392,653	401,940	143,690
Long-term liabilities	580,166	446,430	79,775	45,360	48,340	725
Total stockholders equity	749,615	576,596	514,665	301,745	303,226	119,378

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SELECTED FINANCIAL DATA OF VOICESIGNAL

The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of VoiceSignal s Financial Condition and Results of Operations beginning on page 117 and the consolidated financial statements of VoiceSignal and related notes thereto beginning on page F-94. The financial data for the years ended December 31, 2003 and 2002 and for the interim periods ending June 30, 2007 and 2006 presented is derived from unaudited financial statements and is not necessarily indicative of the results expected for any other interim period or for the fiscal year as a whole. See Where You Can Find More Information on page 145.

	Six Months Ended June 30,		Year Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002
	(In thousands, except per share data)						
Revenue:							
Product and licensing	$ 11,674	$ 9,428	$ 21,519	$ 10,056	$ 6,508	$ 1,260	$ 989
Professional services	1,291	1,829	3,082	1,685	959	1,182	1,089
Total revenue	12,965	11,257	24,601	11,741	7,467	2,442	2,078
Costs and expenses:							
Cost of revenue:							
Professional services	629	731	1,351	1,328	495	469	495
Cost of revenue from amortization of intangible assets	251	233	474				
Total cost of revenue	880	964	1,825	1,328	495	469	495
Gross margin	12,085	10,293	22,776	10,413	6,972	1,973	1,583
Operating expenses:							
Research and development	3,421	3,081	6,001	5,351	4,088	4,373	3,539
Sales and marketing	2,423	2,019	4,214	4,072	3,131	1,141	1,106
General and administrative	2,388	2,533	5,356	4,294	2,739	2,338	1,672
Total operating expenses	8,232	7,633	15,571	13,717	9,958	7,852	6,317
Income (loss) from operations	3,853	2,660	7,205	(3,304)	(2,986)	(5,879)	(4,734)
Interest income (expense), net	45	1	(10)	207	44	44	(1,023)
	3,898	2,661	7,195	(3,097)	(2,942)	(5,835)	(5,757)

Income (loss) before income taxes							
Provision for (benefit from) income taxes	(292)	(69)	(187)	(3,210)		1	1
Net income (loss)	$ 4,190	$ 2,730	$ 7,382	$ 113	$ (2,942)	$ (5,836)	$ (5,758)
Net income (loss) available to common shareholders	$ 3,249	$ 1,788	$ 5,499	$ (1,770)	$ (4,809)	$ (7,252)	$ (6,574)
Net income (loss) per share:							
Basic	$ 0.19	$ 0.11	$ 0.32	$ (0.11)	$ (0.30)	$ (0.45)	$ (0.42)
Diluted	$ 0.03	$ 0.02	$ 0.06	$ (0.11)	$ (0.30)	$ (0.45)	$ (0.42)
Weighted average common shares outstanding:							
Basic	17,325	16,848	16,980	16,507	16,063	15,941	15,681
Diluted	122,997	121,803	121,823	16,507	16,063	15,941	15,681

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	As of June 30, 2007	As of December 31, 2006	2005	2004	2003	2002
			(In thousands)			
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 9,316	$ 3,983	$ 297	$ 1,959	$ 5,049	$ 2,923
Short term investments		3,000	6,117			
Working capital	12,575	8,699	3,178	2,266	4,018	2,223
Total assets	22,482	20,123	16,952	8,089	5,862	4,400
Long-term liabilities	1,590	2,400	4,868	1,267	1,039	617
Total stockholders deficit	(19,495)	(22,975)	(28,704)	(26,950)	(22,227)	(15,049)

SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL DATA

The selected unaudited pro forma combined financial data should be read in conjunction with the unaudited pro forma combined financial statements and related notes thereto, the historical consolidated financial statements of Nuance, and related notes thereto, Management s Discussion and Analysis of Nuance s Financial Condition and Results of Operations beginning on page 77 and Management s Discussion and Analysis of VoiceSignal s Financial Condition and Results of Operations beginning on page 119, included in this consent solicitation statement/prospectus, and the historical consolidated financial statements of VoiceSignal, located in this consent solicitation statement/prospectus.

	Nine Months Ended June 30, 2007	Fiscal Year Ended September 30, 2006
	(In thousands except per share date)	
Product and licensing	$ 239,114	$ 292,648
Professional services, subscription and hosting	121,486	108,698
Maintenance and support	91,113	109,878
Total revenue	451,713	511,224
Costs and expenses:		
Cost of product and licensing	31,734	53,406
Cost of professional services, subscription and hosting	81,843	76,258
Cost of maintenance and support	20,512	26,213
Cost of revenue from amortization of intangible assets	10,788	16,803
Total cost of revenue	144,877	172,680
Gross margin	306,836	338,544
Operating expenses:		
Research and development	58,636	69,460
Sales and marketing	136,429	150,903
General and administrative	58,381	80,197
Amortization of other intangible assets	31,700	31,366
Merger expense		22,379
Cost of and loss related to sale of divisions		2,367
Restructuring and other credits, net	(54)	(1,233)
Total operating expenses	285,092	355,439
Income (loss) from operations	21,744	(16,895)
Other income (expense):		

Interest income		4,146		3,896
Interest expense		(41,450)		(56,379)
Other (expense) income, net		(402)		(1,547)
Loss before income taxes		(15,962)		(70,925)
Provision for income taxes		19,652		16,136
Loss before cumulative effect of accounting change		(35,614)		(87,061)
Cumulative effect of accounting change				(672)
Net loss	$	(35,614)	$	(87,733)
Net loss per common share:				
Basic and Diluted	$	(0.20)	$	(0.52)
Weighted average common shares outstanding,				
Basic and diluted		179,623		169,710

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	As of June 30, 2007
Pro Forma Combined Balance Sheet Data:	
Cash and cash equivalents	$ 178,990
Short term investments	7,846
Working capital	141,018
Total assets	1,876,747
Long-term liabilities	803,702
Total stockholders equity	840,467

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NUANCE S BUSINESS

Overview

Nuance is a leading provider of speech-based solutions for businesses and consumers worldwide. Nuance s speech solutions are designed to transform the way people interact with information systems, mobile devices and hosted services. Nuance has designed our solutions to make the user experience more compelling, convenient, safe and satisfying, unlocking the full potential of these systems, devices and services.

The vast improvements in the power and features of information systems and mobile devices have increased their complexity and reduced their ease of use. Many of the systems, devices and services designed to make our lives easier are cumbersome to use, involving complex touch-tone menus in call centers, counterintuitive and inconsistent user interfaces on computers and mobile devices, inefficient manual processes for transcribing medical records and automobile dashboards overrun with buttons and dials. These complex interfaces often limit the ability of the average user to take full advantage of the functionality and convenience offered by these products and services. By using the spoken word, Nuance s speech solutions help people naturally obtain information, interact with mobile devices and access services such as navigation, online banking and medical transcription.

Nuance provides speech solutions to several rapidly growing markets:

Customer Care. Nuance delivers a portfolio of speech-enabled customer care solutions that improve the quality and consistency of customer communications. Nuance s solutions are used to automate a wide range of customer services and business processes in a variety of information and process intensive vertical markets such as telecommunications, financial services, travel and entertainment, and government.

Mobile. Nuance s mobile speech solutions add voice control capabilities to mobile devices and services, allowing people to use spoken words or commands to dial a mobile phone, enter destination information into an automotive navigation system, dictate a text message or have emails and screen information read aloud. Nuance s mobile solutions are used by many of the world s leading mobile device and automotive manufacturers.

Healthcare Dictation and Transcription. Nuance provides comprehensive dictation and transcription solutions and services that improve the way patient data is captured, processed and used. Nuance s healthcare dictation and transcription solutions automate the input and management of medical information and are used by many of the largest hospitals in the United States.

In addition to its speech offerings, Nuance provides PDF and document solutions that reduce the time and cost associated with creating, using and sharing documents. Nuance s solutions benefit from the widespread adoption of the PDF format and the increasing demand for networked solutions for managing electronic documents. Nuance s solutions are used by millions of professionals and within large enterprises.

Nuance leverages its global professional services organization and its extensive network of partners to design and deploy innovative speech and imaging solutions for businesses and organizations around the globe. Nuance markets and distributes its products indirectly through a global network of resellers, including system integrators, independent software vendors, value-added resellers, hardware vendors, telecommunications carriers and distributors, and directly through its dedicated sales force and through its e-commerce website.

Nuance has built a world-class portfolio of speech solutions both through internal development and acquisitions. Nuance continues to pursue opportunities to broaden its speech solutions and customer base through acquisitions, including the following recently announced transactions:

On June 21, 2007, Nuance announced its intention to acquire Tegic Communications, a wholly owned subsidiary of AOL LLC and a developer of embedded software for mobile devices. The Tegic acquisition will expand Nuance s presence in the mobile device industry and accelerate the delivery of a new mobile user interface that combines voice, text and touch to improve the user experience for consumers and mobile professionals.

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On May 15, 2007, Nuance announced its intention to acquire VoiceSignal Technologies, a global provider of voice technology for mobile devices. The VoiceSignal acquisition will extend Nuance s solutions and expertise to address the accelerating demand for speech-enabled mobile devices and services that allow people to use spoken commands to navigate and retrieve information and to control and operate mobile phones, automobiles and personal navigation devices, simply and effectively.

On April 24, 2007, Nuance acquired BeVocal, a provider of hosted self-service customer care solutions that address business requirements of wireless carriers and their customers. The BeVocal acquisition provides Nuance with a portfolio of applications that serve the needs of wireless carriers and their customers and a highly recurring revenue base derived from a software-as-a-service business model.

On March 26, 2007, Nuance acquired Focus Enterprises Limited, a leading healthcare transcription company. The Focus acquisition complements Nuance s Dictaphone iChart Web-based transcription solutions and expands Nuance s ability to deliver Web-based speech recognition solutions and to provide scalable Internet delivery of automated transcription.

Nuance s corporate headquarters are in Burlington, Massachusetts and it has offices across North America, Latin America, Europe, and Asia. As of June 30, 2007, Nuance had 3,136 full time employees in total, including 537 in sales and marketing, 531 in research and development, and 306 in general and administrative. Forty-seven percent of Nuance s employees are located outside of the United States.

Market Opportunity

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. Nuance believes that the power of the spoken word will transform the way people use the Internet, telecommunications systems, wireless and mobile networks and related corporate infrastructure to conduct business. Nuance believes that several key market trends will enhance its market position and create new business opportunities:

More than 90% of all customer interactions begin with a phone call. With personnel expenditures representing approximately 75% of call center budgets, Nuance s solutions automate customer interactions to deliver significant cost savings to call centers that must reduce expenses and improve customer service to remain competitive.

With 80% of consumers reporting that quality of service is extremely or very influential, and with only 40% of consumers reporting that they were satisfied with their customer service experiences, customer care operations must address these challenges. Speech-based solutions have significant advantages over more traditional automation capabilities using touchtone menus and are recognized for ease of use, clarity, speed of transaction and completeness of service.

Consumers in North America make approximately 6.1 billion calls to directory assistance each year. The emergence of new directory assistance business models such as free directory assistance services is expected to generate 1.5 billion calls per year. Nuance provides tailored speech recognition solutions for this industry.

Mobile handset shipments are expected to reach 1.1 billion units in 2007, which represents approximately 12% growth over shipments in 2006. Nuance provides an intuitive user interface based on voice commands that helps unlock the rich feature sets of mobile devices and services, thereby improving the customer experience.

Currently there are approximately 20 million users of wireless email globally and the number of users is expected to reach 350 million users by 2010. Nuance s speech enabled mobile solutions provide a natural way to interact with wireless e-mail services.

Approximately $12 billion is spent annually in North America on both in-house and outsourced medical transcription labor. Nuance s healthcare dictation solutions reduce the cost of manual transcription while improving turnaround time and accuracy.

On average, an organization of 1,000 employees spends $5.7 million each year on reformatting and recreating documents from multiple sources. Businesses use Nuance s PDF and document conversion and management solutions to more efficiently create, manage and share documents.

Nuance Solutions

Nuance s speech solutions enable enterprises, professionals and consumers to increase productivity, reduce costs and save time by using voice control to improve the user experience. Nuance s imaging solutions build on decades of experience and technology development to deliver businesses, manufacturers and consumers a broad set of PDF and document offerings. Nuance provides a broad set of speech and imaging offerings to its customers in the following areas:

Customer Care

To remain competitive, organizations must improve the quality of customer care while reducing costs and ensuring a positive customer experience. Technological innovation, competitive pressures and rapid commoditization have made it increasingly difficult for organizations to achieve enduring market differentiation or to secure customer loyalty. In this environment, organizations need to satisfy the expectations of increasingly savvy and mobile consumers who demand high levels of customer service. This increase in consumer expectations necessitates a change in the way organizations approach customer care and respond to customer needs.

Nuance delivers a portfolio of customer interaction and business intelligence solutions enabled by speech that are designed to help companies better support, understand and communicate with their customers. Nuance s solutions improve the customer experience, increase the use of self-service and enable new revenue opportunities. Nuance also offers business intelligence solutions, which allow companies to draw knowledge from their customer care interactions to improve overall business performance.

Nuance s portfolio of customer care solutions includes:

Customer Self Service. Nuance s self-service solutions help companies improve the user experience, reduce costs through increased use of self-service solutions and create new revenue opportunities. Nuance s solutions support applications such as flight information, personal banking, equipment repair and claims processing.

Voice Driven Call Steering. Unlike touchtone systems that use complex menus that may lead to misrouted calls and poor customer experiences, Nuance s call steering solutions allow customers to describe their needs in their own words to navigate automated customer care systems, enabling organizations to direct inbound calls more accurately, more efficiently, and with higher caller satisfaction.

Authentication. Nuance s voice authentication software enables businesses to provide secure access to sensitive information over the telephone, unobtrusively confirming a caller s identity using the unique characteristics of each voice, thereby providing enterprises a powerful defense against fraudulent activity.

Auto Attendant. Nuance s SpeechAttendant application, a natural speech-enabled turnkey solution, allows callers to speak the name of a person, department, service or location and be automatically transferred to the requested party, without the hassle of searching for phone numbers or waiting to speak to an operator.

Analytics. Nuance s business intelligence solutions allow enterprises to draw knowledge from customer interactions. Powered by specialized customer behavior intelligence software, Nuance offers tools and services that deliver fact-based insight about who is calling, why they are calling, and the quality of the caller experience.

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Nuance s solutions are used across many customer-service intensive sectors, including financial services, telecommunications, healthcare, utilities, government, travel and entertainment, where customers include AOL, AT&T, Comcast, Charles Schwab and United Health.

Nuance licenses its solutions to a wide variety of enterprises and leading telecommunications carriers. Nuance s speech solutions are designed to serve its global partners and customers and are available in up to 49 languages and dialects worldwide. Although in certain cases Nuance sells directly to its customers, the majority of its solutions are fulfilled through its channel network that includes providers such as Avaya, Cisco, Genesys, Intervoice and Nortel, that integrate Nuance s solutions into their hardware and software platforms.

Nuance s complements its solutions and products with a global professional services organization that supports customers and partners with business and systems consulting project management, user-interface design, speech science, application development, and business performance optimization.

Nuance s acquisition of BeVocal expands its existing product portfolio with a unique set of solutions for lifecycle management of customers of wireless carriers and a range of premium services for the wireless consumer, such as the Web and Short Message Service (SMS). The BeVocal acquisition also added numerous wireless carrier relationships to the Nuance network.

Mobile

Today, an increasing number of people worldwide rely on mobile devices to stay connected, informed and productive. Nuance sees an expanding opportunity in helping consumers use the powerful capabilities of their phones, cars and personal navigation devices by using voice commands to control these devices and to access the array of content and services available on the Internet through wireless mobile devices. Nuance expects to serve more than one billion consumers within the next three years with voice-based mobile solutions that allow them to simply and effectively navigate and retrieve information and conduct transactions using these devices.

Nuance offers solutions and expertise that help satisfy the accelerating demand for speech-enabled mobile devices and services. Nuance s portfolio of mobile solutions includes:

Voice Search. Nuance s Voice Search solutions allow users to quickly search local information databases such as business listings, yellow pages, restaurant guides and movie schedules, by naturally speaking their requests through a speech-enabled search interface that simplifies search capabilities and increases usage.

Voice-Activated Dialing. Nuance s voice-activated dialing allows users to call anyone with just one command, avoiding the need to navigate complex menus and sort through an extensive list of contacts. Text-to-speech technology provides audio output of incoming calls or messages, as well as verbal alerts of low battery or roaming status.

Voice Control. Offered on a subscription basis through wireless carriers, the Nuance Voice Control service lets mobile consumers use their voice to dictate and send email or text messages, create calendar entries, dial a contact, and search the Web for business listings, news, weather, stock quotes, sport scores and more.

Mobile Messaging. Nuance Mobile provides users a more natural way to enter SMS messages, mobile instant messages, and mobile email into mobile wireless devices, significantly faster than with the traditional keypad.

Voice-Controlled MP3 Player Applications. An increasing number of phones on the market today are equipped with MP3 capabilities, allowing users to store and play hundreds of songs. Nuance s speech-controlled MP3 applications provide a simple voice-activated interface to select a song, an artist or a playlist.

Automotive Solutions. Nuance s integrated suite of Automotive Solutions enable voice-activated dialing, voice destination entry for navigation systems, and vehicle command and control for in-vehicle entertainment systems.

Nuance s mobile solutions are used by mobile phone, automotive, personal navigation device and other consumer electronic manufacturers and their suppliers, including Mitsubishi Electronics, LG Electronics, Group Sense and Delphi. In addition, telecommunications carriers, Web search companies and content providers are increasingly using Nuance s mobile search and communication solutions to offer value-added services to their subscribers and customers.

The recently announced acquisitions of VoiceSignal and Tegic will enhance Nuance s offerings to mobile device manufacturers. The VoiceSignal acquisition will provide voice-recognition technologies in mobile search, messaging, and command and control that complement Nuance s current capabilities. The Tegic acquisition will provide Nuance with predictive text and touch technologies. The combination of Nuance, VoiceSignal and Tegic sets the stage for a new mobile user interface that integrates predictive text, speech and touch inputs. This multimodal interface will provide easier access for users of mobile devices and will be available to all manufacturers across their product lines.

Healthcare Dictation and Transcription

The healthcare industry is under significant pressure to streamline operations and reduce costs and improve patient care. In recent years, healthcare organizations such as hospitals, clinics, medical groups, physicians offices, insurance providers have increasingly turned to speech solutions to automate manual processes such as the dictation and transcription of patient records.

Nuance provides comprehensive dictation and transcription solutions and services that automate the input and management of medical information. Since 2004, Nuance has steadily increased its investments in solutions for the healthcare industry. Nuance is dedicating substantial resources to product development, sales, business development and marketing in an effort to replace traditional manual transcription before the end of the decade.

Nuance s healthcare dictation and transcription solutions include:

Dictation and Transcription Workflow Solutions. Nuance s enterprise solutions provide centralized platforms to generate and distribute speech-driven medical documentation through the use of advanced dictation and transcription features.

Hosted Dictation Services. Dictaphone iChart, a subscription-based service, allows Nuance to deliver hosted dictation, transcription and speech recognition solutions to customers seeking to outsource this function entirely.

Departmental Solutions. Dictaphone PowerScribe®, a speech recognition solution for radiology, cardiology, pathology and related specialties, enables the healthcare providers to dictate, edit, and sign reports without manual transcription, enhancing report turnaround time.

Dragon Naturally Speaking Medical. This dictation software provides front-end speech recognition that is used by physicians and clinicians to create and navigate medical records.

Hospitals, clinics and group practices, including Adventist Health, Allina Health, Guthrie Healthcare, Mt. Kisco Medical, and Sarasota Memorial, and approximately 300,000 physicians use Dictaphone healthcare solutions to manage the dictation and transcription of patient records. Nuance utilizes a focused, enterprise sales team and professional services organization to address the market and implementation requirements of the healthcare industry.

The recent acquisition of Focus expands Nuance s ability to deliver healthcare transcription solutions. The combination of Focus proven technology portfolio and services capability and the Dictaphone iChart Web-based transcription solutions create an efficient, scalable web-based automated transcription service. Focus serves some of the largest U.S. healthcare organizations, combining the use of speech recognition, a Web-based editing platform and manual transcription services based in India to achieve superior customer satisfaction, turnaround time and cost efficiency.

In addition to healthcare-oriented dictation solutions, Nuance offers a general purpose version of its *Dragon NaturallySpeaking*, a suite of general purpose desktop dictation applications that increases productivity by using speech to create documents, streamline repetitive and complex tasks, input data, complete forms and automate manual transcription processes. Nuance s *Dragon NaturallySpeaking* family of products delivers enhanced productivity for professionals and consumers who need to create documents and transcripts.

Nuance s *Dragon NaturallySpeaking* solutions allow users to automatically convert speech into text at up to 160 words-per-minute, with support for over 300,000 words, and with an accuracy rate of up to 99%. This vocabulary can be expanded by users to include specialized words and phrases and can be adapted to recognize individual voice patterns. Nuance s desktop dictation software is currently available in eleven languages. Nuance utilizes a combination of its global reseller network and direct sales to distribute its speech recognition and dictation products.

PDF and Document Imaging

The proliferation of the Internet, email and other networks have greatly simplified the ability to share electronic documents, resulting in an ever-growing volume of documents to be used and stored. Nuance s solutions reduce the costs associated with paper documents through easy-to use scanning, document management and electronic document routing solutions. Nuance offers versions of its products to hardware vendors, home offices, small businesses and enterprise customers.

Nuance s PDF and document solutions include:

PDF Applications. Nuance s PDF solutions offer comprehensive PDF capabilities for business users, including a combination of creation, editing and conversion features. Nuance s PDF Converter product family is used to create PDF files and turn existing PDF files into fully-formatted documents that can be edited.

Optical Character Recognition and Document Conversion. Nuance s OmniPage product uses optical character recognition technology to deliver highly accurate document and PDF conversion, replacing the need to manually re-create documents.

Digital Paper Management. PaperPort applications combine PDF creation with network scanning, allowing individuals to work quickly with scanned paper documents, PDF files and digital documents. Nuance s software is typically used in conjunction with network scanning devices to preserve an image of a document and allows for easy archiving, indexing and retrieval.

Growth Strategy

Nuance focuses on providing market-leading, value-added solutions for its customers and partners through a broad set of technologies, service offerings and channel capabilities. Nuance intends to pursue growth through the following key elements of its strategy:

Extend Technology Leadership. Nuance s solutions are recognized as among the best in their respective categories. Nuance intends to leverage its global research and development organization and broad portfolio of technologies, applications and intellectual property to foster technological innovation and maintain customer preference for our solutions. Nuance also intends to invest in its engineering resources and seek new technological advancements that further expand the addressable markets for its solutions.

Broaden Expertise in Vertical Markets. Businesses are increasingly turning to Nuance for comprehensive solutions rather than for a single technology product. Nuance intends to broaden its expertise and capabilities to deliver targeted solutions for a range of industries including mobile device manufacturers, healthcare, telecommunications, financial services and government administration. Nuance also intends to expand its global sales and professional services capabilities to help its customers and partners design, integrate and deploy innovative solutions.

Increase Subscription and Transaction Based Recurring Revenue: Nuance intends to increase its hosted or subscription-based offerings in its core industries. The expansion of its subscription or transaction based solutions will enable Nuance to deliver applications that its customers use on a repeat basis, and pay for on a per use basis, providing Nuance with the opportunity to enjoy the benefits of predictable and recurring revenue streams. Hosted services provided by Nuance offer its customers simple deployment, seamless upgrades and rapid return on investment.

Expand Global Presence. Nuance intends to further expand its international resources to better serve global customers and partners and to leverage opportunities in emerging markets such as China, India, Latin America and Asia. Nuance continues to add regional executives and sales employees in different geographic regions to better address demand for speech based solutions and services.

Pursue Strategic Acquisitions. Nuance has selectively pursued strategic acquisitions to expand its technology, solutions and resources to complement its organic growth. Nuance has proven experience in integrating businesses and technologies and in delivering enhanced value to its customers, partners, employees and shareholders. Nuance intends to continue to pursue acquisitions that enhance our solutions, serve specific vertical markets and strengthen its technology portfolio.

Research and Development/Intellectual Property

In recent years, Nuance has developed and acquired extensive technology assets, intellectual property and industry expertise in speech and imaging that provide it with a competitive advantage in markets where we compete. Nuance s technologies are based on complex algorithms which require extensive amounts of linguistic and image data, acoustic models and recognition techniques. A significant investment in capital and time would be necessary to replicate Nuance s current capabilities.

Nuance continues to invest in technologies to maintain its market-leading position and to develop new applications. Nuance s technologies are covered by more than 473 issued patents and 172 patent applications. Nuance s intellectual property, whether purchased or developed internally, is critical to its success and competitive position and, ultimately, to its market value. Nuance s products and services build on a portfolio of patents, copyrights, trademarks, services marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect its intellectual property and proprietary rights.

Litigation and Other Claims

Like many companies in the software industry, Nuance has, from time to time, been notified of claims that it may be infringing, or contributing to the infringement of, the intellectual property rights of others. These claims have been referred to counsel, and they are in various stages of evaluation and negotiation. If it appears necessary or desirable, Nuance may seek licenses for these intellectual property rights. There is no assurance that licenses will be offered by all claimants, that the terms of any offered licenses will be acceptable to Nuance or that in all cases the dispute will be resolved without litigation, which may be time consuming and expensive, and may result in injunctive relief or the payment of damages by Nuance.

On April 10, 2007, Disc Link Corporation (Disc Link) filed a patent infringement action against Nuance in the United States District Court for the Eastern District of Texas. Damages are sought in an unspecified amount. In this lawsuit, Disc Link alleges that Nuance infringes U.S. Patent No. 6,314,574, titled Information Distribution System. On

June 28, 2007, Nuance entered into a non-exclusive patent license and settlement agreement with Disc Link regarding the actions filed against Nuance on April 10, 2007, which resulted in Nuance acquiring a license to the technology. The impact of the patent license and settlement agreement, relative to the Nuance s financial position, and with regard to the future amortization of the acquired patent license in any given period is not material.

On November 8, 2006, Voice Signal Technologies, Inc. (VoiceSignal) filed an action against Nuance and eleven of its resellers in the United States District Court for the Western District of Pennsylvania (the

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Court) claiming patent infringement. Damages were sought in an unspecified amount. In the lawsuit, VoiceSignal alleges that Nuance is infringing United States Patent No. 5,855,000 which relates to improving correction in a dictation application based on a two input analysis. Nuance believes these claims have no merit and intends to defend the action vigorously. As a result of Nuance s pending acquisition of VoiceSignal (Note 18), the Court has stayed the action for an unspecified period of time.

On May 31, 2006 GTX Corporation (GTX), filed an action against Nuance in the United States District Court for the Eastern District of Texas claiming patent infringement. Damages were sought in an unspecified amount. In the lawsuit, GTX alleged that Nuance is infringing United States Patent No. 7,016,536 entitled Method and Apparatus for Automatic Cleaning and Enhancing of Scanned Documents. Nuance believes these claims have no merit and intends to defend the action vigorously.

On November 27, 2002, AllVoice Computing plc (AllVoice) filed an action against Nuance in the United States District Court for the Southern District of Texas claiming patent infringement. In the lawsuit, AllVoice alleges that Nuance is infringing United States Patent No. 5,799,273 entitled Automated Proofreading Using Interface Linking Recognized Words to their Audio Data While Text is Being Changed (the 273 Patent). The 273 Patent generally discloses techniques for manipulating audio data associated with text generated by a speech recognition engine. Although Nuance has several products in the speech recognition technology field, Nuance believes that its products do not infringe the 273 Patent because, in addition to other defenses, they do not use the claimed techniques. Damages are sought in an unspecified amount. Nuance filed an Answer on December 23, 2002. The United States District Court for the Southern District of Texas entered summary judgment against AllVoice and dismissed all claims against Nuance on February 21, 2006. AllVoice filed a notice of appeal from this judgment on April 26, 2006. The Company believes these claims have no merit and intends to defend the action vigorously.

Nuance believes that the final outcome of the current litigation matters described above will not have a significant adverse effect on its financial position and results of operations. However, even if Nuance s defense is successful, the litigation could require significant management time and could be costly. Should Nuance not prevail in these litigation matters, its operating results, financial position and cash flows could be adversely impacted.

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DEVELOPMENTS IN NUANCE S BUSINESS DURING FISCAL 2007

Acquisition of Mobile Voice Control

On December 29, 2006, Nuance acquired all of the outstanding capital stock of Mobile Voice Control, Inc., or MVC, for a purchase price consisting of a combination of cash and Nuance common stock. In connection with the closing of the acquisition, Nuance issued an aggregate of 784,266 shares of Nuance common stock to the former stockholders of MVC. Subsequently, Nuance agreed to repurchase a portion of those shares issued at closing from the former MVC stockholders. Nuance may issue up to an additional 1,700,840 shares of Nuance common stock upon the achievement of certain revenue milestones for the calendar years ending December 31, 2007 and December 31, 2008. The issuance of no portion of these additional shares is guaranteed. The MVC acquisition allowed Nuance to further accelerate the deployment of speech-enabled solutions in the wireless industry, in particular within the mobile search and communications markets. MVC s products offerings include a speech-enabled service that allows consumers easily to dictate and send e-mail or text messages, dial a contact, create calendar entries, and search web content entirely with their voice.

Acquisition of Bluestar Resources/Focus Enterprises Limited

On March 26, 2007, Nuance acquired all of the outstanding capital stock of Bluestar Resources Ltd., (the parent company of Focus Enterprises Limited and Focus Infosys India Private Limited), a healthcare transcription solution company with operations in India and the United States, for an aggregate purchase price of approximately $59.3 million. The acquisition expanded Nuance s ability to deliver web-based speech recognition editing services and significantly accelerated Nuance s strategy to automate manual transcription in the healthcare industry. In connection with the Focus acquisition, Nuance granted 185,367 shares of its common stock, in the form of stand-alone restricted stock units, as an inducement material to 61 individuals entering into employment agreements with Nuance. The issuance of the restricted stock units was approved by the compensation committee of the Nuance board of directors. The restricted stock units vest over a three-year period, subject to acceleration upon the achievement of certain performance targets.

Expanded Credit Facility

On April 5, 2007, Nuance entered into (i) an Amended and Restated Credit Agreement dated as of April 5, 2007, among Nuance, the Lenders party to the credit agreement from time to time, UBS AG, Stamford Branch, as administrative agent, Citicorp North America, Inc., as syndication agent, Credit Suisse Securities (USA) LLC, as documentation agent, Citigroup Global Markets Inc. and UBS Securities LLC, as joint lead arrangers, Credit Suisse Securities (USA) LLC and Banc Of America Securities LLC, as co-arrangers, and Citigroup Global Markets INC., UBS Securities LLC and Credit Suisse Securities (USA) LLC, as joint bookrunners and (ii) an Amendment Agreement, dated as of April 5, 2007, among Nuance, UBS AG, Stamford Branch, as administrative agent, Citicorp North America, INC., as syndication agent, Credit Suisse Securities (USA) LLC, as documentation agent, the Lenders party thereto from time to time, Citigroup Global Markets Inc. and UBS Securities LLC, as joint lead arrangers and joint bookrunners, Credit Suisse Securities (USA) LLC, as joint bookrunner and co-arranger, and Banc Of America Securities LLC, as co-arranger.

The Credit Agreement and the Amendment Agreement, provide for the amendment and restatement of Nuance s prior 7-year term facility and 6-year revolving credit facility, which, together we refer to as the expanded facility. The expanded facility includes $90 million of additional term debt resulting in a $442 million term facility due in March 2013 and a $75 million revolving credit facility due in March 2012. The additional funds received by Nuance under the expanded facility were used to fund the cash portion of the merger consideration for Nuance s acquisitions of BeVocal, Inc. and Focus Enterprises Limited and for other general corporate purposes and is secured by substantially all of the assets of Nuance and its domestic

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subsidiaries. The Credit Agreement contains customary covenants, including covenants that in certain cases restrict the ability of Nuance and our subsidiaries to incur additional indebtedness, create or permit liens on assets, enter into sale-leaseback transactions, make loans or investments, sell assets, make acquisitions, pay dividends, or repurchase stock. The Credit Agreement also contains customary events of default, including failure to make payments, 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.

Acquisition of BeVocal

On April 24, 2007, Nuance acquired all of the outstanding capital stock of BeVocal, Inc. The aggregate consideration delivered to the former stockholders of BeVocal consisted of approximately 8.3 million shares of Nuance common stock and an initial payment of approximately $15 million in cash, net of the estimated cash closing balance of BeVocal. Additionally, Nuance agreed to a contingent payment of up to an additional $60,000,000 in cash to be paid, if at all, approximately 18 months following the closing, upon the achievement of certain performance objectives. The acquisition of BeVocal brought Nuance an expanded product portfolio with additions in the areas of mobile customer lifecycle management, mobile premium services and other mobile consumer products. In connection with the BeVocal acquisition, Nuance granted 501,530 shares of its common stock, in the form of stand-alone restricted stock units, and options to purchase 750,000 shares of its common stock as an inducement that is material to 145 individuals entering into employment arrangements with Nuance. The issuance of the restricted stock units and stock options was approved by the compensation committee of the Nuance board of directors. The restricted stock units vest over a three-year period, subject to acceleration upon the achievement of certain performance targets and the stock options vest over a four-year period.

Agreement to Acquire VoiceSignal

On May 14, 2007, Nuance entered into an agreement to acquire VoiceSignal. The aggregate consideration consists of (i) approximately 5.84 million shares of common stock and (ii) a cash payment of approximately $204 million, net of the estimated cash closing balance of VoiceSignal. For the year ended December 31, 2006, VoiceSignal had revenues of $24.6 million and net income of $7.4 million. On July 12, 2007, Nuance received a request from the Department of Justice, or the DOJ, for additional information in connection with its pending merger with VoiceSignal. The DOJ request extends the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act, until 30 days after Nuance and VoiceSignal have substantially complied with the request, unless that period is extended voluntarily by the parties or terminated sooner by the DOJ. Nuance intends to promptly respond to the DOJ request and is working towards the intended close in its fourth fiscal quarter of 2007. The proposed transaction is described in greater detail in this consent solicitation statement/prospectus.

Incremental Credit Facility

On June 11, 2007, Nuance received a commitment letter from Citigroup Global Markets Inc., Lehman Brothers Inc. and Goldman Sachs Credit Partners L.P. as arrangers and Bank of America Securities as co-arranger for a syndicate of lenders under its existing credit agreement. The commitment letter, which expires August 30, 2007, relates to incremental term loans in the amount of $225 million that would be provided under its existing credit agreement. The additional funds Nuance receives will be used to fund the cash portion of the merger consideration for the acquisition of VoiceSignal, to pay related fees and expenses, and for general corporate purposes.

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Agreement to Purchase Tegic

On June 21, 2007, Nuance entered into a stock purchase agreement with AOL and Tegic, pursuant to which, among other things, Nuance agreed to purchase from AOL, a wholly owned subsidiary of Time Warner Inc., all of the outstanding shares of Tegic for aggregate consideration of approximately $265 million in cash. The combination is expected to generate approximately $8 million to $10 million in cost synergies in fiscal year 2008. While the waiting period applicable to the Tegic acquisition under the HSR Act has terminated, the closing remains subject to the satisfaction of customary closing conditions.

Convertible Debentures

On August 7, 2007, Nuance entered into a purchase agreement with Citigroup Global Markets Inc. and Goldman, Sachs & Co. (the Initial Purchasers) to offer and sell $220 million aggregate principal amount of its 2.75% Convertible Debentures due 2027, plus up to an additional $30 million aggregate principal amount of such debentures at the option of the Initial Purchasers to cover over-allotments, if any, in a private placement to the Initial Purchasers for resale to qualified institutional buyers pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the Act), afforded by Section 4(2) of the Act and Rule 144A under the Act. Nuance intends to use the net proceeds from the offering to partially fund its acquisition of Tegic.

MANAGEMENT S DISCUSSION AND ANALYSIS OF NUANCE S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management s Discussion and Analysis, or MD&A, is intended to help the reader understand the results of operations and financial condition of Nuance s business. MD&A is provided as a supplement to, and should be read in conjunction with, Nuance s consolidated financial statements and the accompanying notes to the consolidated financial statements included in this consent solicitation statement/prospectus.

Forward-looking Statements

This consent solicitation statement/prospectus contains forward-looking statements. These forward-looking statements include predictions regarding:

- Nuance s future revenue, cost of revenue, research and development expenses, selling, general and administrative expenses, amortization of other intangible assets and gross margin;
- Nuance s strategy relating to speech and imaging technologies;
- the potential of future product releases;
- Nuance s product development plans and investments in research and development;
- Nuance s future acquisitions, and anticipated benefits from prior acquisitions;
- Nuance s international operations and localized versions of our products; and
- Nuance s 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 term comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Nuance s actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks described under Risk Factors and elsewhere in this consent solicitation statement/prospectus.

OVERVIEW

Nuance is a leading provider of speech-based solutions for businesses and consumers worldwide. Nuance s speech solutions are designed to transform the way people interact with information systems, mobile devices and hosted services. Nuance has designed our solutions to make the user experience more compelling, convenient, safe and satisfying, unlocking the full potential of these systems, devices and services.

The vast improvements in the power and features of information systems and mobile devices have increased their complexity and reduced their ease of use. Many of the systems, devices and services designed to make our lives easier are cumbersome to use, involving complex touch-tone menus in call centers, counterintuitive and inconsistent user interfaces on computers and mobile devices, inefficient manual processes for transcribing medical records and automobile dashboards overrun with buttons and dials. These complex interfaces often limit the ability of the average user to take full advantage of the functionality and convenience offered by these products and services. By using the spoken word, our speech solutions help people naturally obtain information, interact with mobile devices and access services such as navigation, online banking and medical transcription.

Nuance provides speech solutions to several rapidly growing markets:

Customer Care. Nuance delivers a portfolio of speech-enabled customer care solutions that improve the quality and consistency of customer communications. Nuance s solutions, based on network speech technologies, are used to automate a wide range of customer services and business processes in a variety of information and process intensive vertical markets such as telecommunications, financial services, travel and entertainment, and government.

Mobile. Nuance s mobile speech solutions add voice control capabilities to mobile devices and services, allowing people to use spoken words or commands to dial a mobile phone, enter destination information into an automotive navigation system, dictate a text message or have emails and screen information read aloud. Nuance s mobile solutions, based on technologies that are embedded on devices or delivered through a wireless network, are used by many of the world s leading mobile device and automotive manufacturers.

Healthcare Dictation and Transcription. Nuance provides comprehensive dictation and transcription solutions and services that improve the way patient data is captured, processed and used. Nuance s healthcare dictation and transcription solutions, which include our Dictaphone and Dragon NaturallySpeaking offerings, automate the input and management of medical information and are used by many of the largest hospitals in the United States.

In addition to Nuance s speech offerings, Nuance provides PDF and document solutions that reduce the time and cost associated with creating, using and sharing documents. Nuance s solutions benefit from the widespread adoption of the PDF format and the increasing demand for networked solutions for managing electronic documents. Nuance s solutions are used by millions of professionals and within large enterprises.

Nuance leverages its global professional services organization and our extensive network of partners to design and deploy innovative speech and imaging solutions for businesses and organizations around the globe. Nuance markets and distribute its products indirectly through a global network of resellers, including system integrators, independent software vendors, value-added resellers, hardware vendors, telecommunications carriers and distributors, and directly through Nuance s dedicated sales force and through Nuance s e-commerce website.

Nuance has built a world-class portfolio of speech solutions both through internal development and acquisitions. Nuance continues to pursue opportunities to broaden its speech solutions and customer base through acquisitions, including the following recently announced transactions:

On June 21, 2007, Nuance announced its intention to acquire Tegic Communications, a wholly owned subsidiary of AOL LLC and a developer of embedded software for mobile devices. The Tegic acquisition will expand Nuance s presence in the mobile device industry and accelerate the delivery of a new mobile user interface that combines voice, text and touch to improve the user experience for consumers and mobile professionals.

On May 15, 2007, Nuance announced its intention to acquire VoiceSignal Technologies, a global provider of voice technology for mobile devices. The VoiceSignal acquisition will extend Nuance s solutions and expertise to address the accelerating demand for speech-enabled mobile devices and services that allow people to use spoken commands to navigate and retrieve information and to control and operate mobile phones, automobiles and personal navigation devices, simply and effectively.

On April 24, 2007, Nuance acquired BeVocal, Inc. a provider of hosted self-service customer care solutions that address business requirements of wireless carriers and their customers. The BeVocal acquisition provides Nuance with a portfolio of applications that serve the needs of wireless carriers and their customers and a highly recurring revenue base derived from a software-as-a-service business model.

On March 26, 2007, Nuance acquired Focus, a leading healthcare transcription company. The Focus acquisition complements Nuance Dictaphone iChart web-based transcription solutions and expands its ability to deliver Web-based speech recognition solutions and to provide scalable Internet delivery of automated transcription.

Nuance s corporate headquarters are in Burlington, Massachusetts and Nuance has offices across North America, Latin America, Europe, and Asia. As of June 30, 2007, Nuance had 3,136 full time employees in

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total, including 537 in sales and marketing, 531 in research and development, and 306 in general and administrative. Forty-seven percent of Nuance employees are located outside of the United States.

Nuance was incorporated in 1992 as Visioneer, Inc. under the laws of the state of Delaware. In 1999, Nuance changed its name to ScanSoft, Inc. and also changed its ticker symbol to SSFT. In October 2004, Nuance changed its fiscal year end to September 30, resulting in a nine-month fiscal year for 2004. In October 2005, Nuance changed its name to Nuance Communications, Inc., to reflect its core mission of being the world s most comprehensive and innovative provider of speech solutions, and in November 2005 Nuance changed its ticker symbol to NUAN.

On August 7, 2007, Nuance entered into a purchase agreement with Citigroup Global Markets Inc. and Goldman, Sachs & Co. (the Initial Purchasers) to offer and sell $220 million aggregate principal amount of its 2.75% Convertible Debentures due 2027, plus up to an additional $30 million aggregate principal amount of such debentures at the option of the Initial Purchasers to cover over-allotment, if any, in a private placement to the Initial Purchasers for resale to qualified institutional buyers pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the Act), afforded by Section 4(2) of the Act and Rule 144A under the Act. Nuance intends to use the net proceeds from the offering to partially fund its acquisition of Tegic.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management 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, Nuance evaluates its estimates and judgments, in particular those related to revenue recognition; the costs to complete the development of custom software applications; allowances for doubtful accounts and sales returns; accounting for patent legal defense costs; the valuation of goodwill, other intangible assets and tangible long-lived assets; accounting for acquisitions; valuing stock-based compensation instruments; assumptions used in determining the obligations and assets relating to pension and post-retirement benefit plans; judgment with respect to interest rate swaps which are characterized as derivative instruments; evaluating loss contingencies; and valuation allowances for deferred tax assets. Actual amounts could differ significantly from these estimates. Nuance s management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenue and expenses that are not readily apparent from other sources.

RESULTS OF OPERATIONS

The following table presents, as a percentage of total revenue, certain selected financial data for the periods indicated:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Nine Months Ended June 30, 2007	Nine Months Ended June 30, 2006
Revenue:				
Product and licensing	47.8%	53.5%	52.3%	62.3%
Professional services, subscription and hosting	31.5	22.2	26.1	21.2
Maintenance and support	20.7	24.3	21.6	16.5
Total revenue	100.0	100.0	100.0	100.0
Costs and expenses:				
Cost of product and licensing	6.0	7.6	7.5	7.0
Cost of professional services, subscription and hosting	20.6	17.5	17.9	16.1
Cost of maintenance and support	4.5	5.5	4.9	3.8
Cost of revenue from amortization of intangible assets	2.1	2.2	2.2	2.8
Gross margin	66.8	67.2	67.5	70.3
Research and development	12.6	14.6	12.7	15.9
Sales and marketing	29.8	32.2	31.3	34.6
General and administrative	12.6	13.3	12.5	15.6
Amortization of other intangible assets	4.1	5.6	3.9	4.0
Restructuring and other charges, net		0.1		(0.5)
Total operating expenses	59.1	65.8	60.4	69.6
Income from operations	7.7	1.4	7.1	0.7
Other expense, net	(4.7)	(6.1)	(4.9)	(3.1)
Income (loss) before income taxes	3.0	(4.7)	2.2	(2.4)
Provision for income taxes	7.9	3.7	4.7	3.3
Loss before cumulative effect of accounting changes	(4.9)	(8.4)	(2.5)	(5.7)
Cumulative effect of accounting change				(0.3)
Net loss	(4.9)%	(8.4)%	(2.5)%	(6.0)%

Total Revenue

The following table shows total revenue by geographic location, based on the location of Nuance s customers, in absolute dollars and percentage change (dollars in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
United States	$ 126.9	$ 86.6	$ 40.3	47%	$ 329.3	$ 184.3	$ 145.0	79%
International	29.7	26.5	3.2	12%	92.8	76.1	16.7	22%
Total revenue	$ 156.6	$ 113.1	$ 43.5	38%	$ 422.1	$ 260.4	$ 161.7	62%

The increase in total revenue for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to a $29.4 million, or 26%, increase in organic revenue; and to a lesser extent to $14.1 million of revenue related to the acquisitions of BeVocal and Focus. Included in this

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organic growth, network revenue increased by 20%, dictation and transcription revenue increased 28%, embedded revenue increased by 46% offset by a decrease in imaging revenue of 23%.

Based on the location of Nuance s customers, the geographic split for the three months ended June 30, 2007 was 81% of total revenue in the United States and 19% internationally. This compares to 77% of total revenue in the United States and 23% internationally for the three months ended June 30, 2006. The increase in percentage of revenue generated in the United States was due to revenue related to the BeVocal and Focus acquisitions, which generate revenue primarily in the United States.

The increase in total revenue for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006 was primarily due to $118.9 million of revenue related to our acquisitions of Dictaphone, BeVocal and Focus, and to a lesser extent was due to increases in network revenue, dictation revenue, embedded revenue and imaging revenue.

Based on the location of our customers, the geographic split for the nine months ended June 30, 2007 was 78% of total revenue in the United States and 22% internationally. This compares to 71% of total revenue in the United States and 29% internationally for the nine months ended June 30, 2006. The increase in percentage of revenue generated in the United States was largely due to revenue related to the acquisitions of Dictaphone, BeVocal and Focus, which generate revenue primarily in the United States.

Product and Licensing Revenue

Product and licensing revenue primarily consists of sales and licenses of speech and imaging products and technology. The following table shows product and licensing revenue in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Product and licensing revenue	$ 74.9	$ 60.5	$ 14.4	24%	$ 220.9	$ 162.3	$ 58.6	36%
As a percentage of total revenue	48%	54%			52%	62%		

The increase in product and licensing revenue for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006, was due to organic revenue growth in Nuance s speech related products. Speech related product and licensing revenue increased $19.4 million, or 50%, for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006. The growth in speech revenue resulted from the growth in Dictaphone product revenue primarily as a result of decreased effects of purchase accounting, as well as increased sales of Nuance s dictation products, embedded products, and networked-based products. Product and licensing revenue from Nuance s imaging products decreased by $5.1 million, or 24%. A 32% increase in the sales of Nuance s PDF products was offset by the decreased sales of Nuance s OmniPage products ahead of a launch in the fourth fiscal quarter of 2007 along with a general decrease in PaperPort revenue versus the same period last year.

Due to a change in revenue mix driven primarily by the growth of services revenue of the acquired companies of BeVocal and Focus, product and licensing revenue as a percentage of total revenue declined by 6% for the three month period ended June 30, 2007, as compared to the same period ended June 30, 2006.

The increase in speech related product and licensing revenue for the nine months ended June 30 , 2007, as compared to the same period ended June 30, 2006, was primarily due to $31.2 million of revenue attributable to the acquisition of Dictaphone. Speech related product and licensing revenue increased $60.5 million, or 56%, for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006. The growth in speech revenue resulted from the acquisition of Dictaphone, as well as increased sales of Nuance s dictation products, embedded products and networked-based products. Product and licensing revenue from our imaging products decreased by $1.8 million, or 3%, due to decreased sales of Nuance s Omnipage and PaperPort product families. PDF products continue to perform well with a 36% growth in the nine months ended June 30, 2007 as compared to the same period ended June 30, 2006.

Due to a change in revenue mix driven primarily by the growth of services and maintenance and support revenue of the acquired companies of Dictaphone, BeVocal, and Focus, product and licensing revenue as a percentage of total revenue declined 10% for the nine month period ended June 30, 2007, as compared to the same period ended June 30, 2006.

Professional Services, Subscription and Hosting Revenue

Professional services revenue primarily consists of consulting, implementation and training services for speech customers. Subscription and hosting revenue primarily relates to delivering hosted and on-site directory assistance and transcription and dictation services over a specified term. The following table shows professional services, subscription and hosting revenue in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Professional services, subscription and hosting revenue	$ 49.3	$ 25.1	$ 24.2	96%	$ 110.1	$ 55.1	$ 55.0	100%
As a percentage of total revenue	32%	22%			26%	21%		

The increase in professional services, subscription and hosting revenue for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to a $14.1 million increase in revenue attributable to Nuance s acquisitions of BeVocal and Focus. The remaining increase of $10.1 million is primarily attributable to growth in the legacy Dictaphone, network and embedded consulting services.

The increase in professional services revenue for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to a $45.3 million increase in revenue attributable to Nuance s acquisitions of Dictaphone, BeVocal and Focus. The remaining increase is primarily attributable to an increase in combined network and embedded consulting services.

Maintenance and Support Revenue

Maintenance and support revenue primarily consists of technical support and maintenance service for speech products including network, embedded and dictation and transcription products. The following table shows maintenance and support revenue in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Maintenance and support revenue	$ 32.5	$ 27.5	$ 5.0	18%	$ 91.1	$ 43.0	$ 48.1	112%

As a percentage of total revenue	21%	24%	22%	17%

The increase in maintenance and support revenue for the three months ended June 30, 2007, as compared to the same period ended June 30 2006, was primarily due to a $5.0 million increase in revenue attributable to organic growth in Network and in Dictaphone, both of which have a significant number of maintenance and support contracts.

The increase in maintenance and support revenue for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to a $42.3 million increase in revenue attributable to the acquisition of Dictaphone, which has a significant number of maintenance and support contracts. The remaining $5.8 million increase in maintenance and support revenue is primarily attributable to an increase in network maintenance and support contracts.

Cost of Product and Licensing Revenue

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Cost of product and licensing revenue	$ 9.4	$ 8.6	$ 0.8	9%	$ 31.7	$ 18.3	$ 13.4	73%
As a percentage of product and licensing revenue	13%	14%			14%	11%		

The increase in cost of product and licensing revenue for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006, was due to a general increase in the product and licensing costs as it relates to increases in the product and licensing revenue. As a percentage of product and licensing revenue, cost of revenue decreased by 1% for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006. This slight decrease in cost as a percentage of revenue was due to the change in product mix.

The increase in cost of product and licensing revenue for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to the acquisition of Dictaphone. Excluding this acquisition, cost of product and licensing revenue increased $3.6 million, or 24%. As a percentage of product and licensing revenue, cost of revenue increased 3% for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006. The increase was largely due to the change in product mix.

Cost of Professional Services, Subscription and Hosting Revenue

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Cost of professional services, subscription and hosting revenue	$ 32.3	$ 19.8	$ 12.5	63%	$ 75.5	$ 41.8	$ 33.7	81%

As a percentage of professional services, subscription and hosting revenue	66%	79%	69%	76%

The increase in cost of professional services, subscription and hosting revenue for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to a $7.9 million increase in costs attributable to the acquisition of BeVocal and Focus. Excluding the impact of these acquisitions, cost of professional services, subscription and hosting revenue increased $4.4 million due to compensation related expense for increased headcount, outside services, and transcription fees. The improvement in margin in the fiscal 2007 period was partially derived from greater efficiencies in the utilization of the professional services teams and infrastructures as the revenue base has grown.

The increase in cost of professional services, subscription and hosting revenue for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to a $24.2 million increase in cost attributable to the acquisition of Dictaphone, which has a large subscription-based licensing and hosted application customer base, and $8.0 million increase in costs attributable to the acquisition of BeVocal and Focus. Excluding the impact of these acquisitions, cost of professional services, subscription and hosting revenue increased $1.1 million due to compensation related expense for increased headcount and outside services. The improvement in margin in the fiscal 2007 period was partially derived from greater efficiencies in the utilization of the professional services teams and infrastructures as the revenue base has grown.

Cost of Maintenance and Support Revenue

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Cost of maintenance and support revenue	$ 7.0	$ 6.2	$ 0.8	13%	$ 20.5	$ 9.9	$ 10.6	107%
As a percentage of maintenance and support revenue	21%	23%			23%	23%		

The increase in cost of maintenance and support revenue for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to an increase in compensation related expense for increased headcount to support the larger revenue base.

The increase in cost of maintenance and support revenue for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to an $8.9 million increase in costs attributable to the acquisition of Dictaphone, which has a significant number of maintenance and support contracts. Excluding the impact of this acquisition cost of maintenance and support revenue increased $2.0 million due to compensation related expense for increased headcount and outside services.

Cost of Revenue from Amortization of Intangible Assets

Cost of revenue from amortization of intangible assets consists of the amortization of acquired patents and core and completed technology using the straight-line basis over their estimated useful lives. Nuance evaluates the recoverability of intangible assets periodically or whenever events or changes in business circumstances indicate that the carrying value of its intangible assets may not be recoverable. The following table shows cost of revenue from amortization of intangible assets in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
	$ 3.4	$ 2.5	$ 0.9	36%	$ 9.2	$ 7.4	$ 1.8	24%

Cost of revenue from amortization of intangible assets				
As a percentage of total revenue	2%	2%	2%	3%

The increase in amortization of other intangible assets for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006, was attributable to new amortization of identifiable technology being amortized pursuant to Nuance s acquisitions of BeVocal, Focus and MVC, net of a $0.4 million decrease in amortization expense related to a purchased technology that was written down to its net realizable value during the fourth quarter of fiscal 2006.

The increase in amortization of other intangible assets for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006, was attributable to new amortization of identifiable technology being amortized pursuant to Nuance s acquisitions of BeVocal, Focus, MVC and Dictaphone, net of a $1.3 million decrease in amortization expense related to a purchased technology that was written down to its net realizable value during the fourth quarter of fiscal 2006.

Research and Development Expense

Research and development expense primarily consists of salaries and benefits and overhead, as well as share-based payments relating to our engineering staff. The following table shows research and development expense, in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Total research and development expense	$ 19.7	$ 16.5	$ 3.2	19%	$ 53.7	$ 41.5	$ 12.2	29%
As a percentage of total revenue	13%	15%			13%	16%		

The increase in research and development expense for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to a $2.4 million increase in cash-based compensation, contract labor and other employee-related expenses, including those of Nuance s BeVocal acquisition. Additionally there was an increase of $0.8 million due to share-based compensation. While continuing to increase in absolute dollars, research and development expense decreased as a percentage of total revenue. This decrease primarily reflects synergies resulting from the integration of the research and development organizations of acquired businesses into our research and development organization.

The increase in research and development expense for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006, was primarily due to a $10.5 million increase in cash-based compensation, contract labor and other employee-related expenses, including those of Nuance s BeVocal acquisition. Additionally there was an increase of $1.8 million due to share-based compensation. While continuing to increase in absolute dollars, research and development expense decreased as a percentage of total revenue. This decrease primarily reflects synergies resulting from the integration of the research and development organizations of acquired businesses into our research and development organization.

Sales and Marketing Expense

Sales and marketing expense includes salaries and benefits, share-based payments, commissions, advertising, direct mail, public relations, tradeshows and other costs of marketing programs, travel expenses associated with Nuance s sales organization and overhead. The following table shows sales and marketing expense in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change

Total sales and marketing expense	$ 46.7	$ 36.5	$ 10.2	28%	$ 132.5	$ 90.2	$ 42.3	47%
As a percentage of total revenue	30%	32%			31%	35%		

The increase in sales and marketing expense for the three months ended June 30, 2007, compared to the same period ended June 30, 2006, was primarily due to an increase of $6.9 million in cash-based compensation and headcount related expenses, including salaries and commissions, temporary employees, recruiting, travel and infrastructure related expenses associated with increased average headcount of 134 sales employees and 35 marketing employees mainly due to Nuance s BeVocal and Focus acquisitions. Additionally, the increase was due to a $3.3 million increase in share-based compensation. While continuing to increase in absolute dollars, sales and marketing expense decreased relative to Nuance s total revenue. This decrease primarily reflects synergies resulting from the integration of the sales and marketing organizations of acquired businesses into Nuance s sales and marketing organization.

The increase in sales and marketing expense for the nine months ended June 30, 2007, compared to the same period ended June 30, 2006, was primarily due to an increase of $28.6 million in cash-based compensation and headcount related expenses, including salaries and commissions, temporary employees, recruiting, travel and infrastructure related expenses associated with increased average headcount of 133 sales employees and 27 marketing employees mainly due to Nuance s Dictaphone, BeVocal and Focus acquisitions. Additionally, the increase was due to an $8.8 million increase in share-based compensation and a $4.7 million increase in advertising spending for existing products as well as healthcare products for Dictaphone. While continuing to increase in absolute dollars, sales and marketing expense decreased relative to Nuance s total revenue. This decrease primarily reflects synergies resulting from the integration of the sales and marketing organizations of acquired businesses into Nuance s sales and marketing organization.

General and Administrative Expense

General and administrative expense primarily consists of personnel costs (including share-based payments and other overhead) for administration, finance, human resources, information systems, facilities and general management, fees for external professional advisors including accountants and attorneys, insurance, and provisions for doubtful accounts. The following table shows general and administrative expense in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Total general and administrative expense	$ 19.7	$ 15.0	$ 4.7	31%	$ 52.6	$ 40.6	$ 12.0	30%
As a percentage of total revenue	13%	13%			12%	16%		

The increase in general and administrative expense for the three months ended June 30, 2007, as compared to the same period ended June 30, 2006, was due primarily to an increase of $2.0 million in share-based compensation and $1.9 million in professional services. The remaining increase of $0.8 million consists mainly of cash-based compensation and infrastructure costs, principally due to the acquisitions of BeVocal and Focus.

The increase in general and administrative expense for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006 was due primarily to an increase of $6.4 million in share-based compensation and an increase of $5.6 million in cash-based compensation and other infrastructure related expense for increased headcount and external contractor labor, mainly due to the acquisitions of BeVocal, Focus and Dictaphone. While general and administrative expense increased in absolute dollars, the expense decreased as a percent of total revenue. This decrease primarily reflects synergies resulting from the integration of the general and administrative organizations of acquired businesses into Nuance s general and administrative organization.

Amortization of Other Intangible Assets

Amortization of other intangible assets into operating expense includes amortization of acquired customer and contractual relationships, non-competition agreements and acquired trade names and trademarks. Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefit of customer relationships are being utilized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives. Nuance evaluates these assets for impairment and for appropriateness of their remaining life on an ongoing basis. The following table shows amortization of other intangible assets in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Total amortization and other intangible assets	$ 6.3	$ 6.4	$ (0.1)	(2)%	$ 16.6	$ 10.4	$ 6.2	60%
As a percentage of total revenue	4%	6%			4%	4%		

The increase in amortization of other intangible assets for the nine months ended June 30, 2007, as compared to the same period ended June 30, 2006, was attributable to the amortization of identifiable intangible assets being amortized pursuant to Nuance s acquisitions of BeVocal, Focus, MVC and Dictaphone. These increases were partially offset by reduced amortization of certain customer relationships intangible assets whose pattern of economic benefit provided less benefit in the fiscal 2007 period compared to the fiscal 2006 period.

