Nuance Communications, Inc.
Form 10-K
November 25, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-27038
NUANCE COMMUNICATIONS, INC.
(Exact name of Registrant as Specified in its Charter)

Delaware	**94-3156479**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
1 Wayside Road Burlington, Massachusetts	**01803**
(Address of Principal Executive Offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(781) 565-5000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $0.001 par value	NASDAQ Stock Market LLC

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ   No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer,   accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o   No þ

The aggregate market value of the outstanding common equity held by non-affiliates of the Registrant as of the last business day of the Registrant s most recently completed second fiscal quarter was approximately $2.3 billion based upon the last reported sales price on the Nasdaq National Market for such date. For purposes of this disclosure, shares of Common Stock held by officers and directors of the Registrant and by persons who hold more than 5% of the outstanding Common Stock have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive.

The number of shares of the Registrant s Common Stock, outstanding as of October 31, 2009, was 278,666,124.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement to be delivered to stockholders in connection with the Registrant s 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

NUANCE COMMUNICATIONS, INC.

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PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks, uncertainties and assumptions that, if they never materialize or if they prove incorrect, could cause our consolidated results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking, including statements pertaining to: our revenue, earnings, cash flows and liquidity; the potential of future product releases; our product development plans and investments in research and development; future acquisitions; international operations and localized versions of our products; our contractual commitments; our fiscal 2010 revenue and expense expectations and 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, estimates, predicts, intends, potential, continue or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Item 1A of this Annual Report under the heading Risk Factors. All forward-looking statements included in this document are based on information available to us on the date hereof. We will not undertake and specifically decline any obligation to update any forward-looking statements.

Item 1. *Business*

Overview

Nuance Communications, Inc. is a leading provider of speech, imaging and keypad solutions for businesses, organizations and consumers around the world. Our technologies, applications and services make the user experience more compelling by transforming the way people interact with devices and systems, and how they create, share and use documents. Our solutions are used every day by millions of people and thousands of businesses for tasks and services such as requesting information from a phone-based self-service solution, dictating medical records, searching the mobile Web by voice, entering a destination into a navigation system, or working with PDF documents. Our solutions help make these interactions, tasks and experiences more productive, compelling and efficient.

We leverage our global professional services organization and our extensive network of partners to design and deploy innovative solutions for businesses and organizations around the globe. We market and distribute our products through a global network of resellers, including system integrators, independent software vendors, value-added resellers, hardware vendors, telecommunications carriers and distributors, and also sell directly through a dedicated sales force and through our e-commerce website.

We have built a world-class portfolio of intellectual property, technologies, applications and solutions through both internal development and acquisitions. We expect to continue to pursue opportunities to expand our assets, geographic presence, distribution network and customer base through acquisitions of other businesses and technologies.

Solutions offered in our three core markets; Mobile-Enterprise, Healthcare-Dictation, and Imaging, include:

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

We provide comprehensive dictation and transcription solutions and services that automate the input and management of medical information. Our hosted and on-premise solutions provide platforms to generate and distribute clinical documentation through the use of advanced dictation and transcription features, and allow us to deliver scalable, highly productive medical transcription solutions, as well as accelerate future innovation to transform the way healthcare providers document patient care. We also offer speech recognition solutions for radiology, cardiology, pathology and related specialties, that help healthcare providers dictate, edit and sign reports without manual transcription.

Hospitals, clinics and group practices, as well as physicians, use our healthcare solutions to manage the dictation and transcription of patient records. We utilize a focused, enterprise sales team and professional services organization to address the market and implementation requirements of the healthcare industry. Our fiscal 2008 acquisition of Philips Speech Recognition Systems significantly enhanced our ability to deliver innovative, speech-driven clinical documentation and communication solutions to healthcare organizations throughout Europe. In some cases, our healthcare solutions are priced under a traditional software perpetual licensing model. However, certain of our healthcare solutions, in particular our transcription solution, are also offered on an on-demand model, charged as a subscription and priced by volume of usage (such as number of lines transcribed). During fiscal 2009, we experienced a significant shift in customer preference toward our subscription pricing model.

Enterprise Solutions 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 important for organizations to achieve enduring market differentiation and 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.

We deliver a portfolio of customer service business intelligence and authentication solutions that are designed to help companies better support, understand and communicate with their customers. Our solutions improve the customer experience, increase the use of self-service and enable new revenue opportunities. We complement our 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, allowing us to deliver end-to-end speech solutions and system integration for speech-enabled customer care. In addition, we offer solutions that can meet customer care needs through direct interaction with thin-client applications on cell phones, enabling customers to very quickly retrieve relevant information. Use of our speech-enabled and thin-client customer care solutions can dramatically decrease customer care costs, in comparison to calls handled by operators. Our acquisition of SNAPin, Inc., a developer of self-service software for mobile devices, during fiscal 2009 expanded our presence and capabilities in these areas.

Our solutions are used by a wide variety of enterprises in customer-service intensive sectors, including telecommunications, financial services, travel and entertainment, and government. Our speech solutions are designed to serve our global partners and customers and are available in up to 50 languages and dialects worldwide. In addition to our own sales and professional services teams, we often work closely with industry partners, including Avaya, Cisco and Genesys, that integrate our solutions into their hardware and software platforms. Our enterprise solutions offerings include both a traditional software perpetual licensing model and an on-demand model, charged as a subscription and priced by volume of usage (such as number of minutes callers use the system or number of calls completed in the system).

Mobile Solutions Today, an increasing number of people worldwide rely on mobile devices to stay connected, informed and productive. We help consumers use the powerful capabilities of their phones, cars and personal navigation devices by enabling the use of voice commands and keypad solutions to control these devices more easily and naturally, and to access the array of content and services available on the Internet.

Our portfolio of mobile solutions and services includes an integrated suite of voice and text-to-speech solutions, predictive text technologies, mobile messaging services and emerging services such as Web search and voicemail-to-text. Our solutions are used by mobile phone, automotive, personal navigation device and other consumer electronic manufacturers and their suppliers, including Amazon, Apple, BMW, Ford, Garmin, LG

Electronics, Mercedes Benz, Nokia, Samsung and TomTom. In addition, telecommunications carriers, web search companies and content providers are increasingly using our mobile search and communication solutions to offer value-added services to their subscribers and customers. Our mobile solutions are sold to device manufacturers, on a royalty model, generally priced per device sold. In addition, our mobile solutions are sold through telecommunications carriers or directly to consumers, and priced on a volume of usage model (such as per subscriber or per use). During fiscal 2009, we expanded our mobile presence and product offerings through our acquisitions of

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Zi Corporation; nCore Ltd.; Jott Networks, Inc.; and certain assets from Harman Becker Automotive Systems GmbH.

Desktop Dictation Our suite of general purpose desktop dictation applications increases productivity by using speech to create documents, streamline repetitive and complex tasks, input data, complete forms and automate manual transcription processes. Our *Dragon NaturallySpeaking* family of products delivers enhanced productivity for professionals and consumers who need to create documents and transcripts. These 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 high accuracy. This vocabulary can be expanded by users to include specialized words and phrases and can be adapted to recognize individual voice patterns. Our desktop dictation software is currently available in eleven languages. We utilize a combination of our global reseller network and direct sales to distribute our desktop dictation products. Our desktop dictation solutions are generally sold under a traditional perpetual software license model.

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. Our PDF and document imaging solutions reduce the costs associated with paper documents through easy to use scanning, document management and electronic document routing solutions. We offer versions of our products to hardware vendors, home offices, small businesses and enterprise customers.

Our imaging solutions offer comprehensive PDF applications designed specifically for business users, optical character recognition technology to deliver highly accurate document and PDF conversion, and applications that combine PDF creation with network scanning to quickly enable distribution of documents to users desktops or to enterprise applications, as well as software development toolkits for independent software vendors. Our imaging solutions are generally sold under a traditional perpetual software license model. We utilize a combination of our global reseller network and direct sales to distribute our imaging products. We license our software to original equipment manufacturers such as Brother, Canon, Dell, HP and Xerox, which bundle our solutions with multifunction devices, digital copiers, printers and scanners, on a royalty model, priced per unit sold. During fiscal 2009, we expanded our imaging product offerings through our June 2009 acquisition of X-Solutions Group B.V. and September 2009 acquisition of eCopy, Inc.

Research and Development/Intellectual Property

In recent years, we have developed and acquired extensive technology assets, intellectual property and industry expertise in speech and imaging that provide us with a competitive advantage in our markets. Our 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 our current capabilities.

We continue to invest in technologies to maintain our market-leading position and to develop new applications. Our technologies are covered by approximately 1,800 issued patents and 1,600 patent applications. Our intellectual property, whether purchased or developed internally, is critical to our success and competitive position and, ultimately, to our market value. We rely on a portfolio of patents, copyrights, trademarks, services marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our intellectual property and proprietary rights. We incurred research and development expenses of $119.4 million, $115.0 million, and $80.0 million in fiscal 2009, 2008 and 2007, respectively.

International Operations

We have principal offices in a number of international locations including: Australia, Belgium, Canada, Germany, Hungary, India, Japan, and the United Kingdom. The responsibilities of our international operations include research and development, healthcare transcription and editing, customer support, sales and marketing and administration. Additionally, we maintain smaller sales, services and support offices throughout the world to support our international customers and to expand international revenue opportunities.

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Geographic revenue classification is based on the geographic areas in which our customers are located. For fiscal 2009, 2008 and 2007, 74%, 77% and 78% of revenue was generated in the United States and 26%, 23% and 22% of revenue was generated by our international operations, respectively.

Competition

The individual markets in which we compete are highly competitive and are subject to rapid technology changes. There are a number of companies that develop or may develop products that compete in our target markets; however, currently there is no one company that competes with us in all of our product areas. While we expect competition to continue to increase both from existing competitors and new market entrants, we believe that we will compete effectively based on many factors, including:

Technological Superiority. Our speech and imaging technologies, applications and solutions are often recognized as the most innovative and proficient products in their respective categories. Our speech technology has industry-leading recognition accuracy and provides a natural, speech-enabled interaction with systems, devices and applications. Our imaging technology is viewed as the most accurate in the industry. Technology publications, analyst research and independent benchmarks have consistently indicated that our products rank at or above performance levels of alternative solutions.

Broad Distribution Channels. Our ability to address the needs of specific markets, such as financial, legal, healthcare and government, and introduce new products and solutions quickly and effectively through our extensive global network of resellers, comprising system integrators, independent software vendors, value-added resellers, hardware vendors, telecommunications carriers and distributors; our dedicated direct sales force; and our e-commerce website *(www.nuance.com).*

International Appeal. The international reach of our products is due to the broad language coverage of our offerings, including our speech technology which provides recognition for up to 50 languages and dialects and natural sounding synthesized speech in 26 languages and supports a broad range of hardware platforms and operating systems. Our imaging technology supports more than 100 languages.

Specialized Professional Services. Our superior technology, when coupled with the high quality and domain knowledge of our professional services organization, allows our customers and partners to place a high degree of confidence and trust in our ability to deliver results.

In our core markets, we compete with companies such as Adobe, Medquist, Microsoft, Google and Spheris. In addition, a number of smaller companies in both speech and imaging produce technologies or products that are competitive with our solutions in some markets. In certain markets, some of our partners such as Avaya, Cisco, Genesys and Nortel develop and market products and services that might be considered substitutes for our 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 our prospective customers.

Some of our competitors or potential competitors, such as Adobe, Microsoft and Google, have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we 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 we do.

Employees

As of September 30, 2009, we had approximately 5,800 full-time employees in total, including approximately 700 in sales and marketing, approximately 1,150 in professional services, approximately 950 in research and development, approximately 450 in general and administrative and approximately 2,550 that provide transcription and editing services. Approximately 51 percent of our employees are based outside of the United States, the majority of whom provide transcription and editing services and are based in India. Our employees are not represented by any labor union and are not organized under a collective bargaining agreement, and we have never experienced a work stoppage. We believe that our relationships with our employees are generally good.

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Company Information

We were incorporated in 1992 as Visioneer, Inc. under the laws of the state of Delaware. In 1999, we changed our name to ScanSoft, Inc. and also changed our ticker symbol to SSFT. In October 2005, we changed our name to Nuance Communications, Inc. and in November 2005 we changed our ticker symbol to NUAN.

Our website is located at www.nuance.com. This Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and all amendments to these reports, as well as proxy statements and other information we file with or furnish to the Securities and Exchange Commission, or the SEC, are accessible free of charge on our website. We make these documents available as soon as reasonably practicable after we file them with, or furnish them to, the SEC. Our SEC filings are also available on the SEC s website at http://www.sec.gov. Alternatively, you may access any document we have filed by visiting the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Except as otherwise stated in these documents, the information contained on our website or available by hyperlink from our website is not incorporated by reference into this report or any other documents we file with or furnish to the SEC.

