



**NUANCE COMMUNICATIONS, INC.
FISCAL THIRD QUARTER 2008 EARNINGS ANNOUNCEMENT**

DISCUSSION OF NON-GAAP FINANCIAL MEASURES

Management utilizes a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of our business, for making operating decisions and for forecasting and planning for future periods. We consider the use of non-GAAP revenue helpful in understanding the performance of our business, as it excludes the purchase accounting impact on acquired deferred revenue and other acquisition-related adjustments to revenue. We also consider the use of non-GAAP earnings per share helpful in assessing the organic performance of the continuing operations of our business from a cash perspective. By organic performance we mean performance as if we had not incurred certain costs and expenses associated with acquisitions. By continuing operations we mean the ongoing results of the business excluding certain unplanned costs. While our management uses these non-GAAP financial measures as a tool to enhance their understanding of certain aspects of our financial performance, our management does not consider these measures to be a substitute for, or superior to, the information provided by GAAP revenue and earnings per share. Consistent with this approach, we believe that disclosing non-GAAP revenue and non-GAAP earnings per share to the readers of our financial statements provides such readers with useful supplemental data that, while not a substitute for GAAP revenue and earnings per share, allows for greater transparency in the review of our financial and operational performance. In assessing the overall health of our business during the fiscal quarters ended June 30, 2008 and 2007, and, in particular, in evaluating our revenue and earnings per share, our management has either included or excluded items in three general categories, each of which are described below.

Acquisition Related Revenue and Expenses. We include revenue related to our acquisitions, primarily from eScripton, Tegic, Vicore and VoiceSignal, that we would otherwise recognize but for the purchase accounting treatment of these transactions to allow for more accurate comparisons to our financial results of our historical operations, forward looking guidance and the financial results of our peer companies. We also excluded certain expense items resulting from acquisitions to allow more accurate comparisons of our financial results to our historical operations, forward looking guidance and the financial results of our peer companies. These items include the following: (i) acquisition-related transition and integration costs; (ii) amortization of intangible assets; and (iii) costs associated with the investigation of the financial results of acquired entities. In recent years, we have completed a number of acquisitions, which result in non-continuing operating expenses which would not otherwise have been incurred. For example, we have incurred transition and integration costs such as retention and earnout bonuses for employees from acquisitions. In addition, actions taken by an acquired company, prior to an acquisition, could result in expenses being incurred by us, such as expenses incurred as a result of the investigation and, if necessary, restatement of the financial results of acquired entities. We believe that providing non-GAAP information for certain revenue and expenses related to material acquisitions allows the users of our financial statements to review both the GAAP revenue and expenses in the period, as well as the non-GAAP revenue and expenses, thus providing for enhanced understanding of our historic and future financial results and facilitating comparisons to less acquisitive peer companies. Additionally, had we internally developed the products acquired, the amortization of intangible assets would have been expensed historically, and we believe the assessment of our operations excluding these costs is relevant to our assessment of internal operations and comparisons to industry performance.

Non-Cash Expenses. We provide non-GAAP information relative to the following non-cash expenses: (i) stock-based compensation; (ii) certain accrued interest; and (iii) certain accrued income taxes. Because of varying available valuation methodologies, subjective assumptions and the variety of award types, we believe that the exclusion of share-based payments allows for more accurate comparisons of our operating results to our peer companies. We believe that excluding non-cash interest expense and non-cash income taxes provides our senior management as well as other users of our financial statements, with a valuable perspective on the cash based performance and health of the business, including our current near-term projected liquidity.

Other Expenses. We exclude certain other expenses that are the result of other, unplanned events to measure our operating performance as well as our current and future liquidity both with and without these expenses. Included in these expenses are items such as non-acquisition-related restructuring and other charges (credits), net. These events are unplanned and arose outside of the ordinary course of our continuing operations. We assess our operating performance with these amounts included, but also excluding these amounts; the amounts relate to costs which are unplanned, and therefore by providing this information we believe our management and the users of our financial statements are better able to understand the financial results of what we consider to be our organic continuing operations.