Restructuring and Other Charges (Credits), Net

Current activity charged against the restructuring accrual for the nine months ended June 30, 2007 was as follows (dollars in millions):

	Facilities	Personnel	Total
Balance at September 30, 2006	$ 0.5	$ 0.4	$ 0.9
Charged to expense		(0.1)	(0.1)
Cash payments and foreign exchange	(0.5)	(0.1)	(0.6)
Balance at June 30, 2007	$	$ 0.2	$ 0.2

The remaining personnel-related accrual as of June 30, 2007 is primarily composed of amounts due under a restructuring charge taken in the fourth quarter of fiscal 2005.

Other Income (Expense), Net

The following table shows other income (expense), net in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change

Interest income	$ 1.4	$ 1.0	$ 0.4	40%	$ 4.1	$ 2.4	$ 1.7	71%
Interest expense	(9.1)	(7.8)	(1.3)	17%	(24.3)	(9.6)	(14.7)	153%
Other income (expense), net	0.4	(0.1)	0.5	(500)%	(0.5)	(0.9)	0.4	(44)%
Total other income (expense), net	$ (7.3)	$ (6.9)	$ (0.4)	6%	$ (20.7)	$ (8.1)	$ (12.6)	156%
As a percentage of total revenue	(5)%	(6)%			(5)%	(3)%		

The increase in interest income was primarily due to higher cash balances and increased interest rates during the three and nine month periods ended June 30, 2007, as compared to the same periods ended June 30, 2006. The increase in interest expense was mainly due to interest expense paid, and amortization of debt issuance costs, associated with the Expanded 2006 Credit Facility. Other income (expense) principally consisted of foreign exchange gains (losses) as a result of the changes in foreign exchange rates on certain of Nuance s foreign subsidiaries whose operations are denominated in other than their local currencies, as well as the translation of certain of Nuance s intercompany balances.

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Provision for Income Taxes

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Provision for income taxes	$ 12.4	$ 4.2	$ 8.2	195%	$ 19.7	$ 8.5	$ 11.2	132%
Effective income tax rate	261%	(81)%			216%	(131)%		

The provision for income taxes includes provisions for current and deferred federal, state, and foreign taxes of approximately $1.9 million and $7.4 million for the three and nine month periods ended June 30, 2007, respectively, and an increase in the valuation allowance of approximately $10.4 million and $12.4 million for the same periods, respectively.

The difference between Nuance s effective income tax rate and the federal statutory rate of 35% is due primarily to state income taxes, the disallowance for tax purposes of certain share-based compensation charges, and the increase in Nuance s valuation allowance with respect to certain deferred tax assets.

Valuation allowances have been established for Nuance s net deferred tax assets which Nuance believes do not meet the more likely than not realization criteria established by SFAS 109, Accounting for Income Taxes. The U.S. deferred tax assets relate primarily to net operating loss and tax credit carryforwards (resulting both from business combinations and from operations). Deferred tax liabilities have been recorded that relate primarily to intangible assets established in connection with business combinations. Certain of these intangible assets have indefinite lives, and the resulting deferred tax liability associated with these assets is not allowed as an offset to Nuance s net deferred tax assets for purposes of determining the required amount of Nuance s valuation allowance. At June 30, 2007, the amount of deferred tax liability associated with certain goodwill and indefinite lived intangibles was approximately $20.5 million.

The utilization of deferred tax assets that were acquired in a business combination results in a reduction of Nuance s valuation allowance and an increase to goodwill. Nuance s establishment of new deferred tax assets as a result of operating activities requires an increase in Nuance s valuation allowance and a corresponding increase to tax expense.

The tax provision also includes state and foreign tax expense as determined on a legal entity and tax jurisdiction basis.

RESULTS OF OPERATIONS

The following table presents, as a percentage of total revenue, certain selected financial data for the twelve months ended September 30, 2006 and 2005, and the nine months ended September 30, 2004.

	Year Ended September 30, 2006	Year Ended September 30, 2005	Nine-Month Period Ended September 30, 2004
Revenue:			
Product and licensing	60.7%	73.7%	75.0%
Professional services, subscription and hosting	20.9	20.3	19.4
Maintenance and support	18.4	6.0	5.6
Total revenue	100.0	100.0	100.0
Costs and expenses:			
Cost of product and licensing	8.1	8.8	7.9
Cost of professional services, subscription and hosting	15.2	14.9	15.5
Cost of maintenance and support	4.6	2.1	2.0
Cost of revenue from amortization of intangible assets	3.3	3.9	6.5
Gross Margin	68.8	70.3	68.1
Research and development	15.3	16.9	20.2
Sales and marketing	33.1	33.9	37.8
General and administrative	14.2	13.8	14.1
Amortization of other intangible assets	4.4	1.7	1.5
Restructuring and other charges (credits), net	(0.3)	3.1	0.6
Total operating expenses	66.7	69.4	74.2
Income (loss) from operations	2.1	0.9	(6.1)
Other income (expense), net	(3.9)	(0.3)	(0.1)
Income (loss) before income taxes	(1.8)	0.6	(6.2)
Provision for income taxes	3.9	2.9	1.0
Loss before cumulative effect of accounting changes	(5.7)	(2.3)	(7.2)
Cumulative effect of accounting change	(0.2)	0.0	0.0
Net loss	(5.9)%	(2.3)%	(7.2)%

REVENUE

The following table shows total revenue by geographic location, based on the location of Nuance s customers, in absolute dollars and percentage change (in thousands, except percentages):

Total Revenue

	Fiscal 2006	Fiscal 2005	Nine-Month Period Ended September 30, 2004	% Change 2006 vs 2005	% Change 2005 vs 2004
United States	$ 288,300	$ 160,927	$ 91,472	79.1%	75.9%
International	100,210	71,461	39,435	40.2	81.2
Total Revenue	$ 388,510	$ 232,388	$ 130,907	67.2%	77.5%

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Fiscal 2006 Compared to Fiscal 2005

Total revenue for the fiscal year ended September 30, 2006 increased by $156.1 million as compared to the fiscal year ended September 30, 2005. The increase was primarily due to $112.4 million of revenue related to Nuance s acquisitions of Nuance Communications, Inc. (Former Nuance) and Dictaphone. Organic total revenue increased $43.7 million, or 19%, in fiscal 2006. Included in this organic growth, network revenue increased 20%, dictation revenue increased 26% primarily as a result of the release of Dragon NaturallySpeaking version 9.0, while embedded revenue increased by 37% and imaging revenue increased by 6%.

Based on the location of the customers, the geographic split in fiscal 2006 was 74% of total revenue in the United States and 26% internationally. This compares to 69% of total revenue in the United States and 31% internationally for the year ended September 30, 2005. The increase in revenue generated in the United States was primarily due to sales of Dictaphone products, 93.0% of which revenue is derived in the United States. Excluding the Dictaphone revenue for fiscal 2006, 68% of total revenue was derived from customers in the United States and 32% internationally.

Fiscal 2005 Compared to Fiscal 2004

Total revenue for fiscal 2005 increased by $101.5 million as compared to fiscal 2004. The increase in revenue was due to several factors, including a twelve-month fiscal period in 2005, which included a seasonally strong fourth calendar quarter that contributed $60.6 million of total revenue. Excluding that incremental quarter, total revenue increased $40.9 million, or 31.2%. The substantial majority of the growth derived from comparative periods due to organic growth in product lines existing as of January 1, 2004 and to a lesser extent based on revenue related to acquisitions consummated in late fiscal 2004 and during fiscal 2005.

The geographic revenue split, based on the location of our customers, was 69% of total revenue in fiscal 2005 in the United States and 31% internationally. This compares to 70% of total revenue in the United States and 30% internationally for the nine month period ended September 30, 2004.

Product and Licensing Revenue

Product and licensing revenue primarily consists of sales and licenses of Nuance s speech and imaging products and technology. The following table shows product and licensing revenue in absolute dollars and as a percentage of total revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine-Month Period Ended September 30, 2004	% Change 2006 vs 2005	% Change 2005 vs 2004
Product and licensing revenue	$ 235,825	$ 171,200	$ 98,262	37.7%	74.2%
As a percentage of total revenue	60.7%	73.7%	75.0%		

Fiscal 2006 Compared to Fiscal 2005

Product and licensing revenue for fiscal 2006 increased by $64.6 million compared to fiscal 2005. This increase in product and licensing revenue was primarily due to $39.8 million of revenue attributable to Nuance s acquisitions of Former Nuance and Dictaphone. Excluding the impact of these acquisitions, product and licensing revenue grew $24.8 million, or 15%, compared to the fiscal year ended September 30, 2005. Due to a change in revenue mix, driven primarily by the growth of maintenance and support revenue, product and licensing revenue as a percentage of total revenue declined 13% in fiscal 2006 as compared to fiscal 2005.

Speech related product and licensing revenue increased 56% in fiscal 2006 compared to fiscal 2007, growing to 70% of total product and licensing revenue in fiscal 2006, up from 60% in fiscal 2005. Excluding revenue due to Nuance s acquisitions of Former Nuance and Dictaphone, speech related product and licensing revenue increased by $19.6 million, or 19%, in fiscal 2006 compared to fiscal 2005. The growth in speech revenue resulted from increased sales of Nuance s legacy network products, embedded products in automotive and handsets, as well as increased sales in dictation fueled by our fourth quarter release of Dragon NaturallySpeaking 9.0. Product and licensing revenue from Nuance s imaging products increased by $5.2 million, or 8%, due to increased sales of Nuance s PDF product family with the September 2006 release of PDF 4.0 and the May 2006 release of PaperPort 11.

Fiscal 2005 Compared to Fiscal 2004

Product and licensing revenue for fiscal 2005 increased by $72.9 million compared to fiscal 2004. The increase in product and licensing revenue is generally attributable to the factors discussed above with respect to total revenue, including the seasonably strong fourth calendar quarter of calendar 2004 that contributed $46.8 million of increased product and licensing revenue. Excluding the revenue from the additional three-month period, product and licensing revenue increased $26.1 million, or 26.6%. The substantial majority of the growth in addition to the additional three months was growth from organic products that Nuance had in our product portfolio as of January 1, 2004, and to a lesser extent was based on revenue related to recent acquisitions. Speech related product and licensing revenue increased to 60% of total product and licensing revenue for fiscal 2005, up from 55% of total product and licensing revenue in fiscal 2004. Expressed in dollars, revenue from speech related products totaled $104.2 million for fiscal 2005, as compared to $54.6 million for fiscal 2004. Within speech, network revenue remained relatively stable at 25% of total product and licensing revenue in fiscal 2005, while embedded revenue increased to 10% of total product and licensing revenue in fiscal 2005, up from 7% in fiscal 2004. The increase in embedded revenue was largely attributable to the acquisition of ART in January 2005. Dictation revenue in fiscal 2005 increased to 25% of total product and licensing revenue, up from 22% for fiscal 2004, primarily due to the release of Dragon NaturallySpeaking 8.0 in the first quarter of fiscal 2005, as well as the May 2005 acquisition of MedRemote.

Imaging related product and licensing revenue increased to $66.9 million for fiscal 2005, up 53% from fiscal 2004. Of this increase, 33% is due to the additional three months included in fiscal 2005, with the majority of the remaining increase attributable to increased sales of Nuance s PaperPort product family, which had a new release in the first quarter of fiscal 2005.

Professional Services, Subscription and Hosting Revenue

Professional services revenue primarily consists of consulting, implementation and training services for speech customers. Subscription and hosting revenue primarily relates to delivering hosted and on-site directory assistance and transcription and dictation services over a specified term. The following table shows professional services, subscription and hosting revenue in absolute dollars and as a percentage of total revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine-Month Period Ended September 30, 2004	% Change 2006 vs 2005	% Change 2005 vs 2004
Professional services, subscription and hosting revenue	$ 81,320	$ 47,308	$ 25,358	71.9%	86.6%
As a percentage of total revenue	20.9%	20.3%	19.4%		

Fiscal 2006 Compared to Fiscal 2005

Professional services, subscription and hosting revenue for fiscal 2006 increased by $34.0 million as compared to fiscal 2005. The largest component of this increase in professional services revenue was $22.0 million of revenue due to Nuance s acquisitions of Former Nuance and Dictaphone. Included in the Dictaphone revenue is $16.0 million of revenue relating to the subscription and hosting customer base. Excluding the impact of these acquisitions, Nuance s professional services revenue increased by $12.0 million, or 26% compared to fiscal 2005, with most product lines contributing to this growth. Network services, excluding revenue attributable to Former Nuance, provided $9.0 million, or 26% organic growth, based on growth in core network consulting, subscription and hosting and training revenue.

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Fiscal 2005 Compared to Fiscal 2004

Professional services, subscription and hosting revenue for fiscal 2005 increased by $22.0 million as compared to fiscal 2004. The increase in professional services revenue was partially attributed to the inclusion of the seasonably strong fourth calendar quarter of calendar 2004 that contributed $11.0 million of increased professional services revenue. In addition to the revenue from that extra three-month period, professional services revenue increased $11.0 million, or 43%. The substantial majority of the growth was derived from organic growth in products existing as of January 1, 2004 and a lesser portion was attributable to acquisitions made in fiscal 2005. The organic growth is primarily due to the continued demand for consulting services, both in project size and in the volume of projects. Also contributing to the total growth, but to a lesser extent, was revenue from subscription based licensing and hosting services.

Maintenance and Support Revenue

Maintenance and support revenue primarily consists of technical support and maintenance service for Nuance s speech products including network, embedded and dictation and transcription products. The following table shows maintenance and support revenue in absolute dollars and as a percentage of total revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Maintenance and support revenue	$ 71,365	$ 13,880	$ 7,287	414.2%	90.5%
As a percentage of total revenue	18.4%	6.0%	5.6%		

Fiscal 2006 Compared to Fiscal 2005

Maintenance and support revenue increased by $57.5 million in fiscal 2006 compared to fiscal 2005. As a percentage of total revenue, maintenance and support revenue grew 12.4% in fiscal 2006, up from 6% in fiscal 2005. $50.5 million of this increase is due to Nuance s acquisitions of Former Nuance and Dictaphone, both of which have a significant customer base of maintenance and support contracts from historic sales of product. Excluding the impact of these acquisitions, maintenance and support revenue increased $7.0 million, or 50%, in fiscal 2006 compared to fiscal 2005, due to Nuance s continued strong renewal rates as well as from new sales in our network products.

Fiscal 2005 Compared to Fiscal 2004

Maintenance and support revenue for fiscal 2005 increased by $6.6 million compared to fiscal 2004. $2.8 million of this increase is attributable to the additional three months included in fiscal 2005. Excluding that incremental quarter, maintenance and support revenue increased $3.3 million, or 45%. The substantial majority of the growth derived from comparative periods was the result of organic growth in product lines existing as of January 1, 2004, and to a lesser extent the acquisitions consummated in late fiscal 2004 and during fiscal 2005.

COSTS AND EXPENSES

In fiscal 2006, stock-based compensation includes the amortization of the fair value of share-based payments made to employees and to members of the Nuance board of directors, under the provisions of SFAS 123R, which Nuance adopted on October 1, 2005 (see Note 2, Summary of Significant Accounting Policies, in the accompanying Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K). As a result of the adoption of SFAS 123R, Nuance has recorded $22.5 million of expense related to share-based payments during fiscal 2006 as compared to $3.0 million in fiscal 2005 and $1.5 million in fiscal 2004. To isolate the effects of the accounting change and to facilitate comparative review of Nuance s operations between the fiscal 2006, fiscal 2005 and fiscal 2004 periods, presented below is each cost and

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expense line in tabular format, with and without the amounts recorded in each period relating to share-based payments. Unless noted otherwise, discussion of fiscal 2006 compared to fiscal 2005 represents discussion of costs and expenses excluding share-based payments.

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 cost of product and licensing revenue including and excluding the cost of product and licensing revenue attributable to stock-based compensation, in absolute dollars and as a percentage of product and licensing revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Cost of product and licensing revenue	$ 31,394	$ 20,378	$ 10,348	54.1%	96.9%
Share-based payments	88	10			
Cost of product and licensing revenue, excluding share-based payments	$ 31,306	$ 20,368	$ 10,348	53.7%	96.8%
As a percentage of product and licensing revenue:					
Including share-based payments	13.3%	11.9%	10.5%		
Excluding share-based payments	13.3%	11.9%	10.5%		

Fiscal 2006 Compared to Fiscal 2005

Cost of product and licensing revenue, excluding share-based payments, for fiscal 2006 increased $10.9 million as compared to fiscal 2005 primarily due to $9.3 million of costs due to Nuance s acquisitions of Former Nuance and Dictaphone. As a percentage of product and licensing revenue, cost of product and licensing revenue increased 1.4% in fiscal 2006, largely due to Dictaphone products that have higher cost of goods sold relative to Nuance s other products. The added costs of goods sold for Dictaphone products are primarily due to third party hardware that is included in the solutions licensed to customers.

Excluding Dictaphone, in fiscal 2006 the cost of product and licensing revenue increased by $1.9 million, while declining to 9.2% of product and licensing revenue. The decrease as a percent of revenue was due to several factors. Most notably, the materials costs decreased by 0.7%, to 3.9% of product and licensing revenue, due to a decrease in imaging boxed products relative to speech products which carry lower materials costs. Additionally, royalties decreased by $0.5 million compared to fiscal 2005 driven largely by contractual changes for Nuance s embedded product lines royalties.

Fiscal 2005 Compared to Fiscal 2004

Cost of product and licensing revenue for fiscal 2005 grew $10.0 million compared to fiscal 2004. This 96.9% increase is due to a number of factors, most significant of which is the additional three months included in 2005 as compared to 2004. Additionally, the expenses have increased along with the 75.2% growth in product and licensing revenue as compared to fiscal 2004. As a percentage of product and licensing revenue, cost of product and licensing revenue for fiscal 2005 increased to 11.9% as compared to 10.6% in fiscal 2004. This increase is primarily due to higher third party royalty expense that amounted to $4.2 million for fiscal 2005, compared to $1.2 million in fiscal 2004. The $3.0 million increase is due to a number of factors including more products that have royalties associated with them, higher royalties associated with renegotiated contracts with third parties for certain imaging products, and the 75.2% increase in product and licensing revenue. Partially offsetting the royalty increase was a modest decrease in material costs of product and licensing revenue, from 5.0% of product and licensing revenue in fiscal 2004 to 4.6% for fiscal 2005.

Cost of Professional Services, Subscription and Hosting Revenue

Cost of professional services, subscription and hosting revenue primarily consists of compensation for consulting personnel, outside consultants and overhead, as well as the hardware and communications fees that support Nuance s subscription and hosted solutions. The following table shows cost of revenue including and excluding the cost of revenue attributable to stock-based compensation, in absolute dollars and as a percentage of professional services, subscription and hosting revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Cost of professional services, subscription and hosting revenue	$ 59,015	$ 34,737	$ 20,456	69.9%	69.8%
Share-based payments	1,873	107	59		
Cost of professional services, subscription and hosting revenue, excluding share-based payments	$ 57,142	$ 34,630	$ 20,397	65.0%	69.8%
As a percentage of professional services, subscription and hosting revenue:					
Including share-based payments	72.6%	73.4%	80.7%		
Excluding share-based payments	70.3%	73.2%	80.4%		

Fiscal 2006 Compared to Fiscal 2005

Cost of professional services, subscription and hosting revenue, excluding share-based payments, increased $22.5 million in fiscal 2006 as compared to fiscal 2005 primarily due to $14.9 million of costs due to Nuance s acquisitions of Former Nuance and Dictaphone, both of which have robust professional services organizations to support revenue streams. Additionally, Dictaphone has a large subscription-based licensing and hosted application customer base. The 65.0% growth in costs supports the 71.9% growth in related revenue for fiscal 2006. Cost of professional services as a percentage of the revenue, excluding share-based payments, improved 2.9% as synergies were realized from the merging of the service teams from Former Nuance and Dictaphone. These improvements were offset partially by increased expenses for the subscription and hosting services.

Fiscal 2005 Compared to Fiscal 2004

Cost of professional services, subscription and hosting revenue for fiscal 2005 increased $14.2 million compared to fiscal 2004. This increase was due to a number of factors including the additional three months included in fiscal 2005. Additionally, incremental costs were necessary to support the 86.6% growth in related revenue. As a percentage of the related revenue, cost of professional services, subscription and hosting revenue for fiscal 2005 decreased to 73.2% compared to 80.4% in fiscal 2004. The percentage decrease in professional services cost as a percent of professional services revenue is attributable to a number of factors, including a reduction in outside consultant expenses and a more efficient utilization of existing headcount.

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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 cost of maintenance and support revenue including and excluding the cost of maintenance and support revenue attributable to stock-based compensation, in absolute dollars and as a percentage of maintenance and support revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Cost of maintenance and support revenue	$ 17,723	$ 4,938	$ 2,559	258.9%	93.0%
Share-based payments	525	15	7		
Cost of maintenance and support revenue, excluding share-based payments	$ 17,198	$ 4,923	$ 2,552	249.3%	92.9%
As a percentage of maintenance and support revenue:					
Including share-based payments	24.8%	35.6%	35.1%		
Excluding share-based payments	24.1%	35.5%	35.0%		

Fiscal 2006 Compared to Fiscal 2005

Cost of maintenance and support revenue, excluding share-based payments, for fiscal 2006 increased $12.3 million compared to fiscal 2005 due primarily to $8.0 million of costs for the additional headcount to support the additional revenue from Nuance s acquisitions of Former Nuance and Dictaphone. As a percentage of maintenance and support revenue, cost of revenue decreased 11.4% in fiscal 2006 to 24.1%. This decrease in percentage is primarily attributable to lower costs relative to the revenue in Nuance s healthcare maintenance and support business following Nuance s acquisition of Dictaphone. Speech margins, excluding the acquisition of Dictaphone, also improved in fiscal 2006, primarily due to synergies realized upon the combination of pre-existing and acquired product lines following the acquisition of Former Nuance.

Fiscal 2005 Compared to Fiscal 2004

Cost of maintenance and support revenue for fiscal 2005 grew $2.4 million as compared to fiscal 2004. This increase was due to a number of factors including the additional three months included in fiscal 2005. Additionally, incremental costs were necessary to support the 79.6% growth in related revenue. As a percentage of maintenance revenue, cost of maintenance revenue increased 2.5% in fiscal 2005 as compared to fiscal 2004. The percentage increase was attributable to increased staffing made in advance of the anticipation of increasing revenue.

Cost of Revenue from Amortization of Intangible Assets

Cost of revenue from amortization of intangible assets consists of the amortization of acquired patents and core and completed technology using the straight-line basis over their estimated useful lives. Nuance evaluates the recoverability of intangible assets periodically or whenever events or changes in business circumstances indicate that the carry value of our intangible assets may not be recoverable. The following table shows cost of revenue from amortization of intangible assets in absolute dollars and as a percentage of total revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Cost of revenue from amortization of intangible assets	$ 12,911	$ 9,150	$ 8,431	41.1%	8.5%
As a percentage of total revenue	3.3%	3.9%	6.5%		

Fiscal 2006 Compared to Fiscal 2005

Cost of revenue from amortization of intangible assets increased $3.8 million in fiscal 2006 as compared to fiscal 2005. The increase was primarily attributable to the $4.4 million in amortization of intangible assets acquired in connection with Nuance s acquisitions of Dictaphone in March 2006 and Former Nuance in September 2005. Additionally, the increase was due to $0.4 million in expense relative to amortization of the license that resulted from our December 4, 2006 settlement and licensing of technology from z4 Technologies, Inc. [(refer to Note 23 of Notes to Nuance s Consolidated Financial Statements for discussion of this subsequent event)]. In addition, during the fourth quarter of fiscal 2006, Nuance determined that it would not make additional investments to support a technology licensed from a non-related third-party in 2003. As a result, Nuance revised the cash flow estimates related to the purchased technology and recorded an additional $2.6 million in cost of revenue to write down the purchased technology to its net realizable value. These increases were offset in part by the cessation of the amortization of technology and patents that was established in connection with acquisitions consummated in 1999 and 2000.

Based on the amortizable intangible assets as of September 30, 2006, and assuming no impairment or reduction in expected lives, Nuance expects cost of revenue from amortization of intangible assets for fiscal 2007 to be $11.2 million.

Fiscal 2005 Compared to Fiscal 2004

Cost of revenue from amortization of intangible assets increased $0.7 million in fiscal 2005 as compared to fiscal 2004. The increase was attributable to the additional three months included in the fiscal 2005 period, partially offset by the net amount of amortization of intangible assets that became fully amortized in fiscal 2004 and new amortization on assets established in connection with Nuance s acquisitions during fiscal 2004 and 2005.

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Research and Development Expense

Research and development expense primarily consists of salaries and benefits and overhead relating to Nuance s engineering staff. The following table shows research and development expense including and excluding the research and development expense attributable to share-based payments, in absolute dollars and as a percentage of total revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Total research and development expense	$ 59,403	$ 39,190	$ 26,390	51.6%	48.5%
Share-based payments	4,578	241	228		
Research and development expense, excluding share-based payments	$ 54,825	$ 38,949	$ 26,162	40.8%	48.9%
As a percentage of total revenue:					
Including share-based payments	15.3%	16.9%	20.2%		
Excluding share-based payments	14.1%	16.8%	20.0%		

Fiscal 2006 Compared to Fiscal 2005

Research and development expense, excluding share-based payments, increased $15.9 million in fiscal 2006 compared to fiscal 2005 primarily due to a $12.9 million increase in compensation-related expense associated with increased average headcount of 80 employees mainly resulting from Nuance s acquisitions of Former Nuance and Dictaphone. The remaining increase was attributable to an increase in other headcount related expenses, including travel and infrastructure-related expenses as Nuance continued to invest in its products. While continuing to increase in absolute dollars, research and development expense has decreased relative to Nuance s total revenue. This decrease in expense as a percentage of total revenue reflects synergies following previous acquisitions.

Nuance believes that the development of new products and the enhancement of existing products are essential to its success. Accordingly, Nuance plans to continue to invest in research and development activities. To date, Nuance has not capitalized any internal development costs as the cost incurred after technological feasibility but before release of products has not been significant. While Nuance will continue to invest in research and development, in fiscal 2007, it expects research and development expenses to decline as a percentage of revenue.

Fiscal 2005 Compared to Fiscal 2004

Research and development expense, excluding share-based payments, increased $12.8 million in fiscal 2005 as compared to fiscal 2004. The increase in expenses after reflecting the effect of the three months ended December 2004 in fiscal 2004, results in additional expenses of $3.9 million, or 11% in fiscal 2005 as compared to fiscal 2004 on an annualized basis. While increasing in absolute dollars, research and development expense decreased relative to Nuance s total revenue. This decrease in expense as a percentage of total revenue reflects synergies following previous acquisitions.

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Sales and Marketing Expense

Sales and marketing expense includes salaries and benefits, commissions, advertising, direct mail, public relations, tradeshows and other costs of marketing programs, travel expenses associated with Nuance s sales organization and overhead. The following table shows sales and marketing expense including and excluding the sales and marketing expense attributable to share-based payments, in absolute dollars and as a percentage of total revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Total sales and marketing expense	$ 128,412	$ 78,797	$ 49,554	63.0%	59.0%
Share-based payments	7,332	872	420		
Sales and marketing expense, excluding share-based payments	$ 121,080	$ 77,925	$ 49,134	55.4%	58.6%
As a percentage of total revenue:					
Including share-based payments	33.1%	33.9%	37.8%		
Excluding share-based payments	31.2%	33.5%	37.5%		

Fiscal 2006 Compared to Fiscal 2005

Sales and marketing expense, excluding share-based payments, increased $43.2 million in fiscal 2006 as compared to fiscal 2005. $34.7 million of this increase was attributable to an increase in salaries and other variable costs, commissions and travel expenses relating to an increase in average headcount of 207 employees primarily resulting from Nuance s acquisitions of Former Nuance and Dictaphone and continued investment in the sales force for Nuance s existing products. In addition, Nuance s marketing expenses increased $7.8 million primarily to support new product releases made during 2006, including PaperPort 11 and Dragon Naturally Speaking 9.0, as well as additional marketing expenses of Dictaphone and Former Nuance products. While the expense in absolute dollars increased, sales and marketing expense as a percentage of revenue decreased as Nuance achieved higher sales volumes while controlling Nuance s cost structure.

Nuance expects sales and marketing expenses to increase as it continues to pursue our strategic goals. While increasing in absolute dollars, Nuance expects to see a decrease in sales and marketing expenses as a percentage of revenue in fiscal 2007 as the expected revenue growth outpaces the expenses in this area.

Fiscal 2005 Compared to Fiscal 2004

Sales and marketing expense, excluding share-based payments, increased $28.8 million in fiscal 2005 compared to fiscal 2004. The increase in expenses after reflecting the effect of the three months ended December 2004, resulted in additional expenses of $10.2 million, or 15% in fiscal 2005 compared to fiscal 2004 on an annualized basis. While increasing in absolute dollars, sales and marketing expense as a percent of total revenue dropped 4.0% in fiscal 2005 compared to fiscal 2004. Decreases in expenses as a percent of revenue were derived largely from an improved efficiency of the sales organization, allowing for total compensation of sales and marketing employees to decrease as a percentage of revenue, to 18.9% of total revenue for fiscal 2005, down from 21.1% for fiscal 2004. Additionally, while the cost of marketing programs increased in absolute dollars to $16.9 million for fiscal 2005 from $10.7 million for fiscal 2004, this represents a decrease in terms of the percentage compared to total revenue of 0.9%, from 8.2% in fiscal 2004 to 7.3% in fiscal 2005.

General and Administrative Expense

General and administrative expenses primarily consist of personnel costs, (including overhead), for administration, finance, human resources, information systems, facilities and general management, fees for external professional advisors including accountants and attorneys, insurance, and provisions for doubtful accounts. The following table shows general and administrative expense including and excluding the general and administrative expense attributable to share-based payments, in absolute dollars and as a percentage of total revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Total general and administrative expense	$ 55,343	$ 31,959	$ 18,394	73.2%	73.7%
Share-based payments	7,471	1,751	587		
General and administrative expense, excluding share-based payments	$ 47,872	$ 30,208	$ 17,807	58.5%	69.6%
As a percentage of total revenue:					
Including share-based payments	14.2%	13.8%	14.1%		
Excluding share-based payments	12.3%	13.0%	13.6%		

Fiscal 2006 Compared to Fiscal 2005

General and administrative expense, excluding share-based payments, increased $17.7 million in fiscal 2006 compared to fiscal 2005. The acquisition of Dictaphone contributed $7.7 million of this increase, including $3.0 million paid to Dictaphone staff for non-recurring activities necessary to transition knowledge and processes post-acquisition and $0.8 million in non-recurring activities performed by certain advisors who supported planning and integration efforts for this acquisition. General and administrative expenses, excluding those related to Dictaphone, increased $10.0 million due primarily to compensation for increased employees and external contractors in the finance, human resources, legal and other general and administrative functions. This increase in spending on staff and contractors was related to the integration of the acquisitions we made in fiscal 2005, as well as to compliance with new regulations, such as the implementation of SFAS 123R in fiscal 2006. These new initiatives were partially offset by a reduction in overall costs for staffing and contractors needed to comply with the provisions of Sarbanes Oxley in fiscal 2006 compared to fiscal 2005. While the expense increased in absolute dollars, general and administrative expense as a percentage of revenue decreased as Nuance achieved higher sales volumes while controlling its cost structure.

Nuance expects to continue to see general and administrative expenses as a percentage of total revenue decrease as revenue growth outpaces expense growth. Notwithstanding the decrease as a percentage of total revenue, Nuance expects to increase the total amount expended relating to general and administrative expenses as it supports the growth of its business.

Fiscal 2005 Compared to Fiscal 2004

General and administrative expense, excluding share-based payments, increased $13.6 million in fiscal 2005 compared to fiscal 2004. The increase in expenses after reflecting the effect of the three months ended December 2004 in fiscal 2004, results in additional expenses of $6.3 million, or 24.7% in fiscal 2005 as compared to fiscal 2004 on an annualized basis. The increase in fiscal 2005 was primarily the result of costs relating to incremental headcount and fees for professional consultants. The costs relating to headcount were mainly attributable to additional team members in the finance, facilities and IT departments. The increase in expenditures for professional consultants includes fees for Sarbanes Oxley compliance, accounting and legal advisors, and advisors supporting Nuance s planning and integration efforts related to its acquisition of Former Nuance.

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Amortization of Other Intangible Assets

Amortization of other intangible assets into operating expense includes amortization of acquired customer and contractual relationships, non-competition agreements and acquired trade names and trademarks. Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefit of customer relationships are being utilized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives. Nuance evaluates these assets for impairment and for appropriateness of their remaining life on an ongoing basis. The following table shows amortization of other intangible assets in absolute dollars and as a percentage of total revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Amortization of other intangible assets	$ 17,172	$ 3,984	$ 1,967	331.0%	102.5%
As a percentage of total revenue	4.4%	1.7%	1.5%		

Fiscal 2006 Compared to Fiscal 2005

Amortization of intangible assets increased $13.2 million in fiscal 2006 as compared to fiscal 2005 largely attributable to the $10.8 million of amortization of identifiable intangible assets related to Nuance s acquisition of Dictaphone and full year amortization relating to Nuance s acquisitions of Former Nuance, Rhetorical, ART, Phonetic and MedRemote acquisitions.

Fiscal 2005 Compared to Fiscal 2004

Operating expenses derived from the amortization of intangible assets increased $2.0 million in fiscal 2005 as compared to fiscal 2004. The increase relates to the additional three months included in fiscal 2005, and to the amortization of intangible assets that were purchased in connection with Nuance s acquisitions during fiscal 2004 and 2005.

Restructuring and Other Charges (Credits), Net

During the second quarter of fiscal 2006, Nuance recorded a $1.3 million reduction to existing restructuring reserves as a result of the execution of a favorable sublease agreement relating to one of the facilities included in Nuance s 2005 restructuring plan. The amount was partially offset by other net adjustments of $0.1 million associated with prior years restructuring programs.

In fiscal 2005, Nuance incurred restructuring charges of $7.2 million. The charges were related to the elimination of ten employees during the first quarter of 2006, a plan of restructuring relative to certain of Nuance s facilities in June

2005, and a September 2005 plan of restructuring to eliminate additional facilities and a reduction of approximately 40 employees in connection with Nuance s acquisition of Former Nuance. The facilities charges included $0.2 million related to the write-down of leasehold improvements based on their net book value relative to the fair market value for their shortened lives. The reduction in personnel was primarily from the research and development and sales and marketing teams, and was based on the elimination of redundancies resulting from the acquisition of Former Nuance.

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The following table sets forth the activity relating to the restructuring accruals in fiscal 2006, 2005 and 2004 (in thousands):

	Personnel Related	Facilities Costs	Asset Impairment	Total
Balance at December 31, 2003	$ 1,552	$ 309	$	$ 1,861
Restructuring and other charges	801			801
Non-cash write-off	(348)			(348)
Cash payments	(1,599)	(141)		(1,740)
Balance at September 30, 2004	406	168		574
Restructuring and other charges	2,928	4,083	212	7,223
Non-cash write-off			(212)	(212)
Cash payments	(1,548)	(232)		(1,780)
Balance at September 30, 2005	1,786	4,019		5,805
Restructuring and other charges (credits)	(52)	(1,181)		(1,233)
Cash payments	(1,360)	(2,308)		(3,668)
Balance at September 30, 2006	374	$ 530	$	$ 904

The remaining personnel related accrual as of September 30, 2006 is primarily composed of amounts due under the 2005 restructuring plans which will be paid in fiscal 2007.

Other Income (Expense), Net

The following table shows other income (expense), net in absolute dollars and as a percentage of total revenue (in thousands, except percentages):

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Interest income	$ 3,305	$ 1,244	$ 429	165.7%	190.0%
Interest expense	(17,614)	(1,644)	(340)	971.4	383.5
Other income (expense), net	(1,132)	(237)	(141)	377.6%	68.1%
Total other income (expense), net	$ (15,441)	$ (637)	$ (52)		
As a percentage of total revenue	(3.9)%	(0.3)%	(0.1)%		

Fiscal 2006 Compared to Fiscal 2005

Interest income increased $2.1 million in fiscal 2006, as compared to fiscal 2005, primarily due to higher cash and investment balances during fiscal 2006, as compared to the prior year, and to a lesser degree to greater yields on Nuance s cash and investments. Interest expense increased by $16.0 million during fiscal 2006, as compared to fiscal 2005, mainly due to $12.2 million of interest expense paid quarterly on the new credit facility Nuance entered into on March 31, 2006. Additionally, Nuance has recorded $4.6 million of non-cash interest expense mainly related to imputed interest in association with certain lease obligations included in Nuance s accrued business combination costs and accrued restructuring charges, the amortization of debt issuance costs associated with the new credit facility Nuance entered into on March 31, 2006 as well as to the accretion of the interest related to the note payable from Nuance s Phonetic acquisition in February 2005. Other income (expense) principally consisted of foreign exchange gains (losses) as a result of the changes in foreign exchange rates on certain of Nuance s foreign subsidiaries whose operations are denominated in other than their local currencies, as well as the translation of certain of Nuance s intercompany balances.

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Nuance expects interest expense to increase in during fiscal 2007, relative to fiscal 2006, as it pays interest on the 2006 credit facility, and amortizes the debt issuance costs, for the full year as compared to the six month period that the debt was outstanding in fiscal 2006. Nuance will continue to record interest expense as it relates to certain lease obligations included in Nuance s accrued restructuring and accrued business combination costs.

Fiscal 2005 Compared to Fiscal 2004

Interest income increased $0.8 million in fiscal 2005, as compared to fiscal 2004, primarily attributable to higher cash and investment balances during the year. Interest expense increased $1.3 million in fiscal 2005, as compared to fiscal 2004, mainly due to the recognition of non cash interest expense in association with the deferred installment payments of $16.4 million and $17.5 million, respectively, in connection with Nuance s acquisitions of ART and Phonetic during the second quarter of fiscal 2005.

	Fiscal 2006	Fiscal 2005	Nine Month Period Ended September 30, 2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Income tax provision (benefit)	$ 15,144	$ 6,812	$ 1,333	122.3%	411.0%
Effective income tax rate	(214.2)%	488.3%	(16.6)%		

Fiscal 2006 Compared to Fiscal 2005 and Fiscal 2004

The variance from the federal statutory rate in all periods was due primarily to the increase in Nuance s valuation allowance with respect to certain deferred tax assets. Valuation allowances have been established for the U.S. net deferred tax asset, which Nuance believes do not meet the more likely than not realization criteria established by SFAS 109, Accounting for Income Taxes. Due to a history of cumulative losses in the United States, a full valuation allowance has been recorded against the net deferred assets of Nuance s U.S. entities. At September 30, 2006, Nuance had a valuation allowance for U.S. net deferred tax assets of approximately $312.1 million. The U.S. net deferred tax assets is composed of tax assets primarily related to net operating loss carryforwards (resulting both from business combinations and from operations) and tax credits, offset by deferred tax liabilities primarily related to intangible assets. Certain of these intangible assets have indefinite lives, and the resulting deferred tax liability associated with these assets is not allowed as an offset to Nuance s deferred tax assets for purposes of determining the required amount of Nuance s valuation allowance.

Nuance s utilization of deferred tax assets that were acquired in a business combination (primarily net operating loss carryforwards) results in a reduction in the associated valuation allowance and an increase to goodwill. Nuance s establishment of new deferred tax assets as a result of operating activities requires the establishment of valuation allowances based upon the SFAS 109 more likely than not realization criteria. The establishment of a valuation allowance relating to operating activities is recorded as an increase to tax expense.

Nuance s tax provision also includes state and foreign tax expense, which is determined on either a legal entity or separate tax jurisdiction basis.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled $168.0 million as of June 30, 2007, an increase of $55.7 million as compared to $112.3 million as of September 30, 2006. This increase was composed of cash provided by operating and financing activities of $91.7 million and $70.8 million, respectively, offset by the net impact of cash used in investing activities of $107.5 million. Nuance s working capital was $113.3 million at June 30, 2007 and its accumulated deficit was $200.7 million. Nuance does not expect its accumulated deficit will impact its future ability to operate given its strong cash and financial position.

Cash and cash equivalents totaled $112.3 million as of September 30, 2006, an increase of $16.5 million compared to $95.8 million including marketable securities of $24.1 million as of September 30, 2005. In addition, Nuance had $0.8 million and $11.7 million of certificates of deposit relating to certain of its facilities leases as of September 30, 2006 and 2005, respectively. Nuance completed fiscal 2006 with working capital of $51.3 million as compared to $12.1 million in fiscal 2005. As of September 30, 2006, total retained deficit was $190.1 million. Nuance does not expect its retained deficit will impact its future ability to operate given Nuance s strong cash and financial position. Nuance s cash and cash equivalents increased by $40.6 million in fiscal 2006. This increase was composed of cash provided by operating activities of $47.9 million, partially offset by the net impact of cash provided by financing activities and cash used in investing activities.

Cash provided by operating activities

Cash provided by operating activities for the nine months ended June 30, 2007 was $91.7 million, an increase of $59.8 million, or 188%, as compared to net cash provided by operating activities of $31.9 million for the nine months ended June 30, 2006. The increase was primarily composed of $41.9 million, or 124%, relating to the net loss after adding back non-cash items such as depreciation and amortization, and share-based payments; in the nine months ended June 30, 2007, this amount was $75.7 million compared to $33.8 million in the comparable period in fiscal 2006.

Changes in working capital accounts in the fiscal 2007 period contributed an additional $17.9 million net increase to cash provided by operating activities. Notably included in the improved cash flows were: accounts payable and accrued expenses which changed by $12.3 million in the comparative periods, having changed from a use of $2.0 million in the fiscal 2006 period to a source of $10.3 million in the fiscal 2007 period; and deferred maintenance, unearned revenue and customer deposits which contributed $13.8 million to the change, having become a source of $5.5 million in the fiscal 2007 period, compared to a use of $8.3 million in the fiscal 2006 period. These sources of cash were partially offset by a change in prepaid and other assets that changed by $7.0 million in the period, having become a $3.0 million use of cash in the fiscal 2007 period as compared to a source of cash in an amount of $4.0 million in the fiscal 2006 period.

Cash provided by operating activities for fiscal 2006 was $47.9 million, an increase of $31.7 million, or 196%, from $16.2 million provided by operating activities in fiscal 2005. The increase was primarily composed of changes relating to the net loss after adding back non-cash items such as depreciation and amortization, and share-based compensation; in fiscal 2006 this amount was $54.9 million compared to $20.9 million in fiscal 2005, an increase of $34.0 million, or 163%. This increase was offset by changes in working capital of $2.3 million, of which an $8.7 million use of cash for non-Dictaphone operations was offset by $6.4 million source of cash due to changes in Dictaphone working capital. The change in non-Dictaphone working capital was due to improved billing and collection processes resulting in improved days outstanding for accounts receivable billings. The Dictaphone working capital was also positive due to the collection of accounts receivable and acquired unbilled accounts receivable. For both non-Dictaphone and Dictaphone working capital, the cash provided from net accounts receivable was offset by payments relative to accounts payable and accrued expenses, a net decrease in deferred revenue, and a net increase in prepaid and other assets. Deferred revenue of Dictaphone and non-Dictaphone decreased largely due to amounts that were included in the beginning balance sheet relating to customer contracts also included in acquired unbilled accounts receivable, including the deferred revenue accounts of Former Nuance in the case of the non-Dictaphone changes.

Cash used in investing activities

Cash used in investing activities for the nine months ended June 30, 2007 was $107.5 million, as compared to net cash used in investing activities of $369.8 million for the nine months ended June 30, 2006. The change in cash used in investing activities was primarily driven by the net cash paid for acquisitions in each period; in the fiscal 2006 period $391.2 million was paid, largely relating to the acquisition of Dictaphone, and in the fiscal 2007 period $96.3 million was paid, largely relating to the acquisitions of Focus and BeVocal. Cash used in investing activities in both fiscal periods also was due to Nuance s purchases of property and equipment, and to Nuance s continued enforcement of its intellectual property rights. Partially

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offsetting these cash uses, in fiscal 2006 Nuance had net proceeds of $29.6 million relating to net maturities of short-term investments and the release of restricted cash in fiscal 2006 and $1.2 million of proceeds in the fiscal 2007 period.

Cash used in investing activities for fiscal 2006 was $366.0 million, an increase of $321.4 million, or 721%, as compared to $44.6 million for fiscal 2005. The increase in cash used in investing was primarily driven by an increase of $331.5 million in cash paid for our acquisitions, of which the majority of the fiscal 2006 payments related to our acquisition of Dictaphone on March 31, 2006. $3.8 million of the increase related to incremental additions to property and equipment. The increase in cash used in investing activities was partially offset by an $11.1 million decrease in restricted cash and $3.1 million of incremental maturities of marketable securities.

Cash provided by financing activities

Cash provided by financing activities for the nine months ended June 30, 2007 was $70.8 million, as compared to $348.8 million for the nine months ended June 30, 2006, a difference of $278.0 million. The change was composed primarily of the net receipts from bank debt, which totaled $346.0 million in the fiscal 2006 period, as compared to $87.7 million in the fiscal 2007 period, a difference of $258.4 million. Other contributions to the change in cash provided by financing activities included: Nuance s proceeds from stock option and other share-based employee benefit plans decreased in the comparable periods by $7.9 million; debt payments increased by $4.6 million in the fiscal 2007 period, due to payments made under the bank debt facilities; deferred payments on acquisitions increased by $4.2 million to $18.6 million in the fiscal 2007 period relating to our 2005 acquisitions of ART and Phonetic from $14.4 million in the fiscal 2006 period. Nuance s repurchase of shares from employees and the former MVC shareholders also contributed $3.9 million to increased cash outflows in the fiscal 2007 period.

Cash provided by financing activities for fiscal 2006 was $358.6 million, an increase of $282.1 million compared to $76.5 million in fiscal 2005. The increase in cash provided by financing activities was primarily driven by $346.0 million net proceeds from the new credit facility entered into in March 2006. Additionally, the proceeds from the issuance of common stock under employee based compensation plans increased $24.6 million, or 397%. These increases were partially offset by $73.8 million in net proceeds from the issuance of common stock under private placements that occurred in fiscal 2005 and deferred acquisition payments of $14.4 million related to Nuance s acquisition of ART in fiscal 2005.

Credit Facility

On April 5, 2007, Nuance entered into an amended and restated credit facility which consists of a $441.5 million term loan due March 2013 and a $75.0 million revolving credit line, including letters of credit, due March 2013 (the Expanded 2006 Credit Facility). As of June 30, 2007, $440.3 million remained outstanding under the term loan. As of June 30, 2007, there were $17.3 million of letters of credit issued under the revolving credit line and there were no other outstanding borrowings under the revolving credit line.

The Expanded 2006 Credit Facility contains customary covenants, including, among other things, covenants that restrict the ability of Nuance and its subsidiaries to incur certain additional indebtedness, create or permit liens on assets, enter into sale-leaseback transactions, make loans or investments, sell assets, make certain acquisitions, pay dividends, or repurchase stock. The agreement also contains customary events of default, including failure to make payments, 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, 2007, Nuance was in compliance with the covenants under the Expanded 2006 Credit Facility.

Borrowings under the Expanded 2006 Credit Facility bear interest at a rate equal to the applicable margin plus, at our option, either (a) the base rate (which is the higher of the corporate base rate of UBS AG, Stamford Branch, or the federal funds rate plus 0.50% per annum) or (b) LIBOR (determined by reference to the British Bankers Association Interest Settlement Rates for deposits in U.S. dollars). The applicable margin for borrowings under the Expanded 2006 Credit Facility ranges from 0.50% to 1.25% per annum with respect to base rate borrowings and from 1.50% to 2.25% per annum with respect to LIBOR-based borrowings, depending upon our leverage ratio. As of June 30, 2007, Nuance s applicable margin was 1.00% for base rate borrowings and 2.00% for LIBOR-based borrowings. Nuance is required to pay a commitment fee for unutilized commitments under the revolving credit facility at a rate ranging from 0.375% to 0.50% per annum, based upon our leverage ratio. As of June 30, 2007, the commitment fee rate was 0.5%.

Nuance has capitalized debt issuance costs related to the Expanded 2006 Credit Facility and is amortizing the costs to interest expense using the effective interest rate method through March 2012 for costs associated with the revolving credit facility and through March 2013 for costs associated with the term loan. As of June 30, 2007, the ending unamortized deferred financing fees were $9.5 million and are included in other long-term assets in the consolidated balance sheet.

The $441.5 million term loan is subject to repayment in four equal quarterly installments of 1% per annum ($4.45 million per year), and an annual excess cash flow sweep, as defined in the Expanded 2006 Credit Facility, which will be first payable beginning in the first quarter of fiscal 2008, based on the excess cash flow generated in fiscal 2007. As of June 30, 2007, Nuance has repaid $1.2 million of principal under the term loan agreement. Any borrowings not paid through the baseline repayment, the excess cash flow sweep, or any other mandatory or optional payments that Nuance may make, will be repaid upon maturity. If only the baseline repayments are made, the aggregate annual maturities of the term loan would be as follows (in thousands):

Year Ending September 30,	**Amount**
2007 (July 1 to September 30, 2007)	$ 1,113
2008	4,450
2009	4,450
2010	4,450
2011	4,450
2012	4,450
Thereafter	416,975
Total	$ 440,338

Nuance s obligations under the Expanded 2006 Credit Facility are unconditionally guaranteed by, subject to certain exceptions, each of its existing and future direct and indirect wholly-owned domestic subsidiaries. The Expanded 2006 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 Nuance s domestic subsidiaries and 65% of the outstanding voting equity interests and 100% of the non-voting equity interests of first-tier foreign subsidiaries, all material tangible and intangible assets of Nuance and the guarantors, and any present and future intercompany debt. The Expanded 2006 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. Nuance may voluntarily prepay the Expanded 2006 Credit Facility without premium or penalty other than customary breakage costs with respect to LIBOR-based loans.

As noted above, beginning in the first quarter of fiscal 2008, Nuance may be required to repay a portion of the outstanding principal under the Expanded 2006 Credit Facility in accordance with the excess cash flow sweep provision, as defined in the Expanded 2006 Credit Facility. The amount of the payment due in the first quarter of fiscal 2008, if any, is based on Nuance s earnings before interest, taxes, depreciation and amortization, or EBITDA, for the fiscal year ending September 30, 2007, as adjusted in accordance with the terms of the Expanded 2006 Credit Facility. At the current time, Nuance is unable to predict the amount of the outstanding principal, if any, it may be required to repay during the first quarter of fiscal 2008 pursuant to the excess cash flow sweep provisions.

On June 11, 2007, Nuance received a commitment letter from Citigroup Global Markets Inc., Lehman Brothers Inc. and Goldman Sachs Credit Partners L.P. as arrangers, and Bank of America Securities as co-

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arranger, for a syndicate of lenders under Nuance s existing credit agreement. The commitment letter, which expires August 30, 2007, relates to an incremental term loan in the amount of $225 million that would be provided under Nuance s existing credit agreement. As of June 30, 2007, Nuance had not drawn against the commitment letter.

On August 7, 2007, Nuance entered into a purchase agreement with Citigroup Global Markets Inc. and Goldman, Sachs & Co. (the Initial Purchasers) to offer and sell $220 million aggregate principal amount of its 2.75% Convertible Debentures due 2027, plus up to an additional $30 million aggregate principal amount of such debentures at the option of the Initial Purchasers to cover over-allotment, if any, in a private placement to the Initial Purchasers for resale to qualified institutional buyers pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the Act), afforded by Section 4(2) of the Act and Rule 144A under the Act. Nuance intends to use the net proceeds from the offering to partially fund its acquisition of Tegic.

Nuance believes that the combination of the commitment letter discussed above, proceeds from the proposed sale of the convertible debentures which Nuance announced on August 7, 2007, the Expanded 2006 Credit Facility and cash flows from future operations, in addition to cash and marketable securities on hand, will be sufficient to meet its working capital, investing, financing and contractual obligations, as they become due for the foreseeable future. Nuance also believes that in the event future operating results are not as planned, that Nuance could take actions, including restructuring actions and other cost reduction initiatives, to reduce operating expenses to levels which, in combination with expected future revenue, will continue to generate sufficient operating cash flow. In the event that these actions are not effective in generating operating cash flows Nuance may be required to issue equity or debt securities on less than favorable terms.

Off-Balance Sheet Arrangements, Contractual Obligations, Contingent Liabilities and Commitments

Contractual Obligations

The following table outlines Nuance s contractual payment obligations as of June 30, 2007 (in millions):

			Payments Due by Period			
Contractual Obligations	**Total**	**Remaining Fiscal 2007**	**Fiscal 2008**	**Fiscal 2009 and 2010**	**Fiscal 2011 and 2012**	**Thereafter**
Term loan under credit facility	$ 440.3	$ 1.1	$ 4.5	$ 8.9	$ 8.9	$ 416.9
Interest payable under credit facility(1)	180.2	8.1	32.0	63.1	61.8	15.2
Lease obligations and other term loans:						
Capital leases and other term loan	1.2	0.2	0.6	0.4		
Operating leases	53.6	2.1	8.9	15.1	11.3	16.2
Other lease obligations associated with the closing of duplicate facilities related to restructurings and acquisitions(2)	5.4	0.5	1.6	1.9	1.1	0.3
Pension, minimum funding requirement(3)	6.6	0.4	1.7	3.5	1.0	
Purchase commitments(4)	3.6	3.6				

Other long-term liabilities assumed(5)	79.6	3.1	12.8	26.8	26.8	10.1
Total contractual cash obligations	$ 770.5	$ 19.1	$ 62.1	$ 119.7	$ 110.9	$ 458.7

(1) Interest is due and payable monthly under the credit facility, and principle is paid on a quarterly basis. The amounts included as interest payable in this table are based on an interest rate of 7.32%, which is the applicable rate as of June 30, 2007 under the terms of the credit facility.

(2) Obligations include contractual lease commitments related to a facility that was part of a 2005 restructuring plan. As of June 30, 2007, total gross lease obligations are $3.0 million and are included in the

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contractual obligations herein. The remaining obligations represent contractual lease commitments associated with the implemented plans to eliminate duplicate facilities in conjunction with Nuance s acquisition of Former Nuance during fiscal 2005 and Nuance s acquisition of Dictaphone during fiscal 2006, and have been included as liabilities in Nuance s consolidated balance sheet as part of purchase accounting. As of June 30, 2007, Nuance has subleased two of the facilities to unrelated third parties with total sublease income of $3.9 million through fiscal 2013.

(3) Our U.K. pension plan has a minimum funding requirement of £859,900 ($1.7 million based on the exchange rate at June 30, 2007) for each of the next 4 years, through fiscal 2011.

(4) These amounts include non-cancelable purchase commitments for inventory in the normal course of business to fulfill customers orders currently scheduled in our backlog.

(5) Obligations include assumed long-term liabilities relating to restructuring programs initiated by the predecessor companies prior to Nuance s acquisition of SpeechWorks International, Inc. in August 2003, and Nuance s acquisition of Former Nuance in September 2005. These restructuring programs related to the closing of two facilities with lease terms set to expire in 2016 and 2012, respectively. Total contractual obligations under these two leases are $79.6 million. As of June 30, 2007, Nuance has sub-leased certain of the office space related to these two facilities to unrelated third parties. Total sublease income under contractual terms is expected to be $20.4 million, which ranges from $2.7 million to $3.0 million on an annualized basis through 2016.

On May 15, 2007, Nuance announced its execution of a definitive agreement to acquire VoiceSignal Technologies, a global provider of mobile voice technology. The announced estimated aggregate consideration for this acquisition is $210 million in cash and $91 million in stock to shareholders, and an estimated $10 million in transaction fees. The cash requirements of this acquisition would be funded by the net proceeds received under the $225 million commitment letter that Nuance received on June 11, 2007.

On June 21, 2007, Nuance announced its execution of a definitive agreement to acquire Tegic Communications, a developer of embedded software for mobile devices. The announced estimated aggregate consideration for this acquisition is $265 million in cash, plus an estimated $4 million in transaction fees. The acquisition would be funded by Nuance s existing cash and investments, as well as by Nuance s access to the credit line under our Expanded 2006 Credit Facility and proceeds from the proposed sale of the convertible debentures which Nuance announced on August 7, 2007.

Contingent Liabilities and Commitments

In connection with Nuance s acquisition of Phonetic, Nuance agreed to make contingent payments of up to $35.0 million upon the achievement of certain established financial and performance targets through December 31, 2007, in accordance with the purchase agreement. Nuance has notified the former shareholders of Phonetic that the performance targets for the scheduled payments for calendar 2005 and 2006, totaling $24.0 million, were not achieved. The former shareholders of Phonetic have objected to this determination. Nuance is currently in discussions with the former shareholders of Phonetic in regards to this matter.

In connection with Nuance s acquisition of MVC, Nuance agreed to make contingent payments of up to $18.0 million upon the achievement of certain performance targets through December 31, 2008, in accordance with the purchase agreement. Nuance has not recorded any obligation relative to these performance measures though June 30, 2007.

In connection with Nuance s acquisition of BeVocal, Nuance agreed to make contingent payments of up to $60.6 million, including amounts payable to an investment banker, upon the achievement of certain performance targets through December 31, 2007, in accordance with the purchase agreement. Nuance has accrued $40.4 million of this amount as of June 30, 2007. These contingent payments are payable in cash in October 2008.

Financial Instruments

During fiscal 2006, Nuance entered into an interest rate swap with a notional value of $100 million. The interest rate swap was entered into in conjunction with a term loan as of March 31, 2006 to effectively change the characteristics of the interest rate without actually changing the debt instrument. At its inception, Nuance documented the hedging relationship and determined that the hedge is perfectly effective and designated it as a cash flow hedge. The interest rate swap will hedge the variability of the cash flows caused by changes in U.S. dollar LIBOR interest rates. The swap is marked to market at each reporting date. The fair value of the swap at June 30, 2007 was $0.1 million which was included in other assets. Changes in the fair value of the cash flow hedge are reported in stockholders equity as a component of other comprehensive income.

Off-Balance Sheet Arrangements

Through June 30, 2007, Nuance has not entered into any off balance sheet arrangements or transactions with unconsolidated entities or other persons.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 has as its objective to reduce both complexity in accounting for financial instruments and volatility in earnings caused by measuring related assets and liabilities differently. It also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year, provided that the entity makes that choice in the first 120 days of that fiscal year. Nuance is currently evaluating the impact, if any, that SFAS 159 may have on its consolidated financial statements.

In December 2006, the FASB issued EITF 00-19-2, Accounting for Registration Payment Arrangements. EITF 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of EITF 00-19-2, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006. Nuance is evaluating the impact, if any, that EITF 00-19-2 may have on its consolidated financial statements.

In September 2006, the FASB issued SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements 87, 88, 106 and 132(R). SFAS 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires the measurement of defined benefit plan assets and obligations as of the date of the employer s fiscal year-end statement of financial position (with limited exceptions). Under SFAS 158, Nuance is required to recognize the funded status of its defined benefit postretirement plan and to provide the required disclosures commencing as of September 30, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end is effective for Nuance s fiscal year ended September 30, 2009. Nuance is evaluating the impact that SFAS 158 will have on its consolidated financial statements.

In July 2006, the FASB issued Interpretation 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS 109, Accounting for Income Taxes. FIN 48 prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for Nuance s fiscal year beginning October 1, 2007. Nuance is evaluating the effect that the adoption of FIN 48 will have on its consolidated financial statements.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, Nuance evaluates its estimates, assumptions and judgments, including those related to revenue recognition; allowance for doubtful accounts and returns; accounting for patent legal defense costs; the costs to complete the development of custom software applications; the valuation of goodwill, other intangible assets and tangible long-lived assets; accounting for acquisitions; share-based payments; obligation relating to pension and post-retirement benefit plans; interest rate swaps which are characterized as derivative instruments; income tax reserves and valuation allowances; and loss contingencies. Nuance management bases its estimates on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Nuance believes the following critical accounting policies most significantly affect the portrayal of its financial condition and results of operations and require its most difficult and subjective judgments.