Item 1A. *Risk Factors*

You should carefully consider the risks described below when evaluating our company and when deciding whether to invest in our company. The risks and uncertainties described below are not the only ones we face. 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 business operations. If any of the events, contingencies, circumstances or conditions described in the following risks actually occurs, our business, financial condition or our results of operations could be seriously harmed. If that happens, the trading price of our common stock could decline and you may lose part or all of the value of any of our shares held by you.

Risks Related to Our Business

Our operating results may fluctuate significantly from period to period, and this may cause our stock price to decline.

Our revenue and operating results have fluctuated in the past and are expected to continue to fluctuate in the future. Given this fluctuation, we believe that quarter to quarter comparisons of revenue and operating results are not necessarily meaningful or an accurate indicator of our future performance. As a result, our results of operations may not meet the expectations of securities analysts or investors in the future. If this occurs, the price of our stock would likely decline. Factors that contribute to fluctuations in operating results include the following:

- slowing sales by our distribution and fulfillment partners to their customers, which may place pressure on these partners to reduce purchases of our products;
- volume, timing and fulfillment of customer orders;
- our efforts to generate additional revenue from our intellectual property portfolio;
- concentration of operations with one manufacturing partner and our inability to control expenses related to the manufacturing, packaging and shipping of our boxed software products;
- customers delaying their purchasing decisions in anticipation of new versions of our products;

customers delaying, canceling or limiting their purchases as a result of the threat or results of terrorism;

introduction of new products by us or our competitors;

seasonality in purchasing patterns of our customers;

reduction in the prices of our products in response to competition, market conditions or contractual obligations;

returns and allowance charges in excess of accrued amounts;

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timing of significant marketing and sales promotions;

impairment charges against goodwill and intangible assets;

delayed realization of synergies resulting from our acquisitions;

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 our customers.

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

We have grown, and may continue to grow, through acquisitions, which could dilute our existing stockholders.

As part of our business strategy, we have in the past acquired, and expect to continue to acquire, other businesses and technologies. In connection with past acquisitions, we issued a substantial number of shares of our common stock as transaction consideration and also incurred significant debt to finance the cash consideration used for our acquisitions. We may continue to issue equity securities for future acquisitions, which would dilute existing stockholders, perhaps significantly depending on the terms of such acquisitions. We may also incur additional debt in connection with future acquisitions, which, if available at all, may place additional restrictions on our ability to operate our business.

Our ability to realize the anticipated benefits of our acquisitions will depend on successfully integrating the acquired businesses.

Our prior acquisitions required, and our recently completed acquisitions continue to require, substantial integration and management efforts and we expect 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;

potential disruption of our 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 our finance, accounting and product distribution systems;

difficulty in incorporating acquired technology and rights into our products and technology;

potential difficulties in completing projects associated with in-process research and development;

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;

assumption of unknown material liabilities of acquired companies;

customers delaying purchases of our products pending resolution of product integration between our existing and our newly acquired products;

entering markets or types of businesses in which we have limited experience; and

potential loss of key employees of the acquired business.

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

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

Under accounting principles generally accepted in the United States of America, we record the market value of our common stock or other form of consideration issued in connection with the acquisition and, for transactions which closed prior to October 1, 2009, the amount of direct transaction costs as the cost of acquiring the company or business. We have allocated that cost to the individual assets acquired and liabilities assumed, including various identifiable intangible assets such as acquired technology, acquired tradenames 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 an impairment analysis, at least annually, which may result in an impairment charge if the carrying value exceeds its implied fair value. As of September 30, 2009, we had identified intangible assets of approximately $706.8 million, net of accumulated amortization, and goodwill of approximately $1.9 billion. In addition, purchase accounting limits our ability to recognize certain revenue that otherwise would have been recognized by the acquired company as an independent business. The combined company may delay revenue recognition or recognize less revenue than we and the acquired company would have recognized as independent companies.

Changes in the accounting method for business combinations may have an adverse impact on our reported or future financial results.

For the years ended September 30, 2009 and prior, in accordance with Statement of Financial Accounting Standard (SFAS) 141 *Business Combinations,* (SFAS 141), all acquisition-related costs, such as attorney s fees and accountant fees, as well as contingent consideration to the seller, which is recorded when it is beyond a reasonable doubt that the amount is payable, are capitalized as part of the purchase price.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (revised 2007), *Business Combinations,* (SFAS 141R), now referred to as FASB Accounting Standards Codification 805 (ASC 805), which requires an acquirer to do the following: expense acquisition-related costs as incurred; reflect such payments as a reduction of cash flow from operations; record contingent consideration at fair value at the acquisition date with subsequent changes in fair value to be recognized in the income statement and cash flow from operations. ASC 805 applies to business combinations for which the acquisition date is on or after October 1, 2009. ASC 805 may have a material impact on our results of operations and our financial position due to our acquisition strategy.

Our significant debt could adversely affect our financial health and prevent us from fulfilling our obligations under our credit facility and our convertible debentures.

We have a significant amount of debt. As of September 30, 2009, we had a total of $900.7 million of gross debt outstanding, including $650.3 million in term loans due in March 2013 and $250.0 million in convertible debentures which investors may require us to redeem in August 2014. We also have a $75.0 million revolving credit line available to us through March 2012. As of September 30, 2009, there were $16.2 million of letters of credit issued under the revolving credit line but there were no other outstanding borrowings under the revolving credit line. Our debt level could have important consequences, for example it could:

require us to use a large portion of our cash flow to pay principal and interest on debt, including the convertible debentures and the credit facility, which will reduce the availability of our cash flow to fund working capital, capital expenditures, acquisitions, research and development expenditures and other business activities;

restrict us from making strategic acquisitions or exploiting business opportunities;

- place us at a competitive disadvantage compared to our competitors that have less debt; and

- limit, along with the financial and other restrictive covenants in our debt, our ability to borrow additional funds, dispose of assets or pay cash dividends.

Our ability to meet our payment and other obligations under our debt instruments depends on our 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 our control. We cannot assure you that our business will generate cash flow from operations, or that additional capital will be available to us, in an amount sufficient to enable us to meet our payment obligations under the convertible debentures and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including the convertible debentures, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the convertible debentures and our other debt.

In addition, a substantial portion of our debt bears interest at variable rates. If market interest rates increase, our debt service requirements will increase, which would adversely affect our cash flows. While we have entered into interest rate swap agreements limiting our exposure for a portion of our debt, the agreements do not offer complete protection from this risk.

Our debt agreements contain covenant restrictions that may limit our ability to operate our business.

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

- incur additional debt or issue guarantees;

- create liens;

- make certain investments;

- enter into transactions with our 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 entity.

Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. In addition, our failure to comply with these covenants could result in a default under our debt agreements, which could permit the holders to accelerate our obligation to repay the debt. If any of our debt is accelerated, we may not have sufficient funds available to repay the accelerated debt.

We have a history of operating losses, and may incur losses in the future, which may require us to raise additional capital on unfavorable terms.

We reported net losses of $12.2 million, $30.1 million and $14.0 million for the fiscal years 2009, 2008 and 2007, respectively. If we are unable to achieve and maintain profitability, the market price for our stock may decline, perhaps substantially. We cannot assure you that our revenue will grow or that we will achieve or maintain profitability in the future. If we do not achieve and maintain profitability, we may be required to raise additional capital to maintain or grow our 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.

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Speech technologies may not achieve widespread acceptance, which could limit our ability to grow our speech business.

We have invested and expect 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. Our ability to increase revenue in the future depends in large measure on the acceptance of speech technologies in general and our products in particular. The continued development of the market for our 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 our speech products would be harmed if the market for speech technologies does not continue to develop or develops slower than we expect, and, consequently, our business could be harmed and we may not recover the costs associated with our investment in our speech technologies.

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

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

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

Some of our customers, such as IBM, Microsoft and Google, have developed or acquired products or technologies that compete with our 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 our products, and therefore our revenue, may be adversely affected. Our success will depend substantially upon our ability to enhance our 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 we are unable to develop new products and enhance functionalities or technologies to adapt to these changes, or if we are unable to realize synergies among our acquired products and technologies, our business will suffer.

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

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report of management on internal control over financial reporting in their annual reports on Form 10-K that contains an assessment by management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Any failure in the effectiveness of our system of internal control over financial reporting could have a material adverse impact on our ability to report our financial statements in an accurate and timely manner, could subject us to regulatory actions, civil or criminal penalties, shareholder litigation, or loss of customer confidence, which could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact our stock price.

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

Because we operate worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenue from international operations could increase in the future. Most of our international revenue is generated by sales in Europe and Asia. In addition, some of our products are developed and manufactured outside the United States and we have a large number of employees in India that provide transcription services. A significant portion of the development and manufacturing of our speech products are conducted in Belgium and Canada, and a significant portion of our imaging research and development is conducted in Hungary. We also have significant research and development resources in Aachen, Germany, and Vienna, Austria. Accordingly, our 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.

We are exposed to fluctuations in foreign currency exchange rates.

Because we have international subsidiaries and distributors that operate and sell our products outside the United States, we are exposed to the risk of changes in foreign currency exchange rates or declining economic conditions in these countries. In certain circumstances, we have entered into forward exchange contracts to hedge against foreign currency fluctuations. We use these contracts to reduce our 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. We do not engage in foreign currency speculation. 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 our increased international presence in a number of geographic locations and with international revenue and costs projected to increase, we are exposed to changes in foreign currencies including the Euro, British Pound, Canadian Dollar, Japanese Yen, 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.

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

We have 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.

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Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefits of customer relationships are being utilized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives. We assess the potential impairment of identifiable intangible assets on an annual basis, as well as 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 our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period;
- changes in our organization or management reporting structure could result in additional reporting units, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit; and
- a decline in our market capitalization below net book value.

Future adverse changes in these or other unforeseeable factors could result in an impairment charge that would impact our results of operations and financial position in the reporting period identified.

Our sales to government clients subject us to risks, including early termination, audits, investigations, sanctions and penalties.

We derive a portion of our revenues from contracts with the United States government, as well as various state and local governments, and their respective agencies. Government contracts are generally subject to audits and investigations which could identify violations of these agreements. Government contract violations could result in a range of consequences including, but not limited to, contract price adjustments, civil and criminal penalties, contract termination, forfeiture of profit and/or suspension of payment, and suspension or debarment from future government contracts. We could also suffer serious harm to our reputation if we were found to have violated the terms of our government contracts.

We recently conducted an analysis of our compliance with the terms and conditions of certain contracts with the U.S. General Services Administration (GSA). Based upon our analysis, we voluntarily notified GSA of non-compliance with the terms of two contracts. The final resolution of this matter may adversely impact our financial position.

If we are unable to attract and retain key personnel, our business could be harmed.

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

Our 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 our medical transcription services deliver to us health information about their patients including information that constitutes a record under applicable law that we may store on our 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;

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

Adverse changes in general economic or political conditions in any of the major countries in which we do business could adversely affect our operating results.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in domestic and global economic and political conditions. For example, the direction and relative strength of the U.S. and global economies have recently been increasingly uncertain due to softness in housing markets, extreme volatility in security prices, severely diminished liquidity and credit availability rating downgrades of certain investments and declining valuations of others and continuing geopolitical uncertainties. If economic growth in the United States and other countries in which we do business is slowed, customers may delay or reduce technology purchases and may be unable to obtain credit to finance purchase of our products. This could result in reduced sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition. Any of these events would likely harm our business, results of operations and financial condition. Political instability in any of the major countries in which we do business would also likely harm our business, results of operations and financial condition.

Current uncertainty in the global financial markets and the global economy may negatively affect our financial results.

Current uncertainty in the global financial markets and economy may negatively affect our financial results. These macroeconomic developments could negatively affect our business, operating results or financial condition in a number of ways which, in turn, could adversely affect our stock price. A prolonged period of economic decline could have a material adverse effect on our results of operations and financial condition and exacerbate some of the other risk factors described herein. Our customers may defer purchases of our products, licenses, and services in response to tighter credit and negative financial news or reduce their demand for them. Our customers may also not be able to obtain adequate access to credit, which could affect their ability to make timely payments to us or ultimately cause the customer to file for protection from creditors under applicable insolvency or bankruptcy laws. If our customers are not able to make timely payments to us, our accounts receivable could increase.

Our investment portfolio, which includes short-term debt securities, is generally subject to credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by the recent global financial crisis. If the banking system or the fixed income, credit or equity markets deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected.

