



**NUANCE COMMUNICATIONS, INC.
FISCAL FOURTH QUARTER AND YEAR-END 2008 EARNINGS ANNOUNCEMENT**

DISCUSSION OF NON-GAAP FINANCIAL MEASURES

Safe Harbor and Forward-Looking Statements

Statements in this document about Nuance managements' future expectations, beliefs, goals, plans or prospects constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that are not statements of historical fact (including statements containing the words "believes," "plans," "anticipates," "expects," or "estimates" or similar expressions) should also be considered to be forward-looking statements. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including: fluctuations in demand for Nuance's existing and future products; economic conditions in the United States and abroad; Nuance's ability to control and successfully manage its expenses and cash position; the effects of competition, including pricing pressure; possible defects in Nuance's products and technologies; the ability of Nuance to successfully integrate operations and employees of acquired businesses; the ability to realize anticipated synergies from acquired businesses; and the other factors described in Nuance's annual report on Form 10-K for the fiscal year ended September 30, 2007 and Nuance's quarterly reports on Form 10-Q filed with the Securities and Exchange Commission. Nuance disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this document.

The unaudited financial results presented in this press release are subject to change based on the completion of the audit of our fiscal 2008 financial statements. The information included in this press release should not be viewed as a substitute for full financial statements.

Discussion of Non-GAAP Financial Measures

Management utilizes a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of 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 owned an acquired asset in the same period a year ago. By continuing operations we mean the ongoing results of the business excluding certain unplanned costs. While our management uses these non-GAAP financial measures as a tool to enhance their understanding of certain aspects of our financial performance, our management does not consider these measures to be a substitute for, or superior to, the information provided by GAAP revenue and earnings per share. Consistent with this approach, we believe that disclosing non-GAAP revenue and non-GAAP earnings per share to the readers of our financial statements provides such readers with useful supplemental data that, while not a substitute for GAAP revenue and earnings per share, allows for greater transparency in the review of our financial and operational performance. In assessing the overall health of our business during the fiscal years ended September 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 and cost of revenues related to our acquisitions, primarily from Tegic 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; (iii) charges for acquired in-process research and development; and (iv) 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 these non-cash expenses 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 September 30, 2008			Three months ended September 30, 2007		
	GAAP Q4 FY08	Adjustments	Non-GAAP Q4 FY08	GAAP Q4 FY07	Adjustments	Non-GAAP Q4 FY07
Revenue:						
Product and licensing	\$ 125,774	\$ 5,811 (3)	\$ 131,585	\$ 90,916	\$ 6,552 (3)	\$ 97,468
Professional services, subscription and hosting	88,598	965 (3)	89,563	55,442	966 (3)	56,408
Maintenance and support	39,020	519 (3)	39,539	33,516	(173) (3)	33,343
Total revenue	253,392	7,295	260,687	179,874	7,345	187,219
Cost of revenue:						
Cost of product and licensing	13,261	(25) (1,2,3)	13,236	11,428	6 (1,2,3)	11,434
Cost of professional services, subscription and hosting	57,183	(1,282) (1,2,3)	55,901	38,769	(1,034) (1,2,3)	37,735
Cost of maintenance and support	7,282	(7) (1,2,3)	7,275	6,949	(323) (1,2,3)	6,626
Cost of revenue from amortization of intangible assets	6,395	(6,395)	-	3,881	(3,881)	-
Total cost of revenue	84,121	(7,709)	76,412	61,027	(5,232)	55,795
Gross margin	169,271	15,004	184,275	118,847	12,577	131,424
Operating expenses:						
Research and development	29,164	(3,512) (1,2)	25,652	26,276	(2,951) (1,2)	23,325
Sales and marketing	62,945	(8,005) (1,2)	54,940	52,493	(8,118) (1,2)	44,375
General and administrative	25,278	(6,954) (1,2)	18,324	22,934	(6,368) (1,2)	16,566
Amortization of other intangible assets	18,205	(18,205)	-	7,983	(7,983)	-
In-process research and development	2,601	(2,601)	-	-	-	-
Restructuring and other charges (credits), net	(905)	905	-	-	-	-
Total operating expenses	137,288	(38,372)	98,916	109,686	(25,420)	84,266
Income from operations	31,983	53,376	85,359	9,161	37,997	47,158
Other income (expense), net	(9,937)	1,196	(8,741)	(9,813)	1,125	(8,688)
Income (loss) before income taxes	22,046	54,572	76,618	(652)	39,122	38,470
Provision (benefit from) for income taxes	32	5,532	5,564	2,762	(1,262)	1,500
Net income (loss)	\$ 22,014	\$ 49,040	\$ 71,054	\$ (3,414)	\$ 40,384	\$ 36,970
Net income (loss) per share:						
Basic	\$ 0.10	\$ 0.21	\$ 0.31	\$ (0.02)	\$ 0.21	\$ 0.20
Diluted	\$ 0.09	\$ 0.20	\$ 0.29	\$ (0.02)	\$ 0.19	\$ 0.18
Weighted average common shares outstanding:						
Basic	224,568		224,568	185,145		185,145
Diluted	246,525		246,525	185,145		209,882