Revenue Recognition. Nuance recognizes product and licensing revenue in accordance with Statement of Position, or SOP, 97-2, Software Revenue Recognition, and SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions, and related authoritative literature. The application of SOP 97-2 requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence, or VSOE, of fair value exists for those elements. Nuance s software arrangements generally include software and post contract support which includes telephone support and the right to receive unspecified upgrades/enhancements on a when-and-if-available basis, typically for one to three years. Changes to the elements in a software arrangement, the ability to identify VSOE for those elements and the fair value of the respective elements could materially impact the amount of earned and unearned revenue. Judgment is also required to assess whether future releases of certain software represent new products or upgrades and enhancements to existing products. In accordance with SOP 97-2, revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable and (iv) collectibility is probable.

Non-software revenue is recognized in accordance with, the Securities and Exchange Commission s Staff Accounting Bulletin, or SAB, 104, Revenue Recognition in Financial Statements. Under SAB 104, Nuance recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fees are fixed or determinable and (iv) collectibility is reasonably assured.

Professional services revenue is recognized in accordance with SOP 81-1, Accounting for Performance of Construction Type and Certain Performance Type Contracts on the percentage-of-completion method. Nuance generally determines the percentage-of-completion by comparing the labor hours incurred to date to the estimated total labor hours required to complete the project. Nuance considers labor hours to be the most reliable, available measure of progress on these projects. Adjustments to estimates to complete are made in the periods in which facts resulting in a change become known. When the estimate indicates that a loss will be incurred, such loss is recorded in the period identified. Significant judgments and estimates are involved in determining the percent complete of each contract. Different assumptions could yield materially different results.

Nuance makes estimate of sales returns based on historical experience. In accordance with Statement of Financial Accounting Standards, or SFAS, 48, Revenue Recognition When Right of Return Exists, the provision for these estimated returns is recorded as a reduction of revenue and accounts receivable at the time that the related revenue is recorded. Nuance also makes estimates and reduces revenue recognized for price protection and rebates, and certain marketing allowances at the time the related revenue is recorded. If actual results differ significantly from Nuance s estimates, such differences could have a material impact on Nuance s results of operations for the period in which the actual results become known.

Nuance s revenue recognition policies require management to make significant estimates. Management analyzes various factors, including a review of specific transactions, historical experience, creditworthiness of customers and current market and economic conditions. Changes in judgments based upon these factors could impact the timing and amount of revenue and cost recognized and thus affects Nuance s results of operations and financial condition.

Capitalized Patent Defense Costs. Nuance monitors the anticipated outcome of legal actions, and if Nuance determines that the success of the defense of a patent is probable, and so long as Nuance believes that the future economic benefit of the patent will be increased, Nuance then capitalizes external legal costs incurred in the defense of these patents, up to the level of the expected increased future economic benefit. If changes in the anticipated outcome occur, Nuance writes off any capitalized costs in the period the change is determined. As of September 30, 2006 and 2005, capitalized patent defense costs totaled $6.4 million and $2.3 million, respectively.

Research and Development Costs. Nuance accounts for the internal costs relating to research and development activities in accordance with SFAS 2, Accounting for Research and Development Costs, and SFAS 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. Research and development costs incurred for new software products and enhancements to existing products, other than certain software development costs that qualify for capitalization, are expensed as incurred. Software development costs incurred subsequent to the establishment of technological feasibility, but prior to the general release of the product, are capitalized and amortized to cost of revenue over the estimated useful life of the related products. Judgment is required in determining when technological feasibility of a product is established. Nuance has determined that technological feasibility for its software products is reached shortly before the products are released to manufacturing. Costs incurred after technological feasibility is established have not been material, and accordingly, Nuance has expensed the internal costs relating to research and development when incurred.

Purchased Computer Software. The cost of purchased computer software to be sold, leased, or otherwise marketed is capitalized if the purchased software has an alternative future use. Otherwise, the cost is expensed as incurred. Capitalized purchased computer software is amortized to cost of revenue over the estimated useful life of the related products. At each balance sheet date, Nuance evaluates these assets for impairment by comparing the unamortized cost to the net realizable value. Amortization expense was $5.1 million, $2.1 million and $1.6 million for fiscal 2006, 2005 and 2004, respectively. Included in the fiscal 2006 amortization expense was an additional $2.6 million of expense representing an impairment determined to exist in order to value the purchased computer software at its net realizable value. See Note 8 of the Notes to Nuance s Consolidated Financial Statements. The net unamortized purchased computer software included in other intangible assets at September 30, 2006 and 2005 were $1.6 million and $5.2 million, respectively.

Valuation of Long-lived Tangible and Intangible Assets and Goodwill. Nuance has significant long-lived tangible and intangible assets, including goodwill and intangible assets with indefinite lives, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The most significant long-lived tangible and intangible assets are fixed assets, patents and core technology, completed technology, customer relationships and trademarks. All finite-lived intangible assets are amortized based upon patterns in which the economic benefits of customer relationships are expected to be utilized. The values of intangible assets, with the exception of goodwill and intangible assets with indefinite lives, were initially determined by a risk-adjusted, discounted cash flow approach. Nuance assesses the potential impairment of identifiable intangible assets and fixed assets whenever events or changes in circumstances indicate that the carrying values may not be recoverable and at least annually. Factors Nuance considers important, which could trigger an impairment of such assets, include the following:

significant underperformance relative to historical or projected future operating results;

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significant changes in the manner of or use of the acquired assets or the strategy for Nuance s overall business;

significant negative industry or economic trends;

significant decline in Nuance s stock price for a sustained period; and

a decline in Nuance s 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.

In accordance with SFAS 142, Goodwill and Other Intangible Assets, Nuance tests goodwill and intangible assets with indefinite lives for impairment on an annual basis as of July 1, and between annual tests if indicators of potential impairment exist. The impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill and intangible assets with indefinite lives, to assess whether impairment is present. Nuance has reviewed the provisions of SFAS 142 with respect to the criteria necessary to evaluate the number of reporting units that exist. Based on its review, Nuance has determined that it operates in one reporting unit. Based on this assessment, Nuance has not had any impairment charges during its history as a result of its impairment evaluation of goodwill and other indefinite-lived intangible assets under SFAS 142.

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, Nuance periodically reviews long-lived assets 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. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. No impairment charges were taken in fiscal 2006, 2005 or 2004, based on the review of long-lived assets under SFAS 144.

Significant judgments and estimates are involved in determining the useful lives of Nuance s long-lived assets, determining what reporting units exist and assessing when events or circumstances would require an interim impairment analysis of goodwill or other long-lived assets to be performed. Changes in Nuance s organization or its 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) additional reporting units, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in Nuance s analysis by reporting unit, and/or (c) other changes in previous assumptions or estimates. In turn, this could have a significant impact on Nuance s consolidated financial statements through accelerated amortization and/or impairment charges.

Accounting for Acquisitions. Nuance has completed a number of significant business and other asset acquisitions over the preceding five years which have resulted in significant goodwill and other intangible asset balances. Nuance s future business strategy contemplates that it may continue to pursue additional acquisitions in the future. Nuance s accounting for acquisitions involves significant judgments and estimates primarily, but not limited to: the fair value of certain forms of consideration, the fair value of acquired intangible assets, which involve projections of future revenue and cash flows, the fair value of other acquired assets and assumed liabilities, including potential contingencies, and the useful lives and, as applicable, the reporting unit, of the assets. Nuance s financial position or results of operations may be materially impacted by changes in Nuance s initial assumptions and estimates relating to prior or future acquisitions. Additionally, under SFAS 142, Nuance determines the fair value of the reporting unit, for purposes of the first step in its annual goodwill impairment test, based on its market value. If prior or future acquisitions are not accretive to its results of operations as expected, Nuance s market value declines dramatically, or Nuance determines it has more than one reporting unit, Nuance may be required to complete the second step which requires significant judgments and estimates and which may result in material impairment charges in the period in which they are determined.

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Accounting for Long-Term Facility Obligations. Nuance has historically acquired companies which have previously established restructuring charges relating to lease exit costs, and Nuance has recorded restructuring charges of its own that include lease exit costs. Nuance follows the provisions of EITF 95-3 Recognition of Liabilities in Connection with a Purchase Business Combination or SFAS 146 Accounting for Costs Associated with Exit or Disposal Activities as applicable. In accounting for these obligations, Nuance is required to make assumptions relating to the time period over which the facility will remain vacant, sublease terms, sublease rates and discount rates. Nuance bases its estimates and assumptions on the best information available at the time of the obligation having arisen. These estimates are reviewed and revised as facts and circumstances dictate; changes in these estimates could have a material effect on the amount accrued on the balance sheet.

Accounting for Share-Based Payments. Nuance accounts for share-based payments in accordance with SFAS 123(R), Share-Based Payment. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period which is generally the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected dividends, share price volatility and the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, share-based compensation expense and Nuance s results of operations could be materially impacted.

Pension and Post-Retirement Benefit Plans. Nuance has defined benefit pension plans that were assumed as part of the acquisition of Dictaphone Corporation on March 31, 2006, which provide certain retirement and death benefits for former Dictaphone employees located in the United Kingdom and Canada. Nuance also assumed a post-retirement health care and life insurance benefit plan, which is frozen relative to new enrollment, and which provides certain post-retirement health care and life insurance benefits, as well as a fixed subsidy for qualified former employees in the United States and Canada. Nuance uses several actuarial and other factors which attempt to estimate the ultimate expense, liability and assets values related to its pension and post-retirement benefit plans. These factors include assumptions about discount rates, expected return on plan assets and the rate of future compensation increases. In addition, subjective assumptions, such as withdrawal and mortality rates, are also utilized. The assumptions may differ materially from actual results due to the changing market and economic condition or other factors, and depending on their magnitude, could have a significant impact on the amount Nuance recorded. Pension and post-retirement benefit plan assumptions are included in [Note [18] of Notes to the Consolidated Financial Statements.]

Income Taxes. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Nuance does not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries, which Nuance considers to be indefinitely reinvested outside of the U.S. in accordance with Accounting Principles Board (APB) Opinion No. 23, Accounting for Income Taxes Special Areas.

Nuance makes judgments regarding the realizability of its deferred tax assets. In accordance with SFAS 109, Accounting for Income Taxes, the carrying value of the net deferred tax assets is based on the belief that it is more likely than not that Nuance will generate sufficient future taxable income to realize these deferred tax assets after consideration of all available evidence. Nuance regularly reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, and the expected timing of the reversals of existing temporary differences and tax planning strategies.

Valuation allowances have been established for U.S. deferred tax assets, which Nuance believes do not meet the more likely than not criteria established by SFAS 109. If Nuance is subsequently able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been established, then it may be required to recognize these deferred tax assets through the reduction of the valuation allowance which would result in a material benefit to

Nuance s results of operations in the period in which the benefit is determined, excluding the recognition of the portion of the valuation allowance which relates to net deferred tax assets acquired in a business combination and created as a result of share-based payments. The recognition of the portion of the valuation allowance which relates to net deferred tax assets resulting from share-based payments will be recorded as additional paid-in-capital; the recognition of the portion of the valuation allowance which relates to net deferred tax assets acquired in a business combination will reduce goodwill, other intangible assets, and to the extent remaining, the provision for income taxes.

Loss Contingencies. Nuance is subject to legal proceedings, lawsuits and other claims relating to labor, service and other matters arising in the ordinary course of business, as discussed in Note 17 of Notes to the Consolidated Financial Statements. Quarterly, Nuance reviews the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, Nuance accrues a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, Nuance reassesses the potential liability related to its pending claims and litigation and may revise its estimates. Such revisions in the estimates of the potential liabilities could have a material impact on Nuance s results of operations and financial position.

VOICESIGNAL S BUSINESS

Overview

VoiceSignal develops and markets voice software solutions for cell phones and other mobile devices. By enabling people to use voice to access phone features and network services through their handsets, VoiceSignal s solutions make it dramatically easier to realize the potential of mobile computing on a wide range of handsets and devices. VoiceSignal s products range from VSuite, the Company s highly successful line of small footprint voice interface solutions for voice dialing and voice commands, to VSearch, VoiceSignal s recently announced voice-enabled client-server platform for mobile search.

Since shipping its first voice dialing product in 2002, VoiceSignal has shipped its software on more than 110 million mobile devices from top handset manufacturers. VoiceSignal solutions are available in over twenty languages and ship on a wide variety of mobile devices, from entry-level to enterprise-class devices and smart phones.

VoiceSignal has well-established relationships with major original equipment manufacturer customers, deep collaboration with the world s major carriers, and extensive proprietary technology for small footprint, ultra-efficient speech recognition and speech synthesis.

VoiceSignal was incorporated in October 1995 as a Massachusetts corporation, and re-incorporated as a Delaware corporation in May 2000. VoiceSignal is backed by private equity funds, Stata Venture Partners, LLC and Argonaut Holdings LLC. VoiceSignal s fiscal year ends on December 31.

Market Opportunity

In recent years, mobile handsets have become a ubiquitous information appliance, offering far more than a means of placing and receiving voice calls. Mobile handsets today provide a means of connecting users to a wide variety of network-based services and information. Such services include access to business listings and information, maps and directions, music catalogs and ringtones, and personalized internet content. The market for these services is expanding rapidly, fueled by consumer demand and the availability of more sophisticated ways of delivering highly targeted information.

As carriers race to provide mobile device users with access to an ever-widening world of mobile services and information, handset users have an ever-greater need for devices that streamline access to these services. However, the combination of smaller handsets and more features means that users are unable to take full advantage of what is available to them due to the limitations of the device user interface. Although mobile phone users want new features and services, they also want access to them to be as easy and as natural as making a phone call.

VoiceSignal solutions strive to overcome the critical handset input problem and major impediment to carrier revenue by eliminating multiple layers of menu clicks for calling, texting, accessing services, downloading content, and searching on a mobile handset. VoiceSignal s solutions range from voice dialing applications to Voice-enabled search, which provides mobile phone users with the ability to get local business listings, as well as mobile content such as ring tones, wallpapers, maps and applications by pressing a dedicated handset button and making a simple voice command.

VoiceSignal Solutions

VoiceSignal has been a pioneer in developing innovative voice solutions for mobile handsets. VoiceSignal has developed or is developing the following product lines:

VSuite is VoiceSignal s voice dialing and voice control software, used for initiating calls, addressing messages, opening menus or applications, and controlling other features of the phone by voice.

VoiceMode is VoiceSignal s dictation, or speech-to-text product for dictating text messages or email by voice.

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VSpeak is VoiceSignal s speech synthesis, or text-to-speech technology, which can be used for reading messages, emails, web pages, and other text-based information.

VSearch is VoiceSignal s voice-enabled mobile search product, planned for release in calendar 2007. VSearch enables one-step access to network-based information and services, such as business listings, maps, directions, music catalogs, ringtones, and more.

VSAPI is the VoiceSignal application programming interface, which enables third parties to develop their own speech-enabled applications based on VoiceSignal technology.

VoiceSignal s solutions can be combined to create a consistent voice experience for users of mobile devices and mobile information services. Each of VoiceSignal s product lines are described in greater detail below.

VSearch Voice-Enabled Mobile Search

VoiceSignal believes that the market for mobile search will grow rapidly, offering significant opportunities for solutions that combine the benefits of a simple, direct voice user interface with information retrieval technology.

VSearch is VoiceSignal s recently announced client-server solution for voice-enabled mobile search. VSearch will provide one-step access to the vast search capabilities of the web from a mobile phone. Because the VSearch application is embedded with VSuite into the phone and integrated with the phone s native user experience, VSearch offer the unique advantage that it can be launched with a single button push and simple search command directly from the phone s idle screen. VSearch can be launched as a subscription service or as an advertiser-supported service that gives mobile phone users access to directory assistance, ringtones, music, games, weather forecasts, sports scores, the latest stock quotes, maps and even special offers from advertisers.

Not only does the VSearch system make use of speech recognition technology to convert user queries into text, it also formats, prioritizes and optimizes the results, including relevant advertising messages, so that the user sees information that is highly targeted to their original query. VSearch is planned for commercial deployment by the end of 2007.

VoiceMode Dictation (Speech-to-Text)

VoiceMode is VoiceSignal s dictation (speech-to-text) application, offering users an alternative to the keypad for entering text into SMS messages, emails, and other similar applications. The VoiceMode application is entirely embedded on the mobile device and does not require a network server. Consequently, VoiceMode works even when no network connection is present. VoiceMode is designed to work seamlessly with other text input modes, such as multi-tap or predictive text, so users can effortlessly switch to VoiceMode when it is most convenient, and switch back to another input mode when voice input is not needed or wanted.

VSpeak Voice Synthesis (Text to Speech)

VSpeak is an intelligible text-to-speech application that is capable of running within the resource constraints of a mobile device. VSpeak can read text messages, web pages or any other text on a VSpeak-enabled handset. By making it possible for people to easily and safely receive text messages on a mobile phone, even when their hands and eyes are otherwise occupied, VSpeak enhances an individual s ability to use a mobile phone regardless of where they are or what they are doing. VSpeak also means that the visually impaired will be able to receive text messages and use operator services on their mobile phones, which would otherwise be unavailable to them.

VSpeak has been developed to help address the requirements of government regulations regarding accessibility of mobile devices.

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VSuite Voice Dialing and Voice Control

VSuite is a voice dialing and command and control platform that does not require any training. VSuite eliminates the 10-20 button pushes normally associated with looking up information, dialing a number or doing any number of other tasks on a mobile phone. As soon as contact names and numbers are entered in the phonebook, VSuite allows the user to lookup contact information, dial any name or number in the contact list, address text messages and pictures, digit dial any number and access features on the phone or carrier services in a single command.

In addition to making dialing and task completion easier and quicker, VSuite helps address the requirements for hands-free, eyes-free use of mobile devices.

VSAPI Voice API

VSAPI is an application programming interface that enables original equipment manufactures, or OEMs, and third party application developers to use VoiceSignal s VSuite recognizer and VSpeak text-to-speech engine to build their own new speech-enabled applications.

Technology

VoiceSignal s solutions are based on its own proprietary speech recognition and speech synthesis engines. These engines rely on mathematical models and statistical paradigms adapted and enhanced to run efficiently on computationally limited embedded platforms. VoiceSignal solutions are capable of running on all popular mobile hardware and software platforms, and are currently available on open OS platforms, proprietary platforms such as Qualcomm, TI, Intel, Agere, and Philips chipsets.

In order to facilitate easy integration onto a manufacturer s platform, these speech solutions are designed to be separate from other system components and are provided as a precompiled pre-tested library.

Research and Development/Intellectual Property

VoiceSignal s ability to meet its customers expectations for innovation and enhancement depends on a number of factors, including its ability to identify and respond to emerging technological trends in its target markets, develop and maintain competitive products, enhance its existing products by adding features and functionality that differentiate them from those of its competitors and bring products to market on a timely basis and at competitive prices.

Consequently, VoiceSignal continues to enhance the features and performance of its existing products and has made, and intends to continue to make, significant investments in research and product development. VoiceSignal s research and development expenses were $6.0 million, $5.4 million and $4.1 million for the fiscal years ended December 31, 2006, 2005 and 2004, respectively. As of March 31, 2007, VoiceSignal had 58 employees engaged in research and product development activities.

VoiceSignal s performance depends significantly on its ability to protect its intellectual property and proprietary rights to the technologies used in its products. If VoiceSignal s technology is not adequately protected, its competitors could use the technologies that VoiceSignal has developed to enhance their products and services, which could harm VoiceSignal s business.

VoiceSignal has been issued two U.S. patents, allowed one U.S. patent and 42 other U.S. provisional and non-provisional patent applications are pending, as well as counterparts in other jurisdictions around the world. Its registered trademarks in the United States include VOICESIGNAL , VOICEMODE , VSPEAK, VSUITE , and VSEARCH.

Sales, Marketing, and Distribution

VoiceSignal markets its embedded speech products to both OEMs and mobile carriers, and license its products to OEMs. The Company currently has license agreements with and collects royalties from Motorola, Samsung, Research in Motion (or RIM), and others. Samsung and Motorola combined account for more than

85% of total revenue for all periods provided. VoiceSignal markets its VSearch mobile search solution to mobile operators and OEMs.

VoiceSignal sells its products through a direct sales force. As of July 31, 2007, VoiceSignal had 15 employees in sales and marketing worldwide.

International sales of products and services accounted for 51%, 60% and 83% of VoiceSignal s total revenues for the fiscal years ended December 31, 2006, 2005 and 2004, respectively. Sales to South Korea accounted for 51%, 58% and 82% of VoiceSignal s total revenues for fiscal years ended December 31, 2006, 2005 and 2004, respectively. VoiceSignal s international sales strategy is to sell directly to large operators and to partner with leading distributors and systems integrators who have strong industry backgrounds and market presence in their respective markets and geographic regions. For further information regarding segment revenue, geographic areas and significant customers, please refer to Note 16 of the VoiceSignal Notes to Consolidated Financial Statements.

VoiceSignal believes that customer service and ongoing technical support are an essential part of the sales process in the telecommunications industry. Senior management and assigned account managers play an important role in ongoing account management and relationships. VoiceSignal believes maintaining focus on these customer relationships will enable VoiceSignal to improve customer satisfaction and develop products to meet specific customer needs.

Competition

VoiceSignal s embedded speech business faces competition from other speech technology companies, both large and small, many of whom have significantly greater financial, technical and marketing resources than VoiceSignal does. These competitors may be able to respond more rapidly than VoiceSignal can to new or emerging technologies or changes in customer requirements. They may also be able to devote greater resources to the development, promotion and sale of their products than VoiceSignal. These competitors include IBM, Microsoft, Conversay, Infotalk, Infinity Telecom, Cyberon, Fonix, Qualcomm, SVox, Acapela Group, and Loquendo. In addition, a number of smaller companies may produce technologies or products that are competitive with VoiceSignal solutions in some markets. 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 prospective customers.

VoiceSignal s embedded speech business also faces competition from its own current or potential customers whose internal R&D organizations have developed or are seeking to develop embedded speech recognition technology. These organizations include Motorola, Nokia, LG, and Samsung.

The market for voice-enabled mobile search is extremely volatile and competitive, and is subject to rapid technological change. In this market, VoiceSignal faces competition from Google, Yahoo, Microsoft, V-Enable, IBM, Promptu, VoiceBox, Mobeus, Medio Systems, JumpTap, and InfoSpace.

VoiceSignal expects that it will continue to compete primarily on the basis of quality, technical capability, breadth of product and service offerings, functionality, price and time to market.

Employees and Management

As of July 31, 2007, VoiceSignal had 84 full-time employees, including 15 in sales and marketing, 60 in research and development, and 9 in general and administration, including information technology. VoiceSignal s employees are not represented by any labor union and are not covered by any collective bargaining agreements.

VoiceSignal s Chief Executive Officer is Rich Geruson, previously a senior executive at Nokia, IBM, Toshiba, and McKinsey. Prior to joining VoiceSignal in 2003, Mr. Geruson was the Senior Vice President of Nokia Mobile Phones in the Americas.

Facilities

VoiceSignal leases approximately 16,000 square feet of office space in Woburn, Massachusetts, pursuant to a lease that expires in June 2009. VoiceSignal also maintains sales offices in London, Seoul, Tokyo, Shanghai, and Taipei. VoiceSignal believes that its current facilities are suitable and adequate to meet its current needs. VoiceSignal intends to add new facilities or expand existing facilities as it adds employees, and it believes that suitable additional or substitute space will be available as needed to accommodate any such expansion of its operations.

Legal proceedings

Since 2004, VoiceSignal and Nuance have been engaged with each other in litigation regarding various patent and trade secret matters. In addition, the software and communications infrastructure industries are characterized by frequent claims and litigation, including claims regarding patent and other intellectual property rights as well as improper hiring practices. As a result, VoiceSignal may be involved in various legal proceedings from time to time.

Company Information

VoiceSignal s web site is located at www.voicesignal.com. VoiceSignal s principal executive offices are located at 150 Presidential Way, Woburn, MA 02801 and its main telephone number is (781) 970-5200.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF VOICESIGNAL S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management s Discussion and Analysis of Financial Condition and Results of Operations of VoiceSignal is intended to help the reader understand the results of operations and financial condition of VoiceSignal s business. This Management s Discussion and Analysis is provided as a supplement to, and should be read in conjunction with, VoiceSignal s consolidated financial statements and related notes thereto included elsewhere in this consent solicitation statement/prospectus. This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions. The actual results could differ materially from those anticipated in the forward-looking statements, as a result of many factors, including those identified below, in Risk Factors and elsewhere in this consent solicitation statement/prospectus.

OVERVIEW

Voice Signal Technologies, Inc., a Delaware corporation, is a privately held corporation based in Woburn, Massachusetts. Its subsidiaries include Voice Signal Technologies OY, located in Finland, and VoiceSignal KK, located in Japan, both of which are foreign corporations, as well as VoiceSignal Korea, Inc., located in Korea, and VoiceSignal International, Inc., located in China and England, both of which are Massachusetts corporations. Any reference to VoiceSignal includes its subsidiaries, unless otherwise apparent from the context.

VoiceSignal develops state-of-the-art small footprint, highly accurate, speech solutions for use on wireless mobile devices. VoiceSignal licenses its solutions to original equipment manufacturers, or OEMs, of mobile information devices, such as phones, handhelds, and directly to consumers of mobile devices.

VoiceSignal has been in operation since 1995 and its fiscal year ends on December 31.

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RESULTS OF OPERATIONS

Comparison of the Three and Six Months ended June 30, 2007 and 2006

Revenue

The table set forth below presents, as a percentage of total revenue, certain selected financial data for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenue:				
Royalties and licensing	87.8%	84.6%	90.0%	83.8%
Professional services	12.2	15.4	10.0	16.2
Total revenue	100.0	100.0	100.0	100.0
Costs and expenses:				
Cost of revenue from amortization of intangible assets	2.0	2.0	1.9	2.1
Cost of professional services	4.9	6.2	4.9	6.5
Gross margin	93.1	91.8	93.2	91.4
Research and development	26.6	27.0	26.4	27.4
Sales and marketing	18.4	17.4	18.7	17.9
General and administrative	17.0	24.3	18.4	22.5
Total operating expenses	62.0	68.7	63.5	67.8
Income from operations	31.1	23.1	29.7	23.6
Interest income (expense), net	0.2	(0.3)	0.3	0.0
Income before income taxes	31.3	22.8	30.1	23.6
Benefit (provision) for income taxes	(0.7)	0.6	2.3	0.6
Net Income	30.6%	23.4%	32.3%	24.3%

Total Revenue

The table below presents total revenue in absolute dollars and percentage change (dollars in millions):

Three Months Ended June 30,	Six Months Ended June 30,

	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
North America	$ 3.4	$ 2.8	$ 0.6	22%	$ 7.0	$ 5.3	$ 1.7	31%
International	3.0	2.9	0.1	2%	6.0	6.0	0.0	0%
Total revenue	$ 6.4	$ 5.7	$ 0.7	12%	$ 13.0	$ 11.3	$ 1.7	15%

Total revenue increased $0.7 million and $1.7 million, or 12% and 15%, for the three and six months ended June 30, 2007, respectively, as compared to the three and six months ended June 30, 2006, respectively. The increase in total revenue was primarily due to increased volume of shipping products containing VoiceSignal s technology from existing customers as well as volume from a new customer acquired in September 2006. Two customers comprised 91% and 95% of total revenue for the three months ending June 30, 2007 and 2006, respectively and comprised 90% and 95% of total revenue for the six months ending June 30, 2007 and 2006, respectively.

Based on the location of the customers, the geographic split in the three months ended June 30, 2007 was 53% of total revenue in North America and 47% internationally. This compares to 49% of total revenue in

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North America and 51% internationally for the three months ended June 30, 2006. The geographic split in the six months ended June 30, 2007 was 54% of total revenue in North America and 46% internationally. This compares to 47% of total revenue in North America and 53% internationally for the six months ended June 30, 2006. The increase in revenue generated in North America was primarily due to increased sales with one large customer in the United States combined with a new customer located in North America.

Royalty and Licensing Revenue

Royalty and licensing revenue primarily consists of shipments of licensed speech products. The table below sets forth royalty and licensing revenue in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Royalty and licensing revenue	$ 5.6	$ 4.9	$ 0.8	16%	$ 11.7	$ 9.4	$ 2.3	24%
As a percentage of total revenue	88%	85%			90%	84%		

Royalty and licensing revenue increased $0.8 million and $2.3 million, or 16% and 24%, for the three and six months ended June 30, 2007 respectively, as compared to the three and six months ended June 30, 2006, respectively. The increase in royalty and licensing revenue was primarily due to increased volume of shipping products containing VoiceSignal technology from existing customers, as well as volume from a new customer acquired in September 2006. Two customers comprised 92% and 95% of royalty and licensing revenue for the three months ending June 30, 2007 and 2006, respectively. The same two customers comprised 92% and 95% of royalty and licensing revenue for the six months ending June 30, 2007 and 2006.

Professional Services

Professional services revenue primarily consists of consulting and implementation services. The table set forth below presents professional services in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Professional services revenue	$ 0.8	$ 0.9	$ (0.1)	(12)%	$ 1.3	$ 1.8	$ (0.5)	(29)%
As a percentage of total revenue	12%	15%			10%	16%		

Professional services revenue decreased $0.1 million and $0.5 million, or 12% and 29%, for the three and six months ended June 30, 2007, respectively, as compared to the three and six months ended June 30, 2006, respectively. The decrease in professional services revenue was primarily due to the combination of an unusually high number of integrations for the three and six months ended June 30, 2006 and a decrease in the average billable hourly rate as compared to the three and six months ended June 30, 2006. Also, as certain other VoiceSignal customers begin to perform more of the integration services using their own internal resources, VoiceSignal s professional service revenue from these customers decreases. Two customers comprised 77% and 93% of professional services revenue for the three months ending June 30, 2007 and 2006, respectively. The same two customers comprised 77% and 96% of professional services revenue for the six months ending June 30, 2007 and 2006, respectively.

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Cost of Royalties and Licensing

Cost of revenue from amortization of intangible assets primarily consists of amortization of intellectual property that was purchased for use in VoiceSignal s products. The table set forth below presents cost of royalties and licensing in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Cost of revenue from amortization of intangible assets	$ 0.13	$ 0.12	$ 0.01	8%	$ 0.25	$ 0.23	$ 0.02	8%
As a percentage of total revenue	2%	2%			2%	2%		

Cost of amortization of intangible assets increased $0.01 million and $0.02 million, or 8%, for the three and six months ended June 30, 2007, respectively, as compared to the three and six months ended June 30, 2006, respectively. The increase in cost of amortization of intangible assets was primarily due to additional intellectual property purchased in October 2006 which began to be amortized when purchased.

Cost of Professional Services

Cost of professional services primarily consists of compensation for integration support personnel and overhead. The table set forth below presents professional services in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Cost of professional services	$ 0.3	$ 0.4	$ (0.1)	(11)%	$ 0.6	$ 0.7	$ (0.1)	(14)%
As a percentage of total revenue	5%	6%			5%	7%		

Cost of professional services decreased $0.1 million, and $0.1 million, or 11% and 14%, for the three and six months ended June 30, 2007, respectively, as compared to the three and six months ended June 30, 2006, respectively. The decrease in cost of professional services was primarily due to an unusually high number of integrations for the three and six months ended June 30, 2006 as several customers were uploading VoiceSignal s product onto new platforms.

Research and Development Expense

Research and development expense primarily consists of salaries and benefits, overhead, as well as share-based payments relating to VoiceSignal s research and engineering staff. The table below shows research and development expense, in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Total research and development expense	$ 1.7	$ 1.5	$ 0.2	10%	$ 3.4	$ 3.1	$ 0.3	11%
As a percentage of total revenue	27%	27%			26%	27%		

Research and development expense increased $0.2 million and $0.3 million or 10% and 11%, for the three and six months ended June 30, 2007, respectively, as compared to the three and six months ended June 30, 2006, respectively. The increase in research and development expense was primarily due to an increase in compensation related expenses associated with increased average headcount of two employees for the three months ended June 30, 2007 and four employees for the six months ended June 30, 2007. While continuing to increase in absolute dollars, research and development expense remained constant as a percentage of total revenue of 27% in the three and six months ended June 30, 2006 and June 30, 2007, respectively.

VoiceSignal believes that the development of new products and the enhancement of existing products are essential to its success. Accordingly, VoiceSignal plans to continue to invest in research and development activities. To date, VoiceSignal has not capitalized any internal development costs as the cost incurred after technological feasibility but before release of products has not been significant. While VoiceSignal will continue to invest in research and development in 2007, VoiceSignal expects research and development expenses to decline as a percentage of revenue.

Sales and Marketing Expense

Sales and marketing expense includes salaries and benefits, share-based payments, commissions, public relations, tradeshows and other costs of marketing programs, travel expenses associated with VoiceSignal s sales organization and overhead. The table set forth below shows sales and marketing expense in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Total sales and marketing expense	$ 1.2	$ 1.0	$ 0.2	18%	$ 2.4	$ 2.0	$ 0.4	20%
As a percentage of total revenue	18%	17%			19%	18%		

Sales and marketing expense increased $0.2 million and $0.4 million, or 18% and 20%, for the three and six months ended June 30, 2007, respectively, as compared to the three and six months ended June 30, 2006, respectively. The increase in sales and marketing expense was primarily due to an increase in compensation related expenses, including salaries and commissions and an additional new employee in September 2006. Sales and marketing expense increased as a percent of total revenue from 17% in the three months ended June 30, 2006 to 18% for the three months ended June 30, 2007. Sales and marketing expense increased as a percent of total revenue from 18% in the six months ended June 30, 2006 to 19% for the six months ended June 30, 2007.

General and Administrative Expense

General and administrative expense primarily consists of personnel costs for administration, finance, human resources, information systems, facilities and general management, and fees for external professional advisors including accountants and attorneys. The table set forth below shows general and administrative expense in absolute dollars and as a percentage of total revenue (dollars in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change

Total general and administrative expense	$ 1.1	$ 1.4	$ (0.3)	(22)%	$ 2.4	$ 2.5	$ (0.1)	(6)%
As a percentage of total revenue	17%	24%			18%	23%		

General and administrative expense decreased $0.3 million and $0.1 million, or 22% and 6%, for the three and six months ended June 30, 2007, respectively, as compared to the three and six months ended June 30, 2006, respectively. The decrease in general and administrative expense was due primarily to a decrease in legal costs partially offset by increases in compensation and related benefits, including stock-based compensation charges. General and administrative expense decreased as a percent of total revenue from 24% in the three months ended June 30, 2006 to 17% for the three months ended June 30, 2007. General and administrative expense decreased as a percent of total revenue from 23% in the six months ended June 30, 2006 to 18% for the six months ended June 30, 2007.

Benefit (Provision) for Income Taxes

The table set forth below shows the benefit (provision) for income taxes in absolute dollars and the effective income tax rate (dollars in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
Income tax benefit (provision)	$ (0.05)	$ 0.03	$ (0.08)	(230)%	$ 0.29	$ 0.07	$ 0.22	321%
Effective income tax rate	2%	(3)%			(7)%	(3)%		

The benefit (provision) for income taxes includes a decrease in the valuation allowance of approximately $1.2 million and $0.6 million for the three months ended June 30, 2007 and 2006, respectively due to the increased likelihood that VoiceSignal will generate sufficient taxable income to utilize a portion of the net deferred income tax recorded.

The benefit for income taxes includes a decrease in the valuation allowance of approximately $2.1 million and $1.2 million for the six months ended June 30, 2007 and 2006, respectively due to the increased likelihood that VoiceSignal will generate sufficient taxable income to utilize a portion of the net deferred income tax recorded.

The difference between VoiceSignal s effective income tax rate and the federal statutory rate of 35% is due primarily to the change in its valuation allowance with respect to certain deferred tax assets, state income taxes, and the disallowance for tax purposes of certain share-based compensation charges.

The tax benefit also includes state and foreign tax expense as determined on a legal entity and tax jurisdiction.

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Comparison of Years Ended December 31, 2006, 2005 and 2004

Revenue

The table below sets forth, as a percentage of total revenue, certain selected financial data for the periods indicated:

	Year Ended December 31, 2006	2005	2004
Revenue:			
Royalties and licensing	87.5%	85.7%	87.2%
Professional services	12.5	14.3	12.8
Total revenue	100.0	100.0	100.0
Costs and expenses:			
Cost of amortization of intangible assets	1.9	0.0	0.0
Cost of professional services	5.5	11.3	6.6
Gross margin	92.6	88.7	93.4
Research and development	24.4	45.6	54.8
Sales and marketing	17.1	34.7	41.9
General and administrative	21.8	36.6	36.7
Total operating expenses	64.7	64.7	68.2
Income from operations	29.3	(28.1)	(40.0)
Interest income, net	0.0	1.8	0.6
Income before income taxes	29.2	(26.4)	(39.4)
Income tax benefit	0.8	27.3	0.0
Net income	30.0%	1.0%	(39.4)%

Total Revenue

The table below shows total revenue in absolute dollars and percentage change (dollars in millions):

	Three Years Ended December 31, 2006	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004

North America	$ 12.1	$ 4.7	$ 1.3	156%	262%
International	$ 12.5	$ 7.0	$ 6.2	78%	13%
Total revenue	$ 24.6	$ 11.7	$ 7.5	110%	57%

Fiscal 2006 Compared to Fiscal 2005

Total revenue for fiscal year 2006 increased by $12.9 million, or 110%, as compared to the fiscal year 2005. The increase in total revenue was primarily due to increased volume of shipping product containing VoiceSignal s technology from VoiceSignal s two largest customers. These two customers comprised 94% and 87% of total revenue for fiscal years 2006 and 2005, respectively. VoiceSignal expects volume will continue to increase for these two customers in 2007.

Based on the location of the customers, the geographic split in fiscal 2006 was 49% of total revenue in North America and 51% internationally. This compares to 40% of total revenue in North America and 60% internationally for fiscal 2005. The increase in revenue generated in North America was primarily due to increased sales with one large customer in the United States combined with a new customer located in North America.

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Fiscal 2005 Compared to Fiscal 2004

Total revenue for fiscal year 2005 increased by $4.3 million, or 57%, as compared to the fiscal year 2004. The increase in total revenue was primarily due to increased volume of shipping product containing VoiceSignal technology from VoiceSignal s two largest customers. These two customers comprised 87% and 93% of total revenue for fiscal years 2005 and 2004, respectively. In addition, one customer who began shipping product late in fiscal 2004 increased its volume of shipping product in 2005.

Based on the location of the customers, the geographic split in fiscal 2005 was 40% of total revenue in North America and 60% internationally. This compares to 17% of total revenue in North America and 83% internationally for fiscal 2004. The increase in revenue generated in North America was primarily due to increased sales with one existing customer and one new customer located in the United States.

Royalty and Licensing Revenue

Royalty and licensing revenue primarily consists of shipments of licensed speech products. The table below sets forth royalty and licensing revenue in absolute dollars and as a percentage of total revenue (dollars in millions):

	Year Ended December 31,				
	2006	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Royalty and licensing revenue	$ 21.5	$ 10.1	$ 6.5	114%	55%
As a percentage of total revenue	87%	86%	87%		

Fiscal 2006 Compared to Fiscal 2005

Royalty and licensing revenue for fiscal year 2006 increased by $11.5 million, or 114%, as compared to the fiscal year 2005. The increase in royalty and licensing revenue in 2006 was primarily due to increased volume of products containing VoiceSignal technology shipped by VoiceSignal s two largest customers. These two customers comprised 94% and 87% of royalty and licensing revenue for fiscal years 2006 and 2005, respectively.

Fiscal 2005 Compared to Fiscal 2004

Royalty and licensing revenue for fiscal year 2005 increased by $3.5 million, or 55% as compared to the fiscal year 2004. The increase in royalty and licensing revenue was primarily due to increased volume of shipping product containing VoiceSignal technology by VoiceSignal s two largest customers. These two customers comprised 87% and 93% of royalty and licensing revenue for fiscal years 2005 and 2004, respectively. In addition, one customer who began shipping product late in fiscal 2004 increased the volume of shipping product containing VoiceSignal technology as well.

Professional Services

Professional services revenue primarily consists of consulting and implementation services. The table below shows professional services in absolute dollars and as a percentage of total revenue (dollars in millions):

	Year Ended December 31,				
	2006	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Professional services revenue	$ 3.1	$ 1.7	$ 1.0	83%	76%
As a percentage of total revenue	13%	14%	13%		

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Fiscal 2006 Compared to Fiscal 2005

Professional services revenue for fiscal year 2006 increased by $1.4 million, or 83%, as compared to the fiscal year 2005. The increase in professional services revenue was primarily due to an increase in the number of product integrations performed for VoiceSignal customers in 2006. Two customers comprised 97% and 92% of professional services revenues for fiscal years 2006 and 2005, respectively.

Fiscal 2005 Compared to Fiscal 2004

Professional services revenue for fiscal year 2005 increased by $0.7 million, or 76% as compared to the fiscal year 2004. The increase in professional services revenue was primarily due to an increase in the number of product integrations performed for VoiceSignal customers in 2005. Two customers comprised 92% and 97% of professional services revenue for fiscal years 2005 and 2004, respectively.

Cost of Revenue from Amortization of Intangible Assets

Cost of revenue from amortization of intangible assets primarily consists of amortization of intellectual property that was purchased for use in VoiceSignal s products. The table set forth below presents cost of revenue from amortization of intangible assets in absolute dollars and as a percentage of total revenue (dollars in millions):

	Year Ended December 31,				
	2006	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Cost of revenue from amortization of intangible assets	$ 0.5	$ 0.0	$ 0.0	n/a	n/a
As a percentage of total revenue	2%	0%	0%		

Fiscal 2006 Compared to Fiscal 2005

Cost of revenue from amortization of intangible assets for fiscal year 2006 was $0.5 million. There were no cost of royalties and licensing for fiscal years 2005 and 2004. The intellectual property that is amortized was first purchased in December of 2005 and put into service in January 2006 and therefore there was no amortization prior to 2006.

Fiscal 2005 Compared to Fiscal 2004

There were no cost of royalties and licensing for fiscal years 2005 and 2004. The intellectual property that is amortized was first purchased in December of 2005 and put into service in January 2006. As a result, there was no amortization prior to 2006.

Cost of Professional Services

Cost of professional services primarily consists of compensation for integration support personnel and overhead. The table set forth below presents professional services in absolute dollars and as a percentage of total revenue (dollars in millions):

	Year Ended December 31,				
	2006	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Cost of professional services revenue	$ 1.4	$ 1.3	$ 0.5	8%	168%
As a percentage of total revenue	6%	11%	7%		

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Fiscal 2006 Compared to Fiscal 2005

Cost of professional services for fiscal year 2006 increased by $0.1 million, or 8%, as compared to the fiscal year 2005. Cost of professional services was relatively flat compared to 2005 as VoiceSignal s customer mix was consistent for both years. The growth in total revenue was driven primarily by higher volume of individual products and not a significant increase in the number of integrations. VoiceSignal s major customers have moved to a model where they assume more of the integration effort and require less assistance from VoiceSignal.

Fiscal 2005 Compared to Fiscal 2004

Cost of professional services for fiscal year 2005 increased by $0.8 million, or 168%, as compared to the fiscal year 2004. The increase in cost of professional services was primarily due to a high number of integrations of VoiceSignal s product on to new platforms. In late 2004, VoiceSignal signed a contract amendment with a customer which guaranteed certain minimum volume levels for 2005 and 2006. This customer initiated many integrations to assure that they would hit those volumes.

Research and Development Expense

Research and development expense primarily consists of salaries and benefits, overhead, as well as share-based payments relating to VoiceSignal s research and engineering staff. The table below sets forth research and development expense, in absolute dollars and as a percentage of total revenue (dollars in millions):

	Year Ended December 31,				
	2006	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Total research and development expense	$ 6.0	$ 5.4	$ 4.1	12%	31%
As a percentage of total revenue	24%	46%	55%		

Fiscal 2006 Compared to Fiscal 2005

Research and development expense for fiscal year 2006 increased by $0.6 million, or 12%, as compared to the fiscal year 2005. The increase in research and development expenses was primarily due to an increase in compensation-related expense associated with increased average headcount of seven additional employees. At the end of fiscal 2006, VoiceSignal had 57 research and development employees as compared to 54 at the end of fiscal 2005.

Fiscal 2005 Compared to Fiscal 2004

Research and development expense for fiscal year 2005 increased by $1.3 million, or 31%, as compared to the fiscal year 2004. The increase in research and development expenses was primarily due to an increase in compensation-related expense associated with increased average headcount of 16 employees. At the end of fiscal 2005, VoiceSignal had 54 research and development employees as compared to 33 at the end of fiscal 2004.

Sales and Marketing Expense

Sales and marketing expense includes salaries and benefits, share-based payments, commissions, public relations, tradeshows and other costs of marketing programs, travel expenses associated with the Company s sales organization and overhead. The table below shows sales and marketing expense in absolute dollars and as a percentage of total revenue (dollars in millions):

	Year Ended December 31,				
	2006	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Total sales and marketing expense	$ 4.2	$ 4.1	$ 3.1	4%	30%
As a percentage of total revenue	17%	35%	42%		

Fiscal 2006 Compared to Fiscal 2005

Sales and marketing expense for fiscal year 2006 increased by $0.1 million, or 4%, as compared to the fiscal year 2005. The increase in sales and marketing expenses was primarily due to an increase in compensation related expense associated with increased average headcount of one employee. At the end of fiscal 2006 VoiceSignal had 15 sales and marketing employees as compared to 14 at the end of fiscal 2005.

Fiscal 2005 Compared to Fiscal 2004

Sales and marketing expense for fiscal year 2005 increased by $1.0 million, or 30%, as compared to the fiscal year 2004. The increase in sales and marketing expenses was primarily due to an increase in compensation-related expense associated with additional international hiring. In addition, VoiceSignal opened several international sales offices during 2005 which resulted in higher expenses as compared to 2004. The average increase in headcount was six employees. At the end of fiscal 2005 VoiceSignal had 14 sales and marketing employees as compared to 9 at the end of fiscal 2004.

General and Administrative Expense

General and administrative expense primarily consists of personnel costs for administration, finance, human resources, information systems, facilities and general management, and fees for external professional advisors including accountants and attorneys. The table below shows general and administrative expense in absolute dollars and as a percentage of total revenue (dollars in millions):

	Year Ended December 31,				
	2006	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Total general and administrative expense	$ 5.4	$ 4.3	$ 2.7	25%	57%
As a percentage of total revenue	22%	37%	37%		

Fiscal 2006 Compared to Fiscal 2005

General and administrative expense for fiscal year 2006 increased by $1.1 million, or 25%, as compared to the fiscal year 2005. The increase in general and administrative expenses was primarily due to an increase in legal costs associated with the various litigation matters in which VoiceSignal is involved, as well as an increase in compensation-related expense associated with increased average headcount. Expenses associated with litigation costs were $2.4 million in 2006 as compared to $1.7 million in 2005. At the end of fiscal 2006, VoiceSignal had 10 general and administrative employees as compared to 9 at the end of fiscal 2005.

Fiscal 2005 Compared to Fiscal 2004

General and administrative expense for fiscal year 2005 increased by $1.6 million, or 57%, as compared to the fiscal year 2004. The increase in general and administrative expenses was primarily due to an increase in legal costs associated with the various litigation matters in which VoiceSignal is involved, increased patent prosecution costs to protect the Company s intellectual property, and an increase in compensation-related expense associated with increased average headcount. Expenses associated with litigation costs were $1.7 million in 2005 as compared to $0.5 million in 2004. At the end of fiscal 2005, VoiceSignal had 9 general and administrative employees as compared to 7 at the end of fiscal 2004.

Benefit for Income Taxes

The table below shows the benefit for income taxes in absolute dollars and the effective income tax rate (dollars in millions):

	Year Ended December 31,				
	2006	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Income tax benefit	$ 0.2	$ 3.2	$ 0.0	94%	N/A
Effective income tax rate	3%	104%	0%		

The benefit for income taxes includes a decrease in the valuation allowance of approximately $3.4 million in 2006 and $2.0 million in 2005 and an increase in the valuation allowance of approximately $1.7 million in 2004.

The difference between VoiceSignal s effective income tax rate and the federal statutory rate of 35% is due primarily to changes in Voice Signal s valuation allowance with respect to certain deferred tax assets, state income taxes, and the disallowance for tax purposes of certain share-based compensation charges.

The tax provision also includes state and foreign tax expense as determined on a legal entity and tax jurisdiction basis.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled $9.3 million as of June 30, 2007, an increase of $5.3 million as compared to $4.0 million as of December 31, 2006. This increase was composed of cash provided by operating activities of $2.5 million and cash provided by investing of $2.8 million. VoiceSignal s working capital was $12.6 million at June 30, 2007 and the accumulated deficit was $21.5 million. Cash and cash equivalents totaled $4.0 million as of December 31, 2006, an increase of $3.7 million as compared to $0.3 million as of December 31, 2005. This increase was composed of cash provided by operating activities of $1.1 million and cash provided by investing activities of $2.6 million. VoiceSignal s working capital was $8.7 million at December 31, 2006 and its accumulated deficit was $24.8 million. VoiceSignal does not expect that its accumulated deficit will impact its future ability to operate given its strong cash and financial position.

Cash provided by (used in) operating activities

Cash provided by operating activities for the six months ended June 30, 2007 was $2.5 million, an increase of $5.5 million, or 185%, as compared to net cash used in operating activities of $3.0 million for the six months ended June 30, 2006. Cash provided by operating activities for six months ended June 30, 2007 was comprised of $4.2 million in net income, $0.8 million in accounts receivable and $0.5 in depreciation and amortization partially offset by a decrease in $2.5 million in deferred revenue and $0.7 million in prepaids and other current assets. The primary reason for the significant change in deferred revenue as compared to the 2006 balance is the recognition of revenue on multi-year contracts previously deferred.

Cash provided by operating activities for 2006 was $1.1 million, a decrease of $4.5 million, or 81%, as compared to net cash provided by operating activities of $5.6 million in 2005. Cash provided by operating activities was comprised of $7.4 million in net income and $0.8 million amortization and depreciation partially offset by a decrease in net working capital of $7.1 million. The decrease in net working capital was primarily due to changes in deferred revenue of $4.8 million and accounts receivable of $2.7 million. The primary reason for the significant changes in deferred revenue and accounts receivable as compared to the 2005 balances is that the Company received a payment in 2005 of $10.4 million for services to be provided for several years which increased its 2005 deferred revenue balance.

Cash provided by operating activities for 2005 was $5.6 million, an increase of $9.5 million, or 243%, as compared to net cash used in operating activities of $3.9 million in 2004. The increase was primarily composed of changes in net working capital of $9.6 million as compared to 2004 partially offset by 2006 income of $0.1 as compared to 2004 net loss of $2.9. The primary reasons for the increase of cash provided by changes in net working capital were from changes in accounts receivable and deferred revenue. In 2005 deferred revenue and accounts receivable added $7.0 million and $2.0 million, respectively to cash provided by operating activities. In 2004, cash used in operations included accounts receivable of $5.2 million and cash provided by deferred revenue of $3.1 million. In 2005, the Company received a payment of $10.4 million from one customer for services to be provided for several years which increased its 2005 deferred revenue balance.

Cash provided by (used in) investing activities

Cash provided by investing activities for the six months ended June 30, 2007 was $2.8 million, as compared to net cash provided by investing activities of $2.8 million for the six months ended June 30, 2006. The change in cash used in investing activities was primarily driven by the net cash provided by the redemption of $3.0 million and $3.1 million short-term investments in the six months ended June 30, 2007 and fiscal 2006, respectively.

Cash provided by investing activities for 2006 was $2.6 million as compared to net cash used in investing activities of $7.2 million for 2005. The change in cash provided by investing activities was primarily caused by the redemption of approximately $3 million of short-term investments in 2006 that had been purchased in 2005. In 2005, cash used in investing activities included approximately $6 million for the purchase of short-term investments, and a $0.7 million use of cash for the purchase of a data license.

Cash used in investing activities for 2005 was $7.2 million as compared to $0.2 million for 2004. The change in cash used in investing activities was primarily caused by the purchase of approximately $6 million of short-term investments in 2005. In 2005, cash used in investing activities also included $0.7 million outflow of cash for the purchase of a data license.

Cash provided by (used in) financing activities

Cash provided by financing activities was less than $0.1 million for each of the six months ended June 30, 2007 and 2006 and primarily consisted of cash received for exercise of stock options. Cash provided by financing activities was less than $0.1 million for both 2006 and 2005 and primarily consisted of cash received for exercise of stock options. Cash provided by financing activities in 2005 was less than $0.1 million as compared to $1.0 million in 2004. Cash provided by financing activities in 2004 included $0.9 million for the issuance of preferred stock.

Cash and cash equivalents totaled $4.0 million as of December 31, 2006, an increase of $3.7 million as compared to $0.3 million as of December 31, 2005. This increase was composed of cash provided by operating activities of $1.1 million and cash provided by investing of $2.6 million. VoiceSignal s working capital was $8.7 million at December 31, 2006 and its accumulated deficit was $24.8 million.

VoiceSignal does not expect its accumulated deficit will impact its future ability to operate given its strong cash and financial position.

Credit Facility

In November 2006, the Company entered into an agreement with a financial institution to provide a revolving line of credit with a borrowing base of $1,500,000 plus 80% of the Company s accounts receivable balance billed within the prior 90 days, up to a total available balance of $5,000,000. Borrowings under the line of credit bear interest at the bank s prime rate plus one-half of one percent (8.75% at June 30, 2007). As of June 30, 2007, the Company had no borrowings under this revolving line of credit.

The line of credit has an original term of 24 months and is subject to certain restrictive covenants. The most significant covenants relate to maintaining certain financial ratios, prohibiting change of control without the consent of the bank, requiring certain periodic reporting and limiting certain other transactions.

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Off-Balance Sheet Arrangements, Contractual Obligations, Contingent Liabilities and Commitments

Contractual Obligations

The Company leases certain offices at the Woburn location that requires future increases in the minimum base rent. Minimum lease payments through the expiration of the lease are as follows (in thousands):

Remaining in 2007	$ 133
2008	$ 274
2009	$ 137
Total	$ 544

Off-Balance Sheet Arrangements

Through June 30, 2007, VoiceSignal has not entered into any off-balance sheet arrangements or material transactions with unconsolidated entities or other persons.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management 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, VoiceSignal evaluates its estimates and judgments, in particular those related to revenue recognition; software development costs; assumptions used in valuing stock-based compensation instruments; evaluating loss contingencies; and valuation allowances for deferred tax assets. Actual amounts could differ significantly from these estimates. VoiceSignal s management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

VoiceSignal believes the following critical accounting policies most significantly affect the portrayal of its financial condition and results of operations and require VoiceSignal s most difficult and subjective judgments.

Revenue Recognition. In accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position, or SOP, No. 97-2, Software Revenue Recognition , as amended by SOP 98-9, Software Revenue Recognition, With Respect to Certain Transactions, revenue from sales of software products is recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, no significant Company obligations with regard to the product s functionality remain, the fee is fixed or determinable and collectibility is probable. VoiceSignal s software arrangements generally contain multiple elements such as royalty fees, professional services, and licenses fees. VoiceSignal has not established the fair values of the elements based on vendor specific objective evidence in the multiple element contracts. For those arrangements that require the customers to make large initial payments under multiple element contracts, VoiceSignal recognizes the revenue from the initial payments ratably over the period VoiceSignal expects to provide services, which is either the term of the respective agreement or the units shipped, provided the agreement specifies a fixed number of units. Additional payments received from customers during the term of the contracts for professional services or royalties are recognized as the services are provided or units are shipped to the customer, provided all other elements are delivered.

Non-software revenue is recognized in accordance with, the Securities and Exchange Commission s Staff Accounting Bulletin, or SAB, 104, Revenue Recognition in Financial Statements. Under SAB 104, VoiceSignal recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fees are fixed or determinable and (iv) collectibility is reasonably assured.

VoiceSignal s revenue recognition policies require management to make significant estimates. VoiceSignal s management analyzes various factors, including a review of specific transactions, historical experience, creditworthiness of customers and current market and economic conditions. Changes in judgments based upon these factors could impact the timing and amount of revenue and cost recognized and thus affects the results of operations and financial condition.

Research and Development Costs. VoiceSignal accounts for the internal costs relating to research and development activities in accordance with SFAS No. 2, Accounting for Research and Development Costs, and SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. Research and development costs incurred for new software products and enhancements to existing products, other than certain software development costs that qualify for capitalization, are expensed as incurred. Software development costs incurred subsequent to the establishment of technological feasibility, but prior to the general release of the product, are capitalized and amortized to cost of revenue over the estimated useful life of the related products. Judgment is required in determining when technological feasibility of a product is established. VoiceSignal has determined that technological feasibility for its software products is reached shortly before the products are released to manufacturing. Costs incurred after technological feasibility is established have not been material, and accordingly, VoiceSignal has expensed the internal costs relating to research and development when incurred.

Accounting for Share-Based Payments. VoiceSignal accounts for share-based payments in accordance with SFAS No. 123(R), Share-Based Payment. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period which is generally the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including determining the fair value of the underlying stock, estimating expected dividends, share price volatility and the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, share-based compensation expense and results of operations could be materially impacted.

Income Taxes. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. VoiceSignal does not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries, which it considers to be indefinitely reinvested outside of the U.S. in accordance with Accounting Principles Board (APB) Opinion No. 23, Accounting for Income Taxes Special Areas.

VoiceSignal makes judgments regarding the realizability of its deferred tax assets. In accordance with SFAS No. 109, Accounting for Income Taxes, the carrying value of the net deferred tax assets is based on the belief that it is more likely than not that the Company will generate sufficient future taxable income to realize these deferred tax assets after consideration of all available evidence. VoiceSignal regularly reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, and the expected timing of the reversals of existing temporary differences and tax planning strategies.

Valuation allowances have been established for U.S. deferred tax assets, which VoiceSignal believes does not meet the more likely than not criteria established by SFAS No. 109. If VoiceSignal is subsequently able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been established, then VoiceSignal may be required to recognize these deferred tax assets through the reduction of the valuation allowance which would result in a material benefit to VoiceSignal s results of operations in the period in which the benefit is determined, excluding the recognition of the portion of the valuation allowance which relates to net deferred tax assets acquired in a business combination and created as a result of share-based payments. The recognition of the portion of the valuation allowance which relates to net deferred tax assets resulting from share-based payments will be recorded as additional paid-in-capital; the recognition of the portion of the valuation allowance which relates to net deferred tax assets acquired in a business combination will reduce goodwill, other intangible assets, and to the extent remaining, the provision for income taxes. Under the provisions of the Internal Revenue Code, certain substantial changes in

VoiceSignal s ownership may result in a limitation on the amount of net operating carry forwards, which can be used in future years.

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Loss Contingencies. VoiceSignal is subject to legal proceedings, lawsuits and other claims relating to labor, service and other matters arising in the ordinary course of business, as discussed in Note 8 of VoiceSignal Notes to the Consolidated Financial Statements. Quarterly, VoiceSignal reviews the status of each significant matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, VoiceSignal accrues a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, VoiceSignal reassesses the potential liability related to its pending claims and litigation and may revise its estimates. Such revisions in the estimates of the potential liabilities could have a material impact on the results of operations and financial position.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, or FIN 48, Accounting for Income Tax Uncertainties, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a recognition threshold of more-likely-than-not and a measurement attribute on all tax positions taken or expected to be taken in a tax return in order to be recognized in the financial statements. In making this assessment, a company must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based solely on the technical merits of the position and that the tax position will be examined by appropriate taxing authority that would have full knowledge of all relevant information. Once the recognition threshold is met, the tax position is then measured to determine the actual amount of benefit to recognize in the financial statements. In addition, the recognition threshold of more-likely-than-not must continue to be met in each reporting period to support continued recognition of the tax benefit. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the financial reporting period in which that threshold is no longer met. VoiceSignal adopted FIN No. 48 effective January 1, 2007, and there was no impact to VoiceSignal s financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and volatility in earnings caused by measuring related assets and liabilities differently. It also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year, provided that the entity makes that choice in the first 120 days of that fiscal year. VoiceSignal is currently evaluating the impact, if any, that SFAS No. 159 may have on its consolidated financial statements.