In addition, our operating results and financial condition could be negatively affected if, as a result of economic conditions, either:

- the demand for, and prices of, our products, licenses, or services are reduced as a result of actions by our competitors or otherwise; or our financial counterparties or other contractual counterparties are unable to, or do not, meet their contractual commitments to us.

Security and privacy breaches in our systems may damage client relations and inhibit our growth.

The uninterrupted operation of our hosted solutions and the confidentiality and security of third-party information is critical to our business. Any failures in our security and privacy measures could have a material adverse effect on our financial position and results of operations. If we are unable to protect, or our clients perceive that we are unable to protect, the security and privacy of our electronic information, our growth could be materially adversely affected. A security or privacy breach may:

- cause our clients to lose confidence in our solutions;
- harm our reputation;
- expose us to liability; and
- increase our expenses from potential remediation costs.

While we believe we use proven applications designed for data security and integrity to process electronic transactions, there can be no assurance that our use of these applications will be sufficient to address changing market conditions or the security and privacy concerns of existing and potential clients.

Risks Related to Our Intellectual Property and Technology

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

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

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

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We may incur substantial costs enforcing or acquiring intellectual property rights and defending against third-party claims as a result of litigation or other proceedings.

In connection with the enforcement of our own intellectual property rights, the acquisition of third-party intellectual property rights, or disputes relating to the validity or alleged infringement of third-party intellectual property rights, including patent rights, we have been, are currently, and may in the future be, subject to claims, negotiations or complex, protracted litigation. Intellectual property disputes and litigation are typically very costly and can be disruptive to our business operations by diverting the attention and energy of management and key technical personnel. Although we have successfully defended or resolved past litigation and disputes, we may not prevail in any ongoing or future litigation and disputes. In addition, we may incur significant costs in acquiring the necessary third party intellectual property rights for use in our products. Third party intellectual property disputes could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from manufacturing or licensing certain of our products, cause severe disruptions to our operations or the markets in which we compete, or require us to satisfy indemnification commitments with our customers including contractual provisions under various license arrangements. Any of these could seriously harm our business.

Our software products may have bugs, which could result in delayed or lost revenue, expensive correction, liability to our customers and claims against us.

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

Risks Related to our Corporate Structure, Organization and Common Stock

The holdings of our largest stockholder may enable them to influence matters requiring stockholder approval.

As of September 30, 2009, Warburg Pincus beneficially owned approximately 25% of our outstanding common stock, including warrants exercisable for up to 10,062,422 shares of our common stock, and 3,562,238 shares of our outstanding Series B Preferred Stock, each of which is convertible into one share of our common stock. Because of their large holdings of our capital stock relative to other stockholders, this stockholder has a strong influence over matters requiring approval by our stockholders.

The market price of our common stock has been and may continue to be subject to wide fluctuations, and this may make it difficult for you to resell the common stock when you want or at prices you find attractive.

Our 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 our financial results, new product introductions by us or our competitors and general economic and market conditions. Sales of a substantial number of shares of our common stock by our largest stockholders, or the perception that such sales could occur, could also contribute to the volatility or our stock price. While we cannot predict the individual effect that these factors may have on the market price of our common stock, these factors, either individually or in the aggregate, could result in significant volatility in our 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 we were the subject of such litigation, it could result in substantial costs and divert management s attention and resources.

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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 ours. 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. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend 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 our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies, our business may be harmed.

Future sales of our common stock in the public market could adversely affect the trading price of our common stock and our ability to raise funds in new stock offerings.

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. In connection with past acquisitions, we issued a substantial number of shares of our common stock as transaction consideration. We may continue to issue equity securities for future acquisitions, which would dilute existing stockholders, perhaps significantly depending on the terms of such acquisitions. For example, we issued, and registered for resale, approximately 4.0 million shares of our common stock in connection with our September 2009 acquisition of eCopy. No prediction can be made as to the effect, if any, that future sales of shares of common stock, or the availability of shares of common stock for future sale, will have on the trading price of our common stock.

We have implemented anti-takeover provisions, which could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders.

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

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. ***Properties***

Our corporate headquarters and administrative, sales, marketing, research and development and support functions occupy approximately 201,000 square feet of space that we lease in Burlington, Massachusetts. We also lease additional properties in the United States and a number of foreign countries. The following table summarizes our significant properties as of September 30, 2009:

Location	Sq. Ft. (approx.)	Lease Term	Primary Use
Burlington, Massachusetts	201,000	June 2018	Corporate headquarters and administrative, sales, marketing, research and development and customer support functions.
Redwood City, California (1)	141,000	July 2012	Twenty-two percent of this facility is unoccupied, the remainder has been sublet to third party tenants.
Melbourne, Florida	130,000	Owned	Administrative, sales, marketing, customer support and order fulfillment functions.
Montreal, Quebec	74,000	December 2016	Administrative, sales, marketing, research and development, professional services, customer support functions.
Sunnyvale, California	71,000	September 2013	Administrative, research and development, sales, marketing and customer support functions.
Mahwah, New Jersey	38,000	June 2015	Professional services and sales functions.
New York, New York (2)	34,000	February 2016	Subleased to third-party tenants.
Merelbeke, Belgium	25,000	March 2017	Administrative, sales, marketing, research and development and customer support functions.
Budapest, Hungary	21,000	December 2009	Research and development.
Aachen, Germany	20,000	March 2011	Research and development and sales functions

(1) The lease for this property was assumed as part of our acquisition in September 2005 of Nuance Communications, Inc, which we refer to as Former Nuance.

(2) The lease for this property was assumed as part of our acquisition of SpeechWorks.

In addition to the properties referenced above, we also lease a number of small sales and marketing offices in the United States and internationally. As of September 30, 2009, we were productively utilizing substantially all of the space in our facilities, except for space identified above as unoccupied, or that has been subleased to third parties.

Item 3. ***Legal Proceedings***

Like many companies in the software industry, we have from time to time been notified of claims that we 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, we 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 us 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 us.

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 stock of Former Nuance, which we acquired in September 2005, 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 complaint makes claims for violation of several provisions of the federal securities laws against those underwriters, and also against Former Nuance and some of 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, the issuer defendants (including Former Nuance) and the issuers insurance carriers. The settlement called 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 settlement was not expected to have any material impact, as payments, if any, were expected to be made by insurance carriers, rather than by us. 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 plaintiffs petitioned the Second Circuit for rehearing of the Second Circuit s decision, however, on April 6, 2007, the Second Circuit denied the petition for rehearing. At a status conference on April 23, 2007, the district court suggested that the issuers settlement could not be approved in its present form, given the Second Circuit s ruling. On June 25, 2007 the district court issued an order terminating the settlement agreement. The plaintiffs in the case have since filed amended master allegations and amended complaints. On March 26, 2008, the Court largely denied the defendant s motion to dismiss the amended complaints. On April 2, 2009, the plaintiffs filed a motion for preliminary approval of a new proposed settlement between plaintiffs, the underwriter defendants, the issuer defendants and the insurers for the issuer defendants. Under the settlement, which remains subject to Court approval, the insurers would pay the full amount of the settlement attributable to Former Nuance, and Former Nuance would not bear any financial liability. The Court issued an order granting preliminary approval of the settlement, dated June 9, 2009, and a hearing on final approval of the settlement was held on September 10, 2009. On October 5, 2009, the court issued an opinion granting plaintiffs motion for final approval of the settlement, approval of the plan of distribution of the settlement fund and certification of the settlement classes. On October 20, 2009, a petition for permission to appeal the court s October 5, 2009 certification of the settlement classes was filed in the United States Court of Appeals for the Second Circuit. Due to the inherent uncertainties of litigation, we are unable to determine the ultimate outcome or potential range of loss, if any, associated with this matter.

We believe that the final outcome of the matter described above will not have a significant adverse effect on our financial position or results of operations. However, even if our defense is successful, the litigation could require significant management time and will be costly. Should we not prevail in this litigation matter, our operating results, financial position and cash flows could be adversely impacted.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders in the fourth quarter of the fiscal year covered by this Annual Report on Form 10-K.

PART II

Item 5. ***Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol NUAN . The following table sets forth, for our fiscal quarters indicated, the high and low sales prices of our common stock, in each case as reported on the NASDAQ Global Select Market.

	Low	High
Fiscal 2008:		
First quarter	$ 17.48	$ 22.56
Second quarter	12.45	18.80
Third quarter	15.25	21.47
Fourth quarter	12.04	17.98
Fiscal 2009:		
First quarter	$ 6.18	$ 14.28
Second quarter	7.58	11.29
Third quarter	10.50	14.61
Fourth quarter	10.90	15.04

Holders

As of October 31, 2009, there were 1,168 stockholders of record of our common stock.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently expect to retain future earnings, if any, to finance the growth and development of our business and do not anticipate paying any cash dividends in the foreseeable future. Furthermore, the terms of our credit facility place restrictions on our ability to pay dividends, except for stock dividends.

Issuer Purchases of Equity Securities

We have not announced any currently effective authorization to repurchase shares of our common stock.

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Item 6. ***Selected Consolidated Financial Data***

The following selected consolidated financial data is not necessarily indicative of the results of future operations and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	Fiscal Year Ended September 30,				
	2009	**2008**	**2007**	**2006**	**2005**
Operations:					
Total revenue	$ 950.4	$ 868.5	$ 602.0	$ 388.5	$ 232.4
Gross margin	590.8	552.8	404.1	267.5	163.2
Income from operations	57.6	32.6	39.0	8.4	2.0
Provision for income taxes	40.4	14.6	22.5	15.1	6.8
Net loss	$ (12.2)	$ (30.1)	$ (14.0)	$ (22.9)	$ (5.4)
Basic and Diluted Earnings Per Share Data:					
Net loss	$ (0.05)	$ (0.14)	$ (0.08)	$ (0.14)	$ (0.05)
Weighted average common shares outstanding:					
Basic and diluted	253.6	209.8	176.4	163.9	109.5
Financial Position:					
Cash, cash equivalents and short and long-term marketable securities	$ 527.0	$ 261.6	$ 187.0	$ 112.3	$ 95.8
Total assets	3,499.6	2,846.2	2,172.8	1,235.1	757.2
Long-term debt, net of current portion	888.6	894.2	899.9	350.0	
Total stockholders equity	2,003.4	1,424.9	878.3	576.6	514.7
Selected Data and Ratios:					
Working capital	$ 376.6	$ 133.5	$ 164.9	$ 51.3	$ 12.1
Depreciation of property and equipment	18.7	16.4	12.1	8.4	5.0
Amortization of intangible assets	115.4	82.6	37.7	30.1	13.1
Gross margin percentage	62.2%	63.7%	67.1%	68.8%	70.2%

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following Management s Discussion and Analysis is intended to help the reader understand the results of operations and financial condition of our business. Management s Discussion and Analysis is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to the consolidated financial statements.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks, uncertainties and assumptions that, if they never materialize or if they prove incorrect, could cause our consolidated results to differ materially from those expressed or implied by such forward-looking statements. These forward-looking statements include predictions regarding:

our future revenue, cost of revenue, research and development expenses, selling, general and administrative expenses, amortization of intangible assets and gross margin;

our strategy relating to our core markets;

the potential of future product releases;

our product development plans and investments in research and development;

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future acquisitions, and anticipated benefits from pending and prior acquisitions;

international operations and localized versions of our products; and

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. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks described in Item 1A Risk Factors and elsewhere in this Annual Report on Form 10-K.

You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Overview

Nuance Communications, Inc. is a leading provider of speech, imaging and keypad solutions for businesses, organizations and consumers around the world. Our technologies, applications and services make the user experience more compelling by transforming the way people interact with devices and systems, and how they create, share and use documents. Our solutions are used every day by millions of people and thousands of businesses for tasks and services such as requesting information from a phone-based self-service solution, dictating medical records, searching the mobile Web by voice, entering a destination into a navigation system, or working with PDF documents. Our solutions help make these interactions, tasks and experiences more productive, compelling and efficient.

Our technologies address our three core markets:

Mobile-Enterprise. We deliver a portfolio of solutions that improve the experience of customer communications, mobile interactions and personal productivity. Combining our expertise in enterprise and mobile solutions allows us to help consumers, businesses and manufacturers more effectively utilize mobile devices for accessing an array of content, services and capabilities. Our enterprise solutions help 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, utilities, travel and entertainment, and government. Our mobile solutions add voice control and texting capabilities to mobile devices and services, allowing people to more easily dial a mobile phone, enter destination information into an automotive navigation system, dictate a text message or have emails and screen information read aloud.