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

The non-GAAP financial measures described above, and used in this press release, should not be considered in isolation from, or as a substitute for, a measure of financial performance prepared in accordance with GAAP. Further, investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. In particular, many of the adjustments to our GAAP financial measures reflect the inclusion or exclusion of items that are recurring and will be reflected in our financial results for the foreseeable future. In addition, other companies, including other companies in our industry, may calculate non-GAAP net income (loss) differently than we do, limiting its usefulness as a comparative tool. Management compensates for these limitations by providing specific information regarding the GAAP amounts included and excluded from the non-GAAP financial measures. In addition, as noted above, our management evaluates the non-GAAP financial measures together with the most directly comparable GAAP financial information.

Financial Tables Follow

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

	Three months ended June 30, 2008			Three months ended June 30, 2007				
	GAAP			Non-GAAP	GAAP			
	Q3 FY08	Adjustments	Q3 FY08	Q3 FY07	Adjustments	Q3 FY07		
Revenue:								
Product and licensing	\$ 96,396	\$ 10,012	(3)	\$ 106,408	\$ 74,868	\$ 281	(3)	\$ 75,149
Professional services, subscription and hosting	82,320	1,774	(3)	84,094	49,271	378	(3)	49,649
Maintenance and support	38,028	710	(3)	38,738	32,500	(348)	(3)	32,152
Total revenue	216,744	12,496		229,240	156,639	311		156,950
Cost of revenue:								
Cost of product and licensing	10,214	32	(1,2,3)	10,246	9,448	(6)	(1,2,3)	9,442
Cost of professional services, subscription and hosting	55,511	(1,484)	(1,2,3)	54,027	32,339	(870)	(1,2)	31,469
Cost of maintenance and support	7,912	(218)	(1,2)	7,694	6,973	(289)	(1,2)	6,684
Cost of revenue from amortization of intangible assets	5,248	(5,248)		-	3,367	(3,367)		-
Total cost of revenue	78,885	(6,918)		71,967	52,127	(4,532)		47,595
Gross margin	137,859	19,414		157,273	104,512	4,843		109,355
Research and development	27,068	(2,800)	(1,2)	24,268	19,661	(2,006)	(1,2)	17,655
Sales and marketing	55,526	(6,522)	(1,2)	49,004	46,733	(5,785)	(1,2)	40,948
General and administrative	27,323	(6,403)	(1,2)	20,920	19,705	(4,491)	(1,2)	15,214
Amortization of other intangible assets	14,386	(14,386)		-	6,347	(6,347)		-
Restructuring and other charges (credits), net	2,646	(2,646)		-	(54)	54		-
Total operating expenses	126,949	(32,757)		94,192	92,392	(18,575)		73,817
Income from operations	10,910	52,171		63,081	12,120	23,418		35,538
Other income (expense), net	(11,649)	1,313		(10,336)	(7,371)	898		(6,473)
Income (loss) before income taxes	(739)	53,484		52,745	4,749	24,316		29,065
Provision (benefit from) for income taxes	9,127	(7,804)		1,323	12,384	(11,184)		1,200
Net income (loss)	\$ (9,866)	\$ 61,288		\$ 51,422	\$ (7,635)	\$ 35,500		\$ 27,865
Net Income (loss) per share: basic & fully diluted	\$ (0.05)	\$ 0.26		\$ 0.22	\$ (0.04)	\$ 0.18		\$ 0.14
Weighted average common shares outstanding:								
Basic	213,683			213,683	180,356			180,356
Fully Diluted	213,683			233,702	180,356			199,686
(1) Non-cash share-based payments								
	30-Jun	30-Jun			30-Jun	30-Jun		
	2008	2007			2008	2007		
Cost of product and licensing	\$ 2	\$ 3			\$ 12,496	\$ 311		
Cost of professional services, subscription and hosting	1,304	962			(34)	-		
Cost of maintenance and support	218	249			(507)	(220)		
Research and development	2,517	1,887			11,955	91		
Sales and marketing	5,925	5,338						
General and administrative	5,062	3,686						
Total	\$ 15,028	\$ 12,125						
(2) Acquisition-related transition and integration costs								
Cost of product and licensing	\$ -	\$ 3						
Cost of professional services, subscription and hosting	687	128						
Cost of maintenance and support	-	40						
Research and development	283	119						
Sales and marketing	597	447						
General and administrative	1,341	805						
Total	\$ 2,908	\$ 1,542						
(3) Purchase accounting adjustments								
Revenue					\$ 12,496	\$ 311		
Cost of product and licensing					(34)	-		
Cost of professional services					(507)	(220)		
Total					\$ 11,955	\$ 91		