DESCRIPTION OF NUANCE CAPITAL STOCK

Nuance is authorized to issue 560,000,000 shares of common stock, $0.001 par value, and 40,000,000 shares of preferred stock, $0.001 par value. The following description of Nuance capital stock is subject to and qualified in its entirety by Nuance s certificate of incorporation and bylaws, which are included as exhibits to the registration statement of which this consent solicitation statement/prospectus forms a part, and by the applicable provisions of Delaware law.

Common Stock

As of June 30, 2007, there were 184,364,122 shares of Nuance common stock outstanding, excluding shares of common stock held by Nuance in its treasury, and 3,152,016 shares of common stock issued and held by Nuance in its treasury.

The holders of Nuance common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of Nuance common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available therefor. In the event of a liquidation, dissolution or winding up of Nuance, the holders of Nuance common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior rights of preferred stock, if any, then outstanding. Nuance common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions available to Nuance common stock. The rights, preferences, and privileges of holders of Nuance common stock are subject to, and may be adversely affected by, the rights of holders of shares of Nuance preferred stock, as discussed below.

Preferred Stock

Nuance is authorized to issue up to 40,000,000 shares of preferred stock, par value $0.001 per share. Nuance has designated 100,000 shares as Series A participating preferred stock and 15,000,000 shares as Series B preferred stock. The Series B preferred stock is convertible into shares of common stock on a one-for-one basis. The Series B preferred stock has a liquidation preference of $1.30 per share plus all declared but unpaid dividends. The holders of Series B preferred stock are entitled to non-cumulative dividends at the rate of $0.05 per annum per share, payable when, and if declared by the board of directors. To date, no dividends have been declared by the board of directors. Holders of Series B preferred stock have no voting rights, except those rights provided under Delaware law. The Company has reserved 3,562,238 shares of its common stock for issuance upon conversion of the Series B preferred stock. The undesignated shares of preferred stock will have rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by the Nuance board of directors upon issuance of the preferred stock.

Nuance preferred stock may have the effect of delaying, deferring or preventing a change in control of Nuance without further action by the stockholders. Additionally, the issuance of preferred stock may adversely affect the rights of the holders of common stock as follows:

> *Dividends.* Nuance preferred stock is entitled to receive dividends out of any legally available assets, when and if declared by the Nuance board of directors and prior and in preference to any declaration or payment of any dividend on the common stock. In addition, after the first issuance of the Series A participating preferred stock, Nuance cannot declare a dividend or make any distribution on the common stock unless Nuance concurrently declares a dividend on such Series A participating preferred stock. Moreover, Nuance cannot pay dividends or

make any distribution on the common stock as long as dividends payable to the Series A participating preferred stock are in arrears. With respect to the Series B preferred stock, Nuance cannot declare a dividend or make any distribution on the common stock unless full dividends on the Series B preferred stock have been paid or declared and the sum sufficient for the payment set apart.

Voting Rights. Each share of Series A participating preferred stock entitles its holder to 1,000 votes on all matters submitted to a vote of Nuance stockholders. In addition, the Series A participating preferred stock and the common stock holders vote together as one class on all matters submitted to a vote of our stockholders. The holders of Series B preferred stock are not entitled to vote on any matter (except as provided in Delaware law in connection with amendments to the Nuance certificate of incorporation that, among other things, would alter or change the rights and preferences of the class, in which case each share of Series B preferred stock would be entitled to one vote). However, the Series B preferred stock is convertible into common stock, and as a result, may dilute the voting power of the common stock.

Liquidation, Dissolution or Winding Up. The preferred stock is entitled to certain liquidation preferences upon the occurrence of a liquidation, dissolution or winding up of Nuance. If there are insufficient assets or funds to permit this preferential amount, then Nuance s entire assets and all of our funds legally available for distribution will be distributed ratably among the preferred stockholders. The remaining assets, if any, will be distributed to the common stockholders on a pro rata basis.

Preemptive Rights. The Nuance Series A participating preferred stock and Series B preferred stock do not have any preemptive rights.

Options and Warrants

As of June 30, 2007, not more than 18,983,438 shares of Nuance common stock were reserved for issuance upon exercise of outstanding employee and director stock options to purchase shares of Nuance common stock and 4,855,188 shares of Nuance common stock remain available for future issuance pursuant to Nuance s equity compensation plan. As of June 30, 2007, there were warrants outstanding to purchase an aggregate of 7,560,399 shares of Nuance common stock. Conversion of any or all of these options or warrants into shares of Nuance common stock will result in dilution to other holders of Nuance common stock.

Anti-Takeover Provisions

Certain provisions of Delaware law and the Nuance certificate of incorporation and bylaws could make the acquisition of Nuance by means of a tender offer, or the acquisition of control of Nuance by means of a proxy contest or otherwise more difficult. These provisions, summarized below, are intended to discourage certain types of coercive takeover practices and inadequate takeover bids, and are designed to encourage persons seeking to acquire control of Nuance to negotiate with the Nuance board of directors. Nuance believes that the benefits of increased protection against an unfriendly or unsolicited proposal to acquire or restructure Nuance outweigh the disadvantages of discouraging such proposals. Among other things, negotiation of such proposals could result in an improvement of their terms.

Delaware Anti-Takeover Law. Nuance is subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder, unless the business combination or the transaction in which the person became an interested stockholder is approved by Nuance s board of directors in a prescribed manner. Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own, 15% or more of a corporation s voting stock. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Other Provisions in the Nuance certificate of incorporation and bylaws. The Nuance certificate of incorporation and bylaws provide other mechanisms that may help to delay, defer or prevent a change in control. For example, the Nuance certificate of incorporation provides that stockholders may not take action by written consent without a meeting, but must take any action at a duly called annual or special meeting.

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This provision makes it more difficult for stockholders to take action opposed by the Nuance board of directors.

The Nuance certificate of incorporation does not provide for cumulative voting in the election of directors. Cumulative voting provides for a minority stockholder to vote a portion or all of its shares for one or more candidates for seats on the board of directors. Without cumulative voting, a minority stockholder will not be able to gain as many seats on Nuance s board of directors based on the number of shares of Nuance stock that such stockholder holds than if cumulative voting were permitted. The elimination of cumulative voting makes it more difficult for a minority stockholder to gain a seat on Nuance s board of directors to influence the board of directors decision regarding a takeover.

Under the Nuance certificate of incorporation, 24,900,000 shares of preferred stock remain undesignated. The authorization of undesignated preferred stock makes it possible for the board of directors, without stockholder approval, to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to obtain control of Nuance.

The Nuance bylaws contain advance notice procedures that apply to stockholder proposals and the nomination of candidates for election as directors by stockholders other than nominations made pursuant to the notice given by Nuance with respect to such meetings or nominations made by or at the direction of the board of directors.

Lastly, Nuance s bylaws eliminate the right of stockholders to act by written consent without a meeting.

These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of Nuance.

Transfer Agent and Registrar

The transfer agent and registrar for Nuance common stock is U.S. Stock Transfer Corporation.

MARKET FOR NUANCE S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Nuance common stock trades on the NASDAQ Global Select Market under the symbol NUAN. The following table sets forth, for each quarter of Nuance s fiscal years indicated, the high and low closing sales prices per Nuance common share, in each case as reported on the Nasdaq Global Select Market.

	High	Low
2005		
First Quarter	$ 4.44	$ 3.40
Second Quarter	$ 4.73	$ 3.57
Third Quarter	$ 4.53	$ 3.46
Fourth Quarter	$ 5.33	$ 3.90
2006		
First Quarter	$ 7.81	$ 4.88
Second Quarter	$ 11.81	$ 7.59
Third Quarter	$ 13.46	$ 7.59

Fourth Quarter	$ 10.35	$ 6.94
2007		
First Quarter	$ 11.95	$ 7.70
Second Quarter	$ 16.20	$ 11.11
Third Quarter	$ 18.47	$ 15.09
Fourth Quarter (through August 10, 2007)	$ 18.53	$ 15.89

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The high and low sale prices of Nuance common stock as of May 14, 2007, the date immediately prior to public announcement of the merger, were $15.49 and $15.23, respectively. In addition, as of August [ ], 2007, the high and low sale prices of Nuance common stock were $ and $, respectively.

Holders

As of July 31, 2007, there were 1,043 stockholders of record of Nuance common stock.

None of the (i) persons who are known to be the beneficial owners of more than 5% of any class of Nuance s equity securities, (ii) Nuance directors, and (iii) Nuance directors and officers as a group will acquire shares of Nuance common stock in connection with the merger. Completion of the merger and the issuance of Nuance common stock in the merger will not result in a change in the percentage of any class of Nuance equity securities beneficially owned by any of the foregoing persons that exceeds 1%.

Dividend Policy

Nuance has never declared or paid any cash dividends on its capital stock. Nuance currently expects to retain future earnings, if any, to finance the growth and development of Nuance s business and does not anticipate paying any cash dividends in the foreseeable future. The terms of Nuance s credit facility place restrictions on Nuance s ability to pay dividends except for stock dividends.

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PERFORMANCE GRAPH

The following performance graph compares the Company s cumulative total return on its Common Stock for a 69-month period ended September 30, 2006 with the cumulative total return of the Russell 2000, and the S&P Information Technology indices assuming $100 was invested in the Company s Common Stock and each of the indices on December 31, 2000. The measurement periods shown in the performance graph below correspond to the Company s fiscal years ended December 31, 2001, 2002, 2003 and September 30, 2004, 2005 and 2006. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

Comparison of 5 Year Cumulative Total Return*
Among Nuance Communications, Inc., The Russell 2000 Index
and The S&P Information Technology Index

	Cumulative Total Return						
	12/00	12/01	12/02	12/03	9/04	9/05	9/06
Nuance Communications, Inc.	100.00	917.24	1109.22	1134.81	870.31	1136.95	1742.75
Russell 2000	100.00	102.49	81.49	120.00	124.46	146.80	161.37
S&P Information Technology	100.00	74.13	46.40	68.31	61.70	70.00	72.28

* $100 invested on December 31, 2000 in stock or index-including reinvestment of dividends.

Quantitative and Qualitative Disclosures about Market Risk

Nuance is exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. Nuance manages its exposure to these market risks through its regular operating and financing activities and, when appropriate, through the use of derivative financial instruments.

Exchange Rate Sensitivity. Nuance is exposed to changes in foreign currency exchange rates. Any foreign currency transaction, defined as a transaction denominated in a currency other than the U.S. dollar, will be reported in U.S. dollars at the applicable exchange rate. Assets and liabilities 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 period. The primary foreign currency denominated transactions include revenue and expenses and the resulting accounts receivable and accounts payable balances reflected on Nuance s balance sheet. Therefore, the change in the value of the U.S. dollar as compared to foreign currencies will have either a positive or negative effect on Nuance s financial position and results of operations. Historically, Nuance s primary exposure has related to transactions denominated in the Euro, British Pound, Canadian Dollar, Japanese Yen, Israeli New Shekel, and Hungarian Forint.

Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2006, the impact to Nuance s revenue, operating results or cash flows could be adversely affected.

In certain instances, Nuance has entered into forward exchange derivative contracts to hedge against foreign currency fluctuations. In all cases, Nuance uses these derivative instruments to reduce its foreign exchange risk by essentially creating offsetting market exposures. The success of the hedging program depends on Nuance s forecasts of transaction activity in the various currencies. Nuance does not use derivative instruments for trading or speculative purposes. At September 30, 2006, there were no outstanding derivative foreign exchange hedging instruments and Nuance did not enter into any forward exchange derivative contracts during fiscal 2006.

On November 3, 2003, Nuance entered into a forward exchange derivative contract to hedge its foreign currency exposure related to 3.5 million euros of inter-company receivables from its Belgian subsidiary to the United States. The contract had a one-year term that expired on November 1, 2004. On November 1, 2004, Nuance renewed this forward hedge contract; the renewed contract had a one-year term expiring on November 1, 2005; however it was cancelable at Nuance s discretion. In February 2005, Nuance liquidated the contract. For fiscal year 2005 and 2004, Nuance realized a loss of $0.4 million, and recognized a gain of less than $0.1 million, respectively, related to this hedge.

On November 5, 2003, Nuance entered into a forward exchange derivative contract to hedge its foreign currency exposure related to 7.5 million Singapore Dollars of inter-company receivables from its Singapore subsidiary to the United States. The original contract expired on January 30, 2004, but was extended to October 29, 2004. The contract was terminated on October 29, 2004. Nuance realized a loss of approximately $0.2 million in connection with the termination of this hedge.

Interest Rate Sensitivity. Nuance is exposed to interest rate risk as a result of its significant cash and cash equivalents, and the outstanding debt under its March 31, 2006 credit facility.

At September 30, 2006, Nuance held approximately $112.3 million of cash and cash equivalents primarily consisting of cash and money-market funds. Due to the low current market yields and the short-term nature of Nuance s investments, a hypothetical change in market rates is not expected to have a material effect on the fair value of Nuance s portfolio or results of operations.

At September 30, 2006, Nuance s total outstanding debt balance exposed to variable interest rates was $353.2 million. To partially offset this variable interest rate exposure, Nuance entered into a $100 million interest rate swap derivative contract. The interest rate swap is structured to offset period changes in the variable interest rate without changing the characteristics of the underlying debt instrument. A hypothetical change in market rates would have a significant impact on the interest expense and amounts payable relating to the $253.2 million of debt that is not offset by the interest rate swap; assuming a 1.0% change in interest rates, the interest expense would increase $2.5 million per annum.

COMPARISON OF STOCKHOLDER RIGHTS

The following is a description of the material differences between the rights of holders of Nuance common stock and the rights of holders of VoiceSignal common stock. While we believe that this description covers the material differences between the two, this summary may not contain all of the information that is important to you. This summary is not intended to be a complete discussion of the certificates of incorporation and bylaws of Nuance and VoiceSignal and it is qualified in its entirety by applicable Delaware law as well as by Nuance s and VoiceSignal s respective certificates of incorporation and bylaws. The identification of specific differences is not meant to indicate that other equally or more significant differences do not exist. You should carefully read this entire consent solicitation statement/prospectus and the other documents we refer to for a more complete understanding of the differences between being a stockholder of Nuance and being a stockholder of VoiceSignal. Nuance has filed with the SEC its certificate of incorporation and bylaws and will send copies of these documents to you upon your request. See the section of this consent solicitation statement/prospectus entitled Where You Can Find More Information.

Nuance and VoiceSignal are both Delaware corporations. The rights of each company s stockholders are generally governed by the law of the State of Delaware and each company s certificate of incorporation and bylaws. Upon completion of the merger, stockholders of VoiceSignal will become stockholders of Nuance, and the Nuance certificate of incorporation and bylaws will govern the rights of former VoiceSignal stockholders. No changes to the Nuance certificate of incorporation or bylaws will be adopted in connection with the merger.

If you are a holder of shares of VoiceSignal preferred stock, you will be receiving shares of Nuance common stock in exchange for your shares of VoiceSignal preferred stock. As such, there are certain rights you will be foregoing as a holder of VoiceSignal preferred stock (which may further vary depending upon which series of VoiceSignal preferred stock you hold), including, without limitation, liquidation preferences and antidilution protection. In addition, if you are a holder of VoiceSignal Series C preferred stock or Series D preferred stock, you will also be giving up certain other rights, such as the right to vote as a separate class to elect one or more directors, certain protective provisions that may require your consent before various corporate actions are taken, the right to accrued dividends, and redemption rights.

Authorized Capital Stock

Nuance s certificate of incorporation, as amended, authorizes the issuance of 600,000,000 shares of capital stock, consisting of:

560,000,000 shares of common stock, par value $0.001 per share; and

40,000,000 shares of preferred stock, par value $0.001 per share, 100,000 shares of which have been designated as Series A Participating Preferred Stock and 15,000,000 shares of which have been designated as Series B Preferred Stock.

VoiceSignal s certificate of incorporation authorizes the issuance of 208,084,844 shares of capital stock consisting of:

128,000,000 shares of common stock, par value $0.001 per share; and

80,084,844 shares of preferred stock, par value $0.001 per share, 5,600,000 shares of which have been designated as Series A Preferred Stock, 1,820,000 shares of which have been designated as Series B Preferred Stock, 6,383,294 shares of which have been designated as Series C Preferred Stock and 66,281,550 shares of which have been designated as Series D Preferred Stock.

Board of Directors

Nuance s certificate of incorporation provides that the number of directors comprising the Nuance board of directors shall be fixed, and may be changed from time to time, by an amendment to Nuance s bylaws that has been duly adopted by the Nuance board of directors or by the Nuance stockholders. Nuance s bylaws provide that the number of directors comprising the Nuance board of directors shall be determined by resolution of the Nuance board of directors or the Nuance stockholders. The Nuance board of directors currently has nine members.

VoiceSignal s certificate of incorporation does not currently fix the number of directors comprising the VoiceSignal board of directors. VoiceSignal s bylaws provide that the authorized number of directors will be not less than one nor more than thirteen. VoiceSignal s bylaws provide that the exact number of directors comprising the VoiceSignal board of directors shall be determined by resolution of the VoiceSignal board of directors or the VoiceSignal stockholders. The VoiceSignal board of directors currently has seven members.

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Removal of Directors

Each of Nuance s and VoiceSignal s bylaws provide that any director, or the entire board of directors, may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

Filling Vacancies on the Board of Directors

Nuance s bylaws provide that vacancies on the Nuance board of directors and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by the sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and qualified or until their earlier resignation or removal.

VoiceSignal s bylaws provide that vacancies on the VoiceSignal board of directors and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, and the director so chosen shall hold office until the term expires.

Stockholder Action by Written Consent

Nuance s certificate of incorporation provides that no action required to be taken or that may be taken at any annual or special meeting of the Nuance stockholders may be taken without a meeting, and that the power of the Nuance stockholders to consent in writing without a meeting to the taking of action is specifically denied.

Nuance s bylaws provide that special meetings of the Nuance stockholders may be called at any time by the president and shall be called by the president or secretary at the request in writing of a majority of the board of directors, or at the request in writing of the stockholders owning not less than 10% of the entire capital stock of the corporation issued and outstanding and entitled to vote. Nuance s bylaws provide that special meetings of the Nuance board of directors may be called at any time by the president, provided certain notice is given to each of the directors, and shall be called by the president or secretary on the written request of two directors, unless the board consists of only one director, in which case special meetings shall be called by the president or secretary on written request of the sole director.

VoiceSignal s bylaws provide that stockholders of VoiceSignal may take any action required by law to be taken at any annual or special meeting of stockholders of VoiceSignal without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than a minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. VoiceSignal s bylaws provide that special meetings of the VoiceSignal stockholders may be called by the board of directors, the chairman, if any, the president or any vice president. VoiceSignal s bylaws provide that special meetings of the VoiceSignal board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any two directors, or by the secretary on written request of two or more directors.

Amendment of Certificate of Incorporation

Nuance s certificate of incorporation may be amended as provided by Delaware law; and all rights conferred upon stockholders therein are granted subject to this reservation; provided, however, that Nuance s certificate of incorporation may not be amended in any manner which would materially alter or change the power, preferences or special rights of Nuance s Participating Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority of the then outstanding shares of Nuance s Series A Preferred Stock, voting as a separate class. As of the date hereof, no Nuance Series A Preferred Stock is issued or outstanding.

VoiceSignal s certificate of incorporation may not be amended without the prior written consent or affirmative vote of the holders of a majority of the then outstanding shares of Series C Preferred Stock and

Series D Preferred Stock voting together as a single class, and in no event shall be amended in any manner which would seek to avoid the observance or performance of any of the terms to be observed or performed thereunder.

Amendment of Bylaws

Nuance s certificate of incorporation provides that the Nuance board of directors is expressly authorized to make, repeal, alter, amend and rescind any or all of Nuance s bylaws.

Nuance s bylaws provide that, except for Section 7 of Article VII (Prohibitions on Toxics), Nuance s bylaws may be altered, amended or repealed or new bylaws adopted by Nuance stockholders or the Nuance board of directors, when such power is conferred upon the board of directors by the certificate of incorporation.

VoiceSignal s bylaws provide that, except for Section 7.6 (Amendment to Indemnification), VoiceSignal s bylaws may be adopted, amended or repealed at any meeting of the board of directors upon notice thereof or at any meeting of the stockholder by vote of the holders of the majority of the stock issued and outstanding and entitled to vote at such meeting; provided, however, that the board of directors may not amend or repeal Article 8.1 (Amendments) or any provision of the bylaws which by applicable law, the certificate of incorporation or the bylaws requires action by stockholders.

Indemnification of Officers and Directors

Section 145 of the General Corporation Law of the State of Delaware provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation) by reason of the fact that such person is or was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe that such person s conduct was unlawful.

Section 145 further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against any liability asserted against such person and incurred by such person in any such capacity, arising out of such person s status as such, whether or not the corporation would otherwise have the power to indemnify such person against liability under Section 145.

Each of Nuance and VoiceSignal s certificates of incorporation contains a provision eliminating the personal liability of its directors to the company or its stockholders for monetary damages for breach of fiduciary duty as a director. Nuance s certificate of incorporation further provides that Nuance is authorized to provide, to the fullest extent permitted by applicable law, indemnification for its agents through bylaw provisions, agreements with such agents, vote of stockholders or disinterested directors or otherwise, with respect to actions for breach of duty to Nuance, it stockholders and others.

The bylaws of Nuance generally provide for the mandatory indemnification of, and payment of expenses incurred by, its directors and officers to the fullest extent permitted by applicable law unless the proceedings were initiated by the director or officer that was not authorized by the board of directors. The bylaws of VoiceSignal generally provide for the indemnification of, and payment of expenses incurred by, its directors, officers, employees and agents to fullest extent permitted by applicable law. Nuance and VoiceSignal have also entered into indemnification agreements with their respective directors and officers.

In addition, in accordance with the terms of the merger agreement and upon completion of the merger, Nuance has agreed, as permitted by law, to fulfill and honor the obligations of VoiceSignal pursuant to any indemnification agreements between VoiceSignal and its directors, officers, employees and agents. Subject to the limitations contained in the merger agreement, Nuance has also agreed for a period of six years after the effective time of the merger, to maintain directors and officers liability insurance covering those persons who were covered by VoiceSignal directors and officers liability insurance policy as of the effective time of the merger, on comparable terms to those applicable as of the effective time of the merger to VoiceSignal directors and officers and covering all periods prior to the effective time of the merger.

Insofar as indemnification for liabilities under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

LEGAL MATTERS

The validity of the shares of Nuance common stock offered by this consent solicitation statement/prospectus will be passed upon for Nuance by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California.

EXPERTS

The consolidated financial statements and management s report on the effectiveness of internal control over financial reporting of Nuance Communications, Inc. included in this consent solicitation statement/prospectus have been audited by BDO Seidman, LLP, an independent registered public accounting firm, to the extent and for the periods set forth in their reports appearing elsewhere herein and in the consent solicitation statement/prospectus, and are included in reliance upon such reports given upon the authority of said firm as experts in auditing and accounting.

Voice Signal Technologies, Inc. s consolidated financial statements as of December 31, 2006 and 2005, and for each of the years in the three year period ended December 31, 2006 included herein have been audited by Vitale, Caturano, & Company, Ltd., independent accountants, as indicated in their report with respect, thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

The consolidated financial statements of Bluestar Resources Limited at December 31, 2006 and 2005, and for the years then ended, appearing in this consent solicitation statement/prospectus have been audited by S.R. Batliboi & Associates (a member firm of Ernst & Young Global), independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The audited financial statements of Dictaphone Corporation included in this consent solicitation statement/prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated statements of operations, changes in stockholders equity and cash flows of Dictaphone Corporation and its subsidiaries for the year ended December 31, 2003 appearing in this consent solicitation statement/prospectus, have been audited by Grant Thornton LLP, an independent registered public accounting firm, as set forth in their report with respect thereto, and have been included herein in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements and the related financial statement schedule as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004, of Former Nuance Communications, Inc. included in this consent solicitation statement/prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The audited historical financial statements of Phonetic Systems Ltd. as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004 included in this consent solicitation statement/prospectus have been audited by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, an independent registered public accounting firm, as stated in their report, in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

Nuance has filed a registration statement on Form S-4 under the Securities Act with the SEC with respect to Nuance common stock to be issued to VoiceSignal stockholders pursuant to the merger. This consent solicitation statement/prospectus constitutes the prospectus of Nuance filed as part of the registration statement. The registration statement and its exhibits are available for inspection and copying as set forth below.

In addition, Nuance files annual, quarterly and current reports, proxy and information statements and other information with the SEC under the Exchange Act of 1934. Copies of these reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the SEC at:

Judiciary Plaza
Room 1024
450 Fifth Street, N.W.
Washington, D.C. 20549

Reports, proxy statements and other information concerning Nuance may be inspected at:

The National Association of Securities Dealers
1735 K Street, N.W.
Washington, D.C. 20006

Copies of these materials can also be obtained by mail at prescribed rates from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains a Website that contains reports, proxy statements and other information regarding each of us. The address of the SEC web site is http://www.sec.gov.

You may also obtain these documents by requesting them in writing or by telephone from Nuance at:

Nuance Communications, Inc.
1 Wayside Road
Burlington, Massachusetts 01803
(781) 565-5000
Attention: Garrison Smith

Additionally, VoiceSignal stockholders should call Damon Pender, Vice President of Finance at (781) 970-5200 with any questions about the merger.

Information on Nuance Web Site

Information on any Nuance Internet web site is not part of this document and you should not rely on that information in deciding whether to approve the share issuance, unless that information is also in this consent solicitation statement/prospectus or in a document that is incorporated by reference in this consent solicitation statement/prospectus.

Information on VoiceSignal Web Site

Information on any VoiceSignal Internet web site is not part of this document and you should not rely on that information in deciding whether to adopt the merger agreement and approve the transactions contemplated thereby, unless that information is also in this consent solicitation statement/prospectus or in a document that is incorporated by reference in this consent solicitation statement/prospectus.

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THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO PURCHASE, THE SECURITIES OFFERED BY THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS, IN ANY JURISDICTION TO OR FROM ANY PERSON TO WHOM OR FROM WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION OF AN OFFER IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS NOR ANY DISTRIBUTION OF SECURITIES PURSUANT TO THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH IN THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS BY REFERENCE OR IN THE AFFAIRS OF NUANCE OR VOICE SIGNAL SINCE THE DATE OF THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS. THE INFORMATION CONTAINED IN THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS WITH RESPECT TO VOICESIGNAL AND ITS SUBSIDIARIES WAS PROVIDED BY VOICESIGNAL AND ITS SUBSIDIARIES AND THE INFORMATION CONTAINED IN THIS CONSENT SOLICITATION STATEMENT/PROSPECTUS WITH RESPECT TO NUANCE AND ITS SUBSIDIARIES WAS PROVIDED BY NUANCE AND ITS SUBSIDIARIES, AS THE CASE MAY BE.

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NUANCE COMMUNICATIONS, INC.

INDEX TO FINANCIAL STATEMENTS

Dictaphone Corporation:

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* Represents the former Nuance Communications, Inc. which was acquired by ScanSoft, Inc. on September 15, 2005 following which ScanSoft, Inc. changed its name to Nuance Communications, Inc.

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Nuance Communications, Inc.
(formerly ScanSoft, Inc.)

Quarterly Financial Statements

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2007 (Unaudited)	September 30, 2006
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 168,031	$ 112,334
Marketable securities	7,846	
Accounts receivable, less allowances of $17,757 and $20,207, respectively	131,741	110,778
Acquired unbilled accounts receivable	8,213	19,748
Inventories, net	8,391	6,795
Prepaid expenses and other current assets	15,233	13,245
Deferred tax assets	420	421
Total current assets	339,875	263,321
Land, building and equipment, net	37,018	30,700
Goodwill	882,987	699,333
Other intangible assets, net	259,826	220,040
Other long-term assets	36,650	21,680
Total assets	$ 1,556,356	$ 1,235,074
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and obligations under capital leases	$ 5,062	$ 3,953
Accounts payable	42,490	27,768
Accrued expenses	66,757	52,674
Current portion of accrued business combination costs	13,402	14,810
Deferred maintenance revenue	67,301	63,269
Unearned revenue and customer deposits	31,563	30,320
Deferred acquisition payments, net		19,254
Total current liabilities	226,575	212,048
Long-term debt and obligations under capital leases, net of current portion	436,461	349,990
Accrued business combination costs, net of current portion	37,991	45,255
Deferred maintenance revenue, net of current portion	11,286	9,800
Deferred tax liability	32,161	19,926
Other liabilities	62,267	21,459

Total liabilities	806,741	658,478
Commitments and contingencies		
Stockholders equity:		
Series B preferred stock, $0.001 par value; 40,000,000 shares authorized; 3,562,238 shares issued and outstanding (liquidation preference $4,631)	4,631	4,631
Common stock, $0.001 par value; 560,000,000 and 280,000,000 shares authorized, respectively; 187,516,138 and 173,182,430 shares issued and 184,364,122 and 170,152,247 shares outstanding, respectively	188	174
Additional paid-in capital	954,265	773,120
Treasury stock, at cost (3,152,016 and 3,030,183 shares, respectively)	(14,694)	(12,859)
Accumulated other comprehensive income	5,950	1,656
Accumulated deficit	(200,725)	(190,126)
Total stockholders equity	749,615	576,596
Total liabilities and stockholders equity	$ 1,556,356	$ 1,235,074

The accompanying notes are an integral part of these consolidated financial statements.

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
	(Unaudited) (In thousands, except per share amounts)			
Revenue:				
Product and licensing	$ 74,868	$ 60,535	$ 220,931	$ 162,271
Professional services, subscription and hosting	49,271	25,099	110,078	55,071
Maintenance and support	32,500	27,462	91,113	43,035
Total revenue	156,639	113,096	422,122	260,377
Costs and expenses:				
Cost of revenue:				
Cost of product and licensing	9,448	8,553	31,734	18,290
Cost of professional services, subscription and hosting	32,339	19,824	75,458	41,846
Cost of maintenance and support	6,973	6,223	20,512	9,871
Cost of revenue from amortization of intangible assets	3,367	2,468	9,209	7,419
Total cost of revenue	52,127	37,068	136,913	77,426
Gross margin	104,512	76,028	285,209	182,951
Operating expenses:				
Research and development	19,661	16,457	53,748	41,516
Sales and marketing	46,733	36,474	132,454	90,159
General and administrative	19,705	15,018	52,630	40,571
Amortization of other intangible assets	6,347	6,377	16,613	10,361
Restructuring and other charges (credits), net	(54)	67	(54)	(1,233)
Total operating expenses	92,392	74,393	255,391	181,374
Income from operations	12,120	1,635	29,818	1,577
Other income (expense):				
Interest income	1,384	1,009	4,100	2,393
Interest expense	(9,119)	(7,797)	(24,301)	(9,584)
Other (expense) income, net	364	(79)	(476)	(861)
Income (loss) before income taxes	4,749	(5,232)	9,141	(6,475)
Provision for income taxes	12,384	4,168	19,740	8,524
Loss before cumulative effect of accounting change	(7,635)	(9,400)	(10,599)	(14,999)
Cumulative effect of accounting change				(672)

Net loss	$	(7,635)	$	(9,400)	$	(10,599)	$	(15,671)
Basic and diluted earnings per share:								
Loss before cumulative effect of accounting change	$	(0.04)	$	(0.06)	$	(0.06)	$	(0.10)
Cumulative effect of accounting change								
Net loss per share	$	(0.04)	$	(0.06)	$	(0.06)	$	(0.10)
Weighted average common shares outstanding:								
Basic and diluted		180,356		167,482		173,786		162,400

The accompanying notes are an integral part of these consolidated financial statements.

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30, 2007		Nine Months Ended June 30, 2006	
	(Unaudited) (In thousands, except share amounts)			
Cash flows from operating activities				
Net loss	$	(10,599)	$	(15,671)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation of property and equipment		8,521		6,173
Amortization of other intangible assets		25,822		17,780
Accounts receivable allowances		1,199		953
Share-based payments, including cumulative effect of accounting change		33,079		15,196
Non-cash interest expense		3,025		2,722
Deferred tax provision		14,152		5,681
Normalization of rent expense		542		1,013
Changes in operating assets and liabilities, net of effects from acquisitions:				
Accounts receivable		4,265		6,351
Inventories		(1,047)		(1,996)
Prepaid expenses and other assets		(2,999)		4,001
Accounts payable		9,449		3,613
Accrued expenses and other liabilities		791		(5,637)
Deferred maintenance revenue, unearned revenue and customer deposits		5,470		(8,295)
Net cash provided by operating activities		91,670		31,884
Cash flows from investing activities				
Capital expenditures for property and equipment		(8,987)		(5,154)
Payments for acquisitions, net of cash acquired		(96,308)		(391,232)
Proceeds from maturities of investments		494		29,608
Payments for capitalized patent defense costs		(3,400)		(3,050)
Decrease in restricted cash		709		
Net cash used in investing activities		(107,492)		(369,828)
Cash flows from financing activities				
Payments of notes payable and capital leases		(4,922)		(1,165)
Deferred acquisition payments		(18,650)		(14,433)
Proceeds from bank debt, net of issuance costs		87,658		346,032
Purchase of treasury stock		(1,833)		(1,069)
Repurchase of shares from former MVC stockholders		(3,178)		
Payments on other long-term liabilities		(8,431)		(8,620)
		20,176		28,076

Net proceeds from issuance of common stock under employee share-based payment plans				
Net cash provided by financing activities		70,820		348,821
Effects of exchange rate changes on cash and cash equivalents		699		56
Net increase in cash and cash equivalents		55,697		10,933
Cash and cash equivalents at beginning of period		112,334		71,687
Cash and cash equivalents at end of period	$	168,031	$	82,620
Supplemental disclosure of cash flow information:				
Cash paid for income taxes	$	2,663	$	2,578
Cash paid for interest	$	21,276	$	6,650
Non cash investing and financing activities:				
Issuance of 8,204,436 shares of common stock in connection with the acquisition of BeVocal, Inc.	$	122,738	$	
Issuance of 784,266 shares of common stock in connection with the acquisition of Mobile Voice Control, Inc.	$	8,300	$	
Issuance of 4,587,333 shares of common stock upon conversion of convertible debenture	$		$	27,524

The accompanying notes are an integral part of these consolidated financial statements.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Presentation

Nuance Communications, Inc. (the Company or Nuance) offers businesses and consumers competitive and value-added speech, dictation and imaging solutions that facilitate the way people access, share, manage and use information in business and daily life. The Company was incorporated in 1992 as Visioneer, Inc. In 1999, the Company changed its name to ScanSoft, Inc., and changed its ticker symbol to SSFT. In October 2005, the Company changed its name to Nuance Communications, Inc. and changed its ticker symbol to NUAN in November 2005.

On April 24, 2007, the Company acquired BeVocal, Inc. (BeVocal), a provider of on-demand self-service customer care solutions that address the unique business requirements of the mobile communications market and its customers (Note 3).

On March 26, 2007, the Company acquired Bluestar Resources Limited, the parent of Focus Enterprises Limited and Focus India Private Limited (collectively Focus), a provider of medical transcription services with operations in the United States and India (Note 3).

On December 29, 2006, the Company acquired Mobile Voice Control, Inc. (MVC), a provider of speech enabled mobile search and messaging services (Note 3).

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company at June 30, 2007, the results of operations for the three and nine month periods ended June 30, 2007 and 2006, and cash flows for the nine month periods ended June 30, 2007 and 2006. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with U.S. generally accepted accounting principles has been omitted as permitted by the rules and regulations of the Securities and Exchange Commission. The accompanying financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K/A for the fiscal year ended September 30, 2006 filed with the Securities and Exchange Commission on December 15, 2006. The results for the nine month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007, or any future period.

Reclassification

Certain amounts presented in the prior periods consolidated financial statements have been reclassified to conform to the current periods presentation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, assumptions and judgments, including those related to revenue recognition; allowance for doubtful accounts and returns; accounting for patent legal defense costs; the costs to complete the development of custom software applications; the valuation of goodwill, other intangible assets and tangible long-lived assets; accounting for acquisitions; share-based payments; the obligation relating to pension and

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

post-retirement benefit plans; interest rate swaps which are characterized as derivative instruments; income tax reserves and valuation allowances; and loss contingencies. The Company bases its estimates on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual amounts could differ significantly from these estimates.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated.

Revenue Recognition

The Company recognizes software revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-9 and all related interpretations. Non-software revenue is recognized in accordance with, the Securities and Exchange Commission s Staff Accounting Bulletin (SAB) 104, Revenue Recognition in Financial Statements and SOP 81-1, Accounting for Performance of Construction Type and Certain Performance Type Contracts. For revenue arrangements with multiple elements outside of the scope of SOP 97-2, the Company accounts for the arrangements in accordance with Emerging Issues Task Force (EITF) Issue 00-21, Revenue Arrangements with Multiple Elements, and allocates an arrangement s fees into separate units of accounting based on fair value. In select situations, we sell or license intellectual property in conjunction with, or in place of, embedding our intellectual property in software. In general, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collectibility is probable, and vendor specific objective evidence (VSOE) of fair value exists for any undelivered elements. When contracts contain substantive customer acceptance provisions, revenue and related costs are deferred until such acceptance is obtained. The Company reduces recognized revenue for estimated future returns, price protection and rebates, and certain marketing allowances at the time the related revenue is recorded.

When products are sold through distributors or resellers, title and risk of loss generally passes upon shipment, at which time the transaction is invoiced and payment is due. Shipments to distributors and resellers without right of return are recognized as revenue upon shipment by the Company. Certain distributors and value-added resellers have been granted rights of return for as long as the distributors or resellers hold the inventory. The Company has not analyzed historical returns from these distributors and resellers to have a basis upon which to estimate future sales returns. As a result, the Company recognizes revenue from sales to these distributors and resellers when the products are sold through to retailers and end-users. Based on reports from distributors and resellers of their inventory balances at the end of each period, the Company records an allowance against accounts receivable and reduces revenue for all inventories subject to return at the sales price.

The Company also makes an estimate of sales returns from direct customers based on historical experience. In accordance with Statement of Financial Accounting Standards (SFAS) 48, Revenue Recognition When Right of Return Exists, the provision for these estimated returns is recorded as a reduction of revenue and accounts receivable at the time that the related revenue is recorded. If actual returns differ significantly from the Company s estimates, such differences could have a material impact on the Company s results of operations for the period in which the actual returns become known.

Revenue from royalties on sales of the Company s products by original equipment manufacturers (OEMs), where no services are included, is recognized in the quarter earned so long as the Company has been notified by the OEM that such royalties are due, and provided that all other revenue recognition criteria are met.

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Revenue from products offered on a subscription and/or hosting basis is recognized in the period the services are provided, based on a fixed minimum fee and/or variable fees based on the volume of activity. Subscription and hosting revenue is recognized as the Company is notified by the customer or through management reports that such revenue is due, provided that all other revenue recognition criteria are met.

When the Company provides maintenance and support services, it recognizes the revenue ratably over the term of the related contracts, typically one to three years. When maintenance and support contracts renew automatically, the Company provides a reserve based on historical experience for contracts expected to be cancelled for non-payment. All known and estimated cancellations are recorded as a reduction to revenue and accounts receivable.

Professional services are generally not considered essential to the functionality of the software and are recognized as revenue when the related services are performed. Professional services revenue is generally recognized based on the percentage-of-completion method in accordance with SOP 81-1. The Company generally determines the percentage-of-completion by comparing the labor hours incurred to date to the estimated total labor hours required to complete the project. The Company considers labor hours to be the most reliable, available measure of progress on these projects. Adjustments to estimates to complete are made in the periods in which facts resulting in a change become known. When the estimate indicates that a loss will be incurred, such loss is recorded in the period identified. Significant judgments and estimates are involved in determining the percent complete of each contract. Different assumptions could yield materially different results. When the Company provides services on a time and materials basis, it recognizes revenue as it performs the services based on actual time incurred.

The Company may sell, under one contract or related contracts, software licenses, professional services, and/or a maintenance and support arrangement. The total contract value is attributed first to the undelivered elements based on VSOE of their fair value. VSOE is established by the price charged when that element is sold separately. The remainder of the contract value is attributed to the delivered elements, typically software licenses, which are typically recognized as revenue upon delivery, provided all other revenue recognition criteria are met. When the Company provides professional services considered essential to the functionality of the software, such as custom application development for a fixed fee, it recognizes revenue from the services as well as any related software licenses on a percentage-of-completion basis.

The Company follows the guidance of EITF 01-09, Accounting for Consideration Given by a Vendor (Including a Reseller of the Vendor s Products), and records consideration given to a reseller as a reduction of revenue to the extent the Company has recorded cumulative revenue from the customer or reseller. However, when the Company receives an identifiable benefit in exchange for the consideration and can reasonably estimate the fair value of the benefit received, the consideration is recorded as an operating expense.

The Company follows the guidance of EITF 01-14, Income Statement Characterization of Reimbursements for Out-of-Pocket Expenses Incurred, and records reimbursements received for out-of-pocket expenses as revenue, with offsetting costs recorded as cost of revenue. Out-of-pocket expenses generally include, but are not limited to, expenses related to transportation, lodging and meals.

The Company follows the guidance of EITF 00-10, Accounting for Shipping and Handling Fees and Costs, and records shipping and handling costs billed to customers as revenue with offsetting costs recorded as cost of revenue.

Goodwill and Other Intangible Assets

The Company has significant long-lived tangible and intangible assets, including goodwill and intangible assets with indefinite lives, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The most significant long-lived tangible and other intangible assets are fixed assets, patents and core

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

technology, completed technology, customer relationships and trademarks. All finite-lived intangible assets are amortized based upon patterns in which the economic benefits of such assets are expected to be utilized. The values of intangible assets, with the exception of goodwill and intangible assets with indefinite lives, were initially determined by a risk-adjusted, discounted cash flow approach. The Company assesses the potential impairment of identifiable intangible assets and fixed assets whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Factors it considers 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 the Company s overall business;
- significant negative industry or economic trends;
- significant decline in the Company s stock price for a sustained period; and
- a decline in the Company s market capitalization below net book value.

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

In accordance with SFAS 142, Goodwill and Other Intangible Assets, goodwill and intangible assets with indefinite lives are tested for impairment on an annual basis as of July 1, and between annual tests if indicators of potential impairment exist. The impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill and intangible assets with indefinite lives, to assess whether impairment is present. The Company has reviewed the provisions of SFAS 142 with respect to the criteria necessary to evaluate the number of reporting units that exist. Based on its review, the Company has determined that it operates in one reporting unit. Based on this assessment, the Company has not had any impairment charges during its history as a result of its impairment evaluation of goodwill and other indefinite-lived intangible assets under SFAS 142.

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company periodically reviews long-lived assets 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 value for the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. No impairment charges were taken during the nine month periods ended June 30, 2007 and 2006, based on the review of long-lived assets under SFAS 144. The Company may make business decisions in the future which may result in the impairment of intangible assets.

Significant judgments and estimates are involved in determining the useful lives and amortization patterns of long-lived assets, determining what reporting units exist and assessing when events or circumstances would require an interim impairment analysis of goodwill or other long-lived assets to be performed. Changes in the organization or the

Company s 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) additional reporting units, 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 the consolidated financial statements through accelerated amortization and/or impairment charges.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Capitalized Patent Defense Costs

The Company monitors the anticipated outcome of legal actions, and if it determines that the success of the defense of a patent is probable, and so long as the Company believes that the future economic benefit of the patent will be increased, the Company capitalizes external legal costs incurred in the defense of these patents, up to the level of the expected increased future economic benefit. If changes in the anticipated outcome occur, the Company writes off any capitalized costs in the period the change is determined. As of June 30, 2007 and September 30, 2006, capitalized patent defense costs totaled $12.6 million and $6.4 million, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss), which includes current period foreign currency translation adjustments, unrealized gains (losses) related to derivatives reported as cash flow hedges, and unrealized gains (losses) on marketable securities. For the purposes of comprehensive income (loss) disclosures, the Company does not record tax provisions or benefits for the net changes in the foreign currency translation adjustment, as the Company intends to reinvest undistributed earnings in its foreign subsidiaries permanently.

The components of comprehensive income (loss), are as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Net loss	$ (7,635)	$ (9,400)	$ (10,599)	$ (15,671)
Other comprehensive income (loss):				
Foreign currency translation adjustment	1,705	3,118	3,661	2,514
Net unrealized gains on cash flow hedge derivatives	664	731	633	731
Net unrealized gain on marketable securities		3		40
Other comprehensive income	2,369	3,852	4,294	3,285
Total comprehensive income (loss)	$ (5,266)	$ (5,548)	$ (6,305)	$ (12,386)

Net Income (Loss) Per Share

The Company computes net income (loss) per share under the provisions of SFAS 128, Earnings per Share, and EITF 03-06, Participating Securities and Two Class Method under FASB Statement No. 128, Earnings per Share. Accordingly, basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period.

Diluted net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period plus the dilutive effect of common equivalent shares, which include outstanding stock options, warrants, unvested shares of restricted stock using the treasury stock method and the convertible debenture using the as converted method. Common equivalent shares are excluded from the computation of diluted net income (loss) per share if their effect is anti-dilutive. Potentially dilutive common equivalent shares aggregating 25.6 million and 21.6 million shares for the three month periods ended June 30, 2007 and 2006, respectively; and 25.4 million and 21.6 million shares for the nine month periods ended June 30, 2007 and 2006, respectively, have been excluded from the computation of diluted net income (loss) per share because their inclusion would be anti-dilutive.

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Accounting for Share-Based Payments

The Company adopted SFAS 123 (revised 2004), Share-Based Payment, (SFAS 123R) effective October 1, 2005. The Company has several equity instruments that are required to be evaluated under SFAS 123R, including: stock option plans, an employee stock purchase plan, awards in the form of restricted shares (Restricted Stock) and awards in the form of units of stock purchase rights (Restricted Units). The Restricted Stock and Restricted Units are collectively referred to as Restricted Awards. SFAS 123R requires the recognition of the fair value of share-based payments as a charge against earnings. The Company recognizes share-based payment expense over the requisite service period. Based on the provisions of SFAS 123R the Company s share-based payments awards are accounted for as equity instruments. In connection with the adoption of SFAS 123R, the Company is required to amortize stock-based instruments with performance-related vesting terms over the period from the grant date to the sooner of the date upon which the performance vesting condition will be met (when that condition is expected to be met), or the time-based vesting dates. The cumulative effect of the change in accounting as a result of the adoption of SFAS 123R in fiscal 2006 was $0.7 million. The amounts included in the consolidated statements of operations relating to share-based payments are as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Cost of product and licensing	$ 3	$ 17	$ 15	$ 65
Cost of professional services, subscription and hosting	962	490	2,412	1,199
Cost of maintenance and support	249	186	716	298
Research and development	1,887	1,097	4,912	3,157
Sales and marketing	5,338	2,081	13,640	4,836
General and administrative	3,686	1,682	11,384	4,969
Cumulative effect of accounting change				672
	$ 12,125	$ 5,553	$ 33,079	$ 15,196

Stock Options

The Company has several share-based payment plans under which employees, officers, directors and consultants may be granted stock options to purchase the Company s common stock generally at the fair market value on the date of grant. Plans do not allow for options to be granted at below fair market value nor can they be re-priced at anytime. Options granted under original plans of the Company become exercisable over various periods, typically two to four years and have a maximum term of 7 years. The Company also assumed an option plan in connection with its acquisition of Nuance Communications, Inc. (Former Nuance) on September 15, 2005 and BeVocal on April 24, 2007. These stock options are governed by the original option agreements that they were issued under, but are now exercisable for shares of the Company. No further stock options may be issued under these assumed option plans. All stock options have been granted with

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exercise prices equal to or greater than the fair market value of the Company s common stock on the date of grant. The table below summarizes activity relating to stock options for the nine months ended June 30, 2007:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value(1)
Outstanding at September 30, 2006	20,654,083	$ 4.80		
Granted	2,802,450	$ 13.67		
Assumed from BeVocal	640,284	$ 4.93		
Exercised	(4,555,279)	$ 4.27		
Forfeited	(463,707)	$ 7.09		
Expired	(94,393)	$ 3.22		
Outstanding at June 30, 2007	18,983,438	$ 6.19	5.3 years	$ 200.1 million
Exercisable at June 30, 2007	11,122,652	$ 4.24	4.8 years	$ 139.0 million

(1) The aggregate intrinsic value on this table was calculated based on the positive difference between the closing market value of the Company s common stock on June 30, 2007 ($16.73) and the exercise price of the underlying options. Stock options to purchase 12,353,613 shares of common stock were exercisable as of June 30, 2006.

As of June 30, 2007, the total unamortized fair value of stock options was $37.3 million with a weighted average remaining recognition period of 2.5 years. During the three and nine month periods ended June 30, 2007 and 2006, the following activity occurred under the Company s plans:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Weighted-average grant-date fair value per share	$ 8.49	$ 5.95	$ 7.08	$ 5.09
Total intrinsic value of stock options exercised (in millions)	$ 15.59	$ 6.28	$ 46.03	$ 34.98

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of an award. The fair value of the stock options granted during the three and nine month periods ended June 30, 2007 and 2006 were calculated using the following weighted-average assumptions:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	46.3%	63.5%	49.2%	63.1%
Average risk-free interest rate	4.6%	5.0%	4.7%	4.7%
Expected term (in years)	3.8	4.6	3.8	4.6

The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. Expected volatility is based on the historical volatility of the Company s common stock over the period commensurate with the expected life of the options and the historical implied volatility from traded options with a term of 180 days or greater. The risk-free interest rate is derived from the average U.S. Treasury STRIPS rate during the period, which approximates the rate in effect at the time of grant, commensurate with the expected life of the instrument. Upon the adoption of

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SFAS 123R, the Company used the simplified method provided for under SEC s SAB 107, which averages the contractual term of the Company s options (7.0 years) with the vesting term (2.2 years). Beginning in the fourth quarter of fiscal 2006 the Company has estimated the expected life based on the historical exercise behavior.

Restricted Awards

The Company is authorized to issue equity incentive awards in the form of Restricted Awards, including Restricted Units and Restricted Stock, which are individually discussed below. Unvested Restricted Awards may not be sold, transferred or assigned. The fair value of the Restricted Awards is measured based upon the market price of the underlying common stock as of the date of grant, reduced by the purchase price of $0.001 per share of the awards. The Restricted Awards generally are subject to vesting over a period of two to three years, and may have opportunities for acceleration for achievement of defined goals. Beginning in fiscal 2006, the Company began to issue certain Restricted Awards with vesting solely dependent on the achievement of specified performance targets. The fair value of the Restricted Awards is amortized to expense over its applicable vesting period using the straight-line method. In the event that the employees employment with the Company terminates, or in the case of awards with only performance goals those goals are not met, any unvested shares are forfeited and revert to the Company.

Restricted Units are not included in issued and outstanding common stock until the shares are vested. The table below summarizes activity relating to Restricted Units for the nine months ended June 30, 2007:

	Number of Shares Underlying Restricted Units	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value(1)
Outstanding at September 30, 2006	2,750,054		
Granted	4,453,237		
Vested	(730,128)		
Forfeited	(305,234)		
Outstanding at June 30, 2007	6,167,929	1.4 years	$ 103.2 million
Expected to become exercisable	5,429,179	1.4 years	$ 90.8 million

(1) The aggregate intrinsic value on this table was calculated based on the positive difference between the closing market value of the Company s common stock on June 30, 2007 ($16.73) and the exercise price of the underlying Restricted Units.

The purchase price for vested Restricted Units is $0.001 per share. As of June 30, 2007, unearned share-based payment expense related to unvested Restricted Units is $56.3 million, which will, based on expectations of future performance vesting criteria, when applicable, be recognized over a weighted-average period of 1.6 years. 45% of the Restricted Units outstanding as of June 30, 2007 are subject to performance vesting acceleration conditions. During the three and nine month periods ended June 30, 2007 and 2006 the following activity occurred related to Restricted Units:

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Weighted-average grant-date fair value per share	$ 15.99	$ 10.66	$ 13.73	$ 9.22
Total intrinsic value of shares vested (in millions)	$ 0.93	$ 1.06	$ 9.32	$ 3.07

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Restricted Stock is included in the issued and outstanding common stock in these financial statements at date of grant. The table below summarizes activity relating to Restricted Stock for the nine months ended June 30, 2007:

	Number of Shares Underlying Restricted Stock	Weighted Average Grant Date Fair Value
Nonvested balance at September 30, 2006	1,547,341	$ 5.93
Granted and assumed	17,421	$ 8.75
Vested	(368,103)	$ 5.27
Nonvested balance at June 30, 2007	1,196,659	$ 6.18

The purchase price for vested Restricted Stock is $0.001 per share. As of June 30, 2007, unearned share-based payment expense related to unvested Restricted Stock is $3.0 million, which will, based on expectations of future performance vesting criteria, when applicable, be recognized over a weighted-average period of 11.1 years. 78% of the Restricted Stock outstanding as of June 30, 2007 are subject to performance vesting acceleration conditions. During the three and nine month periods ended June 30, 2007 and 2006 the following activity occurred related to Restricted Stock:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Weighted-average grant-date fair value per share	$ 11.35	$ 12.19	$ 8.75	$ 12.19
Total intrinsic value of shares vested (in millions)	$ 0.97	$ 0.12	$ 5.60	$ 1.48

The Company has historically repurchased common stock upon its employees vesting in Restricted Awards, in order to allow the employees to cover their tax liability as a result of the Restricted Awards having vested. Assuming that the Company repurchased one-third of all vesting Restricted Awards outstanding as of June 30, 2007, such amount approximating a tax rate of its employees, and based on the weighted average recognition period of 1.5 years, the Company would repurchase approximately 1.0 million shares during the twelve month period ending June 30, 2008. During the nine months ended June 30, 2007, the Company repurchased 264,866 shares of restricted awards at a cost of $3.7 million to cover employees tax obligations related to vesting of Restricted Awards.

Employee Stock Purchase Plan

The Company s 1995 Employee Stock Purchase Plan (the Plan), as amended and restated on March 31, 2006, authorizes the issuance of a maximum of 3,000,000 shares of common stock in semi-annual offerings to employees at a price equal to the lower of 85% of the closing price on the applicable offering commencement date or 85% of the closing price on the applicable offering termination date. Compensation expense for the employee stock purchase plan is recognized in accordance with SFAS 123R. Compensation expense related to the employee stock purchase plan was $0.5 million and $1.5 million for the three and nine months ended June 30, 2007, respectively, and was $0.3 million and $0.7 million for the three and nine months ended June 30, 2006, respectively.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company does not provide for U.S. income taxes on the undistributed earnings of its

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foreign subsidiaries, which the Company considers to be indefinitely reinvested outside of the U.S. in accordance with Accounting Principles Board (APB) Opinion No. 23, Accounting for Income Taxes Special Areas.

The Company makes judgments regarding the realizability of its deferred tax assets. In accordance with SFAS 109, Accounting for Income Taxes, the carrying value of the net deferred tax assets is based on the belief that it is more likely than not that the Company will generate sufficient future taxable income to realize these deferred tax assets after consideration of all available evidence. The Company regularly reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, and the expected timing of the reversals of existing temporary differences and tax planning strategies.

Valuation allowances have been established for U.S. deferred tax assets, which the Company believes do not meet the more likely than not criteria established by SFAS 109. If the Company is subsequently able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been established, then the Company may be required to recognize these deferred tax assets through the reduction of the valuation allowance which would result in a material benefit to its results of operations in the period in which the benefit is determined, excluding the recognition of the portion of the valuation allowance which relates to net deferred tax assets acquired in a business combination and created as a result of share-based payments. The recognition of the portion of the valuation allowance which relates to net deferred tax assets resulting from share-based payments will be recorded as additional paid-in-capital. The recognition of the portion of the valuation allowance which relates to net deferred tax assets acquired in a business combination will reduce goodwill, other intangible assets, and to the extent remaining, the provision for income taxes.

Financial Instruments and Hedging Activities

The Company follows the requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments. To achieve hedge accounting, the criteria specified in SFAS 133, must be met, including (i) ensuring at the inception of the hedge that formal documentation exists for both the hedging relationship and the entity s risk management objective and strategy for undertaking the hedge and (ii) at the inception of the hedge and on an ongoing basis, the hedging relationship is expected to be highly effective in achieving offsetting changes in fair value attributed to the hedged risk during the period that the hedge is designated. Further, an assessment of effectiveness is required whenever financial statements or earnings are reported. Absent meeting these criteria, changes in fair value are recognized currently in other expense, net of tax, in the income statement. Once the underlying forecasted transaction is realized, the gain or loss from the derivative designated as a hedge of the transaction is reclassified from accumulated other comprehensive income to the income statement, in the related revenue or expense caption, as appropriate. Any ineffective portion of the derivatives designated as cash flow hedges is recognized in current earnings. As of June 30, 2007, there was a $100 million interest rate swap (the Swap) outstanding. The Swap was entered into in conjunction with a term loan on March 31, 2006. The Swap was designated as a cash flow hedge, and changes in the fair value of this cash flow hedge derivative are recorded in stockholders equity as a component of accumulated other comprehensive income (loss). The fair value of the Swap was $0.1 million and was included in other long-term assets in the Company s accompanying balance sheet as of June 30, 2007. The fair value of the Swap was $0.6 million and was included in other liabilities in the Company s accompanying balance sheet as of September 30, 2006.

Recently Issued Accounting Standards

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 has as its objective to reduce both complexity in accounting for financial instruments and volatility in earnings caused by measuring related assets and liabilities differently. It also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose

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different measurement attributes for similar types of assets and liabilities. The statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year, provided that the entity makes that choice in the first 120 days of that fiscal year. The Company is evaluating the impact, if any, that SFAS 159 may have on its consolidated financial statements.

In December 2006, the FASB issued EITF 00-19-2, Accounting for Registration Payment Arrangements. EITF 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS 5, Accounting for Contingencies. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of EITF 00-19-2, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006. The Company is evaluating the impact, if any, that EITF 00-19-2 may have on its consolidated financial statements.

In September 2006, the FASB issued SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements 87, 88, 106 and 132(R). SFAS 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires the measurement of defined benefit plan assets and obligations as of the date of the employer s fiscal year-end statement of financial position (with limited exceptions). Under SFAS 158, the Company will be required to recognize the funded status of its defined benefit postretirement plan and to provide the required disclosures commencing as of September 30, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end is effective for the Company s fiscal year ended September 30, 2009. The Company is currently evaluating the impact that SFAS 158 will have on its consolidated financial statements.

In July 2006, the FASB issued Interpretation (FIN) 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS 109, Accounting for Income Taxes. FIN 48 prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for the Company s fiscal year beginning October 1, 2007. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated financial statements.