Healthcare-Dictation. Our healthcare solutions comprise a portfolio of speech-driven clinical documentation and communication solutions that help healthcare provider organizations to reduce operating costs, increase reimbursement, and enhance patient care and safety. Our solutions automate the input and management of medical information and are used by many of the largest hospitals in the United States. We offer a variety of different solutions and deployment options to address the specific requirements of different healthcare provider organizations. Our Dragon NaturallySpeaking family of products help people and businesses increase productivity by using speech to create documents, streamline repetitive and complex tasks, input data, complete forms and automate manual transcription processes. Our Dragon Medical solution is a desktop application that provides front-end speech recognition for smaller groups of physicians and clinicians to create and navigate medical records.

Imaging. Our PDF and document imaging solutions reduce the time and cost associated with creating, using and sharing documents. Our solutions benefit from the widespread adoption of the PDF format and the increasing demand for networked solutions for managing electronic documents. Our solutions are used by millions of professionals and within large enterprises.

We leverage our global professional services organization and our network of partners to design and deploy innovative solutions for businesses and organizations around the globe. We market and distribute our products through a global network of resellers, including system integrators, independent software vendors, value-added resellers, hardware vendors, telecommunications carriers and distributors, and also sell directly through a dedicated sales force and through our e-commerce website.

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. We believe that the power of our solutions can transform the way people use the Internet, telecommunications systems, electronic medical records, wireless and mobile networks and related corporate infrastructure to conduct business.

We have built a world-class portfolio of intellectual property, technologies, applications and solutions through both internal development and acquisitions. We expect to continue to pursue opportunities to broaden these assets and expand our customer base through acquisitions. In evaluating the financial condition and operating performance of our business, management focuses on revenue, earnings, gross margins, operating margins and cash flow from operations. A summary of these key financial metrics for the fiscal year ended September 30, 2009, as compared to the fiscal year ended September 30, 2008, is as follows:

- Total revenue increased by $81.9 million to $950.4 million;
- Net loss decreased by $17.9 million to $12.2 million;
- Gross margins declined by 1.5 percentage points to 62.2%;
- Operating margins improved by 2.3 percentage points to 6.1%; and
- Cash provided by operating activities for the year ended September 30, 2009 was $258.7 million, an increase of $62.5 million from the same period in the prior fiscal year.

Strategy

In fiscal 2010, we will continue to focus on growth by providing market-leading, value-added solutions for our customers and partners through a broad set of technologies, service offerings and channel capabilities. We will also continue to focus on expense discipline and acquisition synergies to improve gross margins and operating margins. We intend to pursue growth through the following key elements of our strategy:

- *Extend Technology Leadership.* Our solutions are recognized as among the best in their respective categories. We intend to leverage our 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. We also intend to invest in our engineering resources and seek new technological advancements that further expand the addressable markets for our solutions.

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

Increase Subscription and Transaction Based Recurring Revenue. We intend to increase our subscription and transaction based offerings in our core markets. The expansion of our subscription or transaction based solutions will enable us to deliver applications that our customers use on a repeat basis, and pay for on a per use basis, providing us with the opportunity to enjoy the benefits of recurring revenue streams.

Expand Global Presence. We intend to further expand our international resources to better serve our global customers and partners and to leverage opportunities in emerging markets such as Asia and Latin America. We continue to add regional executives and sales employees in different geographic regions to better address demand for speech based solutions and services.

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

RESULTS OF OPERATIONS

The following table presents, as a percentage of total revenue, certain selected financial data for fiscal 2009, 2008 and 2007.

	2009	2008	2007
Revenue:			
Product and licensing	39.3%	47.7%	51.8%
Professional services and hosting	43.3	35.2	27.5
Maintenance and support	17.4	17.1	20.7
Total revenue	100.0	100.0	100.0
Cost of revenue:			
Cost of product and licensing	3.9	5.3	7.2
Cost of professional services and hosting	26.8	24.6	19.0
Cost of maintenance and support	3.1	3.6	4.5
Cost of revenue from amortization of intangible assets	4.0	2.8	2.2
Gross margin	62.2	63.7	67.1
Operating expenses:			
Research and development	12.6	13.3	13.3
Sales and marketing	23.1	26.6	30.7
General and administrative	11.8	12.2	12.5
Amortization of intangible assets	8.1	6.7	4.1
In-process research and development		0.3	
Restructuring and other charges (credits), net	0.5	0.8	
Total operating expenses	56.1	59.9	60.6
Income from operations	6.1	3.8	6.5
Other income (expense), net	(3.1)	(5.6)	(5.1)
Income (loss) before income taxes	3.0	(1.8)	1.4
Provision for income taxes	4.3	1.7	3.7
Net loss	(1.3)%	(3.5)%	(2.3)%

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Total Revenue

The following tables show total revenue from our three core market groups and revenue by geographic location, based on the location of our customers, in dollars and percentage change (dollars in millions):

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Mobile-Enterprise	$ 462.3	$ 438.8	$ 246.8	5.4%	77.8%
Healthcare-Dictation	418.4	349.8	281.3	19.6%	24.4%
Imaging	69.7	79.9	73.9	(12.8)%	8.1%
Total Revenue	$ 950.4	$ 868.5	$ 602.0	9.4%	44.3%

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
United States	$ 706.9	$ 669.3	$ 471.6	5.6%	41.9%
International	243.5	199.2	130.4	22.2%	52.8%
Total revenue	$ 950.4	$ 868.5	$ 602.0	9.4%	44.3%

Fiscal 2009 Compared to Fiscal 2008

The increase in total revenue for fiscal 2009, as compared to fiscal 2008, was driven by a combination of organic growth and contributions from acquisitions. Mobile-Enterprise revenue increased $23.5 million, primarily driven by contributions from our acquisition of SNAPin, as well as growth in our hosted, on-demand solutions. Healthcare-Dictation revenue increased $68.6 million, primarily driven by contributions from our acquisitions of eScription and PSRS, and organic growth of our iChart transcription solution. Imaging revenue decreased $10.2 million primarily due to a decline in Windows-based software sales and a general decline in corporate spending due to current economic conditions.

Based on the location of our customers, the geographic split for fiscal 2009 was 74% of total revenue in the United States and 26% internationally, as compared to 77% of total revenue in the United States and 23% internationally for the same period last year. The increase in the proportion of revenue generated internationally was primarily due to contributions from our acquisition of PSRS near the end of fiscal 2008.

Fiscal 2008 Compared to Fiscal 2007

The increase in total revenue for fiscal 2008, as compared to fiscal 2007, was driven by a combination of organic growth and contributions from acquisitions. Mobile-Enterprise revenue increased $192.0 million, primarily driven by contributions from our acquisitions of BeVocal, Viecore, Tegic and VoiceSignal. Healthcare-Dictation revenue increased $68.5 million, primarily due to contributions from our acquisitions of Focus, Commissure, Vocada and eScription. Imaging revenue increased $6.0 million.

Based on the location of our customers, the geographic split for fiscal 2008 was 77% of total revenue in the United States and 23% internationally, as compared to 78% of total revenue in the United States and 22% internationally for the prior year. The slight decrease in proportion of revenue generated in the United States was primarily due to acquisitions that have a higher proportion of their revenue derived from customers outside of the United States.

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Product and Licensing Revenue

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

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Product and licensing revenue	$ 373.4	$ 414.4	$ 311.8	(9.9)%	32.9%
As a percentage of total revenue	39.3%	47.7%	51.8%		

Fiscal 2009 Compared to Fiscal 2008

The decrease in product and licensing revenue for fiscal 2009, as compared to fiscal 2008, consisted of a $27.8 million decrease in Mobile-Enterprise revenue primarily due to customers migrating to our on-demand services solutions and an $11.3 million decrease in Imaging revenue primarily due to a decline in Windows-based software sales and a general decline in corporate spending due to current economic conditions. Healthcare-Dictation product and licensing revenue decreased slightly primarily due to decreased consumer spending in our non-medical sales of Dragon NaturallySpeaking, as well as, customers continued migration to our on-demand service solutions, this decrease was partially offset by the positive revenue impact of our acquisition of PSRS in September 2008. As a percentage of total revenue, product and licensing revenue decreased 8.4 percentage points primarily due to changes in revenue mix attributable to the accelerated growth in professional services and hosting revenue relative to product and licensing revenue.

Fiscal 2008 Compared to Fiscal 2007

The increase in product and licensing revenue for fiscal 2008, as compared to fiscal 2007, consisted of a $90.7 million increase in Mobile-Enterprise revenue primarily due to contributions from our acquisitions of VoiceSignal and Tegic, and a $5.5 million increase in Imaging revenue. Healthcare-Dictation revenue increased by $6.4 million, including contributions from the acquisition of Commissure, and the release of Dragon NaturallySpeaking Version 10 in the fourth fiscal quarter of 2008, but partially offset by a decline in healthcare product and licensing revenue as customers migrated to our iChart hosted services solution. As a percentage of total revenue, product and licensing revenue decreased 4.1 percentage points primarily due to changes in revenue mix attributable to the accelerated growth in professional services and hosting revenue relative to product and licensing revenue.

Professional Services and Hosting Revenue

Professional services revenue primarily consists of consulting, implementation and training services for speech customers. Hosting revenue primarily relates to delivering hosted transcription and dictation services over a specified term, as well as self-service, on-demand offerings to carriers and enterprises. The following table shows professional services and hosting revenue, in dollars and as a percentage of total revenue (dollars in millions):

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Professional services and hosting revenue	$ 411.4	$ 305.5	$ 165.5	34.7%	84.6%
As a percentage of total revenue	43.3%	35.2%	27.5%		

Fiscal 2009 Compared to Fiscal 2008

The increase in professional services and hosting revenue for fiscal 2009, as compared to fiscal 2008, consisted of a $61.8 million increase in Healthcare-Dictation revenue, including contributions from our acquisition of

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eScription and organic growth of our iChart transcription solution. Additionally, there was a $44.1 million increase in Mobile-Enterprise revenue, primarily due to contributions from our acquisition of SNAPin, and growth in our hosted, on-demand solutions. The growth in these organic and acquired revenue streams outpaced the relative growth of our other revenue types, resulting in an 8.1 percentage point increase in professional services and hosting revenue as a percentage of total revenue.

Fiscal 2008 Compared to Fiscal 2007

The increase in professional services and hosting revenue for fiscal 2008, as compared fiscal 2007, consisted of an $88.3 million increase in Mobile-Enterprise revenue, including contributions from our acquisitions of BeVocal and Viecore. Additionally, there was a $51.8 million increase in Healthcare-Dictation revenue, primarily due to contributions from our acquisitions of Focus, Vocada and eScription, and to the growth of our iChart transcription solution. The growth in these organic and acquired revenue streams outpaced the relative growth of our other revenue types, resulting in a 7.7 percentage point increase in professional services and hosting revenue as a percentage of total revenue.

Maintenance and Support Revenue

Maintenance and support revenue primarily consists of technical support and maintenance services. The following table shows maintenance and support revenue, in dollars and as a percentage of total revenue (dollars in millions):

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Maintenance and support revenue	$ 165.6	$ 148.6	$ 124.6	11.4%	19.3%
As a percentage of total revenue	17.4%	17.1%	20.7%		

Fiscal 2009 Compared to Fiscal 2008

The increase in maintenance and support revenue for fiscal 2009, as compared to fiscal 2008, consisted primarily of an $8.7 million increase related to the expansion of our current installed base of Healthcare-Dictation solutions, and a $7.2 million increase in Mobile-Enterprise maintenance and support revenue, driven by organic growth.

Fiscal 2008 Compared to Fiscal 2007

The increase in maintenance and support revenue for fiscal 2008, as compared to fiscal 2007, consisted primarily of a $13.2 million increase in Mobile-Enterprise maintenance and support revenue, driven by a combination of organic growth and growth from our acquisition of Viecore, and a $10.4 million increase related to the expansion of our current installed base of Healthcare-Dictation solutions. As a percentage of total revenue, maintenance and support revenue decreased by 3.6 percentage points, primarily due to changes in revenue mix attributable to the accelerated growth in professional services and hosting revenue relative to maintenance and support revenue.

COSTS AND EXPENSES

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, in dollars and as a percentage of product and licensing revenue (dollars in millions):

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Cost of product and licensing revenue	$ 37.3	$ 45.7	$ 43.2	(18.4)%	5.8%
As a percentage of product and licensing revenue	10.0%	11.0%	13.8%		

Fiscal 2009 Compared to Fiscal 2008

The decrease in cost of product and licensing revenue for fiscal 2009, as compared to fiscal 2008, was primarily due to a $4.7 million decrease in Healthcare-Dictation costs, a $2.7 million decrease in Imaging costs and a $1.0 million decrease in Mobile-Enterprise costs as a result of customer migration to hosted, on-demand solutions and declining Windows-based license revenues. The cost of product and licensing revenue decreased as a percentage of revenue due to a change in the revenue mix towards products with higher margins.