	30-Sep 2008	30-Sep 2007		30-Sep 2008	30-Sep 2007
(1) Non-cash share-based payments			(3) Purchase accounting adjustments		
Cost of product and licensing	\$ 2	\$ 3	Revenue	\$ 7,295	\$ 7,345
Cost of professional services, subscription and hosting	1,667	1,404	Cost of product and licensing	23	(14)
Cost of maintenance and support	154	250	Cost of professional services	(382)	(579)
Research and development	2,704	2,248	Cost of maintenance and support	(147)	-
Sales and marketing	6,906	6,653	Total	\$ 6,789	\$ 6,752
General and administrative	3,752	4,498			
Total	\$ 15,185	\$ 15,056			

	30-Sep 2008	30-Sep 2007
(2) Acquisition-related transition and integration costs		
Cost of product and licensing	\$ -	\$ 5
Cost of professional services, subscription and hosting	(3)	209
Cost of maintenance and support	-	73
Research and development	808	703
Sales and marketing	1,099	1,465
General and administrative	3,202	1,870
Total	\$ 5,106	\$ 4,325

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

	Twelve months ended September 30, 2008			Twelve months ended September 30, 2007				
	GAAP			Non-GAAP				
	YTD FY08	Adjustments	YTD FY08	YTD FY07	Adjustments	YTD FY07		
Revenue:								
Product and licensing	\$ 414,360	\$ 39,042	(3)	\$ 453,402	\$ 311,847	\$ 9,115	(3)	\$ 320,962
Professional services, subscription and hosting	305,540	8,535	(3)	314,075	165,520	2,811	(3)	168,331
Maintenance and support	148,562	2,808	(3)	151,370	124,629	(225)	(3)	124,404
Total revenue	868,462	50,385		918,847	601,996	11,701		613,697
Cost of revenue:								
Cost of product and licensing	45,746	420	(1,2,3)	46,166	43,162	562	(1,2,3)	43,724
Cost of professional services, subscription and hosting	214,031	(5,755)	(1,2,3)	208,276	114,228	(3,701)	(1,2,3)	110,527
Cost of maintenance and support	31,477	(1,245)	(1,2,3)	30,232	27,461	(1,504)	(1,2,3)	25,957
Cost of revenue from amortization of intangible assets	24,389	(24,389)		-	13,090	(13,090)		-
Total costs of revenue	315,643	(30,969)		284,674	197,941	(17,733)		180,208
Gross margin	552,819	81,354		634,173	404,055	29,434		433,489
Research and development	114,986	(16,523)	(1,2)	98,463	80,024	(8,460)	(1,2)	71,564
Sales and marketing	231,244	(27,977)	(1,2)	203,267	184,948	(23,101)	(1,2)	161,847
General and administrative	105,910	(28,180)	(1,2)	77,730	75,564	(20,089)	(1,2)	55,475
Amortization of other intangible assets	58,245	(58,245)		-	24,596	(24,596)		-
In-process research and development	2,601	(2,601)		-	-	-		-
Restructuring and other charges (credits), net	7,219	(7,219)		-	(54)	54		-
Total operating expenses	520,205	(140,745)		379,460	365,078	(76,192)		288,886
Income from operations	32,614	222,099		254,713	38,977	105,626		144,603
Other income (expense), net	(48,128)	5,541		(42,587)	(30,480)	4,009		(26,481)
Income (loss) before income taxes	(15,514)	227,640		212,126	8,487	109,635		118,122
Provision (benefit from) for income taxes	14,554	(5,332)		9,222	22,502	(17,240)		5,262
Net income (loss)	\$ (30,068)	\$ 232,972		\$ 202,904	\$ (14,015)	\$ 126,875		\$ 112,860
Net income (loss) per share:								
Basic	\$ (0.14)	\$ 1.09		\$ 0.95	\$ (0.08)	\$ 0.70		\$ 0.63
Diluted	\$ (0.14)	\$ 1.00		\$ 0.87	\$ (0.08)	\$ 0.64		\$ 0.57
Weighted average common shares outstanding:								
Basic	209,801		209,801	176,424		176,424		176,424
Diluted	209,801		233,273	176,424		199,394		199,394
(1) Non-cash share-based payments								
	30-Sep	30-Sep		30-Sep	30-Sep			30-Sep
	2008	2007		2008	2007			2007
Cost of product and licensing	\$ 18	\$ 18		\$ 50,385	\$ 11,701			\$ 11,701
Cost of professional services, subscription and hosting	7,991	3,816		(438)	(611)			(611)
Cost of maintenance and support	1,278	966		(2,829)	(797)			(797)
Research and development	14,325	7,160		(147)	-			-
Sales and marketing	24,394	20,293		-	-			-
General and administrative	20,625	15,882		-	-			-
Total	\$ 68,631	\$ 48,135		\$ 46,971	\$ 10,293			\$ 10,293
(2) Acquisition-related transition and integration costs								
Cost of product and licensing	\$ -	\$ 31						
Cost of professional services, subscription and hosting	593	682						
Cost of maintenance and support	114	538						
Research and development	2,198	1,300						
Sales and marketing	3,583	2,808						
General and administrative	7,555	4,207						
Total	\$ 14,043	\$ 9,566						