3. Business Acquisitions

Acquisition of BeVocal

On April 24, 2007, the Company acquired all of the outstanding capital stock of BeVocal, Inc., a provider of on-demand self-service customer care solutions that address the unique business requirements of the mobile communications market and its customers. The purchase price was $197.2 million, which consists of 8,204,436 shares of common stock valued at $122.7 million and cash in the amount of $74.5 million payable to shareholders and for transaction costs. Management has assessed probability under SFAS 141 and determined that the payment of contingent consideration is probable. Accordingly, included in this estimated purchase price is $40.4 million of cash consideration relating to contingent consideration provisions under the merger agreement. The maximum contingent consideration payable is $60.6 million, including fees payable to an investment bank. The cash related to contingent consideration is payable in October 2008, and is included

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in other long-term liabilities in the Company s accompanying balance sheet as of June 30, 2007. The results of operations of BeVocal have been included in the accompanying consolidated statements of operations from the date of acquisition. The following table summarizes the preliminary allocation of the purchase price (in thousands):

Total purchase consideration:	
Common stock issued	$ 122,738
Cash	70,398
Transaction costs	4,058
Total purchase consideration	$ 197,194
Allocation of the purchase consideration:	
Cash	$ 9,266
Accounts receivable and acquired unbilled accounts receivable	13,055
Property and equipment	3,161
Other current and long-term assets	5,922
Identifiable intangible assets	37,700
Goodwill	140,369
Total assets acquired	209,473
Accounts payable and accrued expenses	(8,114)
Other liabilities	(4,165)
Total liabilities assumed	(12,279)
Net assets acquired	$ 197,194

Under the provisions of EITF 95-08, Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination, management has determined that $5.6 million of the contingent consideration estimated currently, will be treated as compensation expense over the periods in which the amounts are earned; in the three months ended June 30, 2007, $1.0 million of this amount was recognized as additional compensation expense, the remaining $4.6 million of unearned contingent consideration is included in other assets in the Company s accompanying balance sheet as of June 30, 2007. The remaining contingent consideration of $34.8 million has been recorded as a component of goodwill. Any changes in the contingent consideration payable will be allocated to goodwill and compensation.

The Company assumed stock options for the purchase of 640,284 shares of the Company s common stock, and 2,866 shares of restricted stock in connection with its acquisition of BeVocal. These stock options and restricted stock are governed by the original equity compensation plan and agreements that they were issued under (the BeVocal Stock Option Plan), but are now exercisable for, or will vest into, shares of the Company s common stock. All assumed options and restricted stock were unvested as of the date of acquisition, and the vesting of these shares has been, and will be, reflected as compensation expense as disclosed in Note 2, Accounting for Share-Based Payments.

Customer relationships are amortized based upon patterns in which the economic benefits of customer relationships are expected to be utilized. Other finite-lived identifiable intangible assets are amortized on a

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straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Amount	Weighted Average Life (In years)
Customer relationships	$ 30,300	6.7
Core and completed technology	7,300	4.6
Non-compete agreements	100	2.0
Total	$ 37,700	

Acquisition of Focus

On March 26, 2007, the Company acquired all of the outstanding capital stock of Bluestar Resources Limited, the parent of Focus Enterprises Limited and Focus India Private Limited (collectively Focus) which provides medical transcription services with operations in the United States and India. The purchase price consisted of $59.3 million in cash, including transaction costs, and the assumption of certain obligations. The results of operations have been included in the accompanying consolidated statements of operations from the date of acquisition. The following table summarizes the preliminary allocation of the purchase price (in thousands):

Total purchase consideration:	
Cash	$ 54,477
Debt assumed	2,060
Transaction costs	2,800
Total purchase consideration	$ 59,337
Allocation of the purchase consideration:	
Accounts receivable	$ 3,940
Property and equipment	1,571
Other current and long-term assets	932
Identifiable intangible assets	23,700
Goodwill	40,797
Total assets acquired	70,940
Accounts payable and accrued expenses	(2,191)
Deferred income tax liabilities	(9,008)
Other liabilities	(404)

Total liabilities assumed		(11,603)
Net assets acquired	$	59,337

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Customer relationships are amortized based upon patterns in which the economic benefits of customer relationships are expected to be utilized. Other finite-lived identifiable intangible assets are amortized on a straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Amount	Weighted Average Life (In years)
Customer relationships	$ 19,800	6.0
Core and completed technology	2,900	7.4
Non-compete agreements	1,000	6.2
Total	$ 23,700	

Acquisition of MVC

On December 29, 2006, the Company acquired all of the outstanding capital stock of Mobile Voice Control, Inc. (MVC), a provider of speech-enabled mobile search and messaging services, for $12.9 million. The purchase price consisted of $4.6 million in cash including transaction costs, and 784,266 shares of the Company s common stock valued at $8.3 million. The results of operations have been included in the accompanying consolidated statements of operations from the date of acquisition. The following table summarizes the preliminary allocation of the purchase price (in thousands):

Total purchase consideration:	
Common stock issued	$ 8,300
Cash	4,104
Transaction costs	523
Total purchase consideration	$ 12,927
Allocation of the purchase consideration:	
Current and long-term assets	$ 79
Identifiable intangible assets	2,700
Goodwill	10,313
Total assets acquired	13,092
Total liabilities assumed	(165)
Net assets acquired	$ 12,927

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Under the agreement, the Company agreed to make maximum additional payments of $18.0 million in contingent purchase price upon achievement of certain established financial targets through December 31, 2008. Additional payments, if any, related to this contingency will be accounted for as additional goodwill.

Customer relationships are amortized based upon patterns in which the economic benefits of customer relationships are expected to be utilized. Other finite-lived identifiable intangible assets are amortized on a straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Amount	Weighted Average Life (In years)
Customer relationships	$ 1,300	5
Completed technology	1,100	4
Non-compete agreements	300	3
Total	$ 2,700	

4. Accounts Receivable

Accounts receivable, excluding acquired unbilled accounts receivable, consisted of the following (in thousands):

	June 30, 2007	September 30, 2006
Gross accounts receivable	$ 149,498	$ 130,985
Less allowance for doubtful accounts	(5,214)	(4,106)
Less reserve for distribution and reseller accounts receivable	(5,781)	(9,797)
Less allowance for sales returns	(6,762)	(6,304)
Total	$ 131,741	$ 110,778

5. Inventories, net

Inventories, net of allowances, consisted of the following (in thousands):

	June 30,	September 30,

	2007	2006
Components and parts	$ 3,038	$ 2,311
Inventory at customers	4,653	3,173
Finished products	700	1,311
Total	$ 8,391	$ 6,795

Inventory at customers reflects equipment related to in-process installations of solutions of Dictaphone contracts with customers. These contracts have not been recorded to revenue as of June 30, 2007, and therefore the inventory is on the balance sheet until such time as the contract is recorded to revenue and the inventory will be charged to cost of sales.

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6. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill during the nine months ended June 30, 2007, are as follows (in thousands):

Balance as of September 30, 2006	$ 699,333
Goodwill acquired MVC acquisition	10,313
Goodwill acquired Focus acquisition	40,797
Goodwill acquired BeVocal acquisition	140,369
Purchase accounting adjustments	(10,706)
Effect of foreign currency translation	2,881
Balance as of June 30, 2007	$ 882,987

Goodwill adjustments during the nine months ended June 30, 2007 were primarily related to the utilization of acquired deferred tax assets.

Other intangible assets consist of the following (dollars in thousands):

	At June 30, 2007			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	$ 199,404	$ 36,865	$ 162,539	7.8
Technology and patents	103,554	39,602	63,952	5.2
Tradenames and trademarks, subject to amortization	6,951	2,995	3,956	5.3
Non-competition agreements	1,990	411	1,579	5.3
Subtotal	311,899	79,873	232,026	
Tradename, indefinite life	27,800		27,800	n/a
Total	$ 339,699	$ 79,873	$ 259,826	

Amortization expense for the Company s other intangible assets with finite lives was $9.7 million and $25.8 million for the three and nine months ended June 30, 2007, respectively, and was $8.8 million and $17.8 million for the three and nine months ended June 30, 2006, respectively. Estimated future amortization expense for each of the five succeeding years is as follows (in thousands):

Year Ending September 30,	Cost of Revenue	Other Operating Expenses	Total
2007 (July 1, 2007 to September 30, 2007)	$ 3,395	$ 6,733	$ 10,128
2008	13,271	27,595	40,866
2009	12,288	27,222	39,510
2010	11,284	23,433	34,717
2011	10,377	20,616	30,993
2012	7,782	18,081	25,863
Thereafter	5,555	44,394	49,949
Total	$ 63,952	$ 168,074	$ 232,026

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7. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	June 30, 2007	September 30, 2006
Accrued compensation	$ 26,676	$ 21,310
Accrued sales and marketing incentives	4,217	4,454
Accrued royalties	2,285	2,452
Accrued professional fees	4,526	3,823
Accrued acquisition costs and liabilities	4,356	747
Income taxes payable	7,581	3,857
Accrued other	17,116	16,031
Total	$ 66,757	$ 52,674

8. Deferred and Contingent Acquisition Payments

In connection with the Company s acquisition of Phonetic Systems Ltd. (Phonetic) in February 2005, a deferred payment of $17.5 million was due and paid in full to the former shareholders of Phonetic on February 1, 2007. Under the agreement, the Company also agreed to make maximum additional payments of $35.0 million in contingent purchase price upon achievement of certain established financial and performance targets through December 31, 2007, in accordance with the purchase agreement. The Company has notified the former shareholders of Phonetic that the financial and performance targets for the scheduled payments for calendar 2005 and 2006, totaling $24.0 million, were not achieved. The former shareholders of Phonetic have objected to this determination. The Company and the former shareholders of Phonetic are discussing this matter.

In connection with the Company s acquisition of MVC, it agreed to make contingent payments of up to $18.0 million upon the achievement of certain financial targets through December 31, 2008, in accordance with the purchase agreement. The Company has not recorded any obligation relative to these measures though June 30, 2007.

In connection with the Company s acquisition of BeVocal, it agreed to make contingent payments of up to $60.6 million, including amounts payable to an investment banker, upon the achievement of certain financial targets through December 31, 2007, in accordance with the purchase agreement. As discussed in Note 3, the Company has accrued $40.4 million of this amount as of June 30, 2007. These contingent payments are payable in cash in October 2008.

9. Pension and Other Postretirement Benefit Plans

In connection with the acquisition of Dictaphone on March 31, 2006, the Company assumed the assets and obligations related to its defined benefit pension plans, which provide certain retirement and death benefits for former Dictaphone employees located in the United Kingdom and Canada. The Company also assumed a post-retirement health care and life insurance benefit plan which provides certain post-retirement health care and life insurance benefits, as well as a fixed subsidy for qualified former employees in the United States and

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Canada. Amounts recognized in other assets and liabilities in the consolidated balance sheet as of June 30, 2007 and September 30, 2006 are as follows (in thousands):

	June 30, 2007		September 30, 2006	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Prepaid benefit cost	$ 2,469	$	$ 2,276	$
Accrued benefit liability	(7,072)	(1,487)	(7,450)	(1,368)
Net amount recognized	$ (4,603)	$ (1,487)	$ (5,174)	$ (1,368)

The components of net periodic benefit cost of the benefit plans for the three and nine months ended June 30, 2007 are as follows (in thousands):

	Three Months Ended June 30, 2007		Nine Months Ended June 30, 2007	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Service cost	$ 71	$ 26	$ 209	$ 79
Interest cost	304	19	896	55
Amortization of net (gain) loss				
Expected return on plan assets	(310)		(912)	
Amortization of prior service cost				
Net period benefit cost	$ 65	$ 45	$ 193	$ 134

The components of net periodic benefit cost of the benefit plans for the three and nine months ended June 30, 2006 (both periods being the same as Dictaphone was acquired on March 31, 2006) are as follows (in thousands):

	Pension Benefits	Other Benefits
Service cost	$ 62	$ 22
Interest cost	286	14

Amortization of net (gain) loss				
Expected return on plan assets		(289)		
Amortization of prior service cost				
Net period benefit cost	$	59	$	36

10. Credit Facilities and Debt

On April 5, 2007, the Company entered into an amended and restated credit facility which consists of a $441.5 million term loan due March 2013 and a $75.0 million revolving credit line, including letters of credit, due March 2013 (the Expanded 2006 Credit Facility). As of June 30, 2007, $440.3 million remained outstanding under the term loan. As of June 30, 2007, there were $17.3 million of letters of credit issued under the revolving credit line and there were no other outstanding borrowings under the revolving credit line.

The Expanded 2006 Credit Facility contains customary covenants, including, among other things, covenants that restrict the ability of the Company and its subsidiaries to incur certain additional indebtedness, create or permit liens on assets, enter into sale-leaseback transactions, make loans or investments, sell assets,

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make certain acquisitions, pay dividends, or repurchase stock. The agreement also contains customary events of default, including failure to make payments, 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, 2007, the Company was in compliance with the covenants under the Expanded 2006 Credit Facility.

Borrowings under the Expanded 2006 Credit Facility bear interest at a rate equal to the applicable margin plus, at the Company s option, either (a) the base rate (which is the higher of the corporate base rate of UBS AG, Stamford Branch, or the federal funds rate plus 0.50% per annum) or (b) LIBOR (determined by reference to the British Bankers Association Interest Settlement Rates for deposits in U.S. dollars). The applicable margin for borrowings under the Expanded 2006 Credit Facility ranges from 0.50% to 1.25% per annum with respect to base rate borrowings and from 1.50% to 2.25% per annum with respect to LIBOR-based borrowings, depending upon the Company s leverage ratio. As of June 30, 2007, the Company s applicable margin was 1.00% for base rate borrowings and 2.00% for LIBOR-based borrowings. The Company is required to pay a commitment fee for unutilized commitments under the revolving credit facility at a rate ranging from 0.375% to 0.50% per annum, based upon its leverage ratio. As of June 30, 2007, the commitment fee rate was 0.5%.

The Company capitalized debt issuance costs related to the Expanded 2006 Credit Facility and is amortizing the costs to interest expense using the effective interest rate method through March 2012 for costs associated with the revolving credit facility and through March 2013 for costs associated with the term loan. As of June 30, 2007, the ending unamortized deferred financing fees were $9.5 million and are included in other long-term assets in the Company s accompanying balance sheet.

The $441.5 million term loan is subject to repayment in fair equal quarterly installments of 1% per annum ($4.45 million per year), and an annual excess cash flow sweep, as defined in the Expanded 2006 Credit Facility, which will be first payable beginning in the first quarter of fiscal 2008, based on the excess cash flow generated in fiscal 2007. As of June 30, 2007, we have repaid $1.2 million of principal under the term loan agreement. Any borrowings not paid through the baseline repayment, the excess cash flow sweep, or any other mandatory or optional payments that the Company may make, will be repaid upon maturity. If only the baseline repayments are made, the aggregate annual maturities of the term loan would be as follows (in thousands):

Year Ending September 30,	**Amount**
2007 (July 1 to September 30, 2007)	$ 1,113
2008	4,450
2009	4,450
2010	4,450
2011	4,450
2012	4,450
Thereafter	416,975
Total	$ 440,338

The Company s obligations under the Expanded 2006 Credit Facility are unconditionally guaranteed by, subject to certain exceptions, each of its existing and future direct and indirect wholly-owned domestic subsidiaries. The Expanded 2006 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 the Company s domestic subsidiaries and 65% of the outstanding voting equity interests and 100% of the non-voting equity interests of first-tier foreign subsidiaries, all material tangible and intangible assets of the Company and the

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guarantors, and any present and future intercompany debt. The Expanded 2006 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. The Company may voluntarily prepay the Expanded 2006 Credit Facility without premium or penalty other than customary breakage costs with respect to LIBOR-based loans.

As noted above, beginning in the first quarter of fiscal 2008, the Company may be required to repay a portion of the outstanding principal under the Expanded 2006 Credit Facility in accordance with the excess cash flow sweep provision, as defined in the Expanded 2006 Credit Facility. The amount of the payment due in the first quarter of fiscal 2008, if any, is based on the Company s earnings before interest, taxes, depreciation and amortization, or EBITDA, for the fiscal year ending September 30, 2007, as adjusted in accordance with the terms of the Expanded 2006 Credit Facility. At the current time, the Company is unable to predict the amount of the outstanding principal, if any, that it may be required to repay during the first quarter of fiscal 2008 pursuant to the excess cash flow sweep provisions.

On June 11, 2007, the Company received a commitment letter from Citigroup Global Markets Inc., Lehman Brothers Inc. and Goldman Sachs Credit Partners L.P. as arrangers, and Bank of America Securities as co-arranger, for a syndicate of lenders under the Expanded 2006 Credit Facility. The commitment letter, which expires August 30, 2007, relates to an incremental term loan in the amount of $225.0 million that would be provided under the Expanded 2006 Credit Facility. As of June 30, 2007, the Company had not drawn against the commitment letter.

11. Accrued Business Combination Costs

In connection with the acquisitions of SpeechWorks International, Inc. in August 2003 and Former Nuance in September 2005, the Company has assumed obligations relating to certain leased facilities expiring in 2016 and 2012, respectively, that were abandoned by the acquired companies prior to the acquisition date. The fair value of the obligations, net of estimated sublease income, are recognized as liabilities assumed by the Company and accordingly are included in the allocation of the purchase price, generally resulting in an increase to the recorded amount of the goodwill. The net payments have been discounted in calculating the fair value of the obligation as of the date of acquisition, and the discount is being accreted through expected maturity. Cash payments net of sublease receipts are presented as cash used in financing activities in the consolidated statements of cash flows. As of June 30, 2007, the total gross payments due from the Company to the landlords of the facilities are $79.6 million. This is reduced by $20.4 million of sublease income and a $5.0 million present value discount.

Additionally, the Company has implemented restructuring plans to eliminate duplicate facilities, personnel or assets in connection with the business combinations. In accordance with EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination, costs such as these are recognized as liabilities assumed by the Company, and accordingly are included in the allocation of the purchase price, generally resulting in an increase to the recorded amount of the goodwill. As of June 30, 2007, total gross payments due from the Company to the landlords of the facilities are $2.3 million. This is reduced by $0.8 million of sublease income. The gross value of the lease exit costs will be paid through fiscal 2009. These gross payment obligations are included in the commitments disclosed in Note 14.

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Current activity charged against the accrued business combination costs for the nine months ended June 30, 2007 was as follows (in thousands):

	Facilities	Personnel	Total
Balance at September 30, 2006	$ 59,221	$ 844	$ 60,065
Charged to goodwill	36	(361)	(325)
Charged to interest expense	1,442		1,442
Cash payments, net of sublease receipts	(9,306)	(483)	(9,789)
Balance at June 30, 2007	$ 51,393	$	$ 51,393
Reported as:			
Current:			$ 13,402
Long-term			37,991
Total			$ 51,393

12. Restructuring and Other Charges

Current activity charged against the restructuring accrual for the nine months ended June 30, 2007 was as follows (in thousands):

	Facilities	Personnel	Total
Balance at September 30, 2006	$ 530	$ 374	$ 904
Charged to expense	(16)	(38)	(54)
Cash payments and foreign exchange	(514)	(107)	(621)
Balance at June 30, 2007	$	$ 229	$ 229

The remaining personnel-related accrual as of June 30, 2007 is primarily composed of amounts due under a restructuring charge taken in the fourth quarter of fiscal 2005.

13. Stockholders Equity

Preferred Stock

The Company is authorized to issue up to 40,000,000 shares of preferred stock, par value $0.001 per share. The Company has designated 100,000 shares as Series A Preferred Stock and 15,000,000 shares as Series B Preferred Stock. In connection with the acquisition of ScanSoft from Xerox Corporation (Xerox), the Company issued 3,562,238 shares of Series B Preferred Stock to Xerox. On March 19, 2004, the Company announced that Warburg Pincus, a global private equity firm, had agreed to purchase all outstanding shares of the Company s stock held by Xerox Corporation for approximately $80 million, including the 3,562,238 shares of Series B Preferred Stock. The Series B Preferred stock is convertible into shares of common stock on a one-for-one basis. The Series B Preferred Stock has a liquidation preference of $1.30 per share plus all declared but unpaid dividends. The holders of Series B Preferred Stock are entitled to non-cumulative dividends at the rate of $0.05 per annum per share, payable when, and if declared by the Board of Directors. To date, no dividends have been declared by the Board of Directors. Holders of Series B Preferred Stock have no voting rights, except those rights provided under Delaware law. The undesignated shares of preferred stock will have rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by the Board of Directors

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upon issuance of the preferred stock. The Company has reserved 3,562,238 shares of its common stock for issuance upon conversion of the Series B Preferred Stock.

Common Stock

On April 24, 2007, the Company issued 8,204,436 shares of its common stock valued at $122.7 million in connection with the acquisition of BeVocal.

On March 22, 2007, the Company s shareholders approved an amendment to the Company s Amended and Restated Certificate of Incorporation to increase the number of shares of common stock the Company is authorized to issue from 280,000,000 shares to 560,000,000 shares.

On January 26, 2007, the Company repurchased 261,422 shares of the Company s common stock from former MVC stockholders which were originally issued in connection with the acquisition of MVC on December 29, 2006, for a total purchase price of $3.2 million.

On December 29, 2006, the Company issued 784,266 shares of its common stock valued at $8.3 million in connection with the acquisition of MVC.

On May 5, 2005, the Company entered into a Securities Purchase Agreement (the Securities Purchase Agreement) by and among the Company, Warburg Pincus Private Equity VIII, L.P. and certain of its affiliated entities (collectively Warburg Pincus) pursuant to which Warburg Pincus agreed to purchase, and the Company agreed to sell, 3,537,736 shares of its common stock and warrants to purchase 863,236 shares of its common stock for an aggregate purchase price of $15.1 million. The warrants have an exercise price of $5.00 per share and a term of four years. On May 9, 2005, the sale of the shares and the warrants pursuant to the Securities Purchase Agreement was completed. The Company also entered into a Stock Purchase Agreement (the Stock Purchase Agreement) by and among the Company and Warburg Pincus pursuant to which Warburg Pincus agreed to purchase and the Company agreed to sell 14,150,943 shares of the Company s common stock and warrants to purchase 3,177,570 shares of the Company s common stock for an aggregate purchase price of $60.0 million. The warrants have an exercise price of $5.00 per share and a term of four years. The warrants provide the holder with the option to exercise the warrants on a net, or cashless, basis. On September 15, 2005, the sale of the shares and the warrants pursuant to the Securities Purchase Agreement was completed. The net proceeds from these two fiscal 2005 financings was $73.9 million. In connection with the financings, the Company granted Warburg Pincus registration rights giving Warburg Pincus the right to request that the Company use commercially reasonable efforts to register some or all of the shares of common stock issued to Warburg Pincus under both the Securities Purchase Agreement and Stock Purchase Agreement, including shares of common stock underlying the warrants. The Company has evaluated these warrants under EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock and has determined that the warrants should be classified within the stockholders equity section of the accompanying consolidated balance sheets.

Common Stock Warrants

In fiscal 2005, the Company issued several warrants for the purchase of its common stock. Warrants were issued to Warburg Pincus as described above. Additionally, on November 15, 2004, in connection with the acquisition of

Phonetic, the Company issued unvested warrants to purchase 750,000 shares of its common stock at an exercise price of $4.46 per share that will vest, if at all, upon the achievement of certain performance targets. Based on the Company s assessment of the results relative to the financial and performance measures, warrants to purchase 500,000 shares of common stock have not vested, and will not vest; warrants to purchase 250,000 shares of common stock still may vest depending on future performance. The former shareholders of Phonetic have objected to this assessment. The Company and the former

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shareholders of Phonetic are discussing this matter. The warrants provide the holder with the option to exercise the warrants on a net, or cashless, basis. The initial valuation of the warrants occurred upon closing of the Phonetic acquisition on February 1, 2005, and was treated as purchase consideration in accordance with EITF 97-8, Accounting for Contingent Consideration Issued in a Purchase Business Combination.

In March 1999, the Company issued Xerox a ten-year warrant with an exercise price for each warrant share of $0.61. This warrant is exercisable for the purchase of 525,732 shares of the Company s common stock. On March 19, 2004, the Company announced that Warburg Pincus, a global private equity firm, had agreed to purchase all outstanding shares of the Company s stock held by Xerox Corporation, including this warrant, for approximately $80 million. In connection with this transaction, Warburg Pincus acquired new warrants to purchase 2.5 million additional shares of the Company s common stock from the Company for total consideration of $0.6 million. The warrants have a six-year life and an exercise price of $4.94. The warrants provide the holder with the option to exercise the warrants on a net, or cashless, basis.

In connection with the acquisition of SpeechWorks in 2003, the Company issued a warrant to its investment banker, expiring on August 11, 2011, for the purchase of 150,000 shares of the Company s common stock at an exercise price of $3.98 per share. The warrant provides the holder with the option to exercise the warrants on a net, or cashless, basis. The warrant became exercisable on August 11, 2005, and was valued at its issuance at $0.2 million based upon the Black-Scholes option pricing model. In October 2006, the warrant was exercised to purchase 125,620 shares of the Company s common stock. The holder of the warrant elected a cashless exercise resulting in a net issuance of 75,623 shares of the Company s common stock. As of June 30, 2007, a warrant to purchase 24,380 shares of the Company s common stock remains outstanding.

Also in connection with the acquisition of SpeechWorks, the Company assumed outstanding warrants previously issued by SpeechWorks to America Online. These warrants allowed for the purchase of up to 219,421 shares of the Company s common stock and were issued in connection with a long-term marketing arrangement. The warrant was exercisable at a price of $14.49 per share and provided the holder with the option to exercise the warrants on a net, or cashless, basis. The warrant expired on June 30, 2007.

Based on its review of EITF 00-19, the Company has determined that each of the above-noted warrants should be classified within the stockholders equity section of the accompanying consolidated balance sheets.

14. Commitments and Contingencies

Operating Leases

The Company has various operating leases for office space around the world. In connection with many of its acquisitions the Company assumed facility lease obligations. Among these assumed obligations are lease payments related to certain office locations that were vacated by certain of the acquired companies prior to the acquisition date (Note 11). Additionally, certain of the Company s lease obligations have been included in

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various restructuring charges (Note 12). The following table outlines the Company s gross future minimum payments under all non-cancelable operating leases as of June 30, 2007 (in thousands):

Year Ending September 30,	Operating Leases	Leases Under Restructuring	Other Contractual Obligations Assumed	Total
2007 (July 1, 2007 to September 30, 2007)	$ 2,121	$ 456	$ 3,093	$ 5,670
2008	8,867	1,558	12,780	23,205
2009	8,089	1,432	13,202	22,723
2010	6,982	523	13,639	21,144
2011	6,137	540	14,172	20,849
2012	5,165	557	12,661	18,383
Thereafter	16,245	332	10,093	26,670
Total	$ 53,606	$ 5,398	$ 79,640	$ 138,644

At June 30, 2007, the Company has subleased certain office space that is included in the above table to third parties. Total sublease income under contractual terms is $24.4 million and which ranges from approximately $0.9 million to $3.8 million on an annual basis through February 2016.

In connection with certain of its acquisitions, the Company assumed certain financial guarantees that the acquired companies had committed to the landlords. As of June 30, 2007, the total outstanding financial guarantees related to real estate were $17.3 million and are secured by letters of credit issued under the Expanded 2006 Credit Facility.

Litigation and Other Claims

Like many companies in the software industry, the Company has, from time to time, been notified of claims that it may be infringing, or contributing to the infringement of, the intellectual property rights of others. These claims have been referred to counsel, and they are in various stages of evaluation and negotiation. If it appears necessary or desirable, the Company may seek licenses for these intellectual property rights. There is no assurance that licenses will be offered by all claimants, that the terms of any offered licenses will be acceptable to the Company or that in all cases the dispute will be resolved without litigation, which may be time consuming and expensive, and may result in injunctive relief or the payment of damages by the Company.

On April 10, 2007, Disc Link Corporation (Disc Link) filed a patent infringement action against the Company in the United States District Court for the Eastern District of Texas. Damages are sought in an unspecified amount. In this lawsuit, Disc Link alleges that the Company infringes U.S. Patent No. 6,314,574, titled Information Distribution System. On June 28, 2007, the Company entered into a non-exclusive patent license and settlement agreement with

Disc Link regarding the actions filed against the Company on April 10, 2007, which resulted in the Company acquiring a license to the technology. The impact of the patent license and settlement agreement, relative to the Company s financial position, and with regard to the future amortization of the acquired patent license in any given period is not material.

On November 8, 2006, Voice Signal Technologies, Inc. (VoiceSignal) filed an action against the Company and eleven of its resellers in the United States District Court for the Western District of Pennsylvania (the Court) claiming patent infringement. Damages were sought in an unspecified amount. In the lawsuit, VoiceSignal alleges that the Company is infringing United States Patent No. 5,855,000 which relates to improving correction in a dictation application based on a two input analysis. The Company believes these

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claims have no merit and intends to defend the action vigorously. As a result of the Company s pending acquisition of VoiceSignal (Note 18), the Court has stayed the action for an unspecified period of time.

On May 31, 2006 GTX Corporation (GTX), filed an action against the Company in the United States District Court for the Eastern District of Texas claiming patent infringement. Damages were sought in an unspecified amount. In the lawsuit, GTX alleged that the Company is infringing United States Patent No. 7,016,536 entitled Method and Apparatus for Automatic Cleaning and Enhancing of Scanned Documents. The Company believes these claims have no merit and intends to defend the action vigorously.

On November 27, 2002, AllVoice Computing plc (AllVoice) filed an action against the Company in the United States District Court for the Southern District of Texas claiming patent infringement. In the lawsuit, AllVoice alleges that the Company is infringing United States Patent No. 5,799,273 entitled Automated Proofreading Using Interface Linking Recognized Words to their Audio Data While Text is Being Changed (the 273 Patent). The 273 Patent generally discloses techniques for manipulating audio data associated with text generated by a speech recognition engine. Although the Company has several products in the speech recognition technology field, the Company believes that its products do not infringe the 273 Patent because, in addition to other defenses, they do not use the claimed techniques. Damages are sought in an unspecified amount. The Company filed an Answer on December 23, 2002. The United States District Court for the Southern District of Texas entered summary judgment against AllVoice and dismissed all claims against the Company on February 21, 2006. AllVoice filed a notice of appeal from this judgment on April 26, 2006. The Company believes these claims have no merit and intends to defend the action vigorously.

The Company believes that the final outcome of the current litigation matters described above will not have a significant adverse effect on its financial position and results of operations. However, even if the Company s defense is successful, the litigation could require significant management time and could be costly. Should the Company not prevail in these litigation matters, its operating results, financial position and cash flows could be adversely impacted.

Guarantees and Other

The Company currently includes indemnification provisions in the contracts into which it enters with its customers and business partners. Generally, these provisions require the Company to defend claims arising out of its products infringement of third-party intellectual property rights, breach of contractual obligations and/or unlawful or otherwise culpable conduct on its part. The indemnity obligations imposed by these provisions generally cover damages, costs and attorneys fees arising out of such claims. In most, but not all, cases, the Company s total liability under such provisions is limited to either the value of the contract or a specified, agreed upon amount. In some cases its 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 the Company could be required to make under all the indemnification provisions in its contracts with customers and business partners is unlimited, it believes that the estimated fair value of these provisions is minimal due to the low frequency with which these provisions have been triggered.

The Company has entered into agreements to indemnify its directors and officers to the fullest extent authorized or permitted under applicable law. These agreements, among other things, provide for the indemnification of its directors and officers for expenses, judgments, fines, penalties and settlement amounts incurred by any such person in his or her capacity as a director or officer of the Company, whether or not such person is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under the agreements. In accordance with the terms of the SpeechWorks merger agreement, the Company is required to indemnify the former members of the SpeechWorks board of directors, on similar terms as described above, for a period of six years from the acquisition date. In connection with this indemnification, the Company was required to purchase a director and officer insurance

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policy related to this obligation for a period of three years from the date of acquisition. This three-year policy was purchased in 2003. In accordance with the terms of each of the Former Nuance, Dictaphone and BeVocal merger agreements, the Company is required to indemnify the former members of the Former Nuance, Dictaphone and BeVocal boards of directors, on similar terms as described above, for a period of six years from the acquisition date. In connection with these indemnifications, the Company has purchased director and officer insurance policies related to these obligations covering the full period of six years.

At June 30, 2007, the Company has $3.6 million of non-cancelable purchase commitments for inventory to fulfill customers orders currently scheduled in its backlog.

15. Segment and Geographic Information and Significant Customers

The Company has reviewed the provisions of SFAS 131, Disclosures about Segments of an Enterprise and Related Information, with respect to the criteria necessary to evaluate the number of operating segments that exist. Based on its review, the Company has determined that it operates in one segment. Changes in the organization or the Company s 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) additional reporting units, 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 the consolidated financial statements through accelerated amortization and/or impairment charges.

Revenue, classified by the major geographic areas in which the Company s customers are located, were as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
United States	$ 126,913	$ 86,616	$ 329,292	$ 184,278
International	29,726	26,480	92,830	76,099
Total	$ 156,639	$ 113,096	$ 422,122	$ 260,377

No country outside of the United States composed more than 10% of total revenue.

The following table presents revenue information for principal product lines, which do not constitute separate segments (in thousands):

	Three Months Ended	Nine Months Ended

	June 30,		June 30,	
	2007	**2006**	**2007**	**2006**
Speech	$ 140,007	$ 91,488	$ 368,469	$ 205,372
Imaging	16,632	21,608	53,653	55,005
Total	$ 156,639	$ 113,096	$ 422,122	$ 260,377

No customer composed more than 10% of revenue or accounts receivable for any of the periods ended, or as of, June 30, 2007 or September 30, 2006.

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The following table summarizes the Company s long-lived assets, including intangible assets and goodwill, by geographic location (in thousands):

	June 30, 2007	September 30, 2006
United States	$ 1,070,143	$ 865,884
International	146,338	105,869
Total	$ 1,216,481	$ 971,753

16. Pro Forma Results

The following table reflects unaudited pro forma results of operations of the Company assuming that the Dictaphone, Focus and BeVocal acquisitions had occurred on October 1, 2005 (in thousands, except per share amounts):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Revenue	$ 159,767	$ 122,780	$ 450,151	$ 372,531
Net loss	$ (9,904)	$ (11,869)	$ (28,493)	$ (65,652)
Net loss per basic and diluted share	$ (0.05)	$ (0.07)	$ (0.16)	$ (0.38)

The Company has not furnished pro forma financial information relating to the MVC acquisition because such information is not material to the Company s financial results. The unaudited pro forma results of operations are not necessarily indicative of the actual results that would have occurred had the transactions actually taken place at the beginning of the periods indicated.

17. Related Parties

A member of the Company s Board of Directors is also a partner at Wilson Sonsini Goodrich & Rosati, Professional Corporation, a law firm that provides services to the Company. In the nine months ended June 30, 2007 and the fiscal year 2006, the Company paid $2.7 million and $2.9 million, respectively, to Wilson Sonsini Goodrich & Rosati for professional services provided to the Company. As of June 30, 2007 and September 30, 2006, the Company had $2.1 million and $1.9 million, respectively, included in accounts payable and accrued expenses to Wilson Sonsini Goodrich & Rosati.

18. Pending Business Combinations

On May 15, 2007, the Company announced that it had entered into a definitive agreement to acquire Voice Signal Technologies, Inc. (VoiceSignal), a global provider of mobile voice technology. The VoiceSignal acquisition will extend the Company s solutions and expertise to address the accelerating demand for speech-enabled mobile devices and services that allow people to use spoken commands simply and effectively navigate and retrieve information and to control and operate mobile phones, automobiles and personal navigation devices. The announced estimated aggregate consideration for this acquisition is $210 million in cash and $91 million in shares of the Company s common stock. The Company expects the acquisition to close in the fourth quarter of fiscal 2007.

On June 21, 2007, the Company announced a definitive agreement to acquire Tegic Communications, Inc. (Tegic), a wholly owned subsidiary of AOL LLC and a developer of embedded software for mobile devices. The Tegic acquisition will expand the Company s presence in the mobile industry and accelerate the delivery of a new mobile user interface that combines voice, text and touch to improve the user experience for consumers and mobile professionals. The consideration for this acquisition is $265 million in cash. The Company expects the acquisition to close in the fourth quarter of fiscal 2007.

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19. Subsequent Events

On August 7, 2007, the Company entered into a purchase agreement with Citigroup Global Markets Inc. and Goldman, Sachs & Co. (the Initial Purchasers) to offer and sell $220 million aggregate principal amount of its 2.75% Convertible Debentures due 2027, plus up to an additional $30 million aggregate principal amount of such debentures at the option of the Initial Purchasers to cover over-allotments, if any, in a private placement to the Initial Purchasers for resale to qualified institutional buyers pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the Act), afforded by Section 4(2) of the Act and Rule 144A under the Act. The Company intends to use the net proceeds from the offering to partially fund its acquisition of Tegic.

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Nuance Communications, Inc.
(formerly ScanSoft, Inc.)

Annual Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Nuance Communications, Inc.
Burlington, Massachusetts

We have audited the accompanying consolidated balance sheets of Nuance Communications, Inc. (the Company) as of September 30, 2006 and 2005, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the two years in the period ended September 30, 2006, and for the nine-month period ended September 30, 2004. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nuance Communications, Inc. at September 30, 2006 and 2005, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2006, and for the nine-month period ended September 30, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Nuance Communications, Inc. s internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 14, 2006, expressed an unqualified opinion thereon.

As described in note 16 of the Notes to Consolidated Financial Statements, Nuance Communications, Inc. adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, effective October 1, 2005.

/s/ BDO SEIDMAN, LLP
BDO Seidman, LLP

Boston, Massachusetts
December 14, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Nuance Communications, Inc.
Burlington, Massachusetts

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that Nuance Communications, Inc. (the Company) maintained effective internal control over financial reporting as of September 30, 2006, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management s Report on Internal Control Over Financial Reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Dictaphone Corporation, which the Company acquired on March 31, 2006, and which is included in the 2006 consolidated financial statements of Nuance Communications, Inc. from the date of the acquisition and constituted approximately 42.8% of consolidated assets as of September 30, 2006, and approximately 20.1% of consolidated revenue for the year ended September 30, 2006. Management did not assess the effectiveness of internal controls over financial reporting of Dictaphone Corporation because the Company acquired this entity during its fiscal year ended September 30, 2006. Refer to Note 3 to the consolidated financial statements for further discussion of this acquisition and its impact on the Company s consolidated financial statements. Our audit of internal control over financial reporting of Nuance Communications, Inc. also did not include an evaluation of the internal control over financial reporting of Dictaphone Corporation.

In our opinion, management s assessment that Nuance Communications, Inc. maintained effective internal control over financial reporting as of September 30, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control-Integrated Framework* issued by COSO. Also, in our opinion, Nuance

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Communications, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on the criteria established in *Internal Control-Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2006 consolidated financial statements of Nuance Communications, Inc. and our report dated December 14, 2006 expressed an unqualified opinion thereon and indicated that the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, effective October 1, 2005.

/s/ BDO SEIDMAN, LLP
BDO Seidman, LLP

Boston, Massachusetts
December 14, 2006

NUANCE COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2006	September 30, 2005
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 112,334	$ 71,687
Marketable securities		24,127
Accounts receivable, less allowances of $18,201 and $13,118, respectively	110,778	66,488
Acquired unbilled accounts receivable	19,748	3,052
Inventories, net	6,795	313
Prepaid expenses and other current assets	13,245	9,235
Deferred tax assets	421	
Total current assets	263,321	174,902
Land, building and equipment, net	30,700	14,333
Goodwill	699,333	458,313
Other intangible assets, net	220,040	92,350
Other long-term assets	21,680	17,314
Total assets	$ 1,235,074	$ 757,212
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and obligations under capital leases	$ 3,953	$ 27,711
Accounts payable	27,768	17,347
Accrued expenses	52,674	60,153
Current portion of accrued business combination costs	14,810	17,027
Deferred maintenance revenue	63,269	13,298
Unearned revenue and customer deposits	30,320	10,822
Deferred acquisition payments, net	19,254	16,414
Total current liabilities	212,048	162,772
Long-term debt and obligations under capital leases, net of current portion	349,990	35
Accrued business combination costs, net of current portion	45,255	54,972
Deferred maintenance revenue, net of current portion	9,800	291
Deferred tax liability	19,926	4,241
Deferred acquisition payments, net Phonetic		16,266
Other liabilities	21,459	3,970

Total liabilities	658,478	242,547
Commitments and contingencies		
Stockholders equity:		
Series B preferred stock, $0.001 par value; 40,000,000 shares authorized; 3,562,238 shares issued and outstanding (liquidation preference $4,631)	4,631	4,631
Common stock, $0.001 par value; 280,000,000 shares authorized; 173,182,430 and 159,431,907 shares issued and 170,152,247 and 156,585,046 shares outstanding, respectively	174	160
Additional paid-in capital	773,120	699,427
Treasury stock, at cost (3,030,183 and 2,846,861 shares, respectively)	(12,859)	(11,432)
Deferred compensation		(8,782)
Accumulated other comprehensive income (loss)	1,656	(2,100)
Accumulated deficit	(190,126)	(167,239)
Total stockholders equity	576,596	514,665
Total liabilities and stockholders equity	$ 1,235,074	$ 757,212

The accompanying notes are an integral part of these consolidated financial statements.

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended September 30, 2006	Year Ended September 30, 2005	Nine Months Ended September 30, 2004
	(In thousands, except per share amounts)		
Revenue:			
Product and licensing	$ 235,825	$ 171,200	$ 98,262
Professional services, subscription and hosting	81,320	47,308	25,358
Maintenance and support	71,365	13,880	7,287
Total revenue	388,510	232,388	130,907
Costs and Expenses:			
Cost of revenue:			
Cost of product and licensing	31,394	20,378	10,348
Cost of professional services, subscription and hosting	59,015	34,737	20,456
Cost of maintenance and support	17,723	4,938	2,559
Cost of revenue from amortization of intangible assets	12,911	9,150	8,431
Total cost of revenue	121,043	69,203	41,794
Gross margin	267,467	163,185	89,113
Operating expenses:			
Research and development	59,403	39,190	26,390
Sales and marketing	128,412	78,797	49,554
General and administrative	55,343	31,959	18,394
Amortization of other intangible assets	17,172	3,984	1,967
Restructuring and other charges (credits), net	(1,233)	7,223	801
Total operating expenses	259,097	161,153	97,106
Income (loss) from operations	8,370	2,032	(7,993)
Other income (expense):			
Interest income	3,305	1,244	429
Interest expense	(17,614)	(1,644)	(340)
Other (expense) income, net	(1,132)	(237)	(141)
Income (loss) before income taxes	(7,071)	1,395	(8,045)
Provision for income taxes	15,144	6,812	1,333
Loss before cumulative effect of accounting change	(22,215)	(5,417)	(9,378)
Cumulative effect of accounting change	672		

Net loss	$	(22,887)	$	(5,417)	$	(9,378)
Basic and diluted earnings per share:						
Loss before cumulative effect of accounting change	$	(0.13)	$	(0.05)	$	(0.09)
Cumulative effect of accounting change		(0.01)				
Net loss per share	$	(0.14)	$	(0.05)	$	(0.09)
Weighted average common shares outstanding:						
Basic and diluted		163,873		109,540		103,780

The accompanying notes are an integral part of these consolidated financial statements.

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME/(LOSS)

Preferred Stock		Common Stock		Additional Paid-In	Treasury Stock		Deferred	Accumulated Other Comprehensive Income	Accumulated S
Shares	Amount	Shares	Amount	Capital	Shares	Amount	Compensation	(Loss)	Deficit
n thousands, except share amounts)									
3,562,238	$ 4,631	105,327,485	$ 105	$ 464,350	2,735,466	$ (10,925)	$ (1,743)	$ (748)	$ (152,444)
		2,570,697	3	6,221					
		706,504	1	5,253	4,000		(5,254)		
				382					
							1,532		
					32,041	(146)			
									(9,378)
								(140)	
								45	
3,562,238	4,631	108,604,686	109	476,206	2,771,507	(11,071)	(5,465)	(843)	(161,822)
		2,040,339	2	6,085					
		449,437		1,671					
				370					

		1,544,228	2	6,498					
		28,760,031	29	132,609			(4,218)		
		17,688,679	18	73,893					
		344,507		2,095			(2,095)		
							2,996		
					75,354	(361)			
									(5,417)
								98	
								(1,355)	
3,562,238	$ 4,631	159,431,907	160	699,427	2,846,861	(11,432)	(8,782)	(2,100)	(167,239)
		8,002,211	8	31,163					
		1,194,958	1						
		(43,680)		(392)					
		9,700		59					
		4,587,334	5	27,519					

				13,757			8,782		
				1,726					
					183,322	(1,427)			
				(139)					
									(22,887)
								42	
								(570)	
								4,284	
3,562,238	$ 4,631	173,182,430	$ 174	$ 773,120	3,030,183	$ (12,859)	$	$ 1,656	$ (190,126)

The accompanying notes are an integral part of these consolidated financial statements.

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30, 2006	Year Ended September 30, 2005	Nine Months Ended September 30, 2004
		(In thousands)	
Cash flows from operating activities			
Net loss	$ (22,887)	$ (5,417)	$ (9,378)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation of property and equipment	8,366	5,019	2,919
Amortization of other intangible assets	30,083	13,134	10,399
Accounts receivable allowances	1,407	1,516	1,285
Non-cash portion of restructuring charges	1,233	212	395
Share-based payments, including cumulative effect of accounting change	22,539	2,996	1,301
Foreign exchange gain (loss)		(874)	113
Non-cash interest expense	3,862	1,006	199
Deferred tax provision	8,811	2,962	859
Normalization of rent expense	1,485	357	
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	16,599	(19,832)	4,990
Inventories	(1,781)	646	57
Prepaid expenses and other assets	(5,208)	1,219	(967)
Accounts payable	7,534	6,687	553
Accrued expenses and other liabilities	(12,910)	3,719	(3,710)
Deferred maintenance revenue, unearned revenue and customer deposits	(11,186)	2,848	(2,757)
Net cash provided by operating activities	47,947	16,198	6,258
Cash flows from investing activities			
Capital expenditures for property and equipment	(8,447)	(4,598)	(3,281)
Proceeds from sale of property and equipment		214	
Payments for acquisitions, net of cash acquired	(392,826)	(61,287)	(734)
Proceeds from maturities of marketable securities	24,159	21,089	260
Purchases of marketable securities			(24,960)
Decrease in restricted cash	11,131		
Net cash used in investing activities	(365,983)	(44,582)	(28,715)
Cash flows from financing activities			

Payments of note payable, capital leases and deferred acquisition payments	(16,667)	(463)	(721)
Proceeds from credit facility, net of issuance costs	346,032		
Payments associated with licensing agreements		(2,800)	(2,800)
Purchase of treasury stock	(1,427)	(361)	(146)
Payments under deferred payment agreement			(410)
Proceeds from issuance of common stock and common stock warrants, net of issuance costs	(139)	73,911	625
Proceeds from issuance of common stock under employee share-based payment plans	30,780	6,190	6,146
Net cash provided by financing activities	358,579	76,477	2,694
Effects of exchange rate changes on cash and cash equivalents	104	631	142
Net (decrease) increase in cash and cash equivalents	40,647	48,724	(19,621)
Cash and cash equivalents at beginning of period	71,687	22,963	42,584
Cash and cash equivalents at end of period	$ 112,334	$ 71,687	$ 22,963

The accompanying notes are an integral part of these consolidated financial statements.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Nuance Communications, Inc. (the Company or Nuance) offers businesses and consumers competitive and value-added speech, dictation and imaging solutions that facilitate the way people access, share, manage and use information in business and daily life. The Company was incorporated in 1992 as Visioneer, Inc. In 1999, the Company changed its name to ScanSoft, Inc., and changed its ticker symbol to SSFT. In October 2005, the Company changed its name to Nuance Communications, Inc. and changed its ticker symbol to NUAN in November 2005.

During fiscal 2004, 2005 and 2006, the Company acquired the following businesses:

June 15, 2004 Telelogue, Inc. (Telelogue);

September 16, 2004 Brand & Groeber Communications GbR (B&G);

December 6, 2004 Rhetorical Systems, Ltd. (Rhetorical);

January 21, 2005 ART Advanced Recognition Technologies, Inc. (ART);

February 1, 2005 Phonetic Systems Ltd. (Phonetic);

May 12, 2005 MedRemote, Inc. (MedRemote);

September 15, 2005 Nuance Communications, Inc. (Former Nuance); and

March 31, 2006 Dictaphone Corporation (Dictaphone).

Each of these acquisitions has been accounted for under the purchase method of accounting and, accordingly, the results of operations from the acquired businesses have been included in the Company s consolidated financial statements since the acquisition dates.

Reclassification: Certain amounts in prior periods consolidated financial statements presented have been reclassified to conform to the current year s presentation. These reclassifications include separate disclosures for (i) acquired unbilled accounts receivable on the consolidated balance sheets, which were previously within accounts receivable ; (ii) deferred maintenance revenue and unearned revenue and customer deposits on the consolidated balance sheets, which were previously combined as deferred revenue ; and (iii) maintenance revenue and the related costs of revenue which were previously combined with professional services, subscription and hosting revenue and the related costs on the consolidated statements of operations.

Change in Fiscal Year: On October 23, 2004 the Company s Board of Directors approved a change in the Company s fiscal year end from December 31 to September 30, effective beginning September 30, 2004. All references in the consolidated financial statements to the period ended September 30, 2004, or fiscal 2004, refers to the nine-month period ended September 30, 2004.

2. Summary of Significant Accounting Policies

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, assumptions and judgments, including those related to revenue recognition; allowance for doubtful accounts and returns; accounting for patent legal defense costs; the costs to complete the development of custom software applications; the valuation of goodwill, other intangible assets and tangible long-lived assets; accounting for acquisitions; share-based payments; the obligation relating to pension and post-retirement benefit plans; interest rate swaps which are characterized as

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

derivative instruments; income tax reserves and valuation allowances; and loss contingencies. The Company bases its estimates on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual amounts could differ significantly from these estimates.

Basis of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated.

Revenue Recognition: The Company recognizes software revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-9 and all related interpretations. Non-software revenue is recognized in accordance with, the Securities and Exchange Commission s Staff Accounting Bulletin (SAB) 104, Revenue Recognition in Financial Statements, and SOP 81-1, Accounting for Performance of Construction Type and Certain Performance Type Contracts. For revenue arrangements with multiple elements outside of the scope of SOP 97-2, the Company accounts for the arrangements in accordance with Emerging Issues Task Force (EITF) Issue 00-21, Revenue Arrangements with Multiple Elements, and allocates an arrangement s fees into separate units accounting based on their relative fair value. In select situations, we sell or license intellectual property in conjunction with, or in place of, embedding our intellectual property in software. In general, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collectibility is probable, and vendor specific objective evidence (VSOE) of fair value exists for any undelivered elements. When contracts contain substantive customer acceptance provisions, revenue and related costs are deferred until such acceptance is obtained. The Company reduces revenue recognized for estimated future returns, price protection and rebates, and certain marketing allowances at the time the related revenue is recorded.

When products are sold through distributors or resellers, title and risk of loss generally passes upon shipment, at which time the transaction is invoiced and payment is due. Shipments to distributors and resellers without right of return are recognized as revenue upon shipment by the Company. Certain distributors and value-added resellers have been granted rights of return for as long as the distributors or resellers hold the inventory. The Company has not analyzed historical returns from these distributors and resellers to estimate future sales returns. As a result, the Company recognizes revenue from sales to these distributors and resellers when the products are sold through to retailers and end-users. Based on reports from distributors and resellers of their inventory balances at the end of each period, the Company records an allowance against accounts receivable and reduces revenue for all inventories subject to return at the sales price.

The Company also makes an estimate of sales returns based on historical experience. In accordance with Statement of Financial Accounting Standards (SFAS) 48, Revenue Recognition When Right of Return Exists, the provision for these estimated returns is recorded as a reduction of revenue and accounts receivable at the time that the related revenue is recorded. If actual returns differ significantly from the Company s estimates, such differences could have a material impact on the Company s results of operations for the period in which the actual returns become known.

Revenue from royalties on sales of the Company s products by original equipment manufacturers (OEMs), where no services are included, is recognized in the quarter earned so long as the Company has been notified by the OEM that such royalties are due, and provided that all other revenue recognition criteria are met.

Revenue from products offered on a subscription and/or hosting basis is recognized in the period the services are provided, based on a fixed minimum fee and/or variable fees based on the volume of activity. Subscription and hosting revenue is recognized as the Company is notified by the customer or through management reports that such revenue is due, provided that all other revenue recognition criteria are met.

When the Company provides maintenance and support services, it recognizes the revenue ratably over the term of the related contracts, typically one to three years. When maintenance and support contracts renew

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

automatically, the Company provides a reserve based on historical experience for contracts expected to be cancelled for non-payment. All known and estimated cancellations are recorded as a reduction to revenue and accounts receivable.

Professional services are generally not considered essential to the functionality of the software and are recognized as revenue when the related services are performed. Professional services revenue is generally recognized based on the percentage-of-completion method in accordance with SOP 81-1. The Company generally determines the percentage-of-completion by comparing the labor hours incurred to date to the estimated total labor hours required to complete the project. The Company considers labor hours to be the most reliable, available measure of progress on these projects. Adjustments to estimates to complete are made in the periods in which facts resulting in a change become known. When the estimate indicates that a loss will be incurred, such loss is recorded in the period identified. Significant judgments and estimates are involved in determining the percent complete of each contract. Different assumptions could yield materially different results. When the Company provides services on a time and materials basis, it recognizes revenue as it performs the services based on actual time incurred.

The Company may sell, under one contract or related contracts, software licenses, professional services, and/or a maintenance and support arrangement. The total contract value is attributed first to the undelivered elements based on VSOE of their fair value. VSOE is established by the price charged when that element is sold separately. The remainder of the contract value is attributed to the delivered elements, typically software licenses, which are typically recognized as revenue upon delivery, provided all other revenue recognition criteria are met. When the Company provides professional services considered essential to the functionality of the software, such as custom application development for a fixed fee, it recognizes revenue from the services as well as any related software licenses on a percentage-of-completion basis.

The Company follows the guidance of EITF 01-09, Accounting for Consideration Given by a Vendor (Including a Reseller of the Vendor s Products), and records consideration given to a reseller as a reduction of revenue to the extent the Company has recorded cumulative revenue from the customer or reseller. However, when the Company receives an identifiable benefit in exchange for the consideration and can reasonably estimate the fair value of the benefit received, the consideration is recorded as an operating expense.

The Company follows the guidance of EITF 01-14, Income Statement Characterization of Reimbursements for Out-of-Pocket Expenses Incurred, and records reimbursements received for out- of-pocket expenses as revenue, with offsetting costs recorded as cost of revenue. Out-of-pocket expenses generally include, but are not limited to, expenses related to transportation, lodging and meals.

The Company follows the guidance of EITF 00-10, Accounting for Shipping and Handling Fees and Costs, and records shipping and handling costs billed to customers as revenue with offsetting costs recorded as cost of revenue.

Cash and Cash Equivalents: Cash and cash equivalents consists of cash on hand, including money market funds and commercial paper with original maturities of 90 days or less.

Allowance against Accounts Receivables: The Company maintains an allowance for doubtful accounts for the estimated probable losses on uncollectible accounts receivable. The allowance is based upon the credit worthiness of its customers, its historical experience, the age of the receivable and current market and economic conditions. Receivables are written off against these reserves in the period they are determined to be uncollectible. For sell-through arrangements with certain distributors or resellers for whom the Company does not have history, the Company maintains an allowance against accounts receivable for all product subject to return at the sales price. The allowance is recorded based upon ending product balance held by these distributors or resellers at the end of each period and receivables are written off against these reserves in the period the product is returned. The Company also maintains an allowance for sales returns from customers for

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

which they have historical experience. The returns allowance is recorded as a reduction in revenue and accounts receivable at the time that the related revenue is recorded and the receivables are written off against the allowance in the period the return is received.

Inventories: Inventories are stated at the lower of cost, computed using the first-in, first-out method, or market. The Company regularly reviews inventory quantities on hand and records a provision for excess and/or obsolete inventory primarily based on future purchase commitments with its suppliers, and the estimated utility of its inventory as well as other factors including technological changes and new product development.

Land, Building and Equipment: Land, building and equipment are stated at cost. Building and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Computer software developed or obtained for internal use is accounted for under SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and is depreciated over the estimated useful life of the software, generally five years or less. Depreciation is computed using the straight-line method. Significant improvements are capitalized and repairs and maintenance costs are expensed as incurred. The cost and related accumulated depreciation of sold or retired assets are removed from the accounts and any gain or loss is included in operations.

Goodwill and Other Intangible Assets: The Company has significant long-lived tangible and intangible assets, including goodwill and intangible asset with indefinite lives, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The most significant long-lived tangible and other intangible assets are fixed assets, patents and core technology, completed technology, customer relationships and trademarks. All finite-lived intangible assets are amortized based upon patterns in which the economic benefits of such assets are expected to be utilized. The values of intangible assets, with the exception of goodwill and intangible assets with indefinite lives, were initially determined by a risk-adjusted, discounted cash flow approach. The Company assesses the potential impairment of identifiable intangible assets and fixed assets whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Factors it considers 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 the Company s overall business;
- significant negative industry or economic trends;
- significant decline in the Company s stock price for a sustained period; and
- a decline in the Company s market capitalization below net book value.

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

In accordance with SFAS 142, Goodwill and Other Intangible Assets, goodwill and intangible assets with indefinite lives are tested for impairment on an annual basis as of July 1, and between annual tests if indicators of potential impairment exist. The impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill and intangible assets with indefinite lives, to assess whether impairment is present. The Company has reviewed the provisions of SFAS 142 with respect to the criteria necessary to evaluate the number of reporting units that exist. Based on its review, the Company has determined that it operates in one reporting unit. Based on this assessment, the Company has not had any impairment charges during its history as a result of its impairment evaluation of goodwill and other indefinite-lived intangible assets under SFAS 142.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company periodically reviews long-lived assets 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 value for the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. No impairment charges were taken in fiscal 2006, 2005 or 2004, based on the review of long-lived assets under SFAS 144.

Significant judgments and estimates are involved in determining the useful lives and amortization patterns of long-lived assets, determining what reporting units exist and assessing when events or circumstances would require an interim impairment analysis of goodwill or other long-lived assets to be performed. Changes in the organization or the Company s 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) additional reporting units, 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 the consolidated financial statements through accelerated amortization and/or impairment charges (Notes 7 and 8).

Research and Development Costs: Internal costs relating to research and development costs incurred for new software products and enhancements to existing products, other than certain software development costs that qualify for capitalization, are expensed as incurred. Software development costs incurred subsequent to the establishment of technological feasibility, but prior to the general release of the product, are capitalized and amortized to cost of revenue over the estimated useful life of the related products. The Company has determined that technological feasibility for its software products is reached shortly before the products are released to manufacturing. Costs incurred after technological feasibility is established have not been material, and accordingly, the Company has expensed the internal costs relating to research and development when incurred.

Purchased Computer Software: The cost of purchased computer software to be sold, leased, or otherwise marketed is capitalized if the purchased software has an alternative future use. Otherwise, the cost is expensed as incurred. Capitalized purchased computer software is amortized to cost of revenue over the estimated useful life of the related products. At each balance sheet date, the Company evaluates these assets for impairment by comparing the unamortized cost to the net realizable value. Amortization expense was $5.1 million, $2.1 million and $1.6 million for fiscal 2006, 2005 and 2004, respectively. Included in the fiscal 2006 amortization expense was an additional $2.6 million of expense representing an impairment determined to exist in order to value the purchased computer software at its net realizable value (see Note 8 for additional information). The net unamortized purchased computer software included in other intangible assets at September 30, 2006 and 2005 were $1.6 million and $5.2 million, respectively.

Capitalized Patent Defense Costs: The Company monitors the anticipated outcome of legal actions, and if it determines that the success of the defense of a patent is probable, and so long as the Company believes that the future economic benefit of the patent will be increased, the Company capitalizes external legal costs incurred in the defense of these patents, up to the level of the expected increased future economic benefit. If changes in the anticipated outcome occur, the Company writes off any capitalized costs in the period the change is determined. As of September 30, 2006 and 2005, capitalized patent defense costs totaled $6.4 million and $2.3 million, respectively.