Fiscal 2008 Compared to Fiscal 2007

Cost of product and licensing revenue increased $2.5 million for fiscal 2008, as compared to fiscal 2007, primarily due to increased royalty expense associated with our Imaging product and partially offset by reduced Healthcare-Dictation costs. Cost of product and licensing revenue decreased as a percentage of product and licensing revenue primarily due to increased product and licensing revenue related to recent acquisitions that do not carry significant related costs, and, to a lesser extent, to a change in the revenue mix towards products with higher margins.

Cost of Professional Services and Hosting Revenue

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

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007

Cost of professional services and hosting revenue	$ 254.8	$ 214.0	$ 114.2	19.1%	87.4%
As a percentage of professional services and hosting revenue	61.9%	70.0%	69.0%		

Fiscal 2009 Compared to Fiscal 2008

The increase in cost of professional services and hosting revenue for fiscal 2009, as compared to fiscal 2008, was primarily due to a $36.2 million increase in Mobile-Enterprise costs driven by our acquisition of SNAPin and a $4.5 million increase in Healthcare-Dictation professional services and hosting costs driven by a full year impact of our acquisitions of eScription and PSRS in late fiscal 2008. As a percentage of revenue, cost of professional services and hosting revenue decreased due to faster growth in our higher margin hosted, on-demand solutions.

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Fiscal 2008 Compared to Fiscal 2007

The increase in the cost of professional services and hosting revenue for fiscal 2008, as compared to fiscal 2007, was primarily driven by the Mobile-Enterprise acquisition of Viecore, the full year impact of the fiscal 2007 Healthcare-Dictation acquisition of Focus, as well as organic growth in the core business. The cost of professional services and hosting revenue increased modestly in fiscal 2008, as a percentage of the related revenue, as we increased spending to support our current and future growth, particularly in our hosted, on-demand solutions. These solutions require infrastructure spending in advance of the revenue.

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, in dollars and as a percentage of maintenance and support revenue (dollars in millions):

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Cost of maintenance and support revenue	$ 29.1	$ 31.5	$ 27.5	(7.6)%	14.5%
As a percentage of maintenance and support revenue	17.6%	21.2%	22.0%		

Fiscal 2009 Compared to Fiscal 2008

The decrease in cost of maintenance and support revenue for fiscal 2009, as compared to fiscal 2008, was primarily due to a $1.7 million decrease in Healthcare-Dictation costs as a result of effective cost containment actions, offset by an increase in costs associated with our acquisitions of eScription and PSRS. As a percentage of revenue, cost of maintenance and support revenue decreased due to effective cost controls in our core business and changes in the overall revenue mix.

Fiscal 2008 Compared to Fiscal 2007

The increase in cost of maintenance and support revenue for fiscal 2008, as compared to fiscal 2007, was primarily due to a $2.2 million increase in Mobile-Enterprise related to the acquisition of Viecore and $1.1 million increase in Healthcare-Dictation related to the acquisitions of Vocada and Commissure. The cost of maintenance and support revenue as a percentage of the related revenue decreased by 0.8 percentage points.

Research and Development Expense

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

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Research and development expense	$ 119.4	$ 115.0	$ 80.0	3.8%	43.8%
As a percentage of total revenue	12.6%	13.2%	13.3%		

Fiscal 2009 Compared to Fiscal 2008

The increase in research and development expense for fiscal 2009, as compared to fiscal 2008, primarily consisted of a $5.7 million increase in infrastructure investment to support ongoing research and development projects, as well as a $2.5 million increase in compensation expense attributable to the additional headcount from our acquisitions during the period. This increase is partially offset by a reduction of $3.0 million related to temporary employees and professional services. To date, we have not capitalized any internal software development costs as costs incurred after technological feasibility, but before release of our licensed software products, and development work related to our on-demand solutions have not been significant.

Fiscal 2008 Compared to Fiscal 2007

The increase in research and development expense for fiscal 2008, as compared to fiscal 2007, primarily consisted of a $28.9 million in compensation expense attributable to the additional headcount from our acquisitions during the period, and a $3.6 million increase in temporary employees and professional services to support ongoing research and development projects. The remaining increase is related to infrastructure investment.

Sales and Marketing Expense

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

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Sales and marketing expense	$ 219.2	$ 231.2	$ 184.9	(5.2)%	25.0%
As a percentage of total revenue	23.1%	26.6%	30.7%		

Fiscal 2009 Compared to Fiscal 2008

The decrease in sales and marketing expenses for fiscal 2009, as compared to fiscal 2008, was primarily attributable to a $4.9 million decrease in compensation and other variable costs, such as commissions and travel expenses, a $4.6 million decrease in marketing program spending and a $1.3 million decrease in temporary employees and professional services. Sales and marketing expense as a percentage of total revenue decreased by 3.5 percentage points, as a result of increased cost efficiencies of our sales and marketing expenditures.

Fiscal 2008 Compared to Fiscal 2007

The increase in sales and marketing expenses for fiscal 2008, as compared to fiscal 2007, was primarily attributable to a $39.9 million increase in compensation and other variable costs, such as commissions, stock-based compensation and travel expenses related to increased headcount from our acquisitions during the period, and a $5.0 million increase in marketing program spending. Sales and marketing expense as a percentage of total revenue decreased by 4.1 percentage points, as a result of increased cost efficiencies of our sales and marketing expenditures and a reduction of the share-based compensation relative to the increase in revenue.

General and Administrative Expense

General and administrative expense primarily consists of personnel costs 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 dollars and as a percentage of total revenue (dollars in millions):

	Fiscal 2008	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
General and administrative expense	$ 112.1	$ 105.9	$ 75.6	5.9%	40.1%
As a percentage of total revenue	11.8%	12.2%	12.6%		

Fiscal 2009 Compared to Fiscal 2008

The increase in general and administrative expense for fiscal 2009, as compared to fiscal 2008, was primarily attributable to increased legal costs of $11.4 million associated with acquisition and integration activities. This increase is partially offset by a reduction of $2.4 million in bad debt expense resulting from improved collection and a $2.6 million decrease in expenses related to temporary employees and professional services as a result of cost containment efforts and acquisition related synergies.

Fiscal 2008 Compared to Fiscal 2007

The increase in general and administrative expense for fiscal 2008 compared to fiscal 2007 was primarily attributable to increased compensation and stock-based compensation of $20.9 million associated with our 2008 acquisitions. An additional $5.1 million increase in general and administrative expenses related to temporary employees and professional services in order to support the incremental requirements resulting from our growth from acquisitions, and $3.6 million related to increased third-party legal fees.

Amortization of Intangible Assets

Amortization of acquired patents and core and completed technology are included in cost of revenue and the amortization of acquired customer and contractual relationships, non-compete agreements, acquired tradenames and trademarks, and other intangibles are included in operating expenses. Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefit of customer relationships are being realized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense was recorded as follows (dollars in millions):

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Cost of revenue	$ 38.4	$ 24.4	$ 13.1	57.4%	86.3%
Operating expense	77.0	58.2	24.6	32.3%	136.6%
Total amortization expense	$ 115.4	$ 82.6	$ 37.7	39.7%	119.1%
As a percentage of total revenue	12.1%	9.5%	6.3%		

Fiscal 2009 Compared to Fiscal 2008

The increase in amortization of intangible assets for fiscal 2009, compared to fiscal 2008, was primarily attributable to the amortization of acquired customer relationship and core technology intangible assets from our acquisitions of eScription in May 2008, PSRS in September 2008, SNAPin in October 2008, and our acquisitions during the third quarter of fiscal 2009. Fiscal 2009 amortization expense also increased over fiscal 2008 due to our acquisition and licensing of certain technology from other third-parties during 2009.

Fiscal 2008 Compared to Fiscal 2007

The increase in amortization of intangible assets for fiscal 2008, compared to fiscal 2007, was primarily attributable to the amortization of acquired customer relationships and core technology from our acquisitions in fiscal 2008 and 2007, as well as new technology licensed in fiscal 2008. The amortization expense in fiscal 2008 included $3.6 million representing impairment charges recorded from our review of our ability to realize future cash flows relating to certain of our intangible assets. We did not record any impairment charges in fiscal 2007.

Based on our balance of amortizable intangible assets as of September 30, 2009, and assuming no impairment or reduction in expected lives, we expect amortization of intangible assets for fiscal 2010 to be $126.2 million

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In-Process Research and Development

In fiscal 2008, we recorded in-process research and development charges of $2.6 million in connection with our acquisition of PSRS. We did not have any in-process research and development charges for any other acquisitions completed in fiscal 2009, 2008 or 2007. The value assigned to in-process research and development was determined using an income approach by estimating the costs to develop the acquired technologies into commercially viable products, estimating the resulting net cash flows from the projects and discounting the net cash flows to their present values. At the date of acquisition, the development of these projects had not yet reached technological feasibility, and the research and development in progress had no alternative future uses. The rates utilized to discount the net cash flows to their present value were based on a number of factors, including our estimated costs of capital. Due to the nature of the forecasts and the risks associated with the projected growth and profitability of these projects, discount rates of 25% to 35% were considered appropriate.

Restructuring and Other Charges (Credits), Net

For fiscal 2009, we recorded restructuring and other charges of $5.4 million, composed primarily of $5.3 million related to the elimination of approximately 220 personnel across multiple functions within our company.

For fiscal 2008, we recorded restructuring and other charges of $7.0 million, of which $4.2 million related to the elimination of approximately 155 personnel across multiple functions, $1.4 million related to a non-recurring, adverse ruling arising from a vendor s claims of underpayment of historical royalties for technology discontinued in 2005 and $1.4 million related to the consolidation or elimination of excess facilities.

The following table sets forth the activity relating to the restructuring accruals in fiscal 2009, 2008 and 2007 (in millions):

	Personnel Related	Facilities Costs	Other	Total
Balance at October 1, 2006	$ 0.4	$ 0.5	$	$ 0.9
Restructuring and other charges (credits), net	(0.1)			(0.1)
Cash payments		(0.5)		(0.5)
Balance at September 30, 2007	0.3			0.3
Restructuring and other charges (credits), net	4.2	1.4	1.4	7.0
Cash payments	(4.2)	(0.6)		(4.8)
Balance at September 30, 2008	0.3	0.8	1.4	2.5
Restructuring and other charges (credits), net	5.3	0.1		5.4
Cash payments	(5.0)	(0.6)	(1.4)	(7.0)
Balance at September 30, 2009	$ 0.6	$ 0.3	$	$ 0.9

Other Income (Expense), Net

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

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Interest income	$ 3.6	$ 8.0	$ 6.0	(55.0)%	33.3%
Interest expense	(40.1)	(55.2)	(36.5)	(27.4)%	51.2
Other income (expense), net	7.2	(1.0)		820%	
Total other income (expense), net	$ (29.3)	$ (48.2)	$ (30.5)		
As a percentage of total revenue	(3.1)%	(5.6)%	(5.1)%		

Fiscal 2009 Compared to Fiscal 2008

The change in other income (expense), net for fiscal 2009, as compared to fiscal 2008, was primarily driven by gains on foreign currency forward contracts. During the three months ended December 31, 2008, we entered into foreign currency forward contracts to manage exposure on our Euro-denominated deferred acquisition payment obligation of 44.3 million related to our acquisition of PSRS. The deferred acquisition payment was paid on October 22, 2009. These foreign currency contracts were not designated as hedges and changes in fair value of these contracts were reported in net earnings as other income (expense). For fiscal 2009, we recorded a net $8.0 million gain as other income related to these contracts and the related Euro-denominated obligation. In addition, gains on other derivative instruments of $2.3 million were partially offset by a $1.2 million impairment charge taken on our cost method investment in a non-public company during the period. Interest income was lower in fiscal 2009 due to lower prevailing market interest rates. Interest expense was similarly lower during fiscal 2009 driven by a decrease in the prevailing average interest rates during the year related to our variable-interest rate borrowings.