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

	Nine months ended June 30, 2008			Nine months ended June 30, 2007			
	GAAP			Non-GAAP			
	YTD FY08	Adjustments	YTD FY08	YTD FY07	Adjustments	YTD FY07	
Revenue:							
Product and licensing	\$ 288,587	\$ 33,230	(3)	\$ 321,817	\$ 2,562	(3)	\$ 223,493
Professional services, subscription and hosting	216,942	7,571	(3)	224,513	1,844	(3)	111,922
Maintenance and support	109,541	2,289	(3)	111,830	(53)	(3)	91,060
Total revenue	<u>615,070</u>	<u>43,090</u>		<u>658,160</u>	<u>4,353</u>		<u>426,475</u>
Cost of revenue:							
Cost of product and licensing	32,485	419	(1,2,3)	32,904	556	(1,2,3)	32,290
Cost of professional services, subscription and hosting	156,777	(4,474)	(1,2,3)	152,303	(2,666)	(1,2)	72,792
Cost of maintenance and support	24,266	(1,239)	(1,2)	23,027	(1,181)	(1,2)	19,331
Cost of revenue from amortization of intangible assets	17,995	(17,995)		-	(9,209)		-
Total costs of revenue	<u>231,523</u>	<u>(23,289)</u>		<u>208,234</u>	<u>(12,500)</u>		<u>124,413</u>
Gross margin	<u>383,547</u>	<u>66,379</u>		<u>449,926</u>	<u>16,853</u>		<u>302,062</u>
Research and development	85,822	(13,010)	(1,2)	72,812	(5,507)	(1,2)	48,241
Sales and marketing	168,299	(19,971)	(1,2)	148,328	(14,983)	(1,2)	117,471
General and administrative	80,631	(21,226)	(1,2)	59,405	(13,748)	(1,2)	38,882
Amortization of other intangible assets	40,040	(40,040)		-	(16,613)		-
Restructuring and other charges (credits), net	8,124	(8,124)		-	(54)		-
Total operating expenses	<u>382,916</u>	<u>(102,371)</u>		<u>280,545</u>	<u>(50,797)</u>		<u>204,594</u>
Income from operations	631	168,750		169,381	67,650		97,468
Other income (expense), net	(38,191)	4,344		(33,847)	2,884		(17,793)
Income (loss) before income taxes	(37,560)	173,094		135,534	70,534		79,675
Provision (benefit from) for income taxes	14,521	(10,864)		3,657	(15,979)		3,761
Net income (loss)	<u>\$ (32,081)</u>	<u>\$ 183,938</u>		<u>\$ 131,877</u>	<u>\$ 86,513</u>		<u>\$ 75,914</u>
Net Income (loss) per share: basic & fully diluted	<u>\$ (0.25)</u>	<u>\$ 0.84</u>		<u>\$ 0.58</u>	<u>\$ 0.45</u>		<u>\$ 0.39</u>
Weighted average common shares outstanding:							
Basic	<u>204,843</u>			<u>204,843</u>	<u>173,786</u>		<u>173,786</u>
Fully Diluted	<u>204,843</u>			<u>225,475</u>	<u>173,786</u>		<u>192,050</u>
(1) Non-cash share-based payments							
	30-Jun	30-Jun			30-Jun	30-Jun	
	2008	2007			2008	2007	
Cost of product and licensing	\$ 16	\$ 15			\$ 43,090	\$ 4,353	
Cost of professional services, subscription and hosting	6,325	2,412			(435)	(597)	
Cost of maintenance and support	1,125	716			(2,447)	(220)	
Research and development	11,621	4,912			\$ 40,208	\$ 3,536	
Sales and marketing	17,487	13,640					
General and administrative	16,873	11,384					
Total	<u>\$ 53,447</u>	<u>\$ 33,079</u>					
(2) Acquisition-related transition and integration costs							
Cost of product and licensing	\$ -	\$ 26					
Cost of professional services, subscription and hosting	596	474					
Cost of maintenance and support	114	465					
Research and development	1,389	595					
Sales and marketing	2,484	1,343					
General and administrative	4,353	2,364					
Total	<u>\$ 8,936</u>	<u>\$ 5,267</u>					
(3) Purchase accounting adjustments							
Revenue							
Cost of product and licensing							
Cost of professional services							
Total							