Advertising Costs: Advertising costs are expensed as incurred and are classified as sales and marketing expenses. Cooperative advertising programs reimburse customers for marketing activities for certain of the Company s products, subject to defined criteria. Cooperative advertising obligations are accrued and the costs expensed at the same time the related revenue is recognized. Cooperative advertising expenses are recorded as

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expense to the extent that an advertising benefit separate from the revenue transaction can be identified and the cash paid does not exceed the fair value of that advertising benefit received. Any excess of cash paid over the fair value of the advertising benefit received is recorded as a reduction in revenue. The Company incurred advertising costs of $16.4 million, $11.4 million and $7.4 million for fiscal 2006, 2005 and 2004, respectively.

Income Taxes: Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company does not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries, which the Company considers to be indefinitely reinvested outside of the U.S. in accordance with Accounting Principles Board (APB) Opinion 23, Accounting for Income Taxes Special Areas.

The Company makes judgments regarding the realizability of its deferred tax assets. In accordance with SFAS 109, Accounting for Income Taxes, the carrying value of the net deferred tax assets is based on the belief that it is more likely than not that the Company will generate sufficient future taxable income to realize these deferred tax assets after consideration of all available evidence. The Company regularly reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, and the expected timing of the reversals of existing temporary differences and tax planning strategies.

Valuation allowances have been established for U.S. deferred tax assets, which the Company believes do not meet the more likely than not criteria established by SFAS 109. If the Company is subsequently able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been established, then the Company may be required to recognize these deferred tax assets through the reduction of the valuation allowance which would result in a material benefit to its results of operations in the period in which the benefit is determined, excluding the recognition of the portion of the valuation allowance which relates to net deferred tax assets acquired in a business combination and created as a result of share-based payments. The recognition of the portion of the valuation allowance which relates to net deferred tax assets resulting from share-based payments will be recorded as additional paid-in-capital; the recognition of the portion of the valuation allowance which relates to net deferred tax assets acquired in a business combination will reduce goodwill, other intangible assets, and to the extent remaining, the provision for income taxes.

Comprehensive Income (Loss): Total comprehensive loss, net of taxes, was approximately $19.1 million, $6.7 million and $9.5 million for fiscal 2006, 2005 and 2004, respectively. Comprehensive loss consists of net loss and other comprehensive income (loss), which includes current period foreign currency translation adjustments, unrealized gains (losses) related to derivatives reported as cash flow hedges, and unrealized gains (losses) on marketable securities. For the purposes of comprehensive income (loss) disclosures, the Company does not record tax provisions or benefits for the net changes in the foreign currency translation adjustment, as the Company intends to reinvest undistributed earnings in its foreign subsidiaries permanently.

The components of accumulated other comprehensive income (loss), reflected in the Consolidated Statements of Stockholders Equity and Comprehensive Income (Loss), consisted of the following (in thousands):

	2006	2005	2004
Unrealized losses on cash flow hedge derivatives	$ (570)	$	$

Unrealized losses on marketable securities		(42)	(140)
Cumulative foreign currency translation adjustments	2,226	(2,058)	(703)
	$ 1,656	$ (2,100)	$ (843)

Concentration of Risk: Financial instruments that potentially subject the Company to significant concentrations of credit risk principally consist of cash, cash equivalents, and trade accounts receivable. The Company places its cash and cash equivalents with financial institutions with high credit ratings. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company performs credit evaluations of its customers financial condition and does not require collateral, since management does not anticipate nonperformance of payment. The Company also maintains reserves for potential credit losses and such losses have been within management s expectations. At September 30, 2006 and 2005, no customer represented greater than 10% of the Company s net accounts receivable balance.

Fair Value of Financial Instruments: Financial instruments include cash equivalents, marketable securities, accounts receivable, long-term debt and cash flow hedge derivative instruments and are carried in the financial statements at amounts that approximate their fair value.

Foreign Currency Translation: The Company transacts business in various foreign currencies. In general, the functional currency of a foreign operation is the local country s currency. Non-functional currency monetary balances are remeasured into the functional currency of the subsidiary with any related gain or loss recorded in other income (expense), net, in the accompanying consolidated statements of operations. Assets and liabilities of operations outside the United States, for which the functional currency is the local currency, are translated into United States dollars using period-end exchange rates. Revenue and expenses are translated at the average exchange rates in effect during each fiscal month during the year. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

Financial Instruments and Hedging Activities: The Company follows the requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments. To achieve hedge accounting, the criteria specified in SFAS 133, must be met, including (i) ensuring at the inception of the hedge that formal documentation exists for both the hedging relationship and the entity s risk management objective and strategy for undertaking the hedge and (ii) at the inception of the hedge and on an ongoing basis, the hedging relationship is expected to be highly effective in achieving offsetting changes in fair value attributed to the hedged risk during the period that the hedge is designated. Further, an assessment of effectiveness is required whenever financial statements or earnings are reported. Absent meeting these criteria, changes in fair value are recognized currently in other expense, net of tax, in the income statement. Once the underlying forecasted transaction is realized, the gain or loss from the derivative designated as a hedge of the transaction is reclassified from accumulated other comprehensive income to the income statement, in the related revenue or expense caption, as appropriate. Any ineffective portion of the derivatives designated as cash flow hedges is recognized in current earnings. As of September 30, 2006, there was a $100 million interest rate swap (the Swap) outstanding. The Swap was entered into in conjunction with the term loan on March 31, 2006. The Swap was designated as a cash flow hedge, and changes in the fair value of this cash flow hedge derivative are recorded in stockholders equity as a component of accumulated other comprehensive income (loss).

Accounting for Long-Term Facility Obligations: The Company has historically acquired companies who have previously established restructuring charges relating to lease exit costs, and has recorded restructuring charges of its own that include lease exit costs. The Company follows the provisions of EITF 95-3 Recognition of Liabilities in Connection with a Purchase Business Combination or SFAS 146 Accounting for Costs Associated with Exit or Disposal Activities, as applicable. In accounting for these obligations, the Company is required to make assumptions relating to the time period over which the facility will remain vacant, sublease terms, sublease rates and discount rates. The Company bases its estimates and assumptions on the best information available at the time of the obligation having arisen. These estimates are reviewed and revised as facts and circumstances dictate. Changes in these estimates could have a material effect on the amount accrued on the balance sheet.

Accounting for Share-Based Payments: Effective October 1, 2005, the Company accounts for share-based payments in accordance with SFAS 123(R), Share-Based Payment (SFAS 123R). Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period which is

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

generally the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected dividends, share price volatility and the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, share-based compensation expense and our results of operations could be materially impacted. Prior to the adoption of SFAS 123(R), the Company applied Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, to account for its share-based payments. See Note 16 for additional information related to share-based payments.

SFAS 123R requires the presentation of pro forma information for the comparative periods prior to the adoption, as if the Company had accounted for all its employee share-based payments under the fair value method of the original SFAS 123. No amounts relating to the share-based payments have been capitalized. The following table illustrates the pro forma effect on net income (loss) and earnings per share (in thousands, except per-share data):

	Fiscal 2005	Fiscal 2004
Net loss, as reported	$ (5,417)	$ (9,378)
Add: employee stock-based compensation included in reported net income	2,996	1,532
Less: employee stock-based compensation under SFAS 123	(9,056)	(9,157)
Net loss, pro forma	$ (11,477)	$ (17,003)
Net loss per share:		
Basic and diluted, as reported	$ (0.05)	$ (0.09)
Basic and diluted, pro forma	$ (0.10)	$ (0.16)

The fair value of the stock options granted was estimated on the dates of grant using the Black-Scholes model with the following weighted-average assumptions:

	2005	2004
Dividend yield	0.0%	0.0%
Expected volatility	54.1%	75.7%
Average risk-free interest rate	3.9%	2.6%
Expected term (in years)	3.6	3.5

The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. Expected volatility is based on the historical volatility of the Company s common stock over the period commensurate with the expected life of the options and the historical implied volatility from traded options with a term of 180 days or greater. The risk-free interest rate is derived from the average U.S. Treasury STRIPS rate during the period, which approximates the rate in effect at the time of grant, commensurate with the expected life of the instrument. During fiscal 2005 and 2004, the Company estimated the expected life based on the historical exercise behavior.

Net Income (Loss) Per Share: The Company computes net income (loss) per share under the provisions of SFAS 128, Earnings per Share, and EITF 03-06, Participating Securities and Two Class Method under FASB Statement No. 128, Earnings per Share. Accordingly, basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period.

Diluted net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period plus the dilutive

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

effect of common equivalent shares, which include outstanding stock options, warrants, unvested shares of restricted stock using the treasury stock method and the convertible debenture using the as converted method. Common equivalent shares are excluded from the computation of diluted net income (loss) per share if their effect is anti-dilutive. Potentially dilutive common equivalent shares aggregating 19,250,475 for fiscal 2006, 13,133,936 for fiscal 2005 and 12,807,361 for fiscal 2004, have been excluded from the computation of diluted net income (loss) per share because their inclusion would be anti-dilutive.

Recently Issued Accounting Standards: In September 2006, the FASB issued SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements 87, 88, 106 and 132(R) (SFAS 158). SFAS 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires the measurement of defined benefit plan assets and obligations as of the date of the employer s fiscal year-end statement of financial position (with limited exceptions). Under SFAS 158, the Company will be required to recognize the funded status of its defined benefit postretirement plan and to provide the required disclosures commencing as of September 30, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end is effective for the Company s fiscal year ended September 30, 2009. The Company is currently evaluating the impact that SFAS 158 will have on its consolidated financial statements.

In September 2006, the United States Securities and Exchange Commission (SEC) issued SAB 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. This SAB provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of each of the company s financial statements and the related financial statement disclosures. SAB 108 permits existing public companies to record the cumulative effect of initially applying this approach in the first year ending after November 15, 2006 by recording the necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. Additionally, the use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company does not anticipate that SAB 108 will have a material impact on its financial statements.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS 109, Accounting for Income Taxes . FIN 48 prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for the Company s fiscal year beginning October 1, 2007. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated financial statements.

In March 2006, the FASB issued EITF 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation) that clarifies how a company discloses its recording of taxes collected that are imposed on revenue-producing activities. EITF 06-03 is effective for the first interim reporting period beginning after December 15, 2006, and thus the Company is required to adopt this standard as of January 1, 2007, in the second quarter of its fiscal year 2007. The Company is evaluating the impact, if any, that EITF 06-03 may have on its consolidated financial statements.

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In February 2006, the FASB issued SFAS 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities and SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006 and is therefore required to be adopted by the Company as of October 1, 2006. The Company does not anticipate the adoption of SFAS 155 will have any impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections, which replaces APB 20, Accounting Changes, and SFAS 3, Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is therefore required to be adopted by the Company as of October 1, 2006. To the extent the Company makes any accounting changes or error correction in future periods, the adoption of SFAS 154 could have a material impact on its consolidated financial statements.

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Business Acquisitions

Acquisition of Dictaphone Corporation (Dictaphone)

On March 31, 2006, the Company acquired all of the outstanding capital stock of Dictaphone Corporation (Dictaphone), a leading healthcare information technology company, for approximately $365.0 million in cash, including approximately $5.7 million in estimated transaction costs. The Company acquired Dictaphone to expand its product portfolio, market reach and revenue streams in the healthcare markets. The acquisition has been accounted for under the purchase method of accounting, and the results of operations of the acquired business have been included in the consolidated financial statements of the Company since the date of acquisition. The Company is currently finalizing the valuation of the assets acquired and liabilities assumed; therefore, the fair values set forth below are subject to adjustment as additional information is obtained. The following table summarizes the preliminary allocation of the purchase price (in thousands):

Total purchase consideration:	
Cash	$ 359,240
Estimated transaction costs	5,716
Total purchase consideration	$ 364,956
Preliminary allocation of the purchase consideration:	
Cash	$ 7,742
Accounts receivables, net	32,060
Acquired unbilled accounts receivable	46,855
Inventories	2,940
Other current assets	4,358
Property and equipment	13,899
Other assets	4,587
Identifiable intangible assets	155,760
Goodwill	239,174
Total assets acquired	507,375
Accounts payable and accrued expenses	(31,804)
Accrued business combination costs	(2,719)
Deferred revenue	(43,731)
Unearned revenue and customer deposits	(42,275)
Deferred income tax liabilities	(13,161)
Pension, postretirement and other liabilities	(8,729)
Total liabilities assumed	(142,419)
Net assets acquired	$ 364,956

In accordance with EITF 95-3, the Company has commenced integration activities which on a preliminary basis have resulted in recognizing $1.8 in liabilities for employee termination benefits which will be paid through fiscal 2007 and $0.9 million for the remaining contractual obligations associated with the elimination of duplicate facilities.

The Company is also committed to pay $1.2 million in severance and related one-time payments to former employees of Dictaphone so long as they remain with the Company through specified dates in fiscal

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2007. These $1.2 million in payments are not accrued as of September 30, 2006, as they relate to future performance obligations of these employees.

Approximately $26.0 million of the $239.2 million of goodwill will be deductible for income tax purposes. Customer relationships are amortized based upon patterns in which the economic benefits of customer relationships are expected to be utilized. Other finite-lived identifiable intangible assets are amortized on a straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Amount	Weighted Average Life (In years)
Customer relationships	$ 105,800	10.0
Existing technology	21,500	6.6
Trade name, subject to amortization	660	4.5
Subtotal	127,960	
Trade name, indefinite life	27,800	n/a
Total	$ 155,760	

Acquisition of Nuance Communications, Inc. (Former Nuance)

On September 15, 2005, the Company acquired all of the outstanding capital stock of Former Nuance, a Company that provides software that enables enterprises and telecommunications carriers to automate the delivery of information and services over the telephone, for approximately $224.4 million. With the acquisition of Former Nuance, the Company enhanced its portfolio of technologies, applications and services for call center automation, customer self service and directory assistance.

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The total purchase price included the issuance of 28,760,031 shares of common stock valued at $117.9 million, cash consideration of $82.2 million, assumed stock options valued at $14.7 million, and transaction costs of $9.6 million. The merger is a non-taxable event and has been accounted for under the purchase method of accounting. The results of operations of the acquired business have been included in the financial statements of the Company since the date of acquisition. The following table summarizes the final allocation of the purchase price (in thousands):

Total purchase consideration:	
Common stock issued	$ 117,916
Cash	82,172
Value of options to purchase common stock assumed	14,721
Transaction costs	9,571
Total purchase consideration	$ 224,380
Allocation of the purchase consideration:	
Cash	$ 58,066
Short-term investments	20,362
Other current assets	12,065
Property and equipment	2,872
Other assets	14,848
Identifiable intangible assets	41,740
Goodwill	146,717
Total assets acquired	296,670
Deferred compensation for stock options assumed	4,218
Accounts payable and accrued expenses	(5,981)
Current portion of accrued facility leases	(12,699)
Accrued acquisition-related fees	(7,083)
Deferred revenue	(8,400)
Long-term facility leases, net of current portion	(42,057)
Other long-term liabilities	(288)
Total liabilities assumed	(72,290)
Net assets acquired	$ 224,380

In connection with the acquisition of Former Nuance, the Company conducted integration activities which resulted in recognizing liabilities of $1.4 million for lease obligations, and $2.6 million relating to employee termination benefits employee and other contractual obligations. The Company has also assumed obligations relating to a leased facility with lease term set to expire in 2012 which was abandoned by Former Nuance prior to the acquisition date. The fair value of the obligations, net of estimated sublease income, totaling $53.4 million was recognized as assumed liability at date of acquisition. The payment of the lease obligations is discussed in Note 12. Substantially all of the employee-related costs were paid as of September 30, 2006.

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Customer relationships are amortized based upon patterns in which the economic benefits of customer relationships are expected to be utilized. Other finite-lived identifiable intangible assets are amortized on a straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Amount	Weighted Average Life (In years)
Core technology	$ 17,880	8.0
Completed technology	2,230	4.0
Customer relationships	19,430	6.0
Tradename	2,200	7.0
	$ 41,740	

Acquisition of MedRemote, Inc. (MedRemote)

On May 12, 2005, the Company acquired all of the outstanding capital stock of MedRemote, a Company that provides Web-based transcription processing and workflow systems that leverage speech recognition and integrate with existing healthcare information systems, for approximately $13.7 million. The purchase price consisted of $7.2 million in cash including transaction costs, and 1,544,309 shares of common stock valued at $6.5 million. The merger is a non-taxable event and has been accounted for under the purchase method of accounting. The results of operations of the acquired business have been included in the consolidated financial statements of the Company since the date of acquisition. The following table summarizes the final allocation of the purchase price (in thousands):

Total purchase consideration:	
Common stock issued	$ 6,500
Cash	6,569
Transaction costs	678
Total purchase consideration	$ 13,747
Allocation of the purchase consideration:	
Current assets	$ 2,301
Property and equipment	67
Identifiable intangible assets	2,520
Goodwill	9,342
Total assets acquired	14,230

Total liabilities assumed	(483)
Net assets acquired	$ 13,747

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Customer relationships are amortized based upon patterns in which the economic benefits of customer relationships are expected to be utilized. Other finite-lived identifiable intangible assets are amortized on a straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Amount	Weighted Average Life (In years)
Core and completed technology	$ 1,090	7.0
Customer relationships	1,370	7.1
Non-compete agreements	60	3.0
	$ 2,520	

Acquisition of Phonetic Systems Ltd. (Phonetic)

On February 1, 2005, the Company acquired all of the outstanding capital stock of Phonetic, an Israeli corporation which develops and markets an automatic telephone information system. Phonetic provided the Company with an array of technology, customer, partner and employee resources to help fuel its growth and accelerate its deployment of high quality speech applications throughout the world.

The total purchase price of approximately $36.1 million included an initial payment of $17.5 million paid at closing, a deferred payment of $17.5 million due in February 2007, cash paid out related to the proceeds from the employees issuance of stock options totaling $0.4 million, transaction costs of $2.5 million, and the fair value of warrants issued for the purchase of up to 750,000 shares of the Company s common stock. The present value of the deferred payment of $17.5 million is included in current liabilities in the Consolidated Balance Sheet and is being accreted to the stated amount through the payment date. The merger was a taxable event and has been accounted for under the purchase method of accounting. The results of operations of the acquired business have been included in the consolidated financial statements of the Company since the date of acquisition. The following table summarizes the final allocation of the purchase price (in thousands):

Total purchase consideration:	
Cash, including deferred payment obligation at net present value	$ 33,293
Warrants issued at fair value	370
Transaction costs	2,451
Total purchase consideration	$ 36,114
Allocation of the purchase consideration:	

Current assets	$ 1,904
Property and equipment	1,248
Other assets	70
Identifiable intangible assets	6,570
Goodwill	35,515
Total assets acquired	45,307
Current liabilities	(7,699)
Long-term liabilities	(1,494)
Total liabilities assumed	(9,193)
Net assets acquired	$ 36,114

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the agreement, the Company agreed to make maximum additional payments of $35.0 million in contingent purchase price upon achievement of certain established financial targets through December 31, 2007. On June 1, 2006, the Company notified the former shareholders of Phonetic that the performance targets for the first schedule payment of up to $12.0 million were not achieved. The former shareholders of Phonetic have objected to this determination. The Company and the former shareholders of Phonetic are in the early stages of discussing this matter. Additional payments, if any, related to this contingency will be accounted for as additional goodwill.

In connection with the acquisition of Phonetic, the Company closed a facility in Israel and recognized $0.7 million in liabilities at the date of acquisition for the remaining contractual obligations associated with the closed facility in accordance with EITF 95-3.

Customer relationships are amortized based upon patterns in which the economic benefits of customer relationships are expected to be utilized. Other finite-lived identifiable intangible assets are amortized on a straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Amount	Weighted Average Life (In years)
Core and completed technology	$ 2,150	9.5
Customer relationships	3,950	7.9
Non-compete agreements	470	5.0
	$ 6,570	

Acquisition of ART Advanced Recognition Technologies, Inc. (ART)

On January 21, 2005, the Company acquired all of the outstanding capital stock of ART, a company which designs, develops and sells speech and handwriting recognition software products. With the acquisition of ART, the Company expanded its portfolio of embedded speech solutions to include a deep set of resources, expertise and relationships with the world s leading mobile device manufacturers and service providers. ART specializes in applications that create voice-based, conversational interfaces that enable users to dial by voice and manage and access their contacts for mobile devices.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The total purchase price of approximately $27.7 million consisted of first cash installment payment of $10.0 million paid at closing, a deferred payment of $16.4 million to be paid in December 2005 plus interest of 4%, and $1.3 million of transaction costs. During fiscal 2006, the Company paid $14.4 million of the deferred payment. As of September 30, 2006, the Company still had an outstanding purchase price payment of $2.0 million which represents proceeds withheld by the Company to satisfy claims against the former ART shareholders under the purchase agreement. Subsequent to September 30, 2006, the Company agreed to pay the former ART shareholders $1.0 million and retained the remaining amount in full satisfaction of the claims made against the former ART shareholders and will be used by the Company, if necessary, to satisfy the liabilities that formed the basis of the claims against the former ART shareholders. The merger was a taxable event and has been accounted under the purchase method of accounting. The results of operations of the acquired business have been included in the consolidated financial statements of the Company since the date of acquisition. The following table summarizes the final allocation of the purchase price (in thousands):

Total purchase consideration:	
Cash	$ 26,414
Transaction costs	1,306
Total purchase consideration	$ 27,720
Allocation of the purchase consideration:	
Current assets	$ 5,546
Property and equipment	769
Other assets	486
Identifiable intangible assets	9,380
Goodwill	19,064
Total assets acquired	35,245
Current liabilities	(3,234)
Long-term liabilities	(4,291)
Total liabilities assumed	(7,525)
Net assets acquired	$ 27,720

Customer relationships are amortized based upon patterns in which the economic benefits of customer relationships are expected to be utilized. Other finite-lived identifiable intangible assets are amortized on a straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

Weighted

	Amount	Average Life (In years)
Core and completed technology	$ 5,150	6.9
Customer relationships	4,210	8.0
Non-compete agreements	20	1.0
	$ 9,380	

Acquisition of Rhetorical Systems, Ltd. (Rhetorical)

On December 6, 2004, the Company acquired all of the outstanding capital stock of Rhetorical, a supplier of innovative text-to-speech solutions and tools based in Edinburgh, Scotland. With the acquisition of

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Rhetorical, the Company solidified its position as a leading provider of speech synthesis or text-to-speech solutions for a variety of speech-based applications. The Rhetorical acquisition further differentiates the Company s solutions with a number of techniques, tools, and services that enhance the ability to deliver custom, dynamic voices.

The consideration consisted of 2.8 million Pounds Sterling in cash (valued at $5.4 million using foreign exchange rates as of the date of the acquisition) and 449,437 shares of the Company s common stock valued at $1.7 million. The acquisition is a taxable event and has been accounted for under the purchase method of accounting. The results of operations of the acquired business have been included in the consolidated financial statements of the Company since the date of acquisition. The following table summarizes the final allocation of the purchase price (in thousands):

Total purchase consideration:	
Cash	$ 5,360
Common stock issued	1,672
Transaction costs	1,091
Total purchase consideration	$ 8,123
Allocation of the purchase consideration:	
Current assets	$ 824
Property and equipment	153
Identifiable intangible assets	1,310
Goodwill	9,300
Total assets acquired	11,587
Current liabilities	(2,518)
Long-term liabilities	(946)
Total liabilities assumed	(3,464)
Net assets acquired	$ 8,123

In connection with the acquisition of Rhetorical, the Company closed a facility in Edinburgh, Scotland and recognized $1.3 million in liabilities at date of acquisition for the remaining contractual obligations associated with the closed facility in accordance with EITF 95-3.

Customer relationships are amortized based upon patterns in which the economic benefits of customer relationships are expected to be utilized. Other finite-lived identifiable intangible assets are amortized on a straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Amount	Weighted Average Life (In years)
Core and completed technology	$ 490	10.0
Customer relationships Maintenance	690	8.0
Customer relationships License and Professional Services	100	0.3
Non-compete agreements	30	1.0
	$ 1,310	

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquisition of Brand & Groeber Communications GbR (B&G)

On September 16, 2004, the Company acquired all of the outstanding capital stock of B&G, to expand its intellectual property portfolio relating to embedded speech synthesis technology. B&G s embedded speech application makes mobile phones accessible to the visually impaired. Many of the application s standard features, like email reading, have broad applicability for all types of users where eyes-free use of mobile devices is important, like in the automobile. The total purchase price of approximately $0.6 million consisted of cash consideration of $0.5 million and transaction costs of $0.1 million. Under the agreement, the Company agreed to make maximum additional payments of up to 5.5 million upon achievement of certain established financial targets. From the date of acquisition through December 31, 2005, 0.4 million was paid based on the attainment of certain performance targets. The remaining 5.1 million (approximately $6.5 million based on the currency exchange rates as of September 30, 2006) may be earned based on the attainment of performance targets for calendar 2006 and, to the extent earned, would be paid in January 2007. Any additional payments related to this contingency will be accounted for as additional goodwill. The acquisition has been accounted for under the purchase method of accounting and was taxable to the shareholders. The results of operations of the acquired business have been included in the financial statements of the Company since the date of acquisition.

Identifiable intangible assets with finite lives are amortized on a straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Amount	Weighted Average Life (In years)
Completed technology	$ 80	5.0
Customer relationships	180	8.0
Trade names and trademarks	20	8.0
	$ 280	

Acquisition of Telelogue, Inc. (Telelogue)

On June 15, 2004, the Company acquired all of the outstanding capital stock of Telelogue, a provider of automated directory assistance applications for telecommunications providers, based in New Jersey. The acquisition of Telelogue enhanced the Company s automated directory assistance portfolio by adding key customer and partner relationships, methodologies in voice user interface, and several patents used in the successful automation of directory automation services.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The total purchase price of approximately $3.3 million included cash consideration equal to $2.2 million, transaction costs of $0.8 million and the assumption of certain obligations of $0.3 million. The merger was a taxable event and had been accounted for under the purchase method of accounting. An additional amount of $2.0 million in contingent consideration was not earned during the period defined in the purchase agreement, and will not become payable. The results of operations of the acquired business have been included in the consolidated financial statements of the Company since the date of acquisition. The following table summarizes the final allocation of the purchase price (in thousands):

Total purchase consideration:	
Cash	$ 2,206
Debt assumed	297
Transaction costs	832
Total purchase consideration	$ 3,335
Allocation of the purchase consideration:	
Current assets	$ 305
Property and equipment	637
Identifiable intangible assets	550
Goodwill	2,923
Total assets acquired	4,415
Current liabilities	(592)
Long-term liabilities	(488)
Total liabilities assumed	(1,080)
Net assets acquired	$ 3,335

Identifiable intangible assets with finite lives are amortized on a straight-line basis. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Amount	Weighted Average Life (In years)
Core technology	$ 220	7.0
Completed technology	90	3.0
Trade names and trademarks	240	4.0

$ 550

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Marketable Securities

The Company accounts for its marketable equity securities in accordance with SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. Investments are classified as available-for-sale and are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (losses), net of tax. Realized gains and losses on sales of short-term and long-term investments have not been material. Marketable securities have been classified as available-for-sale securities as follows (in thousands):

	Cost	Net Unrealized Gains (Losses)	Estimated Fair Value
Balance at September 30, 2005			
U.S. government agencies	$ 7,333	$ 3	$ 7,336
Corporate notes	16,836	(45)	16,791
Total short-term marketable securities	$ 24,169	$ (42)	$ 24,127

As of September 30, 2006, the Company did not have any outstanding marketable securities.

5. Accounts Receivable

Accounts receivable, excluding acquired unbilled accounts receivable, consisted of the following (in thousands):

	September 30, 2006	September 30, 2005
Accounts receivable	$ 116,574	$ 62,212
Unbilled accounts receivable	12,405	17,394
	128,979	79,606
Less allowance for doubtful accounts	(2,100)	(2,995)
Less reserve for distribution and reseller accounts receivable	(9,797)	(5,798)
Less allowance for sales returns	(6,304)	(4,325)
	$ 110,778	$ 66,488

Unbilled accounts receivable primarily relate to product revenue earned under royalty-based arrangements for which billing occurs in the month following receipt of the royalty report, and for professional services revenue earned under percentage of completion contracts that have not yet been billed based on the terms of the specific arrangement.

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Activities in the allowance for doubtful accounts and other sales reserves were as follows (in thousands):

	Allowance for Doubtful accounts	Reserve for Distribution and Reseller	Allowances for Sales Returns
Balance at December 31, 2003	$ 1,439	$ 5,891	$ 2,870
Additions charged to costs and expenses	1,286		
Write-offs, net of recoveries	(243)		
Reductions (additions) made to revenue, net		9	56
Balance at September 30, 2004	2,482	5,900	2,926
Additions charged to costs and expenses	1,310		
Write-offs, net of recoveries	(797)		
Reductions (additions) made to revenue, net		(102)	1,399
Balance at September 30, 2005	2,995	5,798	4,325
Additions charged to costs and expenses	1,407		
Write-offs, net of recoveries	(2,302)		
Reductions (additions) made to revenue, net		3,999	1,979
Balance at September 30, 2006	$ 2,100	$ 9,797	$ 6,304

Acquired unbilled accounts receivable consist of amounts established under the provisions of EITF 01-3 and relate to future expected billings of certain non-cancelable contracts which have been assumed by the Company in connection with its accounting for acquisitions. To the extent that the products or services deliverable under these contracts were not delivered as of the date of the acquisition, and therefore represent an assumed legal performance obligation by the Company. An asset is recorded for payments due from customers, and a related liability for the fair value of undelivered services is included in unearned revenue and customer deposits relating to such future recognizable revenue. As of September 30, 2006 and 2005, the acquired unbilled accounts receivable were approximately $19.7 million and $3.1 million, respectively. The increase is attributable to the acquisition of Dictaphone in March 2006 (Note 3).

6. Inventories, net

Inventories, net of allowances, consisted of the following (in thousands):

	September 30, 2006	September 30, 2005

Components and parts	$	3,249	$	
Inventory at customers		2,317		
Finished products		1,229		313
	$	6,795	$	313

Inventory at customers reflects equipment related to in-process installations of solutions of Dictaphone contracts with customers. These contracts have not been recorded to revenue as of September 30. 2006, and therefore the inventory is on the balance sheet until such time as the contract is recorded to revenue and the inventory will be expensed to cost of sales.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Land, Building and Equipment, Net

Land, building and equipment, net at September 30, 2006 and 2005 were as follows (in thousands):

	Useful Life (In years)	September 30, 2006	September 30, 2005
Land		$ 2,400	$
Building	30	4,800	
Machinery & equipment	3-5	1,605	
Computers, software and equipment	3-5	30,613	21,850
Leasehold improvements	2-10	7,076	4,932
Furniture and fixtures	5	5,217	4,432
Construction in process		3,143	30
Subtotal		54,854	31,244
Less: Accumulated depreciation		(24,154)	(16,911)
Land, building and equipment, net		$ 30,700	$ 14,333

Depreciation expense, associated with building and equipment, for fiscal 2006, 2005 and 2004 was $8.4 million, $5.0 million and $2.9 million, respectively. Construction in progress is related to the capitalization of internal costs associated with various projects relating to financial systems. The projects are expected to cost an additional approximately $3.3 million to complete, and will be placed into service in fiscal 2007.

8. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for fiscal years 2006 and 2005, are as follows (in thousands):

Balance as of September 30, 2004	$ 246,424
Goodwill acquired	218,119
Purchase accounting adjustments	(4,720)
Effect of foreign currency translation	(1,510)
Balance as of September 30, 2005	458,313
Goodwill acquired Dictaphone acquisition	239,174
Purchase accounting adjustments	(2,547)
Effect of foreign currency translation	4,393

Balance as of September 30, 2006	$ 699,333

Goodwill adjustments during fiscal 2006 primarily included $7.9 million of the utilization of acquired deferred tax assets in connection with the acquisition of SpeechWorks, Inc. in 2003 and Former Nuance in 2005 as well as $0.8 million final purchase price allocations in connection with various acquisitions during fiscal 2005. These adjustments were partially offset by the inclusion of an additional $5.8 million of pre-acquisition contingencies due to minimum committed royalties in connection with the acquisitions of ART and Phonetic, and $0.3 million of additional transaction costs.

Goodwill adjustments during fiscal 2005 primarily included $2.8 million and $1.8 million of the utilization of acquired deferred tax assets in connection with the acquisition of Speechworks, Inc. in 2003 and Caere Corporation in 2000, respectively and $0.1 million related to final purchase price allocations in connection with the acquisitions made during fiscal 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible assets consist of the following (in thousands):

	At September 30, 2006			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	$ 147,814	$ 20,721	$ 127,093	8.7
Technology and patents	91,033	30,897	60,136	6.0
Tradenames and trademarks, subject to amortization	8,750	4,092	4,658	5.9
Non-competition agreement	588	235	353	3.3
Subtotal	248,185	55,945	192,240	
Tradename, indefinite life	27,800		27,800	n/a
Total	$ 275,985	$ 55,945	$ 220,040	

	At September 30, 2005			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Customer relationships	$ 41,567	$ 5,701	$ 35,866	5.6
Technology and patents	67,832	16,771	51,061	7.7
Tradenames and trademarks	8,090	3,132	4,958	9.1
Non-competition agreement	557	92	465	4.7
Total	$ 118,046	$ 25,696	$ 92,350	

On March 31, 2003, the Company entered into an agreement with a counter party that grants an exclusive license to the Company to resell the counter party s productivity application. The Company capitalized $11.4 million as completed technology and has amortized the amount to cost of revenue on a straight-line basis over the period of expected use of five years. During the fourth quarter of fiscal 2006, the Company determined it would not make additional investments to support this technology. As a result, the Company revised its cash flow estimates related to the acquired technology and recorded an additional $2.6 million in cost of revenue to write down the purchased technology to its net realizable value at September 30, 2006. Total net book value of the asset was $0.5 million and $5.2 million as of September 30, 2006 and 2005, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization expense for the acquired patents, core and completed technology are included in the cost of revenue from amortization of intangible assets in the accompanying Statements of Operations amounted to $12.9 million, $9.2 million and $8.4 million in fiscal 2006, 2005 and 2004, respectively. Amortization expense included in operating expenses was $17.2 million, $4.0 million and $2.0 million in fiscal 2006, 2005 and 2004, respectively. Estimated amortization expense for each of the five succeeding years as of September 30, 2006, is as follows (in thousands):

Year Ending September 30,	Cost of Revenue	Other Operating Expenses	Total
2007	$ 11,217	$ 20,369	$ 31,586
2008	10,565	18,922	29,487
2009	9,745	17,045	26,790
2010	8,960	14,832	23,792
2011	8,542	13,639	22,181
Thereafter	11,107	47,297	58,404
Total	$ 60,136	$ 132,104	$ 192,240

9. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	September 30, 2006	September 30, 2005
Accrued compensation	$ 21,310	$ 13,911
Accrued sales and marketing incentives	4,454	2,994
Accrued restructuring and other charges	904	5,805
Accrued professional fees	3,823	6,169
Accrued acquisition costs and liabilities	747	18,233
Income taxes payable	3,857	1,525
Accrued other	17,579	11,516
	$ 52,674	$ 60,153

Accrued acquisition costs and liabilities at September 30, 3006 primarily related to the acquisition of Dictaphone on March 31, 2006. Accrued acquisition costs and liabilities at September 30, 2005 included $12.0 million for costs to consummate the acquisition of Former Nuance and $6.2 million payable to shareholders of Former Nuance.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Debt

At September 30, 2006 and 2005, the Company had the following borrowing obligations (in thousands):

	September 30, 2006	September 30, 2005
2006 Credit Facility	$ 353,225	$
2003 0% Convertible Debenture		27,524
2002 Credit Facility		
Obligations under capital leases	718	222
	353,943	27,746
Less: current portion	3,953	27,711
	$ 349,990	$ 35

2006 Credit Facility

On March 31, 2006 the Company entered into a new senior secured credit facility (the 2006 Credit Facility). The 2006 Credit Facility consists of a $355.0 million 7-year term loan which matures on March 31, 2013 and a $75.0 million revolving credit line which matures on March 31, 2012. The available revolving credit line capacity is reduced, as necessary, to account for certain letters of credit outstanding. As of September 30, 2006, there were $17.2 million of letters of credit issued under the revolving credit line and there were no other outstanding borrowings under the revolving credit line.

Borrowings under the 2006 Credit Facility bear interest at a rate equal to the applicable margin plus, at the Company s option, either (a) a base rate (which is the higher of the corporate base rate of UBS AG, Stamford Branch, or the federal funds rate plus 0.50% per annum) or (b) a LIBOR rate determined by reference to the British Bankers Association Interest Settlement Rates for deposits in U.S. dollars. The applicable margin for borrowings under the 2006 Credit Facility ranges from 0.50% to 1.00% per annum with respect to base rate borrowings and from 1.50% to 2.00% per annum with respect to LIBOR-based borrowings, depending upon the Company s leverage ratio. As of September 30, 2006, the Company s applicable margin is 1.00% for base rate borrowings and 2.00% for LIBOR-based borrowings. The Company is required to pay a commitment fee for unutilized commitments under the revolving credit facility at a rate ranging from 0.375% to 0.50% per annum, based upon our leverage ratio. As of September 30, 2006, the commitment fee rate is 0.50%.

The Company capitalized approximately $9.0 million in debt issuance costs related to the opening of the 2006 Credit Facility. The costs associated with the revolving credit facility are being amortized as interest expense over six years, through March 2012, while the costs associated with the term loan are being amortized as interest expense over seven years, through March 2013, which are the maturity dates of the revolving line and term facility, respectively under the 2006 Credit Facility. The effective interest method is used to calculate the amortization of the debt issuance costs for both the revolving credit facility and the term loan. These debt issuance costs, net of accumulated amortization of $0.7 million, are included in other assets in the consolidated balance sheet as of September 30, 2006.

The $355.0 million term loan is subject to repayment consisting of a baseline amortization of 1% per annum ($3.55 million per year, due in four equal quarterly installments), and an annual excess cash flow sweep, as defined in the 2006 Credit Facility, which will be first payable beginning in the first quarter of fiscal 2008, based on the excess cash flow generated in fiscal 2007. As of September 30, 2006, we have repaid $1.8 million of principal under the term loan agreement. Any borrowings not paid through the baseline repayment, the excess cash flow sweep, or any other mandatory or optional payments that the Company may

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

make, will be repaid upon maturity. If only the baseline repayments are made, the aggregate annual maturities of the term loan would be as follows (in thousands):

Year Ending September 30,	Amount
2007	$ 3,550
2008	3,550
2009	3,550
2010	3,550
2011	3,550
Thereafter	335,475
Total	$ 353,225

The Company s obligations under the 2006 Credit Facility are unconditionally guaranteed by, subject to certain exceptions, each of its existing and future direct and indirect wholly-owned domestic subsidiaries. The 2006 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 the Company s domestic subsidiaries and 65% of the outstanding voting equity interests and 100% of the non-voting equity interests of first-tier foreign subsidiaries, material tangible and intangible assets, and present and future intercompany debt. The 2006 Credit Facility also contains provisions for mandatory prepayments of outstanding term loans, subject to certain exceptions, with: 100% of net cash proceeds of asset sales, 100% of net cash proceeds of issuance or incurrence of debt, and 100% of extraordinary receipts. The Company may voluntarily prepay the 2006 Credit Facility without premium or penalty other than customary breakage costs with respect to LIBOR-based loans.

The 2006 Credit Facility agreement contains a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its subsidiaries to: incur additional indebtedness, create liens on assets, enter into certain sale and lease-back transactions, make investments, make certain acquisitions, sell assets, engage in mergers or consolidations, pay dividends and distributions or repurchase the Company s capital stock, engage in certain transactions with affiliates, change the business conducted by the Company and its subsidiaries, amend certain charter documents and material agreements governing subordinated indebtedness, prepay other indebtedness, enter into agreements that restrict dividends from subsidiaries and enter into certain derivatives transactions. The 2006 Credit Facility is governed by financial covenants that include, but are not limited to, maximum total leverage and minimum interest coverage ratios, as well as to a maximum capital expenditures limitation. The 2006 Credit Facility also contains certain customary affirmative covenants and events of default. As of September 30, 2006, the Company was in compliance with the covenants under the 2006 Credit Facility agreement.

2002 Credit Facility

The Company historically maintained a Loan and Security Agreement (the 2002 Credit Facility) with Silicon Valley Bank which was initiated on October 31, 2002, and was amended several times, most recently in December 2005. The agreement consisted of a $10.0 million revolving loan which expired on March 31, 2006.

The Company was required to comply with both a minimum adjusted quick ratio and a minimum tangible net worth calculation, as defined in the agreement. Depending on the Company s adjusted quick ratio, borrowings under the Credit Facility bore interest at the prime rate plus up to 0.75%, (collectively 6.75% at September 30, 2005). Borrowings under the 2002 Credit Facility were collateralized by substantially all of the Company s personal property, predominantly its accounts receivable, but not its intellectual property. As of

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2005, no amounts were outstanding under the Credit Facility and $6.1 million committed for outstanding letters of credit.

2003 0% Convertible Debenture

On January 30, 2003, the Company issued a $27.5 million three-year, zero-interest convertible subordinated debenture due January 2006 to Royal Philips Electronics Speech Processing Technology and Voice Control business unit (Philips) as partial consideration for certain assets the Company acquired from Philips. The convertible note was convertible into shares of the Company s common stock at $6.00 per share at any time until maturity at Philips option. The convertible note contained a provision that all amounts unpaid at maturity bear interest at a rate of 3% per quarter until paid. On January 30, 2006, Philips exercised its right to convert the note into 4,587,334 shares of the Company s common stock at the conversion price of $6.00 per share, in full satisfaction of all amounts due.

11. Financial Instruments and Hedging Activities

On March 31, 2006, the Company entered into a three-year interest rate swap with a notional value of $100 million (the Interest Rate Swap). The Interest Rate Swap was entered into as a partial hedge of the 2006 Credit Facility, discussed in Note 10, to effectively change the characteristics of the interest rate without actually changing the debt instrument. For floating rate debt, interest rate changes generally do not affect the fair market value, but do impact future earnings and cash flows, assuming other factors are held constant. At its inception, the Company formally documented the hedging relationship and has determined that the hedge is perfectly effective and designated it as a cash flow hedge of a portion of the 2006 Credit Facility as defined by SFAS 133. The Interest Rate Swap will hedge the variability of the cash flows caused by changes in U.S. dollar LIBOR interest rates. The swap is marked to market at each reporting date. The fair value of the Interest Rate Swap at September 30, 2006 was $0.6 million which was included in other liabilities. Changes in the fair value of the cash flow hedge derivative are reported in stockholders equity as a component of accumulated other comprehensive income (loss).

12. Accrued Business Combination Costs

In connection with the acquisitions of SpeechWorks International, Inc. in August 2003 and Former Nuance in September 2005, the Company has assumed obligations relating to certain leased facilities expiring in 2016 and 2012, respectively, and that were abandoned by the acquired companies prior to the acquisition date. The fair value of the obligations, net of estimated sublease income, are recognized as liabilities assumed by the Company and accordingly are included in the allocation of the purchase price, generally resulting in an increase to the recorded amount of the goodwill. The net payments have been discounted in calculating the fair value of the obligation as of the date of acquisition, and the discount is being accreted through expected maturity. As of September 30, 2006, the total gross payments due from the Company to the landlords of the facilities is $88.9 million. This is reduced by $17.4 million of sublease income and a $6.5 million present value discount. The gross value of the lease exit costs will be paid out approximately as follows: $12.4 million in fiscal 2007, $12.8 million in fiscal 2008, $13.2 million in fiscal 2009, $13.6 million in fiscal 2010, $14.2 million in fiscal 2011, and $22.8 million from fiscal 2012 through fiscal 2016. These gross payment obligations are included in the commitments disclosed in Note 17.

Additionally, the Company has implemented restructuring plans to eliminate duplicate facilities, personnel or assets in connection with the business combinations. In accordance with EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination, costs such as these are recognized as liabilities assumed by the Company, and accordingly are included in the allocation of the purchase price, generally resulting in an increase to the recorded amount of the goodwill. As of September 30, 2006, total gross payments due from the Company to the landlords of the facilities is $3.4 million. This is reduced by

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$1.1 million sublease income. The gross value of the lease exit costs will be paid out approximately as follows: $1.5 million in fiscal 2007, $1.0 million in fiscal 2008 and $0.9 million in fiscal 2009. These gross payment obligations are included in the commitments disclosed in Note 17.

As noted in Note 3, in addition to the facilities accruals, the Company has an obligation relating to certain incentive compensation payments to former employees of the acquired companies whose positions have been eliminated in connection with the combinations. The remaining payments for these obligations are expected to be made in fiscal 2007.

The components of these accrued business combination costs are as follows (in thousands):

	Facilities	Personnel	Total
Balance at September 30, 2004	$ 14,948	$	$ 14,948
Charged to goodwill	56,189	3,523	59,712
Charged to interest expense	281		281
Cash payments, net of sublease receipts	(1,555)	(1,387)	(2,942)
Balance at September 30, 2005	69,863	2,136	71,999
Charged to goodwill	802	1,721	2,523
Charged to interest expense	2,332		2,332
Cash payments, net of sublease receipts	(13,776)	(3,013)	(16,789)
Balance at September 30, 2006	$ 59,221	$ 844	$ 60,065

13. Restructuring and Other Charges, net

Fiscal 2006

In fiscal 2006, the Company recorded a recovery of $1.2 million from restructuring and other charges. The recovery consisted of $1.3 million reduction to existing restructuring reserves as a result of a favorable sublease agreement signed during the second quarter of fiscal 2006. The amount was offset by net adjustments of $0.1 million associated with prior years restructuring programs.

Fiscal 2005

In fiscal 2005, the Company incurred restructuring charges of $7.2 million. In the first quarter of fiscal 2005, a plan of restructuring relating to the elimination of ten employees was enacted. In June 2005, the Company initiated the process of consolidating certain operations into its new corporate headquarters facility in Burlington, Massachusetts. In addition, at various times during the third fiscal quarter, the Company committed to pursuing the closure and consolidation of certain other domestic and international facilities. As a result of these initiatives, the Company recorded restructuring charges in its third fiscal quarter totaling approximately $2.1 million. In September 2005, in connection with the acquisition of Former Nuance, the Company committed to a plan of restructuring of certain of its personnel and facilities. Under this plan of restructuring, the Company accrued $2.5 million relating to the elimination of approximately 40 personnel, mainly in research and development and sales and marketing; additionally, certain of its facilities were selected to be closed, resulting in an accrual of $2.0 million for future committed facility lease payments, net of assumed sublease income, and $0.2 in property and equipment were written off. The restructuring charge taken in the fourth quarter of fiscal 2005 was related to only the Company s historic personnel and facilities. Any personnel or facilities-related restructuring activities in connection with the acquisition of Former Nuance were accrued as assumed liabilities in purchase accounting.

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal 2004

During the three months ended March 31, 2004, the Company recorded a charge of $0.8 million related to separation agreements with two former members of its senior management team.

The following table sets forth the fiscal 2006, 2005 and 2004 accrual activity relating to restructuring and other charges (in thousands):

	Personnel	Facilities	Asset Impairment	Total
Balance at December 31, 2003	$ 1,552	$ 309	$	$ 1,861
Restructuring and other charges	801			801
Non-cash write-off	(348)			(348)
Cash payments	(1,599)	(141)		(1,740)
Balance at September 30, 2004	406	168		574
Restructuring and other charges	2,928	4,083	212	7,223
Non-cash write-off			(212)	(212)
Cash payments	(1,548)	(232)		(1,780)
Balance at September 30, 2005	1,786	4,019		5,805
Restructuring and other charges	(52)	(1,181)		(1,233)
Cash payments	(1,360)	(2,308)		(3,668)
Balance at September 30, 2006	$ 374	$ 530	$	$ 904

The remaining personnel-related accrual as of September 30, 2006 is primarily comprised of amounts due under the restructuring charge from the fourth quarter of fiscal 2005, the balance of which will be paid in fiscal 2007. The personnel-related payments made in fiscal 2006 were primarily related to the charges recorded in the fourth quarter of fiscal 2005.

14. Supplemental Cash Flow Information

Cash paid for Interest and Income Taxes:

During fiscal 2006, 2005 and 2004, the Company made cash payments for interest totaling $13.8 million, $0.6 million and $0.2 million, respectively.

During fiscal 2006, 2005 and 2004, total net cash paid (refunds) for income taxes were $3.4 million, $(0.7) million and $0.6 million, respectively.

Non Cash Investing and Financing Activities:

In January, 2006, the Company issued 4,587,334 shares of its common stock valued at $27.5 million upon conversion of the $27.5 million convertible debenture.

In September 2005, the Company issued 28,760,031 shares of its common stock valued at $117.9 million in connection with the acquisition of Former Nuance. The Company also assumed stock options valued at $14.7 million.

In June 2005, the Company issued 1,544,228 shares of its common stock valued at $6.5 million in connection with the acquisition of MedRemote.

In June 2005, in connection with the acquisition of Phonetic, the Company issued warrants for the purchase of up to 750,000 shares of its common stock, these warrants were valued at $0.4 million.

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2004, the Company issued 449,437 shares of its common stock valued at $1.7 million in connection with the acquisition of Rhetorical.

15. Stockholders Equity

Preferred Stock

The Company is authorized to issue up to 40,000,000 shares of preferred stock, par value $0.001 per share. The Company has designated 100,000 shares as Series A Preferred Stock and 15,000,000 shares as Series B Preferred Stock. In connection with the acquisition of ScanSoft from Xerox Corporation (Xerox), the Company issued 3,562,238 shares of Series B Preferred Stock to Xerox. On March 19, 2004, the Company announced that Warburg Pincus, a global private equity firm, had agreed to purchase all outstanding shares of the Company s stock held by Xerox Corporation for approximately $80 million, including the 3,562,238 shares of Series B Preferred Stock. The Series B Preferred stock is convertible into shares of common stock on a one-for-one basis. The Series B Preferred Stock has a liquidation preference of $1.30 per share plus all declared but unpaid dividends. The holders of Series B Preferred Stock are entitled to non-cumulative dividends at the rate of $0.05 per annum per share, payable when, and if declared by the Board of Directors. To date, no dividends have been declared by the Board of Directors. Holders of Series B Preferred Stock have no voting rights, except those rights provided under Delaware law. The undesignated shares of preferred stock will have rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by the Board of Directors upon issuance of the preferred stock. The Company has reserved 3,562,238 shares of its common stock for issuance upon conversion of the Series B Preferred Stock.

Common Stock

On May 5, 2005, the Company entered into a Securities Purchase Agreement (the Securities Purchase Agreement) by and among the Company, Warburg Pincus Private Equity VIII, L.P. and certain of its affiliated entities (collectively Warburg Pincus) pursuant to which Warburg Pincus agreed to purchase, and the Company agreed to sell, 3,537,736 shares of its common stock and warrants to purchase 863,236 shares of its common stock for an aggregate purchase price of $15.1 million. The warrants have an exercise price of $5.00 per share and a term of four years. On May 9, 2005, the sale of the shares and the warrants pursuant to the Securities Purchase Agreement was completed. The Company also entered into a Stock Purchase Agreement (the Stock Purchase Agreement) by and among the Company and Warburg Pincus pursuant to which Warburg Pincus agreed to purchase and the Company agreed to sell 14,150,943 shares of the Company s common stock and warrants to purchase 3,177,570 shares of the Company s common stock for an aggregate purchase price of $60.0 million. The warrants have an exercise price of $5.00 per share and a term of four years. On September 15, 2005, the sale of the shares and the warrants pursuant to the Securities Purchase Agreement was completed. The net proceeds from these two fiscal 2005 financings was $73.9 million. In connection with the financings, the Company granted Warburg Pincus registration rights giving Warburg Pincus the right to request that the Company use commercially reasonable efforts to register some or all of the shares of common stock issued to Warburg Pincus under both the Securities Purchase Agreement and Stock Purchase Agreement, including shares of common stock underlying the warrants. The Company has evaluated these warrants under EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock and has determined that the warrants should be classified within the stockholders equity section of the accompanying consolidated balance sheet.

The Company has issued shares of its common stock in connection with several of its acquisitions. See Note 3 and Note 14 for further disclosure relating to these issuances.

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Common Stock Repurchases

As of September 30, 2006 and 2005 the Company had repurchased a total of 3,030,183 and 2,846,861 shares, respectively, under various repurchase programs, discussed below. The Company intends to use the repurchased shares for its employee stock plans and for potential future acquisitions. During fiscal 2006 and 2005, the Company repurchased 183,322 and 75,354 shares of common stock at a cost of $1.4 million and $0.4 million, respectively, to cover employees tax obligations related to vesting of restricted stock.

Common Stock Warrants

In fiscal 2005 the Company issued several warrants for the purchase of its common stock. Warrants were issued to Warburg Pincus as described above. Additionally, on November 15, 2004, in connection with the acquisition of Phonetic (Note 3), the Company issued unvested warrants to purchase 750,000 shares of its common stock at an exercise price of $4.46 per share that will vest, if at all, upon the achievement of certain performance targets. The initial valuation of the warrants occurred upon closing of the Phonetic acquisition, February 1, 2005, and was treated as purchase consideration in accordance with EITF 97-8, Accounting for Contingent Consideration Issued in a Purchase Business Combination.

In March 1999 the Company issued Xerox a ten-year warrant with an exercise price for each warrant share of $0.61. This warrant is exercisable for the purchase of 525,732 shares of the Company s common stock. On March 19, 2004, the Company announced that Warburg Pincus, a global private equity firm, had agreed to purchase all outstanding shares of the Company s stock held by Xerox Corporation, including this warrant, for approximately $80 million. In connection with this transaction, Warburg Pincus acquired new warrants to purchase 2.5 million additional shares of the Company s common stock from the Company for total consideration of $0.6 million. The warrants have a six-year life and an exercise price of $4.94. The Company received this payment of $0.6 million during the quarter ended June 30, 2004.

In connection with the March 31, 2003 acquisition of the certain intellectual property assets (Note 8), the Company issued a warrant for the purchase of 78,000 shares of the Company s common stock at an exercise price of $8.10 per share. The warrant was immediately exercisable and was valued at $0.1 million based upon the Black-Scholes option pricing model with the following assumptions: expected volatility of 80%, a risk-free rate of 1.87%, an expected term of 2.5 years, no dividends and a stock price of $4.57 based on the Company s stock price at the time of issuance. This warrant expired unexercised on October 31, 2005.

In connection with the acquisition of SpeechWorks in 2003, the Company issued a warrant to its investment banker, expiring on August 11, 2009, for the purchase of 150,000 shares of the Company s common stock at an exercise price of $3.98 per share. The warrant became exercisable August 11, 2005, and was valued at its issuance at $0.2 million based upon the Black-Scholes option pricing model with the following assumptions: expected volatility of 60%, a risk-free interest rate of 4.03%, an expected term of 8 years, no dividends and a stock price of $3.92, based on the Company s stock price at the time of issuance.

Also in connection with the acquisition of SpeechWorks, the Company assumed outstanding warrants previously issued by SpeechWorks to America Online. These warrants allow for the purchase of up to 219,421 shares of the Company s common stock, and were issued in connection with a long-term marketing arrangement. The warrant is currently exercisable at a price of $14.49 per share and expires on June 30, 2007. The value of the warrant was insignificant.

Based on its review of EITF 00-19, the Company has determined that each of the above-noted warrants should be classified within the stockholders equity section of the accompanying consolidated balance sheet.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Share-Based Payment

The Company adopted SFAS No. 123 (revised 2004), Share-Based Payment, (SFAS 123R) effective October 1, 2005. The Company has several equity instruments that are required to be evaluated under SFAS 123R, including: stock option plans, an employee stock purchase plan, awards in the form of restricted shares (Restricted Stock) and awards in the form of units of stock purchase rights (Restricted Units). The Restricted Stock and Restricted Units are collectively referred to as Restricted Awards. SFAS 123R requires the recognition of the fair value of share-based payments as a charge against earnings. The Company recognizes share-based payment expense over the requisite service period of the individual grantees, which generally equals the vesting period. Based on the provisions of SFAS 123R the Company s share-based payments awards are accounted for as equity instruments. Prior to October 1, 2005, the Company followed APB 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for share-based payment. The Company has elected the modified prospective transition method for adopting SFAS 123R. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption, as well as to the future vesting of awards granted and not vested as of the date of adoption. The amounts included in the consolidated statements of operations relating to share-based payments are as follows (dollars in thousands):

	2006	2005	2004
Cost of product and licensing	$ 88	$ 10	$
Cost of professional services, subscription and hosting	1,873	107	59
Cost of maintenance and support	525	15	7
Research and development	4,578	241	228
Selling and marketing	7,332	872	420
General and administrative	7,471	1,751	587
Restructuring and other charges, net			231
Cumulative effect of accounting change	672		
	$ 22,539	$ 2,996	$ 1,532

The Company s deferred stock-based compensation balance of $8.8 million as of September 30, 2005, which was accounted for under APB 25, was reclassified against additional paid-in-capital upon the adoption of SFAS 123R. The deferred stock-based compensation balance was composed of $4.8 million from the issuance of Restricted Awards and $4.0 million relating to the intrinsic value of stock options assumed in the Company s September 2005 acquisition of Former Nuance. The unrecognized expense of awards not yet vested at October 1, 2005 is being recognized in net income (loss) in the periods after that date, based on their fair value which was determined using the Black-Scholes valuation method, and the assumptions determined under the original provisions of SFAS 123, Accounting for Stock-Based Compensation.

In connection with the adoption of SFAS 123R, the Company is required to amortize stock-based instruments with performance-related vesting terms over the period from the grant date to the sooner of the date upon which the performance vesting condition will be met (when that condition is expected to be met), or the time-based vesting dates. The cumulative effect of the change in accounting principle from APB 25 to SFAS 123R relating to this change was $0.7 million, and is included in the accompanying consolidated statement of operations for fiscal 2006.

Stock Options

The Company has several share-based compensation plans under which employees, officers, directors and consultants may be granted stock options to purchase the Company s common stock generally at the fair market value on the date of grant. Plans do not allow for options to be granted at below fair market value nor

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

can they be re-priced at anytime. Options granted under original plans of the Company become exercisable over various periods, typically two to four years and have a maximum term of 7 years. The Company also assumed an option plan in connection with its acquisition of Former Nuance on September 15, 2005. These stock options are governed by the original agreement (the Former Nuance Stock Option Plan) that they were issued under, but are now exercisable for shares of the Company. No further stock options may be issued under the Former Nuance Stock Option Plan. At September 30, 2006, 28,535,613 shares were authorized for grant under the Company s stock option plans, of which 5,131,476 shares were available for future grant. All stock options have been granted with exercise prices equal to or greater than the fair market value of the Company s common stock on the date of grant. Stock options outstanding were as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value(1)
Outstanding at December 31, 2003	17,845,632	$ 3.82		
Granted	3,489,750	$ 4.89		
Exercised	(2,238,588)	$ 2.22		
Forfeited	(2,301,856)	$ 4.70		
Outstanding at September 30, 2004	16,794,938	$ 4.14		
Assumed in acquisition of Former Nuance	9,379,433	$ 3.87		
Granted	4,534,050	$ 4.30		
Exercised	(1,655,074)	$ 2.94		
Forfeited	(1,938,498)	$ 4.74		
Outstanding at September 30, 2005	27,114,849	$ 4.10		
Granted	3,417,064	$ 8.59		
Exercised	(7,582,650)	$ 3.79		
Forfeited	(1,138,454)	$ 4.53		
Expired	(1,156,726)	$ 6.54		
Outstanding at September 30, 2006	20,654,083	$ 4.80	5.6 years	$ 72.4 million
Exercisable at September 30, 2006	13,026,514	$ 4.00	5.3 years	$ 54.3 million

(1) The aggregate intrinsic value on this table was calculated based on the positive difference between the closing market value of the Company s common stock on September 30, 2006 ($8.17) and the exercise price of the underlying options.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information about stock options outstanding under all stock option plans at September 30, 2006:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number of Shares	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$0.16 $1.35	2,314,894	4.18	$ 1.29	2,314,415	$ 1.29
$1.41 $3.45	2,426,512	6.52	$ 2.41	1,959,801	$ 2.34
$3.46 $3.88	2,305,710	5.62	$ 3.81	1,067,542	$ 3.79
$3.92 $4.29	2,402,242	5.32	$ 4.12	1,665,646	$ 4.11
$4.30 $4.84	2,384,340	5.62	$ 4.53	1,694,883	$ 4.51
$4.86 $5.36	2,614,464	5.86	$ 5.25	1,522,898	$ 5.29
$5.38 $6.97	2,887,310	5.06	$ 6.27	2,561,859	$ 6.31
$7.03 $9.30	2,626,047	6.56	$ 8.15	226,220	$ 7.49
$10.06 $11.81	687,564	6.59	$ 11.02	13,250	$ 10.14
$12.41 $12.41	5,000	6.58	$ 12.41		
$0.16 $12.41	20,654,083	5.63	$ 4.80	13,026,514	$ 4.00

Stock options to purchase 13,026,514, 17,709,565 and 10,018,921 shares of common stock were exercisable as of September 30, 2006, 2005 and 2004, respectively.