Fiscal 2008 Compared to Fiscal 2007

The increase in interest income for fiscal 2008 compared to fiscal 2007 was primarily due to higher cash balances, partially offset by lower interest rates during fiscal 2008 compared to fiscal 2007. The increase in interest expense was mainly due to the increase in our term loan borrowings and the $250.0 million convertible debentures that we issued in August 2007. Included in interest expense was $5.2 million in fiscal 2008 and $4.2 million in fiscal 2007 of non-cash interest expense mainly related to imputed interest in association with certain lease obligations included in our accrued business combination costs and accrued restructuring charges, and the amortization of debt issuance costs and unamortized discount associated with our debt. Other income (expense), net principally consisted of foreign exchange gains (losses) as a result of the changes in foreign exchange rates on certain of our foreign subsidiaries who have transactions denominated in currencies other than their functional currencies, as well as the remeasurement of certain of our intercompany balances.

Provision for Income Taxes

The following table shows the provision for income taxes and the effective income tax rate (in thousands of dollars, except percentages):

	Fiscal 2009	Fiscal 2008	Fiscal 2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Income tax provision	$ 40.4	$ 14.6	$ 22.5	176.7%	(35.1)%
Effective income tax rate	143.3%	(93.8)%	265.1%		

Fiscal 2009 Compared to Fiscal 2008

Our effective income tax rate was 143.3% and (93.8)% for fiscal 2009 and 2008, respectively. The increase in the rate was due primarily to the increase in our valuation allowance with respect to certain deferred tax assets. This was partially offset by an $8.0 million charge recorded in the first quarter of fiscal 2009 upon our election to treat the eScription acquisition as an asset purchase. This charge in fiscal 2009 represented the reversal of tax benefits associated with a Massachusetts state tax law enactment recorded in the fourth quarter of fiscal 2008 when the eScription acquisition was treated as a stock purchase

Fiscal 2008 Compared to Fiscal 2007

The effective income tax rate was (93.8)% and 265.1% for fiscal 2008 and 2007, respectively. The decrease in the effective tax rate was due primarily to the $20.4 million tax benefit associated with the enactment of the Massachusetts state tax law enactment, which impacted the tax rate applied to certain deferred tax liabilities associated with intangible assets and results in these liabilities being taxed at a lower effective tax rate when reversed in future periods. This benefit was partially offset by changes in the valuation allowance with respect to certain deferred tax assets.

Our utilization of deferred tax assets that were acquired in a business combination (primarily net operating loss carryforwards) will reduce goodwill, intangible assets, and to the extent remaining, the provision for income taxes, until our adoption of the business combination accounting guidance in ASC 805 on October 1, 2009; after which time the reductions in the allowance, if any, will be recorded as a tax benefit in the statement of operations. Our establishment of new deferred tax assets as a result of operating activities requires the establishment of valuation allowances based upon more likely than not realization criteria. The establishment of a valuation allowance relating to operating activities is recorded as an increase to tax expense.

Our 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 $527.0 million as of September 30, 2009, an increase of $265.5 million as compared to $261.5 million as of September 30, 2008. Our working capital was $376.6 million as of September 30, 2009 as compared to $133.5 million as September 30, 2008. As of September 30, 2009, our total accumulated deficit was $247.3 million. We do not expect our accumulated deficit to impact our future ability to operate the business given our strong cash and operating cash flow positions, and believe our current cash and cash equivalents on-hand are sufficient to meet our operating needs for at least the next twelve months.

Cash provided by operating activities

Fiscal 2009 compared to Fiscal 2008

Cash provided by operating activities for fiscal 2009 was $258.7 million, an increase of $62.5 million, or 32%, as compared to cash provided by operating activities of $196.2 million for fiscal 2008. The increase was primarily driven by the following factors:

- an increase in cash from accounts payable and accrued expenses of $47.8 million primarily attributable to the timing of cash payments under our normal operating cycles;

an increase in cash resulting from a decrease in net loss, exclusive of non-cash adjustment items, of approximately $65.7 million mainly attributable to improvement in our operating margins, as well as the decrease in cash interest expense on our variable rate debt attributable to lower variable interest rates during fiscal 2009;

a decrease in cash of $10.1 million from prepaid expenses and other assets attributable to individually insignificant fluctuations in prepaid expenses related to our normal operations; and a decrease in cash of $28.5 million from accounts receivable primarily attributable to the significant collection of acquired unbilled accounts receivable during fiscal 2008 and the timing of cash collections.

Fiscal 2008 compared to Fiscal 2007

Cash provided by operating activities for fiscal 2008 was $196.2 million, an increase of $89.8 million, or 84%, as compared to cash provided by operating activities of $106.4 million for fiscal 2007. The net increase was primarily driven by the following factors:

a decrease in cash from accounts payable and accrued expenses of $46.2 million, primarily attributable to the timing of cash payments under our normal operating cycles;

an increase in cash resulting from a decrease in our net loss, exclusive of non-cash adjustment items, of approximately $46.7 million mainly attributable to improvements in our operating margins, offset by an increase in cash interest expense resulting from our term loan and convertible notes being outstanding for the full fiscal 2008;

an increase in cash of $9.3 million resulting from increased deferred revenue; and

an increase in cash of $76.3 million from accounts receivable primarily attributable to the significant collection of acquired unbilled accounts receivable and the timing of cash collections during fiscal 2008.

Cash used in investing activities

Fiscal 2009 compared to Fiscal 2008

Cash used in investing activities for fiscal 2009 was $184.6 million, a decrease of $261.5 million, or 59%, as compared to cash used in investing activities of $446.1 million for fiscal 2008. The net decrease was primarily driven by the following factors:

a decrease in cash payments related to acquisitions of $293.4 million, primarily driven by the cash payment of $330.9 million to acquire eScription in May 2008; and

an increase of $29.4 million in cash payments to acquire speech-related patent portfolios and a royalty-free paid-up perpetual license to speech-related source code.

Fiscal 2008 compared to Fiscal 2007

Cash used in investing activities for fiscal 2008 was $446.1 million, a decrease of $131.6 million, or 23%, as compared to cash used in investing activities of $577.7 million for fiscal 2007. The decrease was primarily driven by the following factors:

a decrease of $171.8 million in cash payments related to acquisitions, primarily driven by the cash payments of $469.5 million for Tegic and VoiceSignal in fiscal 2007 compared to $330.9 million to acquire eScription in fiscal 2008; and

an increase of $29.0 million in cash payments for third party licenses and capitalized patent defense costs.

Cash provided by financing activities

Fiscal 2009 compared to Fiscal 2008

Cash provided by financing activities for fiscal 2009 was $189.4 million, a decrease of $137.7 million, or 42%, as compared to cash provided by financing activities of $327.1 million for fiscal 2008. The change was primarily driven by the following factors:

a decrease of $135.0 million in cash proceeds from the sale of our common stock. During fiscal 2009, we sold 17.4 million shares of our common stock and warrants to purchase 3.9 million shares of our common stock for net proceeds of $175.1 million as compared to a sale of 19.2 million shares of our common stock and warrants to purchase 3.7 million shares of our common stock for net proceeds of $330.6 million during fiscal 2008;

a decrease of $6.6 million in cash payments to net share settle employee equity awards, due to a decrease in the intrinsic value of the shares vested as a result of the overall decrease in our stock price in fiscal 2009 as compared to fiscal 2008; and

a decrease of $8.3 million in cash proceeds from the issuance of common stock upon exercise of employee stock options and pursuant to our employee stock purchase plan, due to a decrease in the number of options exercised during fiscal 2009 as compared to fiscal 2008.

Fiscal 2008 compared to Fiscal 2007

Cash provided by financing activities for fiscal 2008 was $327.1 million, a decrease of $214.4 million, or 40%, as compared to cash provided by financing activities of $541.5 million for fiscal 2007. The change was primarily driven by the following factors:

an increase of $330.6 million in cash proceeds from the sale of our common stock. During fiscal 2008, we sold 19.2 million shares of our common stock and warrants to purchase 3.7 million shares of our common stock for net proceeds of $330.6 million. There were no corresponding issuances of common stock during fiscal 2007;

a decrease of $551.4 million in cash received from new borrowings. In fiscal 2007, we received proceeds from our Credit Facility and the issuance of our 2.75% Convertible Senior Debentures, while we did not raise any significant funds through borrowings in fiscal 2008; and

an increase of $18.7 million related to deferred acquisition payments made in fiscal 2007 for an acquisition consummated in fiscal 2005., and not made in fiscal 2008. We did not make any deferred payments of this nature in fiscal 2008.

Credit Facilities and Debt

2.75% Convertible Debentures

On August 13, 2007, we issued $250 million of 2.75% convertible senior debentures due in 2027 (the 2027 Debentures) in a private placement to Citigroup Global Markets Inc. and Goldman, Sachs & Co. Total proceeds, net of debt discount of $7.5 million and deferred debt issuance costs of $1.1 million, were $241.4 million. The 2027 Debentures bear an interest rate of 2.75% per annum, payable semi-annually in arrears beginning on February 15, 2008, and mature on August 15, 2027 subject to the right of the holders of the 2027 Debentures to require us to redeem the 2027 Debentures on August 15, 2014, 2017 and 2022. The related debt discount and debt issuance costs are being amortized to interest expense using the effective interest rate method through August 2014. As of September 30, 2009 and 2008, the ending unamortized discount was $5.2 million and $6.3 million, respectively, and the ending unamortized deferred debt issuance costs were $0.7 million and $0.8 million, respectively. The 2027 Debentures are general senior unsecured obligations, ranking equally in right of payment to all of our existing and future unsecured, unsubordinated indebtedness and senior in right of payment to any indebtedness that is contractually subordinated to the 2027 Debentures. The 2027 Debentures are effectively subordinated to our secured indebtedness to the extent of the value of the collateral securing such indebtedness and are structurally subordinated to indebtedness and other liabilities of our subsidiaries. If converted, the principal amount of the 2027 Debentures is payable in cash and any amounts payable in excess of the $250 million principal amount, will (based on an initial conversion rate, which represents an initial conversion price of $19.47 per share, subject to adjustment as defined) be paid in cash or shares of our common stock, at our election, only in the following circumstances and to the following extent: (i) on any date during any fiscal quarter beginning after September 30, 2007 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 120% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (ii) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for $1,000 principal amount of the Debentures for each day during such five trading-day period was less than 98% of the closing sale price of our common stock multiplied

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by the then current conversion rate; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 2027 Debentures; and (iv) at the option of the holder at any time on or after February 15, 2027. Additionally, we may redeem the 2027 Debentures, in whole or in part, on or after August 20, 2014 at par plus accrued and unpaid interest; each holder shall have the right, at such holder s option, to require us to repurchase all or any portion of the 2027 Debentures held by such holder on August 15, 2014, August 15, 2017 and August 15, 2022. Upon conversion, we will pay cash and shares of our common stock (or, at our election, cash in lieu of some or all of such common stock), if any. If we undergo a fundamental change (as described in the indenture for the 2027 Debentures) prior to maturity, holders will have the option to require us to repurchase all or any portion of their debentures for cash at a price equal to 100% of the principal amount of the debentures to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the repurchase date. As of September 30, 2009, no conversion triggers were met. If the conversion triggers were met, we could be required to repay all or some of the principal amount in cash prior to the maturity date.

Credit Facility

We have a credit facility which consists of a $75 million revolving credit line including letters of credit, a $355 million term loan entered into on March 31, 2006, a $90 million term loan entered into on April 5, 2007 and a $225 million term loan entered into on August 24, 2007 (the Credit Facility). The term loans are due March 2013 and the revolving credit line is due March 2012. As of September 30, 2009, $650.3 million remained outstanding under the term loans, there were $16.2 million of letters of credit issued under the revolving credit line and there were no other outstanding borrowings under the revolving credit line.

The Credit Facility contains covenants, including, among other things, covenants that restrict our ability and those of our 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 events of default, including failure to make payments of principal or interest, 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 September 30, 2009, we were in compliance with the covenants under the Credit Facility.

Borrowings under the 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 (equal to (i) the British Bankers Association Interest Settlement Rates for deposits in U.S. dollars divided by (ii) one minus the statutory reserves applicable to such borrowing). The applicable margin for term loan borrowings under the Credit Facility ranges from 0.75% to 1.50% per annum with respect to base rate borrowings and from 1.75% to 2.50% per annum with respect to LIBOR-based borrowings, depending on our leverage ratio. The applicable margin for revolving loan borrowings under the 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 September 30, 2009, our applicable margin for the term loan was 1.00% for base rate borrowings and 2.00% for LIBOR-based borrowings. We are 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, 2009, the commitment fee rate was 0.375% and the effective interest rate was 2.27%.

We capitalized debt issuance costs related to the Credit Facility and are 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 September 30, 2009 and 2008, the ending unamortized deferred financing fees were $7.7 million and $10.0 million, respectively, and are included in other assets in the accompanying consolidated balance sheet.