Nuance Communications, Inc.
Reconciliation of Supplemental Financial Information
(in thousands, except per share amounts)
Unaudited

GAAP: Fiscal Fourth Quarter 2008
Net Income Per Share Guidance

	Three months ended September 30, 2008	
	Low	High
GAAP Total revenue	\$ 245,000	\$ 252,000
Purchase accounting adjustment - revenue	10,000	10,000
Total Non-GAAP revenue	\$ 255,000	\$ 262,000
GAAP net income (loss), per share	(0.03)	(0.02)
Cost of revenue from amortization of intangible assets	0.03	0.03
Amortization of intangible assets	0.06	0.06
Non-cash share-based payments	0.07	0.07
Acquisition-related transition and integration costs	0.01	0.01
Restructuring and other charges (credits), net	0.01	0.01
Non-cash interest expense	0.01	0.01
Non-cash income taxes	0.04	0.04
Purchase accounting adjustment - Cost of Revenue	(0.00)	(0.00)
Purchase accounting adjustment - Revenue	0.04	0.04
Non-GAAP net income (loss), per share	0.24	0.25
Net income per share, excluding acquisition-related amortization and restructuring and other charges: basic	<u>\$ 0.24</u>	<u>\$ 0.25</u>
Net income per share, excluding acquisition-related amortization and restructuring and other charges: diluted	<u>\$ 0.24</u>	<u>\$ 0.25</u>
Shares used in computing non-gaap net income (loss) per share:		
Weighted average common shares: basic	<u>225,034</u>	<u>225,034</u>
Weighted average common shares: diluted	<u>244,988</u>	<u>244,988</u>

Nuance Communications, Inc.
Reconciliation of Supplemental Financial Information
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Unaudited

GAAP: Fiscal 2008
Net Income Per Share Guidance

	Twelve months ended September 30, 2008	
	Low	High
GAAP Total revenue	\$ 860,000	\$ 867,000
Purchase accounting adjustment - revenue	53,000	53,000
Total Non-GAAP revenue	\$ 913,000	\$ 920,000
GAAP net income (loss), per share	(0.28)	(0.27)
Cost of revenue from amortization of intangible assets	0.11	0.11
Amortization of intangible assets	0.24	0.24
Non-cash share-based payments	0.30	0.30
Acquisition-related transition and integration costs	0.06	0.06
Restructuring and other charges (credits), net	0.05	0.05
Non-cash interest expense	0.03	0.03
Non-cash income taxes	0.09	0.09
Purchase accounting adjustment - cost of revenue	(0.01)	(0.01)
Purchase accounting adjustment - revenue	0.23	0.23
Non-GAAP net income (loss), per share	0.82	0.83
Net income per share, excluding acquisition-related amortization and restructuring and other charges: basic	<u>\$ 0.82</u>	<u>\$ 0.83</u>
Net income per share, excluding acquisition-related amortization and restructuring and other charges: diluted	<u>\$ 0.82</u>	<u>\$ 0.83</u>
Shares used in computing non-gaap net income (loss) per share:		
Weighted average common shares: basic	<u>210,898</u>	<u>210,898</u>
Weighted average common shares: diluted	<u>231,182</u>	<u>231,182</u>