As of September 30, 2006, the total unamortized fair value of stock options was $24.7 million with a weighted average remaining recognition period of 2.3 years. During fiscal years 2006, 2005, and 2004 the following activity occurred under the Company s plans:

	2006	2005	2004
Weighted-average grant-date fair value per share	$ 4.52	$ 1.87	$ 2.78
Total intrinsic value of stock options exercised	$ 36.7 million	$ 3.3 million	$ 11.7 million

The fair value of the stock options granted in fiscal 2006 was estimated on the dates of grant using the Black-Scholes model with the following weighted-average assumptions:

Dividend yield	0.0%
Expected volatility	60.9%

Average risk-free interest rate	4.8%
Expected term (in years)	4.3

The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. Expected volatility is based on the historical volatility of the Company s common stock over the period commensurate with the expected life of the options and the historical implied volatility from traded options with a term of 180 days or greater. The risk-free interest rate is derived from the average U.S. Treasury STRIPS rate during the period, which approximates the rate in effect at the time of grant, commensurate with the expected life of the instrument. Upon the adoption of SFAS 123R, the Company used the simplified method provided for under SEC Staff Accounting Bulletin No. 107, which averages the contractual term of the Company s options (7.0 years) with the vesting term (2.2 years). Beginning in the fourth quarter of 2006 the Company estimated the expected life based on the historical exercise behavior.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Awards

The Company is authorized to issue equity incentive awards in the form of Restricted Awards. Unvested Restricted Awards may not be sold, transferred or assigned. The fair value of the Restricted Awards is measured based upon the market price of the underlying common stock as of the date of grant, reduced by the purchase price of $0.001 per share of the awards. The Restricted Awards generally are subject to vesting of a period of two to four years, and may have opportunities for acceleration for achievement of defined goals. Beginning in fiscal 2006, the Company began to issue certain Restricted Awards with vesting solely dependent on the achievement of specified performance targets. The fair value of the Restricted Awards is amortized to expense over its applicable vesting period using the straight-line method. In the event that the employees employment with the Company terminates, or in the case of awards with only performance goals those goals are not met, any unvested share shall be forfeited and revert to the Company.

Restricted Units are not included in issued and outstanding common stock until the shares are vested, at which point they are included as issued and outstanding. The table below summarizes activity relating to Restricted Units during fiscal 2006:

	Number of Shares Underlying Restricted Units	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value(1)
Outstanding at December 31, 2003			
Granted	391,283		
Vested			
Forfeited	(4,274)		
Outstanding at September 30, 2004	387,009		
Granted	580,643		
Vested	(101,543)		
Forfeited	(16,658)		
Outstanding at September 30, 2005	849,451		
Granted	2,473,223		
Vested	(471,462)		
Forfeited	(101,158)		
Outstanding at September 30, 2006	2,750,054	1.6 years	$ 22.5 million
Expected to become exercisable	2,478,679	1.6 years	$ 20.2 million

(1) The aggregate intrinsic value on this table was calculated based on the positive difference between the closing market value of the Company s common stock on September 30, 2006 ($8.17) and the exercise price of the underlying Restricted Units.

The purchase price for vested Restricted Units is $0.001 per share. As of September 30, 2006, unearned share-based payments expense related to unvested Restricted Units is $16.1 million, which will, based on expectations of future performance vesting criteria, where applicable, be recognized over a weighted-average period of 1.4 years. 43.7% of the Restricted Units outstanding as of September 30, 2006 are subject to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

performance vesting acceleration conditions. During fiscal years 2006, 2005, and 2004 the following activity occurred related to Restricted Units:

	2006	2005	2004
Weighted-average grant-date fair value per share	$ 9.15	$ 4.67	$ 4.52
Total intrinsic value of shares vested	$ 4.0 million	$ 0.5 million	$

Restricted Stock is included in the issued and outstanding common stock in these financial statements at date of grant. The table below summarizes activity relating to Restricted Stock during fiscal 2006:

	Number of Shares Underlying Restricted Stock	Weighted Average Grant Date Fair Value
Nonvested balance at December 31, 2003	579,458	
Granted	752,893	
Vested	(187,404)	
Forfeited	(46,389)	
Nonvested balance at September 30, 2004	1,098,558	
Granted	446,663	
Vested	(215,947)	
Forfeited	(203,571)	
Nonvested balance at September 30, 2005	1,125,703	$ 4.60
Granted	745,145	$ 7.63
Vested	(311,671)	$ 5.22
Forfeited	(11,836)	$ 3.89
Nonvested balance at September 30, 2006	1,547,341	$ 5.93

The purchase price for vested Restricted Stock is $0.001 per share. As of September 30, 2006, unearned share-based payments expense related to unvested Restricted Stock is $6.2 million, which will, based on expectations of future performance vesting criteria, when applicable, be recognized over a weighted-average period of 1.5 years. 85.6% of the Restricted Stock outstanding as of September 30, 2006 are subject to performance vesting acceleration conditions. During fiscal years 2006, 2005, and 2004 the following activity occurred related to Restricted Stock:

	2006	2005	2004

Weighted-average grant-date fair value per share	$ 7.63	$ 3.79	$ 5.56
Total fair value of shares vested	$ 2.2 million	$ 1.0 million	$ 1.0 million

The Company has historically repurchased common stock upon its employees vesting in Restricted Awards, in order to allow the employees to cover their tax liability as a result of the Restricted Awards having vested. Assuming that the Company repurchased one-third of all vesting Restricted Awards outstanding as of September 30, 2006, such amount approximating a tax rate of its employees, and based on the weighted average recognition period of 1.4 years, the Company would repurchase approximately 2.0 million shares during the twelve month period ending September 30, 2007. During fiscal 2006, the Company repurchased 183,322 shares of common stock at a cost of $1.4 million to cover employees tax obligations related to vesting of Restricted Awards.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1995 Employee Stock Purchase Plan

The Company s 1995 Employee Stock Purchase Plan (the Plan), as amended and restated on May 14, 2005, authorizes the issuance of a maximum of 3,000,000 shares of common stock in semi-annual offerings to employees at a price equal to the lower of 85% of the closing price on the applicable offering commencement date or 85% of the closing price on the applicable offering termination date. Compensation expense for the employee stock purchase plan is recognized in accordance with SFAS 123R. At September 30, 2006, 1,010,830 million shares were reserved for future issuance. During fiscal 2006, 2005, and 2004, The Company issued 419,561, 385,265 and 332,119 shares of common stock under this plan, respectively. The weighted average fair value of all purchase rights granted in fiscal 2006, 2005 and 2004, were $2.62, $1.29 and $1.51.

The fair value of the purchase rights granted under this plan was estimated on the date of grant using the Black-Scholes option-pricing model that uses the following weighted-average assumptions which were derived in a manner similar to those discussed above relative to stock options:

	2006	2005	2004
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	55.1%	52.3%	50.0%
Average risk-free interest rate	5.0%	3.2%	1.5%
Expected term (in years)	0.5	0.4	0.5

17. Commitments and Contingencies

Operating Leases

The Company has various operating leases for office space around the world. In connection with many of its acquisitions the Company assumed facility lease obligations. Among these assumed obligations are lease payments related to certain office locations that were vacated by certain of the acquired companies prior to the acquisition date (Note 12). Additionally, certain of the Company s lease obligations have been included in various restructuring charges (Note 13). The following table outlines the Company s gross future minimum payments under all non-cancelable operating leases as of September 30, 2006 (in thousands):

Year Ending September 30,	Operating Leases	Leases Under Restructuring	Other Contractual Obligations Assumed	Total
2007	$ 6,028	$ 2,035	$ 12,371	$ 20,434
2008	7,020	1,560	12,780	21,360
2009	6,720	1,431	13,202	21,353
2010	5,627	543	13,639	19,809

2011		4,842		560		14,172		19,574
Thereafter		19,425		922		22,754		43,101
Total	$	49,662	$	7,051	$	88,918	$	145,631

At September 30, 2006, the Company has subleased certain office space to third parties. Total sub-lease income under contractual terms is $21.9 million, which ranges from $1.7 million to $3.0 million on an annual basis through February 2016.

Total rent expense charged to operations was approximately $7.2 million, $7.4 million and $4.0 million for the years ended September 30, 2006, 2005 and 2004, respectively.

In connection with certain of its acquisitions, the Company assumed certain financial guarantees that the acquired companies had committed to the landlords of certain facilities. These financial guarantees are secured by the 2006 Credit Facility or are secured by certificates of deposit. The total financial guarantees were

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$17.8 million, of which $0.8 and $11.7 million were secured by certificates of deposit which were classified as restricted cash in other assets as of September 30, 2006 and 2005, respectively.

Litigation and Other Claims

Like many companies in the software industry, the Company has, from time to time been notified of claims that it may be infringing certain intellectual property rights of others. These claims have been referred to counsel, and they are in various stages of evaluation and negotiation. If it appears necessary or desirable, the Company may seek licenses for these intellectual property rights. There is no assurance that licenses will be offered by all claimants, that the terms of any offered licenses will be acceptable to the Company or that in all cases the dispute will be resolved without litigation, which may be time consuming and expensive, and may result in injunctive relief or the payment of damages by the Company.

On November 9, 2006, VoiceSignal Technologies, Inc. filed an action against the Company and eleven of its resellers in the United States District Court for the Eastern District of Texas claiming patent infringement. VoiceSignal is seeking damages and injunctive relief. In the lawsuit, VoiceSignal alleges that the Company is infringing United States Patent No. 5,855,000 which is related to improving correction in a dictation application based on a two input analysis. The Company believes the claims have no merit, and intends to defend the action vigorously.

On August 22, 2006, z4 Technologies, Inc. filed an action against the Company and five other defendants, including Symantec, Adobe, Quark, ABBYY and Mathsoft, in the United States District Court for the Eastern District of Texas claiming patent infringement. Damages were sought in an unspecified amount. In the lawsuit, z4 Technologies alleges that the Company is infringing United States Patent Nos. 6,044,471 and 6,785,825 which are directed to a method and apparatus for reducing unauthorized software use. On December 4, 2006, the Company entered into a settlement agreement with z4 Technologies regarding this action. (See Note 23.)

On May 31, 2006 GTX Corporation (GTX), filed an action against the Company in the United States District Court for the Eastern District of Texas claiming patent infringement. Damages were sought in an unspecified amount. In the lawsuit, GTX alleged that the Company was infringing United States Patent No. 7,016,536 entitled Method and Apparatus for Automatic Cleaning and Enhancing of Scanned Documents. The Company believes the claims have no merit, and it intends to defend the action vigorously.

On November 27, 2002, AllVoice Computing plc (AllVoice) filed an action against the Company in the United States District Court for the Southern District of Texas claiming patent infringement. In the lawsuit, AllVoice alleges that the Company is infringing United States Patent No. 5,799,273 entitled Automated Proofreading Using Interface Linking Recognized Words to Their Audio Data While Text Is Being Changed (the 273 Patent). The 273 Patent generally discloses techniques for manipulating audio data associated with text generated by a speech recognition engine. Although the Company has several products in the speech recognition technology field, the Company believes that its products do not infringe the 273 Patent because, in addition to other defenses, they do not use the claimed techniques. Damages are sought in an unspecified amount. The Company filed an Answer on December 23, 2002. On January 4, 2005, the case was transferred to a new judge of the United States District Court for the Southern District of Texas for administrative reasons. The United States District Court for the Southern District of Texas entered summary judgment against AllVoice and dismissed all claims against Nuance on February 21, 2006. AllVoice filed a notice of appeal from the judgment on April 26, 2006.

In August 2001, the first of a number of complaints was filed in the United States District Court for the Southern District of New York, on behalf of a purported class of persons who purchased Former Nuance stock between April 12, 2000 and December 6, 2000. Those complaints have been consolidated into one action. The complaint generally alleges that various investment bank underwriters engaged in improper and undisclosed activities related to the allocation of shares in Former Nuance s initial public offering of securities. The

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

complaint makes claims for violation of several provisions of the federal securities laws against those underwriters, and also against Former Nuance and some of the Former Nuance s directors and officers. Similar lawsuits, concerning more than 250 other companies initial public offerings, were filed in 2001. In February 2003, the Court denied a motion to dismiss with respect to the claims against Former Nuance. In the third quarter of 2003, a proposed settlement in principle was reached among the plaintiffs, issuer defendants (including Former Nuance) and the issuers insurance carriers. The settlement calls for the dismissal and release of claims against the issuer defendants, including Former Nuance, in exchange for a contingent payment to be paid, if necessary, by the issuer defendants insurance carriers and an assignment of certain claims. The timing of the conclusion of the settlement remains unclear, and the settlement is subject to a number of conditions, including approval of the Court. The settlement is not expected to have any material impact upon Former Nuance or the Company, as payments, if any, are expected to be made by insurance carriers, rather than by Former Nuance. In July 2004, the underwriters filed a motion opposing approval by the court of the settlement among the plaintiffs, issuers and insurers. In March 2005, the court granted preliminary approval of the settlement, subject to the parties agreeing to modify the term of the settlement which limits each underwriter from seeking contribution against its issuer for damages it may be forced to pay in the action. On April 24, 2006, the court held a fairness hearing in connection with the motion for final approval of the settlement. The court has yet to issue a ruling on the motion for final approval. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the Court s order certifying a class in several test cases that had been selected by the underwriter defendants and plaintiffs in the coordinated proceeding. The settlement remains subject to a number of conditions, including final court approval. In the event the settlement is not concluded, the Company intends to defend the litigation vigorously. The Company believes it has meritorious defenses to the claims against Former Nuance.

The Company believes that the final outcome of the current litigation matters described above will not have a significant adverse effect on its consolidated financial statements. However, even if the Company s defense is successful, the litigation could require significant management time and will be costly. Should the Company not prevail in these litigation matters, its operating results, financial position and cash flows could be adversely impacted.

Guarantees and Other

The Company currently includes indemnification provisions in the contracts into which it enters with its customers and business partners. Generally, these provisions require the Company to defend claims arising out of its products infringement of third-party intellectual property rights, breach of contractual obligations and/or unlawful or otherwise culpable conduct on its part. The indemnity obligations imposed by these provisions generally cover damages, costs and attorneys fees arising out of such claims. In most, but not all, cases, the Company s total liability under such provisions is limited to either the value of the contract or a specified, agreed upon amount. In some cases its 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 the Company could be required to make under all the indemnification provisions in its contracts with customers and business partners is unlimited, it believes that the estimated fair value of these provisions is minimal due to the low frequency with which these provisions have been triggered.

The Company has entered into agreements to indemnify its directors and officers to the fullest extent authorized or permitted under applicable law. These agreements, among other things, provide for the indemnification of its directors and officers for expenses, judgments, fines, penalties and settlement amounts incurred by any such person in his or her capacity as a director or officer of the Company, whether or not such person is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under the agreements. In accordance with the terms of the SpeechWorks merger agreement, the Company is required to indemnify the former members of the SpeechWorks board of directors, on similar terms as described above, for a period of six years from the acquisition date. In

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

connection with this indemnification, the Company was required to purchase a director and officer insurance policy related to this obligation for a period of three years from the date of acquisition, this three-year policy was purchased in 2003. In accordance with the terms of each of the Former Nuance and Dictaphone merger agreements, the Company is required to indemnify the former members of the Former Nuance and Dictaphone boards of directors, on similar terms as described above, for a period of six years from the acquisition date. In connection with these indemnifications, the Company has purchased director and officer insurance policies related to these obligations covering the full period of six years.

At September 30, 2006, the Company has $7.5 million non-cancelable purchase commitments for inventory to fulfill customers orders currently scheduled in its backlog.

18. Pension and Other Post-Retirement Benefits

Defined Contribution Plan

The Company has established a retirement savings plan under Section 401(k) of the Internal Revenue Code (the 401(k) Plan). The 401(k) Plan covers substantially all employees of the Company who meet minimum age and service requirements, and allows participants to defer a portion of their annual compensation on a pre-tax basis. Effective July 1, 2003, Company match of employee s contributions was established, dollar for dollar up to 2% of salary. Employees who were hired prior to April 1, 2004 are 100% vested into the plan as soon as they start to contribute to the plan. Employees hired April 1, 2004 and thereafter, vest one-third of the contribution annually over a three-year period. The Company s contributions to the 401(k) Plan totaled $1.1 million, $0.7 million and $0.5 million for fiscal 2006, 2005 and 2004, respectively.

Defined Benefit Pension Plans and Other Post-Retirement Benefit Plan

In connection with the acquisition of Dictaphone on March 31, 2006, the Company assumed the assets and obligations related to its defined benefit pension plans, which provide certain retirement and death benefits for former Dictaphone employees located in the United Kingdom and Canada. These two pension plans were frozen prior to March 31, 2006. The Company also assumed a post-retirement health care and life insurance benefit plan, which is frozen relative to new enrollment, and which provides certain post-retirement health care and life insurance benefits, as well as a fixed subsidy for qualified former employees in the United States and Canada.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table shows the changes in fiscal 2006 in the projected benefit obligation, plan assets and funded status of the defined benefit pension plans and the other post-retirement benefit plan. The measurement date for benefit obligations was March 31, 2006 and the measurement date for the plan assets was September 30, 2006 (in thousands).

	Pension Benefits	Other Benefits
Change in Benefit Obligation:		
Projected benefit obligation, September 30, 2005	$	$
Benefit obligation assumed in connection with the acquisition of Dictaphone	22,537	1,309
Service cost	148	50
Interest cost	589	35
Plan participants contributions	18	
Actuarial loss (gain)	(85)	6
Expenses paid	(91)	
Currency exchange rate changes	1,633	
Benefits paid	(592)	(26)
Projected benefit obligation, September 30, 2006	$ 24,157	$ 1,374
Change in Plan Assets:		
Fair value of plan assets, September 30, 2005	$	$
Plan assets acquired in connection with the acquisition of Dictaphone	17,397	
Actual return on plan assets	252	
Employer contributions	544	26
Plan participants contributions	18	
Expenses paid	(91)	
Currency exchange rate changes	1,185	
Benefits paid	(592)	(26)
Fair value of plan assets, September 30, 2006	$ 18,713	$
Funded Status:		
Funded status at September 30, 2006	$ (5,444)	$ (1,374)
Unrecognized actuarial gain (loss)	270	6
Net amount recognized	$ (5,174)	$ (1,368)
Amounts recognized in the Consolidated Balance Sheet as of September 30, 2006 consist of:		
Prepaid benefit cost	$ 2,276	$
Accrued benefit liability	(7,450)	(1,368)

Net amount recognized	$ (5,174)	$ (1,368)

The accumulated benefit obligations for the two defined benefit pension plans was $24.0 million at September 30, 2006.

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Included in the table below are the amounts relating to the Company s UK pension plan which has an accumulated benefit obligations and projected benefit obligations in excess of plan assets (in thousands):

	Pension Benefits	Other Benefits
Aggregate projected benefit obligations	$ 21,022	$ 1,374
Aggregate accumulated benefit obligations	20,848	
Aggregate fair value of plan assets	13,458	

The components of net periodic benefit cost of the benefit plans were as follows (in thousands):

	Pension Benefits	Other Benefits
Service cost	$ 148	$ 50
Interest cost	589	35
Expected return on plan assets	(605)	
Net periodic pension cost	$ 132	$ 85

Plan Assumptions:

Weighted-average assumptions used in developing the benefit obligations and net periodic benefit cost for the plans were as follows:

	Pension Benefits	Other Benefits
Discount rate	5.0%	5.5%
Average compensation increase	4.0%	NA(1)
Expected rate of return on plan assets	6.7%	NA(2)

(1) Rate of compensation increase is not applicable to the Company s other benefits as compensation levels do not impact earned benefits.

(2) Expected return on plan assets is not applicable to the Company s other benefit plan as the plan is unfunded.

Because the benefit provided to retirees under the other postretirement benefit plan consists of a fixed subsidy, no health care cost trend is assumed in the measurement of the post-retirement benefit obligations and net periodic benefit costs for fiscal 2006.

The Company considered several factors when developing the expected return on plan assets including the analysis of return relevant to the country where each plan is in effect as well as the historical rates of return from investment. In addition, the Company reviews local actuarial projections and market outlook from investment managers. The expected rate of return above is weighted to reflect each country s relative portion of the plan assets.

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets Allocation and Investment Strategy:

The percentages of the fair value of plan assets actually allocated and targeted for allocation, by asset category, at September 30, 2006, were as follows:

Asset Category	Actual	Target
Equity securities	63.1%	57.0%
Debt securities	36.9%	43.0%
Total	100.0%	100.0%

The Company s investment goal for pension plan assets is designed to provides as much assurance as is possible, in the Company s opinion, that the pension assets are available to pay benefits as they come due and minimize market risk. The expected long-term rate of return for the plan assets is 6.3% for the UK pension plan and 7.5% for the Canadian pension plan.

Employer Contributions:

The Company expects to contribute $1.7 million to its pension plans in fiscal 2007. Included in this contribution is a minimum funding requirement associated with its UK pension which requires annual minimum payment of £859,900 (approximately $1.6 million based on exchange rate at September 30, 2006) for each of the next 5 years until fiscal 2011. Its other post-retirement benefits plan is a non-funded plan, and cash contributions are made each year to cover claims costs incurred in that year. Total cash paid during fiscal 2006 for the post-retirement health care and life insurance benefit plan was not material, and the Company does not expect that the amount in fiscal 2007 will be material.

Estimated Future Benefit Payments:

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

Fiscal Year	Pension Benefits	Other Benefits
2007	$ 1,192	49
2008	1,216	50
2009	1,239	50
2010	1,263	57
2011	1,288	65
2012-2016	6,592	428

Total	$ 12,790	$ 699

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Income Taxes

The components of the income tax provision (benefit) are as follows (in thousands):

	Year Ended September 30, 2006	Year Ended September 30, 2005	Nine Months Ended September 30, 2004
Current			
Federal	$ 334	$ 269	$
Foreign	1,579	(33)	451
State	4,420	1,526	23
	6,333	1,762	474
Deferred			
Federal	$ 7,638	$ 4,682	$ 705
Foreign	1,002	(342)	24
State	171	710	130
	8,811	5,050	859
Provision for income taxes	$ 15,144	$ 6,812	$ 1,333

For financial reporting purposes, income (loss) before income taxes includes the following components (in thousands):

	Year Ended September 30, 2006	Year Ended September 30, 2005	Nine Months Ended September 30, 2004
Domestic income (loss)	$ (16,318)	$ 5,586	$ (10,413)
Foreign income (loss)	9,247	(4,191)	2,368
Income (losses) before income taxes	$ (7,071)	$ 1,395	$ (8,045)

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax assets (liabilities) consist of the following (in thousands):

	September 30, 2006	September 30, 2005
Deferred tax assets:		
Net operating loss carryforwards	$ 247,337	$ 167,771
Federal and state credit carryforwards	24,685	15,865
Capitalized start-up and development costs	8,069	6,405
Accrued expenses and other reserves	34,505	44,679
Deferred revenue	53,454	4,343
Deferred compensation	4,418	1,131
Depreciation	1,547	3,068
Other	1,050	267
Total deferred tax assets	375,065	243,529
Valuation allowance for deferred tax assets	(329,722)	(214,834)
Net deferred tax assets	45,343	28,695
Deferred tax liabilities:		
Acquired intangibles	(64,848)	(32,936)
Net deferred tax liabilities	$ (19,505)	$ (4,241)
Reported as:		
Current deferred tax assets	$ 421	$
Long-term deferred tax liabilities	(19,926)	(4,241)
Net deferred tax liabilities	$ (19,505)	$ (4,241)

At September 30, 2006 and 2005, the Company had federal net operating loss carryforwards of approximately $602.0 million and $379.0 million, respectively, of which approximately $24.6 million and $29.0 million, respectively, relate to tax deductions from share-based payments. At September 30, 2006 and 2005, the Company had state net operating loss carryforwards of approximately $84.7 million and $93.0 million, respectively. At September 30, 2006, the Company had federal and state research and development carryforwards of approximately $16.3 million and $9.6 million, respectively. At September 30, 2005, the Company had federal and state research and development credit carryforwards of approximately $9.6 million and $6.5 million, respectively. The net operating loss and credit carryforwards will expire at various dates beginning in 2009 and extending through 2025, if not utilized.

Utilization of the net operating losses and credits are subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state tax provisions. The annual limitation will result in the expiration of certain net operating losses and credits before utilization.

Significant management judgment is required in determining our provision for income taxes and in determining whether deferred tax assets will be realized in full or in part. When it is more likely than not that all or some portion of specific deferred tax assets such as net operating losses or foreign tax credit carryforwards will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that are determined not likely to be realizable. Realization is based upon a number of factors, including our ability to generate sufficient future taxable income. The valuation allowance was determined in accordance with the provisions of SFAS 109, Accounting for Income Taxes, which requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction-by-jurisdiction basis. The Company does

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

not expect to reduce its valuation allowance significantly until sufficient positive evidence exists, including sustained profitability, that its deferred tax assets are more likely than not to be realized. The Company will maintain a full valuation allowance on its net U.S. deferred tax assets until sufficient positive evidence exists to support reversal of the valuation allowance.

As of September 30, 2006, the company s valuation allowance for U.S. net deferred tax assets totaled $312.1 million, which consists of the beginning of the year allowance of $193.3 million and 2006 charges (benefits) of $10.1 million to income from operations and $0.7 million to other comprehensive income. A portion of the deferred tax liabilities are created by goodwill, and are not allowed as an offset to deferred tax assets for purposes of determining the amount of valuation allowance required. Following the adoption of SFAS 142, deferred tax liabilities resulting from the different treatment of goodwill for book and tax purposes cannot offset deferred tax assets in determining the valuation allowance. As a result, a deferred tax provision is required to increase the Company s valuation allowance.

The valuation allowance reduces the carrying value of the deferred tax assets generated by foreign tax credits, reserves and accruals and net operating loss (NOL) carryforwards, which would require sufficient future ordinary income in order to realize the tax benefits. If the Company generates taxable income through profitable operations in future years it may be required to recognize these deferred tax assets through the reduction of the valuation allowance which would result in a material benefit to its results of operations in the period in which the benefit is determined, excluding the recognition of the portion of the valuation allowance which relates to net deferred tax assets acquired in a business combination and share-based payments. The valuation allowance associated with tax assets arising in connection with share-based payments of $8.7 and $11.0 million as of September 30, 2006 and 2005, respectively, will be accounted for as additional paid in capital. The valuation allowance associated with tax assets arising from business combinations of $264.3 and $178.5 million as of September 30, 2006 and 2005, respectively, when released, will reduce goodwill, other intangible assets, and to the extent remaining, the provision for income taxes.

A reconciliation of the Company s effective tax rate to the statutory federal rate is as follows:

	Year Ended September 30, 2006	Year Ended September 30, 2005	Nine Months Ended September 30, 2004
Federal statutory tax rate	35.0%	35.0%	35.0%
Share-based payments	(32.1)		
Foreign taxes	(8.2)	180.6	6.0
State tax, net of federal benefit	(40.9)	66.4	7.7
Nondeductible expenditures	(6.4)		
Other	(4.1)	4.8	(2.7)
Change in valuation allowance	(159.5)	323.4	(70.1)
Federal research and development credits			7.5
Federal benefit refundable taxes		(121.9)	
Federal credits, net	2.0		

	(214.2)%	488.3%	(16.6)%

The cumulative amount of undistributed earnings of the Company s foreign subsidiaries amounted to, approximately $10.4 million at September 30, 2006. The Company has not provided any additional federal or state income taxes or foreign withholding taxes on the undistributed earnings, as such earnings have been indefinitely reinvested in the business. An estimate of the tax consequences from the repatriation of these

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

earnings is not practicable at this time resulting from the complexities of the utilization of foreign tax credits and other tax assets.

20. Segment and Geographic Information and Significant Customers

The Company has reviewed the provisions of SFAS 131, Disclosures about Segments of an Enterprise and Related Information, with respect to the criteria necessary to evaluate the number of operating segments that exist. Based on its review, the Company has determined that it operates in one segment. Changes in the organization or the Company s 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) additional reporting units, 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 the consolidated financial statements through accelerated amortization and/or impairment charges.

Revenue, classified by the major geographic areas in which the Company s customers are located, were as follows (in thousands):

	Year Ended September 30, 2006	Year Ended September 30, 2005	Nine Months Ended September 30, 2005
United States	$ 288,300	$ 160,927	$ 91,472
International	100,210	71,461	39,435
Total	$ 388,510	$ 232,388	$ 130,907

No country outside of the United States composed greater than 10% of total revenue.

The following table presents revenue information for principal product lines, which do not constitute separate segments (in thousands):

	Year Ended September 30, 2006	Year Ended September 30, 2005	Nine Months Ended September 30, 2005
Speech	$ 316,106	$ 164,244	$ 86,594
Imaging	72,404	68,144	44,313

Total	$	388,510	$	232,388	$	130,907

Two distribution and fulfillment partners, Ingram Micro and Digital River, each accounted for 6% of the Company s consolidated revenue for fiscal 2006, 11% and 9% for fiscal 2005 and 14% and 8% for fiscal 2004, respectively. No customer accounted for greater than 10% of accounts receivable as of September 30, 2006 or 2005.

The following table summarizes the Company s long-lived assets, including intangible assets and goodwill, by geographic location (in thousands):

		September 30, 2006		September 30, 2005
United States	$	865,884	$	515,477
International		105,869		66,833
Total	$	971,753	$	582,310

NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Pro Forma Results (Unaudited)

The following table reflects unaudited pro forma results of operations of the Company assuming that the Telelogue, Rhetorical, ART, Phonetic, Former Nuance and Dictaphone acquisitions had occurred on October 1, 2004 (in thousands, except per share data):

	Fiscal 2006	Fiscal 2005
Revenue	$ 470,340	$ 448,277
Net loss	$ (63,317)	$ (82,504)
Net loss per share	$ (0.39)	$ (0.55)

22. Related Parties

At December 31, 2003, Xerox owned approximately 15% of the Company s outstanding common stock and all of the Company s outstanding Series B Preferred Stock. In addition, Xerox had the opportunity to acquire additional shares of common stock pursuant to a warrant (Note 15). On March 19, 2004, the Company announced that Warburg Pincus, had agreed to purchase all outstanding shares of the Company s stock held by Xerox Corporation for approximately $80 million. As a result of the Xerox and Warburg Pincus transaction, Xerox is no longer a related party as of June 30, 2004. During fiscal 2004, Xerox s related party revenue accounted for approximately 1% of the Company s total revenue under several non-exclusive agreements in which the Company grants Xerox the royalty-bearing right to copy and distribute certain versions of the Company s software programs. The Company does not engage in transactions in the normal course of its business with Warburg Pincus.

At September 30, 2005, a member of the Company s Board of Directors was a senior executive at Convergys Corporation. In October 2005, the member of the Company s Board of Directors discontinued his affiliation with Convergys, and as a result, Convergys is no longer a related party. The Company and Convergys have entered into multiple non-exclusive agreements in which Convergys resells the Company s software. Revenue from Convergys during fiscal 2006, 2005 and 2004 were not material.

A member of the Company s Board of Directors is also a partner at Wilson Sonsini Goodrich & Rosati, Professional Corporation, a law firm that provides services to the Company. In fiscal 2006, 2005 and 2004, the Company paid $4.9 million, $2.1 million and $0.7 million, respectively, to Wilson Sonsini Goodrich & Rosati for professional services provided to the Company. As of September 30, 2006 and 2005 the Company had $0.6 million and $2.5 million, respectively, included in accounts payable and accrued expenses to Wilson Sonsini Goodrich & Rosati.

23. Subsequent Events

On December 4, 2006, the Company entered into a settlement and license agreement with z4 Technologies regarding the actions filed against the Company on August 22, 2006. In connection with this settlement the Company agreed to license various technologies from z4 Technologies, Inc. $0.4 million is included in cost of revenue from amortization of intangible assets in the accompanying fiscal 2006 statement of operations.

On December 5, 2006, the Company entered into an agreement and plan of merger to acquire Mobile Voice Control, Inc. (MVC), a provider of speech-enabled mobile search and messaging services headquartered in Mason, Ohio. The transaction is expected to close prior to December 31, 2006 and is subject to customary closing conditions. Under the terms of the plan of merger, the purchase price payable to MVC s stockholders consists of cash and 824,276 shares of the Company s common stock. Up to an additional 1,700,840 shares of common stock may also be issued, if at all, upon the achievement of certain revenue milestones for the calendar years 2007 and 2008; no portion of these contingent shares is guaranteed.

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NUANCE COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Quarterly Data (Unaudited)

The following information has been derived from unaudited consolidated financial statements that, in the opinion of management, include all recurring adjustments necessary for a fair statement of such information (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2006					
Total revenue	$ 75,552	$ 71,728	$ 113,096	$ 128,134	$ 388,510
Gross margin	$ 55,415	$ 51,506	$ 76,028	$ 84,518	$ 267,467
Net loss	$ (4,892)	$ (1,380)	$ (9,400)	$ (7,215)	$ (22,887)
Net loss per share					
Basic	$ (0.03)	$ (0.01)	$ (0.06)	$ (0.04)	$ (0.14)
Diluted	$ (0.03)	$ (0.01)	$ (0.06)	$ (0.04)	$ (0.14)
Weighted average common shares outstanding:					
Basic	156,389	163,407	167,482	168,244	163,873
Diluted	156,389	163,407	167,482	168,244	163,873

The fourth quarter of fiscal 2006 included an impairment charge of $2.6 million that was recorded in order to value the purchased computer software at its net realizable value.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2005					
Total revenue	$ 60,578	$ 53,113	$ 56,814	$ 61,883	$ 232,388
Gross margin	$ 42,606	$ 36,264	$ 40,018	$ 44,297	$ 163,185
Net income (loss)	$ 3,141	$ (1,002)	$ 160	$ (7,716)	$ (5,417)
Net income (loss) per share					
Basic	$ 0.03	$ (0.01)	$ 0.00	$ (0.06)	$ (0.05)
Diluted	$ 0.03	$ (0.01)	$ 0.00	$ (0.06)	$ (0.05)
Weighted average common shares outstanding:					
Basic	104,973	105,563	108,713	118,816	109,540
Diluted	112,430	105,563	116,413	118,816	109,540

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Voice Signal Technologies, Inc.

Quarterly Financial Statements

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,316,219	$ 3,982,789
Short term investments		3,000,000
Accounts receivable	5,337,600	6,130,653
Prepaid expenses and other current assets	1,097,813	417,173
Deferred tax asset	4,027,000	3,624,000
Total current assets	19,778,632	17,154,615
Property and equipment, net	733,165	739,861
Other assets:		
Intangible assets, net	1,789,029	2,040,516
Other noncurrent assets	180,865	188,051
	1,969,894	2,228,567
	$ 22,481,691	$ 20,123,043
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS DEFICIT		
Current liabilities		
Accounts payable	$ 1,272,031	$ 926,403
Accrued expenses and other current liabilities	1,022,351	966,464
License obligation, current portion	1,031,497	894,043
Deferred revenue, current portion	3,850,238	5,645,714
Capital lease obligation, current portion	27,181	23,259
Total current liabilities	7,203,298	8,455,883
License obligation, net of current portion	785,698	876,675
Capital lease obligation, net of current portion		15,319
Deferred revenue, net of current portion	803,905	1,507,810
Total liabilities	8,792,901	10,855,687
Redeemable convertible preferred stock:		
Series C redeemable convertible preferred stock, $.001 par value; 6,383,294 shares authorized, issued and outstanding (at redemption value;	13,104,280	12,768,200

liquidation preference of $13,181,547)		
Series D redeemable convertible preferred stock, $.001 par value; 66,281,550 shares authorized, issued and outstanding (at redemption value; liquidation preference of $33,421,455)	20,079,306	19,473,944
Total redeemable convertible preferred stock	33,183,586	32,242,144
Stockholders deficit:		
Series A convertible preferred stock, $.001 par value; 5,600,000 shares authorized, issued and outstanding (liquidation preference of $560,000)	5,600	5,600
Series B convertible preferred stock, $.001 par value; 1,820,000 shares authorized, issued and outstanding (liquidation preference of $699,999)	1,820	1,820
Common stock, $.001 par value; 128,000,000 shares authorized; 17,363,196 and 17,228,794 shares issued and outstanding at June 30, 2007 and December 31, 2006 respectively	17,363	17,229
Additional paid-in capital	2,035,016	1,795,483
Accumulated deficit	(21,535,484)	(24,784,382)
Accumulated other comprehensive loss	(19,111)	(10,538)
Total stockholders deficit	(19,494,796)	(22,974,788)
	$ 22,481,691	$ 20,123,043

VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

	Three Months Ended June 30, 2007 (Unaudited)	Three Months Ended June 30, 2007 (Unaudited)	Six Months Ended June 30, 2007 (Unaudited)	Six Months Ended June 30, 2006 (Unaudited)
Revenues:				
Royalty	$ 5,450,623	$ 4,511,047	$ 11,257,524	$ 8,733,333
Professional services	783,326	886,016	1,291,083	1,828,550
License	173,316	347,032	416,442	694,841
Total revenues	6,407,265	5,744,095	12,965,049	11,256,724
Cost of revenues:				
Professional services	315,971	354,416	628,988	730,608
Cost of revenue from amortization of intangible assets	125,743	116,595	251,487	233,191
Total cost of revenues	441,714	471,011	880,475	963,799
Gross profit	5,965,551	5,273,084	12,084,574	10,292,925
Operating expenses:				
Research and development	1,705,035	1,549,519	3,421,099	3,080,954
General and administrative	1,092,653	1,399,499	2,387,735	2,533,230
Sales and marketing	1,175,762	998,133	2,422,663	2,019,441
	3,973,450	3,947,151	8,231,497	7,633,625
Income from operations	1,992,101	1,325,933	3,853,077	2,659,300
Interest income (expense), net	12,353	(17,272)	45,236	1,189
Income before income taxes	2,004,454	1,308,661	3,898,313	2,660,489
Benefit (provision) for income taxes	(46,968)	36,001	292,027	69,370
Net income	$ 1,957,486	$ 1,344,662	$ 4,190,340	$ 2,729,859

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2007 (Unaudited)	Six Months Ended June 30, 2006 (Unaudited)
Cash flows from operating activities:		
Net income	$ 4,190,340	$ 2,729,859
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	208,528	143,490
Amortization expense	251,487	233,191
Stock-based compensation	209,575	88,857
Deferred income taxes	(403,000)	(142,967)
Non-cash interest expense	46,477	57,851
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	793,053	(1,273,321)
Prepaid expenses and other current assets	(680,640)	43,635
Other assets	7,186	171,740
Increase (decrease) in:		
Accounts payable	345,628	381,282
Accrued expenses and other current liabilities	55,887	32,964
Deferred revenue	(2,499,381)	(5,429,313)
Net cash provided by (used in) operating activities	2,525,140	(2,962,732)
Cash flows from investing activities:		
Net redemption of short term investment	3,000,000	3,064,257
Acquisitions of property and equipment	(205,584)	(232,370)
Net cash provided by investing activities	2,794,416	2,831,887
Cash flows from financing activities:		
Proceeds from exercising stock options	30,092	48,249
Payments on capital lease obligations	(11,397)	
Net cash provided by financing activities	18,695	48,249
Effect of change in exchange rates on cash	(4,821)	8,193
Net increase (decrease) in cash and cash equivalents	5,333,430	(74,403)
Cash and cash equivalents, beginning of year	3,982,789	296,816

Cash and cash equivalents, end of year	$	9,316,219	$	222,413
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	$	6,470	$	25,059
Income taxes	$	125,000	$	
Supplemental disclosures of noncash investing and financing activities:				
Accretion of Series C Preferred Stock dividends	$	336,080	$	336,080
Accretion of Series D Preferred Stock dividends	$	605,362	$	605,362

1. Nature of Organization

Voice Signal Technologies, Inc. and Subsidiaries (VoiceSignal or the Company) consists of Voice Signal Technologies, Inc., a Delaware corporation and four wholly-owned subsidiaries. The Company is a privately held corporation based in Woburn, Massachusetts. Its subsidiaries consist of Voice Signal Technologies OY, which is located in Finland, and VoiceSignal KK, which is located in Japan, both foreign corporations, as well as Voice Signal Korea, Inc., located in Korea, and Voice Signal International, Inc., located in China and England, both Massachusetts corporations.

VoiceSignal develops state-of-the-art small footprint, highly accurate, speech solutions for use on wireless mobile devices. VoiceSignal licenses its solutions to original equipment manufacturers (OEMs) of mobile information devices (phones, handhelds) and directly to consumers of mobile devices.

The accompanying interim consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles. In the opinion of management, these interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company at June 30, 2007, the results of operations and cash flows for the three month and six month periods ended June 30, 2007 and 2006. The accompanying financial statements should be read in conjunction with the audited financial statements and notes thereto as of December 31, 2006 and for the three years then ended. The results for the three month period and six month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007, or any future period.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements reflect the consolidated results of Voice Signal Technologies, Inc. and Subsidiaries for the three and six months ended June 30, 2007 and 2006. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers short-term investments with original maturity dates of three months or less at the date of purchase to be cash equivalents. The Company s cash equivalents as of June 30, 2007 and December 31, 2006 primarily consisted of funds deposited at financial institutions within the United States.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Allowances for doubtful accounts are provided for those outstanding balances considered to be uncollectible based upon management s evaluation of the outstanding balances.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts. The Company has determined all amounts outstanding to be collectible and has not recorded an allowance at June 30, 2007 and December 31, 2006.

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Revenue Recognition

In accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 97-2, *Software Revenue Recognition*, as amended by SOP No. 98-9, *Software Revenue Recognition, With Respect to Certain Transactions,* revenue from sales of software products is recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, no significant Company obligations with regard to the product s functionality remain, the fee is fixed or determinable and collectibility is probable. Substantially all of the Company s revenues are derived from multiple element arrangements that include royalty fees, professional services, and licenses fees. The Company has not established vendor specific objective evidence (VSOE) for the fair values of the individual elements in its multiple element contracts. For those arrangements that require customers to make large initial payments under multiple element contracts, the Company recognizes the revenue from the initial payments ratably over the period the Company expects to provide services which is either the term of the respective agreement or the units shipped, provided the agreement specifies a fixed number of units. Additional payments received from customers during the term of the contracts for professional services or royalties are recognized as the services are provided or units are shipped to the customer, provided all other elements are delivered.

Income Taxes

The Company accounts for income taxes utilizing the asset and liability method as prescribed by Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes.* Under the provisions of SFAS No. 109, the current or deferred tax consequences of a transaction are measured by applying the provisions of enacted tax laws to determine the amount of taxes payable currently or in future years. The classification of net current and noncurrent deferred tax assets or liabilities depend upon the nature of the related asset or liability. Deferred income taxes are provided for temporary differences between the income tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. In addition, deferred taxes are recognized for operating losses that are available to offset future taxable income. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, or FIN No. 48, *Accounting for Income Tax Uncertainties*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. The Interpretation prescribes a recognition threshold of more-likely-than-not and a measurement attribute on all tax positions taken or expected to be taken in a tax return in order to be recognized in the financial statements. In making this assessment, a company must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based solely on the technical merits of the position and that the tax position will be examined by appropriate taxing authority that would have full knowledge of all relevant information. Once the recognition threshold is met, the tax position is then measured to determine the actual amount of benefit to recognize in the financial statements. In addition, the recognition threshold of more-likely-than-not must continue to be met in each reporting period to support continued recognition of the tax benefit. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the financial reporting period in which that threshold is no longer met. The Company adopted FIN No. 48 effective January 1, 2007, and there was no impact to the Company s financial statements.

Research and Software Development Costs

Research and development expenditures incurred in the development of software products and enhancements to existing software products are expensed to operations as incurred until the point the Company establishes technological feasibility in accordance with SFAS No. 86, *Accounting for Software to be Sold, Licensed or Otherwise Marketed to Others*. Technical feasibility is established upon the completion of a working model or a detailed program design as defined by SFAS No. 86. Costs incurred by the Company between establishment of technological feasibility and the point at which the product is ready for general release are capitalized, subject to their recoverability, in accordance with SFAS No. 86 and amortized over the economic life of the related product. The Company has not capitalized any software development costs as of the balance sheet date as the costs eligible for capitalization are immaterial.

Concentration of Credit Risk and Significant Customers

The Company maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents. For the three months ended June 30, 2007 and 2006, the Company generated approximately 91% and 95%, respectively, of its revenues from two customers. For the six months ended June 30, 2007 and 2006, the Company generated approximately 90% and 95%, respectively, of its revenues from two customers. Total accounts receivable from these two customers as of June 30, 2007 and December 31, 2006 amounted to approximately 93% and 98% respectively.

3. Intangible Assets

During 2005, the Company entered into a Data License Agreement (License Agreement) with a software vendor to purchase a royalty-free, worldwide, exclusive license to use in the design, development, production, commercialization, and maintenance of the Company s products. Under the License Agreement, the Company committed to purchase a set number of data language licenses for a total contract value of $2,600,000. The licenses, under the License Agreement, are recorded at cost and are amortized on a straight-line basis over the useful life beginning when the assets are placed in service. At June 30, 2007 and December 31, 2006, the licenses of $2,331,910, net of accumulated amortization of $699,572 and $466,382, respectively, are included in intangible assets on the accompanying consolidated balance sheets.

During 2006, the Company entered into a Patent License Agreement with a not-for-profit corporation to purchase a worldwide, exclusive license. The license, under the Patent License Agreement, is recorded at cost and is amortized on a straight-line basis over the useful life beginning when the asset is placed in service. The license of $182,956, net of accumulated amortization of $26,265 and $7,968 at June 30, 2007 and December 31, 2006, respectively, is included in intangible assets on the accompanying consolidated balance sheets.

4. License Obligation

The Company financed the purchase of the Data License Agreement (Note 3) over a five year period. At June 30, 2007 and December 31, 2006, the present value of the related liability, plus accrued interest, is $1,817,195 and $1,770,718, net of payments of $676,000 made in 2005. The liability is recorded as a license obligation on the accompanying consolidated balance sheets based on the minimum purchase commitments over the term of the commitment utilizing an interest rate of 7.25%.

Maturities of the data license agreement for the years ending December 31 are as follows:

2007 (July 1, 2007 to December 31, 2007)	$	918,750
2008		555,000
2009		361,000
2010		89,250
		1,924,000
Less amount representing interest		106,805

Present value of future payments		1,817,195
Less current portion of data license obligation		1,031,497
Data license obligation, net of current portion	$	785,698

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The Company is required to make payments on the purchase of the patent licenses throughout 2007. The obligation, plus accrued interest, is recorded in accounts payable on the accompanying consolidated balance sheets utilizing an interest rate of 8.25% at June 30, 2007.

5. Commitments and Contingencies

The Company is involved in various legal matters, which have arisen in the ordinary course of business. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on the financial condition, results of operations or cash flows. The Company believes these litigation matters are without merit and intends to defend these matters vigorously.

6. Stockholders Deficit

At June 30, 2007, the Company is authorized to issue 128,000,000 and 80,084,844 shares of common stock and preferred stock, $.001 par value, respectively. The preferred stock consists of 5,600,000 shares designated as Series A Convertible Preferred Stock (Series A Preferred Stock), 1,820,000 shares designated as Series B Convertible Preferred Stock (Series B Preferred Stock), 6,383,294 shares designated as Series C Redeemable Convertible Preferred Stock (Series C Preferred Stock), and 66,281,550 shares designated as Series D Redeemable Convertible Preferred Stock (Series D Preferred Stock).

As of June 30, 2007, the Company has reserved for issuance the following shares of common stock for the exercise of stock options and the conversion of preferred stock:

Stock options	24,727,315
Convertible preferred stock	80,084,844
	104,812,159

7. Preferred Stock

The holders of the Series C Preferred Stock and Series D Preferred Stock (Senior Preferred Stock) shall be entitled to receive cumulative dividends equal to $0.1053 per annum per share for Series C Preferred Stock and equal to $0.0182664 per annum per share for Series D Preferred Stock. The dividends will accrue daily in arrears whether or not such dividends are declared by the Board of Directors. At June 30, 2007 and December 31, 2006, cumulative unpaid dividends for Series C Preferred Stock totaled $4,776,024 and $4,439,944, respectively, and cumulative unpaid dividends for Series D Preferred Stock totaled $5,109,169 and $4,503,807, respectively.

The holders of the Series A Preferred Stock and Series B Preferred Stock (Junior Preferred Stock) shall be entitled to receive dividends, if and when, as declared by the Board of Directors, out of funds legally available for that purpose after the payment of all accrued and unpaid dividends to the holder of each share of Senior Preferred Stock.

In the event of any liquidation, dissolution or winding-up of the Company, the Series A, Series B, and Series C Preferred Stockholders shall receive a per share amount equal to the original issue price of the respective Series and dividends and the Series D Preferred Stockholders shall receive a per share amount equal to two times the Series D Preferred Stock original issue price, plus all declared and unpaid dividends.

Each share of Preferred Stock, at the option of the holder, is convertible into fully paid and nonassessable shares of voting common stock initially on a share-for-share basis. The Junior Preferred Stockholders are entitled to payment of any declared and unpaid dividends. The Senior Preferred Stockholders have the right to convert any accrued but unpaid dividends on the Senior Preferred Stock into the number shares of voting common stock based on a predetermined ratio, as defined in the Preferred Stock Agreement.

All series of Preferred Stock automatically converts to common stock upon the closing of an initial public offering at a share price not less than $2.50 per share and with net proceeds of at least $50,000,000.

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At any time on or after September 30, 2007, a Senior Majority Interest, as defined, may elect to have redeemed up to one-third of the originally issued and outstanding shares of Series C Preferred Stock and Series D Preferred Stock held by each holder at such time.

At any time on or after September 30, 2008, a Senior Majority Interest may elect to have redeemed up to that percentage of outstanding shares of Series C Preferred Stock and Series D Preferred Stock that would, when combined with any prior redemptions, result in the redemption by the Company of up to two-thirds of each of the originally issued and outstanding shares of Series C Preferred Stock and Series D Preferred Stock held by each holder of Senior Preferred Stock at such time.

At any time on or after September 30, 2009, a Senior Majority Interest may elect to have redeemed up to that percentage of outstanding shares of Series C Preferred Stock and Series D Preferred Stock that would, when combined with any prior redemptions, result in the redemption by the Company of up to one hundred percent (100%) of the originally issued and outstanding shares of Series C Preferred Stock and Series D Preferred Stock held by each holder thereof at such time.

The price for each share of Senior Preferred Stock redeemed shall be the greater of (i) an amount equal to the Series C Preferred Stock or Series D Preferred Stock Original Issue Price plus all accrued but unpaid dividends or (ii) the Fair Market Value of such shares of Senior Preferred Stock. The aggregate Redemption Prices shall be payable in cash in immediately available funds to the holders of the Senior Preferred Stock on the applicable redemption date.

The Series C and Series D Preferred Stock are not considered mandatorily redeemable as defined by Statement of Financial Accounting Standards (SFAS) 150, *Accounting for Certain Financial Instruments with characteristics of Both Liabilities and Equity.* Due to the fact that the redemption is in the control of the stockholders, the Series C and D Preferred stock have been classified in the mezzanine section of the consolidated balance sheet.

8. Stock Option Plan

In 1998, the Company adopted the 1998 Stock Plan (the Plan) under which shares of the Company s common stock were reserved for issuance to employees, directors and consultants. Stock based awards granted under the Plan may be incentive stock options or nonstatutory stock options. Incentive stock options may only be granted to employees. Under the terms of the Plan, the Board of Directors shall specify the exercise price and vesting period of each stock option on the grant date, and certain options are exercisable upon the occurrence of a future event. The Plan authorizes the issuance of up to 24,727,315 shares of common stock. Typical vesting of the options is four years; 25% on the anniversary of the Effective Date and the remaining 75% of the shares at the rate of 1/12 per quarter over the next twelve quarters. The options generally expire at the earlier of ninety days from the end of employment or ten years from the date of grant.

At June 30, 2007, 3,503,431 shares were available for grant under the Plan. The following table summarizes the activity under the Plan:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2006	20,026,153	$ 0.12
Issued	25,000	0.11

Exercised	(134,375)		0.22
Forfeited	(596,063)		0.09
Outstanding, June 30, 2007	19,320,715	$	0.12
Options exercisable at June 30, 2007	17,388,037	$	0.12

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9. Related Party

The Company has an investor who is a partner at the law firm that provides services as primary counsel for the Company. Legal fees incurred in connection with services provided by this law firm for the three months and six months ended June 30, 2007 were approximately $672,000, and $823,000, respectively of which approximately $17,800 and $100,600 are recorded in general and administrative expenses respectively on the accompanying consolidated statements of income. Legal fees incurred in connection with services provided by this law firm for the three months and six months ended June 30, 2006 were approximately $11,200, and $24,800 which is recorded in general and administrative expenses on the accompanying consolidated statements of income. The remaining legal fees are included in prepaid expenses and other current assets on the accompanying consolidated balance sheets as they relate to transaction costs (Note 10).

10. Planned Merger Agreement

On May 14, 2007, the Company entered into an agreement and plan of merger with Nuance Communications, Inc. Related transaction costs of $807,982 and $0 at June 30, 2007 and December 31, 2006, respectively, are included in prepaid expenses and other current assets on the accompanying consolidated balance sheets. In the event that the merger is not consummated by November 14, 2007, the parties may terminate the agreement for any reason and Nuance will reimburse the Company for up to $1,000,000 in transaction related expenses.

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Voice Signal Technologies, Inc.

Annual Financial Statements

VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2006, 2005 and 2004

CONTENTS

INDEPENDENT AUDITORS REPORT

To the Board of Directors of
Voice Signal Technologies, Inc. and Subsidiaries
Woburn, Massachusetts

We have audited the accompanying consolidated balance sheets of Voice Signal Technologies, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in redeemable convertible preferred stock, stockholders deficit and comprehensive income (loss), and cash flows for each of the three years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Voice Signal Technologies, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years ended December 31, 2006, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standard No. 123(R), Share-Based Payment.

VITALE, CATURANO & COMPANY, LTD.

May 11, 2007
Boston, Massachusetts

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
Years Ended December 31, 2006 and 2005

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,982,789	$ 296,816
Short term investments	3,000,000	6,117,213
Accounts receivable	6,130,653	3,468,463
Prepaid expenses and other current assets	417,173	502,043
Deferred tax asset	3,624,000	3,222,000
Total current assets	17,154,615	13,606,535
Property and equipment, net	739,861	530,303
Other assets:		
Intangible assets, net	2,040,516	2,331,910
Other noncurrent assets	188,051	483,087
	2,228,567	2,814,997
	$ 20,123,043	$ 16,951,835
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS DEFICIT		
Current liabilities		
Accounts payable	$ 926,403	$ 712,685
Accrued expenses and other current liabilities	966,464	981,856
License obligation, current portion	894,043	344,010
Deferred revenue, current portion	5,645,714	8,389,905
Capital lease obligation, current portion	23,259	
Total current liabilities	8,455,883	10,428,456
License obligation, net of current portion	876,675	1,311,900
Capital lease obligation, net of current portion	15,319	
Deferred revenue, net of current portion	1,507,810	3,555,787
Total liabilities	10,855,687	15,296,143
Commitments and contingencies (Note 8)		
Redeemable convertible preferred stock:		
Series C redeemable convertible preferred stock, $.001 par value; 6,383,294 shares authorized, issued and outstanding (at redemption value; liquidation preference of $12,845,467)	12,768,200	12,096,039

Series D redeemable convertible preferred stock, $.001 par value; 66,281,550 shares authorized, issued and outstanding (at redemption value; liquidation preference of $32,816,093)	19,473,944	18,263,219
Total redeemable convertible preferred stock	32,242,144	30,359,258
Stockholders deficit:		
Series A convertible preferred stock, $.001 par value; 5,600,000 shares authorized, issued and outstanding (liquidation preference of $560,000)	5,600	5,600
Series B convertible preferred stock, $.001 par value; 1,820,000 shares authorized, issued and outstanding (liquidation preference of $699,999)	1,820	1,820
Common stock, $.001 par value; 128,000,000 shares authorized; 17,228,794 and 16,570,819 shares issued and outstanding at December 31, 2006 and 2005 respectively	17,229	16,571
Additional paid-in capital	1,795,483	1,580,759
Deferred compensation		(16,372)
Accumulated deficit	(24,784,382)	(30,283,740)
Accumulated other comprehensive loss	(10,538)	(8,204)
Total stockholders deficit	(22,974,788)	(28,703,566)
	$ 20,123,043	$ 16,951,835

See accompanying notes.

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Revenues:			
Royalty	$ 20,374,916	$ 8,755,391	$ 5,424,352
Professional services	3,082,257	1,684,608	959,123
License	1,144,255	1,300,927	1,083,305
Total revenues	24,601,428	11,740,926	7,466,780
Cost of revenues:			
Cost of revenue from amortization of intangible assets	474,350		
Cost of professional services	1,350,678	1,327,682	494,574
Total cost of revenues	1,825,028	1,327,682	494,574
Gross profit	22,776,400	10,413,244	6,972,206
Operating expenses:			
Research and development	6,000,678	5,351,616	4,088,227
General and administrative	5,356,430	4,293,850	2,739,078
Sales and marketing	4,214,434	4,071,809	3,131,120
	15,571,542	13,717,275	9,958,425
Income (loss) from operations	7,204,858	(3,304,031)	(2,986,219)
Interest income	144,462	206,589	44,164
Interest expense	(154,667)	(397)	
Income (loss) before income taxes	7,194,653	(3,097,839)	(2,942,055)
Benefit for income taxes	187,591	3,210,452	
Net income (loss)	$ 7,382,244	$ 112,613	$ (2,942,055)

See accompanying notes.

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK, STOCKHOLDERS DEFICIT AND COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2006, 2005 and 2004

Series D deemable Convertible Preferred Stock		Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Paid-in	Defer
ares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Compens
142,408	$ 14,923,859	5,600,000	$ 5,600	1,820,000	$ 1,820	15,950,350	$ 15,950	$ 1,511,052	$ (57,
						537,439	538	37,782	
139,142	933,560								
	1,195,075								
								12,262	(12,
									48,
281,550	17,052,494	5,600,000	5,600	1,820,000	1,820	16,487,789	16,488	1,561,096	(21,
						83,030	83	7,390	
	1,210,725								
								12,273	(12,
									17,

281,550	18,263,219	5,600,000	5,600	1,820,000	1,820	16,570,819	16,571	1,580,759	(16,
						657,975	658	53,406	
	1,210,725								
								(16,372)	16,
								77,857	
								99,833	
281,550	$ 19,473,944	5,600,000	$ 5,600	1,820,000	$ 1,820	17,228,794	$ 17,229	$ 1,795,483	$

See accompanying notes.