The Credit Facility is subject to repayment in four equal quarterly installments of 1% per annum ($6.7 million per year, not including interest, which is also payable quarterly), and an annual excess cash flow sweep, as defined in the Credit Facility, which is payable beginning in the first quarter of each fiscal year, beginning in fiscal 2008, based on the excess cash flow generated in the previous fiscal year. No payment under the excess cash flow sweep provision was due in the first quarter of either fiscal 2009 or fiscal 2010 as there was no excess cash flow generated

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in either of the respective prior fiscal years. We will continue to evaluate the extent to which a payment is due in the first quarter of future fiscal years based on excess cash flow generation. At the current time, we are unable to predict the amount of the outstanding principal, if any, that we may be required to repay in future fiscal years pursuant to the excess cash flow sweep provisions. Any term loan borrowings not paid through the baseline repayment, the excess cash flow sweep, or any other mandatory or optional payments that we may make, will be repaid upon maturity. If only the baseline repayments are made, the annual aggregate principal amount of the term loans repaid would be as follows (in thousands):

Year Ending September 30,	**Amount**
2010	$ 6,700
2011	6,700
2012	6,700
2013	630,163
Total	$ 650,263

Our obligations under the Credit Facility are unconditionally guaranteed by, subject to certain exceptions, each of our existing and future direct and indirect wholly-owned domestic subsidiaries. The 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 our domestic subsidiaries and 65% of the outstanding voting equity interests and 100% of the non-voting equity interests of first-tier foreign subsidiaries, all our material tangible and intangible assets and those of the guarantors, and any present and future intercompany debt. The 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. We may voluntarily prepay borrowings under the Credit Facility without premium or penalty other than breakage costs, as defined with respect to LIBOR-based loans.

We believe that cash flows from future operations in addition to cash and cash equivalents on hand will be sufficient to meet our working capital, investing, financing and contractual obligations and the contingent payments for acquisitions, if any are realized, as they become due for at least the next twelve months. We also believe that in the event future operating results are not as planned, that we 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 we may be required to issue equity or debt securities on terms that may be less favorable.

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Off-Balance Sheet Arrangements, Contractual Obligations, Contingent Liabilities and Commitments

Contractual Obligations

The following table outlines our contractual payment obligations as of September 30, 2009 (in millions):

	Payments Due by Fiscal Year Ended September 30,				
Contractual Obligations	**Total**	**2010**	**2011 and 2012**	**2013 and 2014**	**Thereafter**
Credit Facility(2)	$ 650.3	$ 6.7	$ 13.4	$ 630.2	$
2.75% Convertible Senior Debentures(1)	250.0			250.0	
Interest payable under Credit Facility(2)	50.8	14.7	29.0	7.1	
Interest payable under 2.75% Convertible Senior Debentures(3)	34.5	6.9	13.8	13.8	
Lease obligations and other liabilities:					
Operating leases	118.2	18.4	33.1	27.5	39.2
Other lease obligations associated with the closing of duplicate facilities related to restructurings and acquisitions(4)	8.6	4.2	4.0	0.4	
Pension, minimum funding requirement(5)	6.8	1.4	2.7	2.7	
Purchase commitments(6)	1.9	1.9			
Other long-term liabilities assumed(7)	47.7	13.5	26.3	4.6	3.3
Total contractual cash obligations	$ 1,168.8	$ 67.7	$ 122.3	$ 936.3	$ 42.5

(1) Holders of the 2.75% Senior Convertible Debentures have the right to require us to repurchase the debentures on August 15, 2014, 2017 and 2022.

(2) Interest is due and payable monthly under the Credit Facility, and principal is paid on a quarterly basis. The amounts included as interest payable in this table are based on the effective interest rate as of September 30, 2009 related to the Credit Facility excluding the effect of our interest rate swaps.

(3) Interest is due and payable semi-annually under the 2.75% convertible senior debentures.

(4) Obligations include contractual lease commitments related to facilities that were part of restructuring plans entered into in fiscal 2005, 2008 and 2009. As of September 30, 2009, total gross lease obligations are $3.0 million and are included in the contractual obligations herein. The remaining $5.6 million in obligations represent contractual lease commitments associated with the implemented plans to eliminate duplicate facilities in conjunction with our acquisitions. As of September 30, 2009, we have subleased certain of the facilities to unrelated third parties with total sublease income of $3.0 million through fiscal 2013.

(5) Our U.K. pension plan has a minimum funding requirement of £859,900 ($1.4 million based on the exchange rate at September 30, 2009) for each of the next 5 years, through fiscal 2014.

(6)

These amounts include non-cancelable purchase commitments for inventory in the normal course of business to fulfill customers orders currently scheduled in our backlog.

(7) Obligations include assumed long-term liabilities relating to restructuring programs initiated by the predecessor companies prior to our acquisition of SpeechWorks International, Inc. in August 2003, and our 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 \$47.7 million. As of September 30, 2009, we have 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 \$14.5 million, which ranges from \$1.5 million to \$3.2 million on an annualized basis through 2016.

As a result of our adoption of FIN 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48), now referred to as ASC 740-10, on October 1, 2007, our gross liability for unrecognized tax benefits was approximately \$2.5 million. The gross liability as of September 30, 2009 was

$12.1 million. We do not expect a significant change in the amount of unrecognized tax benefits within the next 12 months. We estimate that approximately $1.1 million of this amount may be paid within the next year and we are currently unable to reasonably estimate the timing of payments for the remainder of the liability.

Contingent Liabilities and Commitments

In connection with certain of our acquisitions, we have agreed to make contingent cash payments to the former shareholders of certain of the acquired companies. The following represents the contingent cash payments that we may be required to make.

In connection with our acquisition of SNAPin, we agreed to make contingent earn-out payments of up to $45.0 million in cash, to be paid, if at all, based on the business achieving certain performance targets that are measurable from the acquisition date to December 31, 2009. Additionally, we would be required to issue earn-out consideration to SNAPin option holders. This option earn-out consideration, if earned, is payable at our sole discretion in cash, stock or additional options to purchase common stock. The total value of this option earn-out consideration may aggregate up to $2.5 million, which will be recorded as compensation expense over the service period, if earned. These earn-out payments, if any would be payable upon the final measurement of the performance targets. As of September 30, 2009, we have recorded approximately $12.9 million related to the contingent earn-out provisions as additional purchase price.

In connection with our acquisition of PSRS, a deferred cash payment of 44.3 million ($64.6 million based on the exchange rate as of September 30, 2009) was due per the asset purchase agreement on September 21, 2009. We paid the deferred acquisition payment on October 22, 2009. The purchase price was finalized in November 2009 based on a final working capital adjustment agreed between us and the former shareholder of PSRS, reducing the final purchase price by 1.4 million ($2.1 million based on exchange rate at September 30, 2009), reflective of the amount agreed to be paid to us by the former shareholder of PSRS.

In connection with our acquisition of Multi-Vision, we agreed to make contingent earn-out payments of up to $15.0 million, payable in stock, or cash, solely at our discretion, relating to certain provisions as described in the share purchase agreement. Two-thirds of the earn-out is conditioned on performance targets and continued employment; accordingly, up to $10.0 million of any earn-out payments that become payable will be recorded to compensation expense, and up to $5.0 million, the portion of the prospective earn-out attributable solely to performance targets, will be recorded as additional purchase price and allocated to goodwill. As of September 30, 2009, we have not recorded any obligation or compensation expense relative to these measures.

In connection with our acquisition of Vocada, we agreed to make contingent earn-out payments of up to an additional $21.0 million upon the achievement of certain financial targets measured over defined periods through December 31, 2010, in accordance with the merger agreement. Payments, if any, will be made in the form of cash or shares of our common stock, at our sole discretion. We have notified the former shareholders of Vocada that the financial targets for certain periods were not achieved. The former shareholders of Vocada have requested additional information regarding this determination. We are currently in discussions with the former shareholders of Vocada regarding this matter. As of September 30, 2009, we have not recorded any obligation relative to these measures.

In connection with our acquisition of Commissure, we agreed to make contingent earn-out payments of up to $8.0 million upon the achievement of certain financial targets for the fiscal years ended September 30, 2008, 2009 and 2010, in accordance with the merger agreement. Payments, if any, may be made in the form of cash or shares of our common stock, at our sole discretion. We have notified the former shareholders of Commissure that the financial targets for fiscal year ended September 30, 2008, were not achieved and the related contingent earn-out payment was not earned. Through September 30, 2009, we have not recorded any obligation relative to these measures.

In connection with our acquisition of Phonetic Systems Ltd. (Phonetic) in February 2005, we agreed to make contingent earn-out payments of $35.0 million upon achievement of certain established financial and performance targets, in accordance with the merger agreement. We have notified the former shareholders of Phonetic that the financial and performance targets were not achieved. Accordingly, we have not recorded any obligations relative to

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these measures as of September 30, 2009. The former shareholders of Phonetic have objected to this determination and have filed for arbitration.

Financial Instruments

We use financial instruments to manage our interest rate and foreign exchange risk. We follow Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, now referred to as Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815 (ASC 815), for certain designated forward contracts and interest rate swaps.

To manage the interest rate exposure on our variable-rate borrowings, we use interest rate swaps to convert specific variable-rate debt into fixed-rate debt. As of September 30, 2009, we have two outstanding interest rate swaps designated as cash flow hedges with an aggregate notional amount of $200 million. The interest rates on these swaps are 2.7% and 2.1%, plus the applicable margin for the Credit Facility, and they expire in October 2010 and November 2010, respectively. As of September 30, 2009 and September 30, 2008, the aggregate cumulative unrealized losses related to these swaps, and a previous swap that matured on March 31, 2009, were $4.0 million and $0.9 million, respectively.

On December 31, 2008, we entered into foreign currency contracts to hedge exposure on the variability of cash flows in Canadian dollars. These contracts expired in September 2009 and were designated as cash flow hedges. The impact of these settled contracts on results of operations and other comprehensive income are detailed in the Notes to our Consolidated Financial Statements. We have no foreign currency contracts designated as cash flow hedges outstanding at September 30, 2009.

We have foreign currency contracts that are not designated as hedges. Changes in fair value of foreign currency contracts not qualifying as hedges are reported in earnings as part of other income (expense), net. During the three months ended December 31, 2008, we entered into foreign currency forward contracts to offset foreign currency exposure on the deferred acquisition payment of 44.3 million related to our acquisition of PSRS, resulting in a net gain of $8.0 million in other income (expense).

In June 2009, we acquired certain intangible assets and issued 1,809,353 shares of our common stock, valued at $25.0 million, as part of the total consideration. We also issued an additional 315,790 shares of our common stock, valued at $4.5 million, in June 2009 as a prepayment for professional services. These shares issued are subject to security price guarantees which are accounted for as derivatives, and are being accounted for separately from their host agreements due to the determination that such instruments would not be considered equity instruments if freestanding. The security price guarantees require a payment from, either, us to the third party or from the third party to us based upon the difference between the price of our common stock on the issue date and an average price of our common stock approximately six months following the issue date. For the fiscal year ended September 30, 2009, increases in fair value of $2.3 million related to these security price guarantees are reported in earnings as non-operating income within other income (expense), net.

In October 2009, we entered into a five-year joint research collaboration with a third party and made payments related to the first year of service consisting of 1,047,120 shares of our common stock valued at $16.0 million. These shares issued are subject to security price guarantees of the same nature as those described above.

Pension Plans

We assumed the assets and obligations related to certain significant defined benefit pension plans in connection with our acquisition of Dictaphone, which provide certain retirement and death benefits for former Dictaphone employees located in the United Kingdom and Canada. These two pension plans are closed to new participants. These plans require periodic cash contributions. The Canadian plan is fully funded and expected to remain fully funded during fiscal 2010, without additional funding by us. In fiscal 2009, total cash funding for the UK pension plan was $1.3 million. For the UK pension plan, we have a minimum funding requirement of £859,900 (approximately $1.4 million based on the exchange rate at September 30, 2009) for each of the next five years, through fiscal 2014.

Off-Balance Sheet Arrangements

Through September 30, 2009, we have not entered into any off-balance sheet arrangements or material transactions with unconsolidated entities or other persons.

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, we evaluate our 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, intangible assets and tangible long-lived assets; accounting for business combinations; share-based payments; valuation of derivative instruments; accounting for income taxes and related valuation allowances; and loss contingencies. Our management bases its estimates on historical experience, market participant fair value considerations and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

We believe the following critical accounting policies most significantly affect the portrayal of our financial condition and results of operations and require our most difficult and subjective judgments.

Revenue Recognition. We derive revenue from the following sources: (1) software license agreements, including royalty and other usage-based arrangements, (2) post-contract customer support, (3) fixed and variable fee hosting arrangements and (4) professional services. Our revenue recognition policies for these revenue streams are discussed below.