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

GAAP: Fiscal Year 2009
Net Income Per Share Guidance

	Twelve months ended September 30, 2009	
	Low	High
GAAP Total revenue	\$ 1,016,000	\$ 1,140,000
Purchase accounting adjustment - revenue	20,000	20,000
Total Non-GAAP revenue	\$ 1,036,000	\$ 1,160,000
GAAP net income (loss), per share	(0.16)	(0.06)
Cost of revenue from amortization of intangible assets	0.11	0.11
Amortization of intangible assets	0.27	0.27
Share-based payments	0.24	0.24
Acquisition related transition and integration costs	0.04	0.04
Restructuring and other charges (credits), net	0.01	0.01
Non-cash interest expense	0.02	0.02
Non-cash taxes	0.40	0.40
Purchase accounting adjustment - Cost of Revenue	(0.01)	(0.01)
Purchase accounting accretion Exp(income) net	(0.00)	(0.00)
Purchase accounting adjustment - Revenue	0.08	0.08
Non-GAAP net income (loss), per share	1.00	1.10

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

Weighted average common shares: basic	<u>242,606</u>	<u>242,606</u>
Weighted average common shares: diluted	<u>262,201</u>	<u>262,201</u>

Nuance Communications, Inc.
Reconciliation of Supplemental Financial Information
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Unaudited

GAAP: Fiscal First Quarter 2009
Net Income Per Share Guidance

	Three months ended December 31, 2008	
	Low	High
GAAP Total revenue	\$ 233,000	\$ 243,000
Purchase accounting adjustment - revenue	7,000	7,000
Total Non-GAAP revenue	\$ 240,000	\$ 250,000
GAAP net income (loss), per share	0.00	0.03
Cost of revenue from amortization of intangible assets	0.02	0.02
Amortization of intangible assets	0.06	0.06
Share-based payments	0.05	0.05
Acquisition related transition and integration costs	0.00	0.00
Restructuring and other charges (credits), net	0.00	0.00
Non-cash interest expense	(0.00)	(0.00)
Non-cash taxes	0.08	0.08
Purchase accounting adjustment - Cost of Revenue	(0.01)	(0.01)
Purchase accounting accretion Exp(income) net	(0.01)	(0.01)
Purchase accounting adjustment - Revenue	0.02	0.02
Non-GAAP net income (loss), per share	0.21	0.24

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

Weighted average common shares: basic	<u>238,645</u>	<u>238,645</u>
Weighted average common shares: diluted	<u>257,274</u>	<u>257,274</u>