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Cash flows from operating activities:			
Net income (loss)	$ 7,382,244	$ 112,613	$ (2,942,055)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	324,401	249,093	182,314
Amortization expense	474,350		
Stock-based compensation	177,690	17,342	48,155
Deferred income taxes	(402,000)	(3,222,000)	
Non-cash interest expense	119,307		
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(2,662,190)	1,991,354	(5,165,848)
Prepaid expenses and other current assets	84,870	(359,793)	(93,340)
Other assets	292,953	(278,024)	(79,200)
Increase (decrease) in:			
Accounts payable	76,076	6,999	390,151
Accrued expenses and other current liabilities	(15,392)	33,198	670,900
Deferred revenue	(4,792,168)	7,037,410	3,088,298
Net cash provided by (used in) operating activities	1,060,141	5,588,192	(3,900,625)
Cash flows from investing activities:			
Redemption of short term investment	3,117,213		
Purchase of short term investment		(6,117,213)	
Acquisitions of property and equipment	(485,278)	(463,924)	(161,207)
Acquisition of patent license	(47,730)		
Payments on data license		(676,000)	
Net cash provided by (used in) investing activities	2,584,205	(7,257,137)	(161,207)
Cash flows from financing activities:			
Proceeds from exercising stock options	54,064	7,473	38,320
Proceeds from issuance of preferred stock			933,560
Payments on loan obligations	(13,077)		
Net cash provided by financing activities	40,987	7,473	971,880
Effect of change in exchange rates on cash	640	(811)	
Net increase (decrease) in cash and cash equivalents	3,685,973	(1,662,283)	(3,089,952)
Cash and cash equivalents, beginning of year	296,816	1,959,099	5,049,051

Cash and cash equivalents, end of year	$	3,982,789	$	296,816	$	1,959,099
Supplemental disclosures of cash flow information:						
Cash paid during the year for:						
Interest	$	154,667	$	397	$	
Income taxes	$	168,418	$		$	
Supplemental disclosures of noncash investing and financing activities:						
Accounts payable incurred to acquire patent	$	135,226	$		$	
Capital lease obligation assumed in acquisition of property and leased equipment	$	51,665	$		$	
Accretion of Series C Preferred Stock dividends	$	672,161	$	672,161	$	672,161
Accretion of Series D Preferred Stock dividends	$	1,210,725	$	1,210,725	$	1,195,075
Obligation assumed in acquisition of data license	$		$	1,655,910	$	

See accompanying notes.

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004

1. Nature of Organization

Voice Signal Technologies, Inc. and Subsidiaries (VoiceSignal or the Company) consists of Voice Signal Technologies, Inc., a Delaware corporation and four wholly-owned subsidiaries. The Company is a privately held corporation based in Woburn, Massachusetts. Its subsidiaries consist of Voice Signal Technologies OY, which is located in Finland, and VoiceSignal KK, which is located in Japan, both foreign corporations, as well as Voice Signal Korea, Inc., located in Korea, and Voice Signal International, Inc., located in China and England, both Massachusetts corporations.

VoiceSignal develops state-of-the-art small footprint, highly accurate, speech solutions for use on wireless mobile devices. VoiceSignal licenses its solutions to original equipment manufacturers (OEMs) of mobile information devices (phones, handhelds) and directly to consumers of mobile devices.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements reflect the consolidated results of Voice Signal Technologies, Inc. and Subsidiaries for the years ended December 31, 2006, 2005 and 2004. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers short-term investments with original maturity dates of three months or less at the date of purchase to be cash equivalents. The Company s cash equivalents as of December 31, 2006 and 2005 primarily consisted of funds deposited at financial institutions within the United States.

Short-Term Investments

As of December 31, 2006 and 2005, the Company s short-term investments include certificates of deposits held with a financial institution. The certificate of deposit at December 31, 2006 matures during 2007. The certificate of deposit that was recorded at December 31, 2005 matured in 2006. At December 31, 2005, the amount recorded on the accompanying consolidated balance sheets includes interest receivable of approximately $17,000.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Allowances for doubtful accounts are provided for those outstanding balances considered to be uncollectible based upon management s evaluation of the outstanding balances at year end. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts. The Company has determined all amounts outstanding to be collectible and has not recorded an allowance for the years ended December 31, 2006 and 2005.

Property and Equipment

Property and equipment are recorded at cost. Major replacements and improvements are capitalized, while general repairs and maintenance are charged to expense as incurred. The Company provides for

VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

depreciation using the straight-line method, beginning in the middle of the quarter the asset is placed in service, over the estimated useful lives of the assets as follows:

Computers equipment and software	3 years
Furniture and fixtures	5 years
Equipment	5 years
Leasehold improvements	Lesser of useful life or life of the lease

Revenue Recognition

In accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 97-2, *Software Revenue Recognition*, as amended by SOP No. 98-9, *Software Revenue Recognition, With Respect to Certain Transactions,* revenue from sales of software products is recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, no significant Company obligations with regard to the product s functionality remain, the fee is fixed or determinable and collectibility is probable. Substantially all of the Company s revenues are derived from multiple element arrangements that include royalty fees, professional services, and licenses fees. The Company has not established vendor specific objective evidence (VSOE) for the fair values of the individual elements in its multiple element contracts. For those arrangements that require customers to make large initial payments under multiple element contracts, the Company recognizes the revenue from the initial payments ratably over the period the Company expects to provide services, which is either the term of the respective agreement or the units shipped, provided the agreement specifies a fixed number of units. Additional payments received from customers during the term of the contracts for professional services or royalties are recognized as the services are provided or units are shipped to the customer, provided all other elements are delivered.

Deferred Costs of Professional Services

The commissions expense incurred in its multiple element arrangements are deferred and expensed ratably as the related revenue is recognized either over the term of the contract or as the units shipped. As of December 31, 2006, 2005 and 2004, these deferred costs totaled approximately $348,000, $774,000 and $183,000, respectively, and are included in prepaid expenses and other current assets and other noncurrent assets in the accompanying balance sheets.

Income Taxes

The Company accounts for income taxes utilizing the asset and liability method as prescribed by SFAS No. 109, *Accounting for Income Taxes.* Under the provisions of SFAS No. 109, the current or deferred tax consequences of a transaction are measured by applying the provisions of enacted tax laws to determine the amount of taxes payable currently or in future years. The classification of net current and noncurrent deferred tax assets or liabilities depend upon the nature of the related asset or liability. Deferred income taxes are provided for temporary differences between the income tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. In addition, deferred taxes are recognized for operating losses that are available to offset future taxable income. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Research and Software Development Costs

Research and development expenditures incurred in the development of software products and enhancements to existing software products are expensed to operations as incurred until the point the Company establishes technological feasibility in accordance with Statement of Financial Accounting Standards (SFAS)

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

No. 86, *Accounting for Software to be Sold, Licensed or Otherwise Marketed to Others* (SFAS No. 86). Technical feasibility is established upon the completion of a working model or a detailed program design as defined by SFAS No. 86. Costs incurred by the Company between establishment of technological feasibility and the point at which the product is ready for general release are capitalized, subject to their recoverability, in accordance with SFAS No. 86 and amortized over the economic life of the related product. The Company has not capitalized any software development costs as of the balance sheet date as the costs eligible for capitalization are immaterial.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), *Share Based Payment*, or SFAS No. 123(R), which is a revision of Statement No. 123 (SFAS 123) *Accounting for Stock Based Compensation.* SFAS No. 123(R) supersedes Accounting Principles Board (APB) No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95 *Statement of Cash Flows.* SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options and modifications to existing stock options, to be recognized in the income statement based on their fair values. The Company adopted SFAS No. 123(R) using the prospective transition method. As such, the Company will continue to apply APB No. 25 in future periods to equity awards outstanding at the date of SFAS No. 123(R) s adoption that were measured using the minimum value method. Pro forma disclosure is no longer an alternative. The Company is currently evaluating the impact the adoption of SFAS No. 123(R) will have on the Company s operating results for periods after December 31, 2006, but the impact of adoption of SFAS No. 123(R) cannot be predicted with certainty as it is principally a function of the number of options to be granted in the future, the share price on the date of the grant, the expected life of the award, and volatility and estimated forfeitures. The adoption of SFAS No. 123(R) will have no effect on our financial position or cash flow for any period.

Prior to January 1, 2006, the Company applied Accounting Principles Board APB Opinion No. 25, Accounting for Stock Issued to Employees in accounting for its stock incentive plan and accordingly, compensation cost was recognized for its stock options in the financial statements when the exercise price was below the fair market value. During the years ended December 31, 2005 and 2004, approximately $17,000 and $48,000, respectively, were recorded under the intrinsic value based method for options granted to consultants (Note 12). Had the Company determined compensation cost in all periods based on the fair value at the grant date for its stock options under SFAS No. 123R, the Company s net income (loss) and net income (loss) per common equivalent share for the years ended December 31, 2005 and 2004 would have been increased to the pro forma amounts indicated below:

	2005			
	Net Income (Loss) Applicable to Common Stockholders (Basic)	**Basic Earnings Per Share**	**Net Income (Loss) Applicable to Common Stockholders (Diluted)**	**Diluted Earnings Per Share**

As reported	$	(1,770,273)	$	(0.11)	$	112,613	$	(0.11)
Add stock-based compensation expense included in reported net income (loss)		17,342		(0.00)		17,342		(0.00)
Less stock-based compensation expense determined under fair value method		(168,608)		(0.01)		(168,608)		(0.00)
Pro forma		(1,921,539)	$	(0.12)	$	(38,653)	$	(0.11)

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

	2004			
	Net Income (Loss) Applicable to Common Stockholders (Basic)	Basic Earnings Per Share	Net Income (Loss) Applicable to Common Stockholders (Diluted)	Diluted Earnings Per Share
As reported	$ (4,809,291)	$ (0.30)	$ (2,942,052)	$ (0.30)
Add stock-based compensation expense included in reported net loss	48,155	(0.00)	171,243	(0.00)
Less stock-based compensation expense determined under fair value method	(219,398)	(0.01)	(171,243)	(0.00)
Pro forma	(4,980,534)	$ (0.31)	$ (2,942,052)	$ (0.30)

For the years ending December 31, the fair value of each stock option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following range of assumptions:

	2006	2005	2004
Assumptions:			
Risk-free interest rate	4.66-5.19%	3.70-4.74%	3.89-4.61%
Expected dividend yield	0%	0%	0%
Volatility factor	68-77%	0%	0%
Expected life of option	4.84-6.11 years	10 years	10 years

In accordance with SFAS No. 123(R), the Company will recognize the compensation cost of share-based awards issued after January 1, 2006, on a straight-line basis over the vesting period of the award. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by the stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The Company does not have a history of market prices of the common stock as it is not a public company, and as such volatility is estimated in accordance with Staff Accounting Bulletin No. 107 (SAB No. 107) using historical volatilities of similar public entities. The expected life of the awards is estimated based on the simplified method, as defined in SAB No. 107. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on history and expectation of paying no dividends. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense recognized in the financial statements in 2006 and thereafter is based on awards that are ultimately expected to vest.

The weighted-average fair value of stock options granted during the years ended December 31, 2006, 2005 and 2004 under the Black-Scholes option pricing model were $0.93, $0.09 and $0.09 per share, respectively. For the year ended December 31, 2006, the Company recorded stock-based compensation expense of $99,833 in connection with share-based payment awards. The following table presents stock-based compensation expense included in the accompanying consolidated statements of income:

Research and development	$ 25,210
General and administrative	59,335
Sales and marketing	15,288
Total stock-based compensation expense	$ 99,833

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

As of December 31, 2006, there was approximately $421,000 of unrecognized compensation expense related to non-vested stock option awards that is expected to be recognized over a weighted-average period of 3.21 years.

Foreign Currency Translation

The functional currency of the Company s foreign subsidiary is the local currency. Assets and liabilities of foreign subsidiaries are translated at the rates in effect at the balance sheet date, while stockholders equity (deficit) is translated at historical rates. Statements of operations and cash flow amounts are translated at the average rate for the period. Translation adjustments are included as a component of accumulated other comprehensive loss. Foreign currency gains and losses arising from transactions are reflected in the loss from operations and were not significant during the years ended December 31, 2006, 2005 and 2004.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk and Significant Customers

The Company maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents. For the years ended December 31, 2006, 2005 and 2004, the Company generated approximately 95%, 87% and 94%, respectively, of its revenues from two customers. Total accounts receivable from these two customers as of December 31, 2006 and 2005 amounted to approximately 98% and 88%, respectively.

Segmentation of Financial Results

The Company s primary operating decision makers evaluate the Company s financial performance using consolidated financial information. Accordingly, the Company presents its financial results as a single segment related to the sale of its products.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Income Tax Uncertainties*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. The Interpretation prescribes a recognition threshold of more-likely-than-not and a measurement attribute on all tax positions taken or expected to be taken in a tax return in order to be recognized in the financial statements. In making this assessment, a company must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based solely on the technical merits of the position and that the tax position will be examined by appropriate taxing authority that would have full knowledge of all relevant information. Once the recognition threshold is met, the tax position is then measured to determine the actual amount of benefit to recognize in the financial statements. In addition, the recognition threshold of more-likely-than-not must continue to be met in each reporting period to support continued recognition of the tax benefit. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be

VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

recognized in the first financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the financial reporting period in which that threshold is no longer met. The Company adopted FIN 48 effective January 1, 2007, and there was no impact to the Company s financial statements.

3. Property and Equipment

Property and equipment consisted of the following at December 31:

	2006	2005
Computer equipment and software	$ 1,515,557	$ 1,074,058
Furniture and fixtures	256,965	256,965
Leasehold improvements	214,146	121,685
Equipment	24,881	24,881
	2,011,549	1,477,589
Less accumulated depreciation	1,271,688	947,286
	$ 739,861	$ 530,303

4. Intangible Assets

During 2005, the Company entered into a Data License Agreement (License Agreement) with a software vendor to purchase a royalty-free, worldwide, exclusive license to use in the design, development, production, commercialization, and maintenance of the Company s products. Under the License Agreement, the Company committed to purchase a set number of data language licenses for a total contract value of $2,600,000 (Note 6). The licenses, under the License Agreement, are recorded at cost and are amortized on a straight-line basis over the useful life beginning when the assets are placed in service. At December 31, 2006 and 2005, the licenses of $2,331,910, net of accumulated amortization of $466,382 and $0, respectively, are included in intangible assets, net, on the accompanying consolidated balance sheets.

During 2006, the Company entered into a Patent License Agreement with a not-for-profit corporation to purchase a worldwide, exclusive license. The license, under the Patent License Agreement, is recorded at cost and is amortized on a straight-line basis over a useful life of 5 years beginning when the asset is placed in service. At December 31, 2006, the license of $182,956, net of accumulated amortization of $7,968 is included in intangible assets, net, on the accompanying consolidated balance sheets.

Amortization expense for the year ended December 31, 2006 was $474,350 and is included in cost of revenues. There was no amortization expense in the years ended December 31, 2005 and 2004. The estimated aggregate amortization expense for the years ending December 31, 2007, 2008, 2009, 2010 and 2011 is $502,975, $502,975, $502,975,

$502,975 and $28,616.

5. Line of Credit

In November 2006, the Company entered into an agreement with a financial institution to provide a revolving line of credit with a borrowing base of $1,500,000 plus 80% of the Company s accounts receivable balance billed with-in the prior 90 days, up to a total available balance of $5,000,000. Borrowings under the line of credit bear interest at the bank s prime rate plus one-half of one percent (8.75% at December 31, 2006). As of December 31, 2006, the Company had no borrowings under this revolving line of credit. The Company has capitalized $50,000 in deferred financing fees during 2006 and will expense these fees ratably over the term of the revolving line of credit. The amortization of the deferred financing fees was $2,083 for

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

the year ended December 31, 2006 and is recorded in interest expense on the accompanying consolidated statements of operations.

The line of credit has an original term of 24 months and is subject to certain restrictive covenants. The most significant covenants relate to maintaining certain financial ratios, prohibiting change of control without the consent of the bank, requiring certain periodic reporting and limiting certain other transactions.

6. License Obligation

The Company financed the purchase of the Data License Agreement (Note 4) over a five year period. At December 31, 2006 and 2005, the present value of the related liability, plus accrued interest, is $1,770,718 and $1,655,910, net of payments of $676,000 made in 2005. The liability is recorded as a license obligation on the accompanying balance sheets based on the minimum purchase commitments over the term of the commitment utilizing an interest rate of 7.25%.

Maturities of the data license agreement for the years ending December 31 are as follows:

2007	$ 918,750
2008	555,000
2009	361,000
2010	89,250
	1,924,000
Less amount representing interest	153,282
Present value of future payments	1,770,718
Less current portion of data license obligation	894,043
Data license obligation, net of current portion	$ 876,675

The Company is required to make payments on the purchase of the patent licenses throughout 2007. The obligation, plus accrued interest, is recorded in accounts payable on the accompanying consolidated balance sheets utilizing an interest rate of 8.25% at December 31, 2006.

7. Capital Lease Obligations

In 2006, the Company entered into a noncancelable capital lease agreement for computer equipment. The lease will expire on July 2008. The terms of the lease call for 24 monthly interest free installments. Interest has been recorded using the effective interest method at 8%. The Company recorded the property and equipment at $51,665. Depreciation expense relating to the Company s assets under capital lease was $6,457 for the year ending December 31, 2006. There were no capital leases at December 31, 2005.

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

Future minimum payments required under the lease obligation for the years ending December 31 are as follows:

2007	$ 25,505
2008	15,728
	41,233
Less amount representing interest	2,655
Present value of future minimum payments	38,578
Less current portion of obligation under capital lease	23,259
Long-term portion of obligation under capital lease	$ 15,319

8. Commitments and Contingencies

Leases

The Company leases certain offices and development facilities and an automobile under noncancelable operating leases that expire over the next three years. Total rental expense for operating leases approximated $326,753, $300,268 and $298,720 for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company s lease agreement at the Woburn location requires future increases in the minimum base rent. Rent expense under this arrangement is recognized on the straight-line basis over the term of the lease. The difference between rent expense recognized on the straight-line basis and cash paid is included in accrued expenses and other current liabilities on the accompanying consolidated balance sheets.

Minimum lease payments through the cancellation date of the respective leases are as follows at December 31:

2007	$ 330,500
2008	280,215
2009	137,037
	$ 747,752

Litigation

Since 2004, the Company and Nuance have been engaged with each other in litigation regarding various patent and trade secret matters. The Company does not believe this litigation and other various legal matters which have arisen in the ordinary course of business will be resolved in a manner that will have a material adverse effect on the financial condition, results of operations or cash flows of the Company. The Company believes these litigation matters are without merit and intends to defend these matters vigorously.

VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

9. Income Taxes

The benefit (provision) for income taxes for the Company for the years ended December 31, 2006, 2005 and 2004 is summarized as follows:

	2006	2005	2004
Current:			
Federal	$ (192,000)	$	$
State			
Foreign	(22,409)	(11,548)	
	(214,409)	(11,548)	
Deferred:			
Federal	342,000	2,739,000	
State	60,000	483,000	
Foreign			
	402,000	3,222,000	
	$ 187,591	$ 3,210,452	$

The effective combined domestic and foreign income tax rate of approximately 3%, (104)%, 0% in 2006, 2005, and 2004, respectively, differed from the federal statutory rate of 34% primarily because of changes in the valuation allowance and the alternative minimum tax liability recorded in 2006.

Temporary differences that give rise to significant deferred tax assets at December 31, 2006 and 2005 are as follows:

	2006	2005
Deferred tax assets:		
Net operating loss carryforwards	$ 5,150,000	$ 9,182,000
Deferred revenue	1,560,000	702,000
Tax credits	773,000	773,000
Other	251,000	48,000
	7,734,000	10,705,000
Deferred tax asset valuation allowance	(4,110,000)	(7,483,000)

	$ 3,624,000	$ 3,222,000

SFAS No. 109 requires a valuation allowance to be recorded if, based on the weight of the available evidence, it is more likely than not that some portion or all of the deferred tax asset may not be realized. During 2006 and 2005, the Company s valuation allowance decreased by approximately $3,373,000 and $2,020,000, respectively, based on its consideration of forecasted profitable operations.

At December 31, 2006, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $13,000,000, and research and development federal tax credit carryforwards of approximately $773,000 available to reduce federal and state taxable income. These carryforwards expire through 2025.

VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

Under the provisions of the Internal Revenue Code, certain substantial changes in the Company s ownership may result in a limitation on the amount of net operating loss carryforwards, which can be used in future years.

10. Stockholders Deficit

At December 31, 2006, the Company is authorized to issue 128,000,000 and 80,084,844 shares of common stock and preferred stock, $.001 par value, respectively. The preferred stock consists of 5,600,000 shares designated as Series A Convertible Preferred Stock (Series A Preferred Stock), 1,820,000 shares designated as Series B Convertible Preferred Stock (Series B Preferred Stock), 6,383,294 shares designated as Series C Redeemable Convertible Preferred Stock (Series C Preferred Stock), and 66,281,550 shares designated as Series D Redeemable Convertible Preferred Stock (Series D Preferred Stock).

As of December 31, 2006, the Company has reserved for issuance the following shares of common stock for the exercise of stock options and the conversion of preferred stock:

Stock options	24,727,315
Convertible preferred stock	80,084,844
	104,812,159

11. Preferred Stock

Preferred Stock

The rights and preferences of the preferred stock are as follows:

Voting

The holders of all series of Preferred Stock shall vote together with all other classes and series of stock of the Company as a single class on all actions to be taken by the stockholders of the Company. Each share of Preferred Stock shall entitle the holder to such number of votes equal to the number of shares of Voting Common Stock (including fractions of a share) into which each share of Preferred Stock is then convertible.

Dividends

The holders of the Series C Preferred Stock and Series D Preferred Stock (Senior Preferred Stock) shall be entitled to receive cumulative dividends equal to $0.1053 per annum per share for Series C Preferred Stock and equal to $0.0182664 per annum per share for Series D Preferred Stock. The dividends will accrue daily in arrears whether or not such dividends are declared by the Board of Directors. At December 31, 2006, 2005 and 2004, cumulative unpaid dividends for Series C Preferred Stock totaled $4,439,944, $3,767,783 and $3,095,622, respectively, and cumulative unpaid dividends for Series D Preferred Stock totaled $4,503,807, $3,293,082 and $2,082,357 respectively.

The holders of the Series A Preferred Stock and Series B Preferred Stock (Junior Preferred Stock) shall be entitled to receive dividends, if and when, as declared by the Board of Directors, out of funds legally available for that purpose after the payment of all accrued and unpaid dividends to the holder of each share of Senior Preferred Stock.

VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

Liquidation

In the event of any liquidation, dissolution or winding-up of the Company, the Series A, Series B, and Series C Preferred Stockholders shall receive a per share amount equal to the original issue price of the respective Series and dividends and the Series D Preferred Stockholders shall receive a per share amount equal to two times the Series D Preferred Stock original issue price, plus all declared and unpaid dividends.

Conversion

Each share of Preferred Stock, at the option of the holder, is convertible into fully paid and nonaccessable shares of voting common stock initially on a share-for-share basis. The Junior Preferred Stockholders are entitled to payment of any declared and unpaid dividends. The Senior Preferred Stockholders have the right to convert any accrued but unpaid dividends on the Senior Preferred Stock into the number shares of voting common stock based on a predetermined ratio, as defined in the Preferred Stock Agreement.

All series of Preferred Stock automatically converts to common stock upon the closing of an initial public offering at a share price not less than $2.50 per share and with net proceeds of at least $50,000,000.

Redemption

At any time on or after September 30, 2007, a Senior Majority Interest, as defined, may elect to have redeemed up to one-third of the originally issued and outstanding shares of Series C Preferred Stock and Series D Preferred Stock held by each holder at such time.

At any time on or after September 30, 2008, a Senior Majority Interest may elect to have redeemed up to that percentage of outstanding shares of Series C Preferred Stock and Series D Preferred Stock that would, when combined with any prior redemptions, result in the redemption by the Company of up to two-thirds of each of the originally issued and outstanding shares of Series C Preferred Stock and Series D Preferred Stock held by each holder of Senior Preferred Stock at such time.

At any time on or after September 30, 2009, a Senior Majority Interest may elect to have redeemed up to that percentage of outstanding shares of Series C Preferred Stock and Series D Preferred Stock that would, when combined with any prior redemptions, result in the redemption by the Company of up to one hundred percent (100%) of the originally issued and outstanding shares of Series C Preferred Stock and Series D Preferred Stock held by each holder thereof at such time.

The price for each share of Senior Preferred Stock redeemed shall be the greater of (i) an amount equal to the Series C Preferred Stock or Series D Preferred Stock Original Issue Price plus all accrued but unpaid dividends or (ii) the Fair Market Value of such shares of Senior Preferred Stock. The aggregate Redemption Prices shall be payable in cash in immediately available funds to the holders of the Senior Preferred Stock on the applicable redemption date.

The Series C and Series D Preferred Stock are not considered mandatorily redeemable as defined by SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. Due to the fact that the redemption is in the control of the stockholders, the Series C and D Preferred Stock have been classified in the mezzanine section of the consolidated balance sheet.

12. Stock Option Plan

In 1998, the Company adopted the 1998 Stock Plan (the Plan) under which shares of the Company s common stock were reserved for issuance to employees, directors and consultants. Stock based awards granted under the Plan may be incentive stock options or nonstatutory stock options. Incentive stock options may only be granted to employees. Under the terms of the Plan, the Board of Directors shall specify the exercise price

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

and vesting period of each stock option on the grant date, and certain options are exercisable upon the occurrence of a future event. The Plan authorizes the issuance of up to 24,727,315 shares of common stock. Typical vesting of the options is four years; 25% on the anniversary of the Effective Date and the remaining 75% of the shares at the rate of 1/12 per quarter over the next twelve quarters. The options generally expire at the earlier of ninety days from the end of employment or ten years from the date of grant.

At December 31, 2006, 2,932,368 shares were available for grant under the Plan. The following table summarizes the activity under the Plan:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2003	16,332,100	$ 0.12
Issued	3,566,958	0.09
Exercised	(537,439)	0.07
Forfeited	(737,659)	0.16
Outstanding, December 31, 2004	18,623,960	$ 0.12
Issued	2,938,000	0.09
Exercised	(83,030)	0.09
Forfeited	(333,736)	0.09
Outstanding, December 31, 2005	21,145,194	$ 0.11
Issued	770,000	0.10
Exercised	(657,975)	0.08
Forfeited	(1,231,066)	0.09
Outstanding, December 31, 2006	20,026,153	$ 0.12
Options exercisable at December 31, 2006	16,810,847	$ 0.12
Options exercisable at December 31, 2005	12,071,613	$ 0.13
Options exercisable at December 31, 2004	7,857,354	$ 0.15

The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was $451,402, $0 and $10,050, respectively.

The following table summarizes information about stock options that are vested or expected to vest at December 31, 2006. The number of options outstanding is based on the unvested options outstanding at December 31, 2006, adjusted for the estimated forfeiture rate of 10%.

	Outstanding Options		
Exercise Prices	Number Outstanding	Weighted-average Remaining Contractual Life	Weighted-average Exercise Price
$ 0.04	1,590,000	3.04 years	$ 0.04
$ 0.09-$0.11	16,532,621	7.28 years	$ 0.09
$ 0.33	733,632	3.80 years	$ 0.33
$ 0.42-$0.45	1,169,900	4.77 years	$ 0.44

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VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

Exercisable Options			
Exercise Prices	Number Outstanding	Weighted-average Remaining Contractual Life	Weighted-average Exercise Price
$ 0.04	1,590,000	3.04 years	$ 0.04
$ 0.09-$0.11	13,317,315	7.10 years	$ 0.09
$ 0.33	733,632	3.80 years	$ 0.33
$ 0.42-$0.45	1,169,900	4.77 years	$ 0.44

Cash received from option exercise under all share-based payment arrangements for the years ended December 31, 2006, 2005 and 2004 was $54,064, $7,473 and $38,320 respectively. No actual tax benefit was realized from option exercises during these periods. The aggregate intrinsic value of all options outstanding as of December 31, 2006 was $17,512,147. The aggregate intrinsic value of all exercisable options as of December 31, 2006 was $14,625,872.

Stock Options Issued for Services

The Company issues options to consultants to purchase shares of common stock. The shares vest over periods ranging up to four years. In accordance with SFAS No. 123(R) and EITF No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Connection with Selling Goods or Services*, the Company calculates compensation expense using the Black-Scholes option pricing model and is recording the expense over the vesting period. The compensation charge for the years ended December 31, 2006, 2005 and 2004 was $77,857, $17,342 and $48,155, respectively and is recorded in general and administrative expenses on the accompanying consolidated statements of operations.

13. 401(k) Savings Plan

The Company has established a defined contribution savings plan under Section 401(k) of the Internal Revenue Code. This plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. Company contributions to the plan may be made at the discretion of the Board of Directors. To date there have been no contributions made to the plan by the Company.

14. Related Party

The Company has an investor who is a partner at the law firm that provides services as primary counsel for the Company. Legal fees incurred in connection with services provided by this law firm for the years ended December 31, 2006, 2005 and 2004 were approximately $78,000, $108,000 and $182,000, respectively.

VOICE SIGNAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2006, 2005 and 2004 (Continued)

15. Foreign Operations

The Company operates and markets its services on a worldwide basis with its principal markets as follows:

	Years Ended December 31,		
	2006	**2005**	**2004**
Revenue by geographic region based on location of customer:			
North America	$ 12,096,745	$ 4,726,168	$ 1,266,874
Korea	12,488,439	6,787,337	6,159,183
Rest of world	16,244	227,421	40,723
Total revenue	$ 24,601,428	$ 11,740,926	$ 7,466,780

16. Subsequent Event

During 2007, the Company amended a contract with one of its major customers. The contract amendment extends the term of the contract through December 31, 2009 and provides for additional licenses, integration support, and additional languages for the respective products. The Company received a prepayment under the amendment and will recognize the related revenue over the term of the contract.

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Bluestar Resources Limited

Annual Financial Statements

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Report of Independent Auditors

The Board of Directors of
Bluestar Resources Limited

We have audited the accompanying consolidated balance sheets of Bluestar Resources Limited as of December 31, 2006 and 2005 and the related consolidated statements of income, shareholder s equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bluestar Resources Limited at December 31, 2006 and 2005 and the consolidated results of its operations and its consolidated cash flows for the years then ended in conformity with United States generally accepted accounting principles.

/s/ S.R. BATLIBOI & ASSOCIATES

Mumbai, India
March 26, 2007

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Bluestar Resources Limited

Consolidated Balance Sheets

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 365,845	$ 620,291
Accounts receivable, net	3,669,170	2,879,436
Amounts due from related parties	6,638,631	2,150,586
Employee receivables	12,619	147,433
Prepaid expenses	166,322	274,126
Deferred tax assets	58,267	41,203
Other current assets	125,092	2,320
Total current assets	11,035,946	6,115,395
Property and equipment, net	1,233,318	1,570,317
Rental and other deposits	427,859	316,686
Deferred tax assets	36,799	35,279
Investments in bank deposits		223,476
Total assets	$ 12,733,922	$ 8,261,153
LIABILITIES AND SHAREHOLDER S EQUITY		
Current liabilities:		
Accounts payable	$ 557,766	$ 401,203
Accrued employee costs	793,470	532,993
Obligations under capital leases current	134,097	117,542
Lines of credit	500,399	1,390,869
Long term debt current	192,183	179,406
Amounts due to related parties		112,855
Deferred tax liabilities	1,196,398	564,829
Income taxes payable	94,624	123,405
Other current liabilities	281,094	279,974
Total current liabilities	3,750,031	3,703,076
Long term debt non-current	197,047	238,841
Obligation under capital leases non-current	305,782	423,138
Commitments and contingencies		
Preference shares issued by a subsidiary	650,000	
Shareholder s equity		
Common stock, (par value $1 per share; 10,000 shares authorized; 10,000 shares issued and outstanding at December 31, 2006)	10,000	10,000
Additional paid-in-capital	780,107	780,107
Receivable from shareholder	(10,000)	(10,000)

Retained earnings	6,815,014	3,157,330
Accumulated other comprehensive income (loss)	235,941	(41,339)
Total Shareholder s equity	7,831,062	3,896,098
Total liabilities and shareholder s equity	$ 12,733,922	$ 8,261,153

See accompanying notes.

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Bluestar Resources Limited

Consolidated Statements of Income

	Years Ended December 31, 2006	2005
Revenue		
Third parties	$ 18,716,646	$ 12,328,480
Related parties	101,136	
	18,817,782	12,328,480
Cost of revenue	9,946,685	7,321,395
Gross profit	8,871,097	5,007,085
Selling, general and administrative expenses	3,704,263	2,562,228
Operating income	5,166,834	2,444,857
Interest expense	171,303	115,849
Other income (expense)	(585,202)	5,429
Income before income taxes	4,410,329	2,334,437
Provision for income taxes	726,212	331,864
Net income	$ 3,684,117	$ 2,002,573

See accompanying notes.

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Bluestar Resources Limited

Consolidated Statements of Shareholder s Equity
Years ended December 31, 2006 and 2005

	Common Stock Number	Common Stock Par Value	Additional Paid-In-Capital	Receivable From Shareholder	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder s Equity
Balance at January 1, 2005	10,000	10,000	760,962	(10,000)	1,154,757	9,960	1,925,679
Issue of shares by Focus India			19,145				19,145
Comprehensive income:							
Net income					2,002,573		2,002,573
Foreign currency translation						(51,299)	(51,299)
Comprehensive income							1,951,274
Balances at December 31, 2005		10,000	780,107	(10,000)	3,157,330	(41,339)	3,896,098
Dividend on preference shares of subsidiary					(26,433)		(26,433)
Comprehensive income:							
Net income					3,684,117		3,684,117
Foreign currency translation						277,280	277,280
Comprehensive income							3,961,397
Balances at December 31, 2006	10,000	$ 10,000	$ 780,107	$ (10,000)	$ 6,815,014	$ 235,941	$ 7,831,062

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Bluestar Resources Limited

Consolidated Statements of Cash Flows

	Years Ended December 31, 2006	2005
Cash flow from operating activities		
Net income	$ 3,684,117	$ 2,002,573
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	658,119	557,976
Loss on sale of property and equipment	32,153	
Allowance for doubtful accounts	30,755	102,242
Preference shares of a subsidiary	650,000	
(Gain) loss on forward currency contracts	(109,229)	80,237
Deferred taxes	589,809	234,714
	5,535,724	2,977,742
Changes in operating assets and liabilities:		
Accounts receivables	(820,484)	(1,466,444)
Employee receivables	134,955	47,361
Prepaid expenses	116,671	(226,449)
Other current assets	(31,115)	3,115
Rental and other deposits	(101,100)	249,283
Accounts payable	112,447	2,575
Accrued employee costs	280,577	34,306
Income taxes payable	(26,726)	72,824
Other current liabilities	(669)	202,312
Net cash provided by operating activities	5,200,280	1,896,625
Cash flows from investing activities		
Proceeds from (Investments in) bank deposits	220,377	(229,019)
Purchase of property and equipment	(334,815)	(467,629)
Proceeds from sale of property and equipment	77,918	
Net cash provided by (used in) investing activities	(36,520)	(696,648)
Cash flows from financing activities		
Net change in amounts due from related parties	(4,472,146)	(1,607,587)
Repayment of debt	(38,183)	(122,351)
Net change in lines of credit	(895,216)	921,958
Principal payments under capital leases	(179,607)	(65,406)
Proceeds from issuance of equity shares by Focus India		19,145
Net cash provided by financing activities	(5,585,152)	(854,241)
Effect of exchange rate changes on cash and cash equivalents	166,946	(6,428)

Increase (decrease) in cash and cash equivalents		(254,446)		339,308
Cash and cash equivalents at the beginning of year		620,291		280,983
Cash and cash equivalents at the end of year	$	365,845	$	620,291
Supplemental disclosure of cash flow information:				
Assets acquired under capital leases	$	81,715	$	618,111
Cash paid for interest	$	171,303	$	115,871
Cash paid for income taxes	$	163,129	$	39,704

See accompanying notes.

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Bluestar Resources Limited

Notes to the Consolidated Financial Statements
Years ended December 31, 2006 and 2005

1. Organization and Nature of Business

Focus Enterprises Limited, a Delaware corporation, doing business as Focus Infomatics, Inc. (Focus USA) is engaged in providing medical transcription services to customers in the United States. Focus USA outsources most of its activities to Focus Infosys India Private Limited, an Indian company, (Focus India). Focus USA and Focus India were wholly owned subsidiaries of Focus Enterprises Limited, a company incorporated in the British Virgin Islands (FEL).

In June 2006, the shares of Focus USA and Focus India were transferred to Bluestar Options Inc., a company incorporated in May 2006 in the British Virgin Islands. Bluestar Options, Inc. is a wholly owned subsidiary of Bluestar Resources Limited, a company incorporated in May 2006 in the British Virgin Islands. Bluestar Resources Limited (BSR) is wholly owned by Bethany Advisors, Inc., a company incorporated in the British Virgin Islands. Bethany Advisors, Inc. is owned by a trust organized in Liechtenstein. BSR and Bluestar Options, Inc. are holding companies.

2. Summary of Significant Accounting Policies

Basis of Preparation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The accompanying consolidated financial statements include the accounts of Bluestar Resources, Limited, its wholly-owned subsidiaries, Bluestar Options, Inc., Focus USA and Focus India (collectively, the Company). All significant inter company balances and transactions have been eliminated on consolidation.

BSR and FEL are entities under common control. Accordingly, the transfer of Focus USA and Focus India from FEL to Bluestar Options Inc. has been accounted for at historical cost in a manner similar to a pooling of interests. Accordingly, the historical financial periods prior to the incorporation of BSR include the financial information of Focus USA and Focus India, presented as if the transfer of shares had occurred at the beginning of the periods presented.

In August 2004, Focus India incorporated a wholly-owned subsidiary Focus Softek Limited, a company incorporated in India and research and development activity related to software that was being developed by Focus India was transferred to this subsidiary. In March 2006, the subsidiary was transferred to Focus Telecall, a subsidiary of FEL. Focus Telecall and Focus India are companies under common control and, accordingly, net assets and operations of Focus Softek have been excluded from the accompanying consolidated financial statements from the date of formation of Focus Softek.

Use of Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign Currency translation

The Company s reporting currency is the United States Dollar (US$).

The functional currency of Bluestar Resources Limited, Bluestar Options, Inc. and Focus USA is the US$. Focus India s functional currency is the Indian Rupee (Rs). For purposes of the consolidated financial statements, Focus India s assets and liabilities are translated into US$ at the exchange rate in effect at the balance sheet date, while revenue and expenses are translated at average exchange rates prevailing during the

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Bluestar Resources Limited

Notes to the Consolidated Financial Statements (Continued)

year. Translation adjustments are reported as a component of accumulated other comprehensive income (loss), a component of shareholder s equity.

Accumulated other comprehensive income (loss) comprises entirely the foreign currency translation adjustment.

Revenue

The Company derives revenue primarily from medical transcription services. Revenue from medical transcription services is recognized on the basis of agreed contractual unit rates per line transcribed or edited. Revenue is recognized when persuasive evidence of an arrangement exists, services have been rendered, the fee is determinable and collectibility is reasonably assured.

Cost of revenue

Cost of revenue primarily includes salaries and related costs, payments to contract employees, data link expenses, and depreciation and amortization on property and equipment used to provide medical transcription services.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand, and short-term deposits with an original maturity of three months or less.

Accounts receivable

Accounts receivable are stated net of an allowance for doubtful accounts. The allowance for doubtful accounts represents management s best estimate of receivables that are doubtful of recovery, based on historical write-off experience and ongoing evaluation of the customers credit worthiness.

The changes in the allowances for doubtful accounts for the years ended December 31, 2006 and 2005 were as follows:

	Year Ended December 31, 2006	2005
Balance at the beginning of the year	$ 102,242	$
Charged to operations	122,375	137,259
Write off, net of collections		(35,017)
Reversal	(91,620)	
Balance at the end of the year	$ 132,997	$ 102,242

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Bluestar Resources Limited

Notes to the Consolidated Financial Statements (Continued)

Property and equipment

Property and equipment, including assets recorded under capital leases, are stated at cost. Depreciation and amortization includes the amortization charge relating to assets recorded under capital leases and is computed using the straight line method over the estimated useful life of the assets, which are as follows:

Assets Description	Asset Life (In Years)
Computers and software	3 5
Furniture and fixtures	7
Office equipment	3 7
Transcription equipment	1
Quality monitoring equipment	5 6
Vehicles	5

Property and equipment are reviewed for impairment if indicators of impairment arise. The evaluation of impairment is based upon a comparison of the carrying amount of the property and equipment to the estimated future undiscounted net cash flows expected to be generated by the property and equipment. If the estimated future undiscounted cash flows are less than the carrying amount of the property and equipment, the asset is considered impaired. The impairment expense is determined by comparing the estimated fair value of the property and equipment to its carrying value, with any shortfall from fair value recognized as an expense in the current period.

Derivative financial instruments

The Company s derivative financial instruments comprise forward currency contracts entered into by Focus India to manage its foreign currency exposures, arising from receivables from Focus USA.

The Company accounts for its derivative financial instruments in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* , as amended. SFAS 133 requires the Company to recognize all derivatives at fair value. Although the Company believes that the derivatives are economic hedges, they do not meet the requirements under SFAS 133 for hedge accounting and, accordingly, recognizes the changes in fair value through earnings.

Changes in fair values of the Company s forward currency contracts resulted in a gain of $109,229 and loss of $80,237 during the years ended December 31, 2006 and 2005, respectively, which have been included in other income (expense) in the consolidated statements of income.

The fair values of the Company s forward currency contracts at December 31, 2006 and 2005 were $88,203 and $(23,424), respectively. The derivative asset is included in other current assets at December 31, 2006 and the liability is recorded in other current liabilities at December 31, 2005.

Income taxes

The Company applies the asset and liability method of accounting for income taxes as described in Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes* . Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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Bluestar Resources Limited

Notes to the Consolidated Financial Statements (Continued)

The Company evaluates potential exposures related to tax contingencies or claims made by the tax authorities in various jurisdictions and determines if a reserve is required.

Fair value of the financial instruments

The carrying amount reported in the balance sheets for cash and cash equivalents, accounts receivables, accounts payable and other current assets or current liabilities approximates their fair value due to short maturity of these items. The carrying value of the Company s debt also approximates its fair value.

Employee benefits

Defined contribution plan

Eligible employees of Focus India receive benefits from a Provident Fund, administered by the Government of India, which is a defined contribution plan. Both the employees and Focus India make monthly contributions to the Provident Fund equal to a specified percentage of the eligible employees salary. Focus India has no further obligation beyond the contributions made to the plan. Contributions are charged to income in the year in which they accrue and are included in the consolidated statements of income.

Defined benefit plan

Employees in India are entitled to benefits under the Payment of Gratuity Act, 1972, a defined benefit retirement plan covering eligible employees of Focus India. The plan provides for a lump-sum payment to eligible employees at retirement, death, and incapacitation or on termination of employment, of an amount based on the respective employee s salary and tenure of employment. The gratuity liability and net periodic gratuity cost have been actuarially determined after considering discount rates, and increases in compensation levels.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, rental deposits, bank deposits and accounts receivable. Cash and cash equivalents and bank deposits are invested with financial institutions and banks having high investment grade credit ratings. Accounts receivable are unsecured and the Company monitors the credit worthiness of its customers to whom it grants credit terms in the normal course of its business and, generally, no collateral is required. Management believes there is no significant risk of loss in the event of non-performance of the counter parties to these financial instruments other than for amounts already provided for in the financial statements.

Recently issued accounting standards

In September 2006, the Financial Accounting Standard Board (FASB) issued SFAS No. 157, *Fair Value Measurements* . SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 provides guidance on the determination of fair value, and establishes a fair value hierarchy for assessing the sources of information used in fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15,

2007. The Company is currently evaluating the impact of this pronouncement on its financial statements.

In 2006, the FASB issued SFAS No. 158 *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans* , an amendment of SFAS Nos. 87, 88, 106, and 132(R). SFAS No. 158 requires a company to recognize, on the balance sheet, the funded status of pension and other postretirement benefit plans and recognize actuarial gains and losses, prior service cost, and any remaining transition amounts from

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Bluestar Resources Limited

Notes to the Consolidated Financial Statements (Continued)

the initial application of SFAS Nos. 87 and 106 when recognizing a plan s funded status, with the offset to accumulated other comprehensive income. SFAS No 158 is applicable to the Company as of the end of the fiscal year ending after June 15, 2007 (March 31, 2008). SFAS No. 158 will also require fiscal-year-end measurements of plan assets and benefit obligations. The new Statement amends SFAS Nos. 87, 88, 106, and 132R, but retains most of their measurement and disclosure guidance and will not change the amounts recognized in the income statement as net periodic benefit cost. The Company believes that the adoption of SFAS No. 158 will not have a material impact on its financial statements.

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* , an interpretation of SFAS No. 109, to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required. The Company is currently evaluating the effect, if any, that the adoption of FIN 48 will have on the Company s financial position and results of operations.

3. Property and equipment, net

The major classes of property and equipment are as follows:

	December 31,	
	2006	**2005**
Computers and software	$ 2,413,135	$ 2,314,931
Furniture and fixtures	335,788	272,909
Office equipment	573,159	489,227
Transcription equipment	91,232	75,957
Quality monitoring equipment	55,823	54,489
Vehicles	235,395	229,528
	3,704,532	3,437,041
Less: Accumulated depreciation and amortization	(2,471,214)	(1,866,724)
Property and equipment, net	$ 1,233,318	$ 1,570,317

Depreciation and amortization expenses were $658,119 and $557,976, respectively, for the years ended December 31, 2006 and 2005, respectively.

Assets under capital leases as at December 31, 2006 and 2005 were $773,682 and $692,041, respectively, and the related accumulated amortization was $145,474 and $138,408, respectively.

4. Income taxes

Bluestar Resources Limited and its subsidiaries other than Focus USA and Focus India are incorporated in the British Virgin Islands and are not liable to income-tax. Focus USA and Focus India are liable for income taxes in the United States of America and India, respectively.

Bluestar Resources Limited

Notes to the Consolidated Financial Statements (Continued)

Income (loss) before income taxes for the years ended December 31, 2006 and 2005 arose in the following jurisdictions:

	Year Ended December 31, 2006	Year Ended December 31, 2005
India	$ 4,772,178	$ 2,209,658
United States	337,533	124,779
British Virgin Islands	(699,382)	
	$ 4,410,329	$ 2,334,437

Income tax expense for the years ended December 31, 2006 and 2005 arising in the USA and India is as follows:

	Year Ended December 31, 2006	Year Ended December 31, 2005
India		
Current tax expense	$	$ 1,728
Deferred tax (benefit) expense	587,028	277,350
	587,028	279,078
United States		
Current tax expense	136,403	95,422
Deferred tax expense (benefit)	2,781	(42,636)
	139,184	52,786
	$ 726,212	$ 331,864

Focus India is eligible to claim income-tax exemption with respect to profits earned from export revenue from an operating unit registered under the Software Technology Parks of India (STPI). The benefit is available from the date of commencement of operations to March 31, 2009, subject to a maximum of 10 years. The deferred tax expense for India relates to temporary differences that are expected to reverse after the end of the tax holiday period. If the income tax exemption had not been available to Focus India, the tax expense at the Indian statutory rates would have been approximately $1.6 million.

Focus USA is liable for US federal and state income taxes.

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Bluestar Resources Limited

Notes to the Consolidated Financial Statements (Continued)

The components of deferred tax assets and liabilities are as follows:

	December 31, 2006	December 31, 2005
Deferred tax assets		
Property and equipment	$ 36,799	$ 35,279
Allowance for doubtful accounts	58,267	41,203
Total deferred tax assets	$ 95,066	$ 76,482
Deferred tax liabilities		
Property and equipment	8,257	
Undistributed earnings of foreign subsidiaries	1,168,583	551,182
Other	19,558	13,647
Total deferred tax liabilities	$ 1,196,398	$ 564,829
Net deferred tax liabilities	$ 1,101,332	$ 488,347

The classification of deferred tax assets (liabilities) is as follows:

	December 31, 2006	December 31, 2005
Current		
Deferred tax assets	$ 58,267	$ 41,203
Deferred tax liabilities	(1,196,398)	(564,829)
Total	(1,138,131)	(523,626)
Non current		
Deferred tax assets	36,799	35,279
Total non current deferred tax assets	$ 36,799	$ 35,279

Focus USA and Focus India are two distinct tax entities that file income tax returns in separate tax jurisdictions, and, accordingly, deferred tax assets and liabilities of Focus USA and Focus India have not been netted.

5. Retirement benefits

Defined contribution plan

During the years ended December 31, 2006 and 2005 Focus India contributed $76,401 and $54,114, respectively, to the defined contribution plan.

Bluestar Resources Limited

Notes to the Consolidated Financial Statements (Continued)

Defined benefit plan Gratuity

	Year Ended December 31, 2006	Year Ended December 31, 2005
Change in projected benefit obligations		
Obligations at beginning of the year	$ 34,331	$ 29,664
Service Cost	37,463	15,530
Interest cost	2,638	2,152
Benefits settled	(1,308)	(734)
Actuarial gain	(14,026)	(11,316)
Foreign currency translation	841	(965)
Benefit obligations/accrual at the end of the year	59,939	34,331
Net periodic gratuity cost		
Service cost	$ 37,463	$ 15,530
Interest cost	2,638	2,152
Actuarial gain	(14,026)	(11,316)
Net periodic gratuity cost	$ 26,075	$ 6,366

The assumptions used in accounting for the gratuity plan are set out as below:

	2006	2005
Discount factor	7.50%	7.50%
Rate of increase in the compensation levels	6.00%	6.00%

Focus India evaluates these assumptions annually based on its long-term plans of growth and industry standards. Currently, there is no requirement for funding of the gratuity plan in India and, accordingly, Focus India s gratuity plan is unfunded at December 31, 2006 and 2005. The accumulated benefit obligation amounted to $25,129 and $14,394 at December 31, 2006 and 2005, respectively. There is no unrecognized net actuarial loss at December 31, 2006 and 2005.

The expected benefit payments as of December 31, 2006 are as follows:

Year ending December 31,

2007	$ 1,647
2008	1,894
2009	2,178
2010	2,505
2011	2,881
2012-2016	12,770
	$ 23,875

6. Lines of credit

Focus India has a line of credit with a bank to borrow upto Rs. 10 million (approximately $227,000) that is secured by accounts receivable and certain other assets. The facility is repayable on demand, is renewable annually and bears interest of 10.75% per annum. The amount outstanding under this facility amounted to $200,399 and $191,077 at December 31, 2006 and 2005, respectively.

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Bluestar Resources Limited

Notes to the Consolidated Financial Statements (Continued)

In addition, Focus USA has a line of credit with a bank to borrow upto $1.5 million that is secured by all its assets and is guaranteed by a director of Focus USA. The facility is repayable on demand, is renewable annually and bears interest of 8.25% per annum. The amount outstanding under this facility amounted to $300,000 and $1,199,792 at December 31, 2006 and 2005, respectively.

7. Long-term debt

	December 31, 2006	December 31, 2005
Term loans(a)	$ 85,717	$ 204,701
Vehicle and equipment loans(b)	303,513	213,546
	389,230	418,247
Less: Current portion	192,183	179,406
	$ 197,047	$ 238,841

(a) Focus India has a term loan with a bank that is secured by Focus India s property and equipment other than for vehicles and certain other specified assets. The amounts outstanding under this loan amounted to $85,717 and $195,394 at December 31, 2006 and 2005, respectively. This loan bears interest at 12.25% per annum and is payable in quarterly installments of $28,332 through September 2007. Focus India had another term loan with this bank that was secured by its accounts receivable. This loan bore interest at 12.25% per annum and was repaid during the year ended December 31, 2006.

(b) Focus India has loans with different banks that were used to pay for the acquisition of vehicles and computer equipment. These loans bear interest at rates ranging from 6.47% per annum to 10.62% per annum and are secured by the equipment and vehicles. Amounts outstanding under these loan are payable in monthly installments through December 2010.

The maturity schedule of long term debt outstanding as of December 31, 2006 is set out as below:

Due in the Year Ending December 31,	Year
2007	$ 192,183
2008	107,570
2009	54,833
2010	24,953
2011	9,691

Total	$ 389,230

8. Shareholder s equity

The holder of each share of common stock of Bluestar Resources Limited is entitled to one vote per share.

9. Preference shares issued by a subsidiary

In June 2006, Bluestar Options, Inc., a wholly owned subsidiary of the Company, issued 650,000 preference shares. The preference shares were redeemable at their par value of $650,000 plus accrued dividends, at the option of the Company, prior to September 2007. The preference shareholder had the option to convert these shares into 650,000 ordinary shares of Bluestar Options, Inc.

Bluestar Resources Limited

Notes to the Consolidated Financial Statements (Continued)

The preference shares were redeemed in January 2007. The Company recorded $650,000 as preference shares issued by a subsidiary (outside shareholder s equity) and as an expense included in other income (expense).

The preference shares carried a coupon of 8% per annum and the accrued amount through December 31, 2006 of $26,433 has been charged to shareholder s equity as a dividend on those preference shares and included in other current liabilities.

10. Related party transactions

Amounts due from related parties represent amounts due from

(a) FEL and subsidiaries of FEL for (i) advances made to them, (ii) amounts due in respect of expenses allocated to the subsidiaries of FEL and (iii) amounts due for expenses paid on behalf of the subsidiaries of FEL,

(b) A director of Focus USA and Focus India and

(c) Entities with whom a director of Focus USA and Focus India is associated.

Amounts due to related parties represent amounts payable to entities with whom a director of the Company is associated.

Interest is not payable or receivable on amounts due to and from related parties and all related party amounts are receivable/payable on demand.

Related party transactions are summarized below:

	Advances Made, Revenues, Expenses Allocated and Expenses Paid During the Year Ended December 31,		Receivable (Payable) at December 31	
	2006	2005	2006	2005
Amounts due from related parties				
FEL	(50,089)		$ 62,604	$ 112,693
Subsidiaries of FEL	4,781,817	825,851	6,304,418	1,623,737
Director	126,373	(57,436)	271,609	137,357
Entities associated with a Director	(276,799)	267,323		276,799
			$ 6,638,631	$ 2,150,586
Amounts due to related parties				

Entities associated with a Director	$	$ 112,855

In accordance with the provisions of an agreement the Company has with Focus Softek Limited, Focus Softek is required to provide free software maintenance to Focus India until March 2011.

11. Commitments and contingencies

Leases

Focus India and Focus USA have entered into capital leases principally for computers and vehicles and, operating leases for office premises and equipment. These capital leases give the Company the option to purchase these assets at a nominal value at the end of the lease period.

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Bluestar Resources Limited

Notes to the Consolidated Financial Statements (Continued)

Future minimum lease payments under capital leases and non-cancelable operating leases consisted of the following at December 31, 2006:

Years Ending December 31,	Capital Leases	Operating Leases
2007	$ 169,511	$ 398,757
2008	156,730	315,519
2009	109,985	176,395
2010	56,886	106,665
2011		9,338
Total minimum lease payments	493,112	$ 1,006,674
Amounts representing interest	(53,233)	
Present value of minimum lease payments	$ 439,879	

Rent expense for the years ended December 31, 2006 and 2005 was $325,619 and $277,083, respectively.

Bank guarantees

Focus India s bankers have provided guarantees in favour of the Department of Excise and Customs of India. These guarantees are provided for availing the excise and custom duty exemption for importing capital goods into India and the amount of the bank guarantees furnished was $19,146 and $18,699 as of December 31, 2006 and December 31, 2005, respectively.

Taxes

Capital gains on transfer of shares of an Indian entity may attract capital gains or related taxes for the transferor. If the Indian tax authorities assess capital gains taxes and the transferor is unable to satisfy that liability, the Indian tax authorities may consider the Indian company liable for such taxes. However, the Company believes that the transfer of shares of Focus India from Focus Enterprises Limited to the Company is a demerger in the British Virgin Islands, and therefore exempt from capital gains taxes. Accordingly, no provision for such taxes has been made in the consolidated financial statements.

12. Subsequent events

In January 2007 and March 2007, Bluestar Resources Limited paid dividends of $5.78 million and $1.32 million, respectively, to its shareholder, Bethany Advisors, Inc.

In February 2007, the Finance Ministry of India proposed changes to tax rules, which if enacted, could levy a minimum alternative tax based on the revenues of Focus India. The Company has not evaluated the impact of this proposed rule, nor has it concluded whether the payment of such tax would be available as a credit beyond the tax holiday period of Focus India ending in 2009.

In March 2007, Bethany Advisors, Inc., the parent of the Company, entered into a Share Purchase Agreement with Nuance Communications, Inc., a company based in the United States, for Nuance Communications, Inc to acquire all of the shares of the Company. The agreement is subject to certain closing conditions.

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Dictaphone Corporation

Annual Financial Statements

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PRICEWATERHOUSECOOPERS LLP
300 Atlantic Street
Stamford CT 06901
Telephone (203) 539 3000
Facsimile (813) 207 3999

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Dictaphone Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows, and of stockholders equity present fairly, in all material respects, the financial position of Dictaphone Corporation and it s subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As is more fully described in Note 1, the Company announced on February 8, 2006 that it had signed a definitive agreement to be acquired by Nuance Communications, Inc.

(PRICEWATERHOUSECOOPERS LLP)

March 27, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

DICTAPHONE CORPORATION

We have audited the accompanying consolidated statements of operations, changes in stockholders equity and cash flows of Dictaphone Corporation and its subsidiaries (the Company) for the year ended December 31, 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of Dictaphone Corporation s operations and its cash flows for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 Discontinued Operations, the consolidated financial statements for the year ended December 31, 2003 have been recast to reflect discontinued operations.

(GRANT THORNTON LLP)

New York, New York
March 10, 2004 (except with respect to the matters described in the fourth paragraph above, as to which the date is March 24, 2006)

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DICTAPHONE CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2005	December 31, 2004
	(Dollars in thousands except per-share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,165	$ 5,235
Short-term investments	991	
Accounts receivable, net of reserve for doubtful accounts of $5,343 and $6,474 respectively	37,510	34,987
Note receivable	2,600	
Inventories	7,598	9,523
Prepaid expenses and other current assets	4,256	2,404
Assets held for sale, current		44,757
Total current assets	72,120	96,906
Property, plant and equipment, net	13,867	15,666
Excess reorganization value and goodwill	64,815	65,308
Intangible assets, net	33,587	42,027
Other assets	2,957	2,488
Assets held for sale, noncurrent		35,547
TOTAL ASSETS	$ 187,346	$ 257,942
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,903	$ 3,901
Accrued liabilities	17,831	17,633
Current portion of deferred revenue	38,520	38,760
Customer deposits and other current liabilities	16,455	13,514
Current portion of long-term debt	46	109
Net liabilities held for sale, current		10,302
Total current liabilities	76,755	84,219
Deferred revenue	10,396	8,621
Pension, post retirement benefit obligations, and other liabilities	10,545	9,747
Long term debt	93	34,585
Net liabilities held for sale, noncurrent		16,730
Total liabilities	97,789	153,902
Commitments and contingencies		

Stockholders equity:		
Preferred stock (no par value, 5,000,000 shares authorized; no shares issued or outstanding as of December 31, 2005 and 2004)		
Common stock ($0.01 par value per share; 10,095,000 and 10,075,000 outstanding as of December 31, 2005 and 2004, respectively)	101	101
Additional paid-in-capital	122,149	121,926
Accumulated deficit	(31,517)	(18,937)
Cumulative comprehensive loss	(1,176)	950
Total stockholders equity	89,557	104,040
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	