The sale and/or license of software products and technology is deemed to have occurred when a customer either has taken possession of the related software or technology or has the contractual right to take possession of the software or technology at its sole discretion and without undue economic cost or burden. In select situations, we sell or license intellectual property in conjunction with, or in place of, embedding our intellectual property in software. We recognize revenue from the sale or license of software products and licensing of technology when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable and (iv) collectibility is probable. Vendor-specific objective evidence (VSOE) of fair value for software and software-related services exists when a company can support what the fair value of its software and/or software-related services is based on evidence of the prices charged by the company when the same elements are sold separately. VSOE of fair value is required, generally, in order to separate the accounting for various elements in a software and related services arrangement. We have, in general, established VSOE of fair value of our post-contract customer support (PCS), professional services, and training.

Revenue from royalties on sales of our software products by original equipment manufacturers (OEMs), where no services are included, is recognized in the quarter earned so long as we have been notified by the OEM that such royalties are due, and provided that all other revenue recognition criteria are met.

Software arrangements generally include PCS, 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. Revenue from PCS is recognized ratably on a straight-line basis over the term that the maintenance service is provided.

Non-software revenue, such as arrangements containing hosting services where the customer does not take possession of the software at the outset of the arrangement and has no contractual right to do so, is recognized 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.

For revenue arrangements with multiple elements that are not considered to be software or software-related, we allocate an arrangement s fees into separate units of accounting based on fair value. We generally support fair value of our deliverables based upon the prices we charge when we sell similar elements separately.

Revenue from products offered on a subscription and/or hosted, on-demand 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. Variable subscription and hosting revenue is recognized as we are notified by the customer or through management reports that such revenue is due, provided that all other revenue recognition criteria are met.

Set-up fees from arrangements containing hosting services, as well as the associated direct and incremental costs, are deferred and recognized ratably over the longer of the contractual lives, or the expected lives of the customer relationships.

When we provide professional services considered essential to the functionality of the software, we recognize revenue from the professional services as well as any related software licenses on a percentage-of-completion basis whereby the arrangement consideration is recognized as the services are performed as measured by an observable input. In these circumstances, we separate license revenue from professional service revenue for income statement presentation by classifying the fair value of professional service revenue as professional service revenue and the residual portion as license revenue. We generally determine the percentage-of-completion by comparing the labor hours incurred to-date to the estimated total labor hours required to complete the project. We consider 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 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, provided all other revenue recognition criteria are met. Certain distributors and value-added resellers have been granted rights of return for as long as the distributors or resellers hold the inventory. We cannot estimate historical returns from these distributors and resellers; and therefore, cannot use such estimates as the basis upon which to estimate future sales returns. As a result, we recognize revenue from sales to these distributors and resellers when the products are sold through to retailers and end-users.

When products are sold directly to end-users, we make an estimate of sales returns based on historical experience. 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 our estimates, such differences could have a material impact on our results of operations for the period in which the actual returns become known.

When maintenance and support contracts renew automatically, we provide 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.

We record consideration given to a reseller as a reduction of revenue to the extent we have recorded cumulative revenue from the customer or reseller. However, when we receive 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.

We record 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.

We record shipping and handling costs billed to customers as revenue with offsetting costs recorded as cost of revenue.

Our 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 our results of operations and financial condition.

Business Combinations. We determine and allocate the purchase price of an acquired company to the tangible and intangible assets acquired and liabilities assumed as well as to in-process research and development as of the business combination date. The purchase price allocation process requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date including:

estimated fair values of intangible assets;

expected costs to complete any in-process research and development projects;

estimated fair market values of legal performance commitments to customers, assumed from the acquiree under existing contractual obligations (classified as deferred revenue) at the date of acquisition;

estimated fair market values of stock awards assumed from the acquiree that are included in the purchase price;

estimated value of restructuring liabilities to reorganize the acquiree s pre-acquisition operations;

probability of required payment under contingent consideration provisions;

estimated income tax assets and liabilities assumed from the acquiree; and

estimated fair value of pre-acquisition contingencies assumed from the acquiree.

In fiscal 2010, we will adopt the business combinations accounting guidance in FASB ASC 805 [formerly referred to as SFAS No. 141(Revised), *Business Combinations* (SFAS 141R)]. Refer to Recently Issued Accounting Standards below for additional information

While we use our best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, our estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the business combination date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Generally, with the exception of unresolved income tax matters, subsequent to the purchase price allocation period any adjustment to assets acquired or liabilities assumed is included in operating results in the period in which the adjustment is determined. For changes in the valuation of intangible assets between preliminary and final purchase price allocation, the related amortization is adjusted on a prospective basis.

Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:

future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts and acquired developed technologies and patents;

expected costs to develop in-process research and development projects into commercially viable products and the estimated cash flows from the projects when completed;

the acquired company s brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company s product portfolio; and

discount rates.

Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

In connection with the purchase price allocations for our acquisitions, we estimate the fair market value of legal performance commitments to customers, which are classified as deferred revenue. The estimated fair market value of these obligations is determined and recorded as of the acquisition date.

Other significant estimates associated with the accounting for business combinations include restructuring costs. Restructuring costs are typically comprised of severance costs, costs of consolidating duplicate facilities and contract termination costs. Restructuring expenses are based upon plans that have been committed to by management, but are generally subject to refinement during the purchase price allocation period (generally within one year of the acquisition date). To estimate restructuring expenses, management utilizes assumptions of the number of employees that would be involuntarily terminated and of future costs to operate and eventually vacate duplicate facilities. Estimated restructuring expenses may change as management executes the approved plan.

For a given acquisition, we may identify certain pre-acquisition contingencies. If, during the purchase price allocation period, we are able to determine the fair value of a pre-acquisition contingency, we will include that amount in the purchase price allocation. If, as of the end of the purchase price allocation period, we are unable to determine the fair value of a pre-acquisition contingency, we will evaluate whether to include an amount in the purchase price allocation based on whether it is probable a liability had been incurred and whether an amount can be reasonably estimated. With the exception of unresolved income tax matters, after the end of the purchase price allocation period, any adjustment to amounts recorded for a pre-acquisition contingency will be included in our operating results in the period in which the adjustment is determined.

Goodwill, Intangible and Other Long-Lived Assets and Impairment Assessments. We have 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 licensed technology, patents and core technology, completed technology, customer relationships, fixed assets and tradenames. All finite-lived intangible assets are amortized based upon patterns in which the economic benefits are expected to be utilized. The values of intangible assets determined in connection with a business combination, with the exception of goodwill, were initially determined by a risk-adjusted, discounted cash flow approach. We assess the potential impairment of intangible and fixed assets whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Goodwill and indefinite-lived intangible assets are assessed for potential impairment at least annually, but also whenever events or changes in circumstances indicate the carrying values may not be recoverable. Factors we consider 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 our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- a decline in our 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.

We test 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 for goodwill and intangible assets with indefinite lives compares the fair value of identified reporting unit(s) to its (their) carrying amount to assess whether such assets are impaired. We have determined that beginning in fiscal 2009, we have three reporting units based on the evolution during the current fiscal year of the level of information provided to, and review thereof, by our core market management. Our three reporting units correspond to our three core market groups. Prior to fiscal 2009, we concluded that we only had one reporting unit based on the same criteria. The estimated fair values of the reporting units for the annual goodwill impairment test were determined based on estimates of those reporting units enterprise values as if they were standalone operations as a function of trailing-twelve-month (TTM) revenues and adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) as compared to companies comparable to each of the reporting units on a standalone basis. The carrying values of the reporting units were determined based on an allocation of our assets and liabilities through specific allocation of certain assets and liabilities, including goodwill, to the reporting units and an apportionment method based on relative size of the reporting units revenues and operating expenses compared to the Company as a whole. Certain corporate assets that are not instrumental to the reporting units operations and would not be transferred to hypothetical purchasers of the reporting units were excluded from the reporting units carrying values. Key estimates and judgments inherent to the analysis were the determination of TTM revenue and EBITDA multiples used in estimating the fair values of the reporting units and the allocation methods used to determine the carrying values of the reporting units. Intangible assets with indefinite lives are not amortized, but are required to be evaluated periodically to ensure that their current fair value exceeds the stated book value. Based on our assessments, we have not had any impairment charges during our history as a result of our impairment evaluation of goodwill and other indefinite-lived intangible assets. Significant adverse changes in our future revenues and/or adjusted EBITDA results, or significant degradation in the enterprise values of comparable companies within our core markets, could result in the determination that all or a portion of our goodwill is impaired. However, as of our fiscal 2009 annual impairment assessment date, our estimated fair values of our reporting units significantly exceeded their carrying values.

We periodically review long-lived assets other than goodwill or indefinite-lived intangible 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 or asset group. Asset groups utilized in this analysis are identified as the lowest level grouping of assets for which largely independent cash flows can be identified. If impairment is indicated, the asset or asset group is written down to its estimated fair value.

Significant judgments and estimates are involved in determining the useful lives of our 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 our organization or 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 our consolidated financial statements through accelerated amortization and/or impairment charges.

Accounting for Share-Based Payments. We account for share-based awards to employees and directors, including grants of employee stock options, purchases under employee stock purchase plans, awards in the form of restricted shares (Restricted Stock) and awards in the form of units of stock purchase rights (Restricted Units) through recognition of the fair value of the share-based awards as a charge against earnings in the form of stock-based compensation expense. We recognize stock-based compensation expense over the requisite service period. The Restricted Stock and Restricted Units are collectively referred to as Restricted Awards. 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, stock-based compensation expense and our 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. We do not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries, which we consider to be indefinitely reinvested outside of the U.S.

We make judgments regarding the realizability of our deferred tax assets. The balance sheet carrying value of our net deferred tax assets is based on whether we believe that it is more likely than not that we will generate sufficient future taxable income to realize these deferred tax assets after consideration of all available evidence. We regularly review our 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 we believe do not meet the more likely than not criteria for recognition. If we are subsequently able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been established, then we may be required to recognize these deferred tax assets through the reduction of the valuation allowance which could result in a material benefit to our 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 or created as a result of share-based payments or other equity transactions where prevailing guidance requires the change in valuation allowance to be traced forward. The recognition of the portion of the valuation allowance which relates to net deferred tax assets resulting from share-based payments or other qualifying equity transactions 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, intangible assets, and to the extent remaining, the provision for income taxes, until our adoption of the business combination accounting guidance in ASC 805 on October 1, 2009; after which time the reductions in the allowance, if any, will be recorded as a benefit in the statement of operations.

We establish reserves for tax uncertainties that reflect the use of the comprehensive model for the recognition and measurement of uncertain tax positions. Under the comprehensive model, reserves are established when we have determined that it is more likely than not that a tax position will or will not be sustained and at the greatest amount for which the result is more likely than not.

Loss Contingencies. We are 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 19 of Notes to our Consolidated Financial Statements. Quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue 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, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2009, the Emerging Issues Task Force (EITF) ratified EITF Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables* (EITF 08-1). EITF 08-1, which has not yet been codified in the FASB Accounting Standards Codification (the Codification or ASC), supersedes EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables,* now referred to as ASC 605-25-50-1. EITF 08-1 eliminates the residual method of accounting for non-software arrangements, as well as the associated requirements for establishing vendor objective evidence of fair value. The residual method is replaced in EITF 08-1 by the estimated selling price method whereby revenue in a multiple-element arrangement is allocated to each element based on its estimated selling price. Estimating selling price is established through a hierarchy starting with vendor-specific objective evidence (VSOE) of fair value, following by third-party evidence, and lastly by any reasonable, objective estimate of the selling price were the element to be sold on a standalone basis. Estimates of selling price must consider both entity-specific factors and market conditions. EITF 08-1 is applied prospectively to all revenue transactions entered into, or materially modified, after June 15, 2010. Early adoption is permitted if adopted as of the beginning of an entity s fiscal year and no prior interim period financial statements from that fiscal year have already been issued or the entity retrospectively applies the provisions of this EITF issue to its previously-issued current fiscal year interim financial statements. We currently do not expect that the adoption of EITF 08-1 will have a material impact on our consolidated financial statements.

In September 2009, the EITF ratified EITF Issue No. 09-3, *Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Include Software Elements* (EITF 09-3). EITF 09-3, which has not yet been codified in the Codification, applies to multiple-element arrangements that contain both software and hardware elements, and amends the scope of AICPA Statement of Position (SOP) No. 97-2, *Software Revenue Recognition* (SOP 97-2), now referred to as ASC 985-605, to exclude tangible products containing software and non-software components that together function to deliver the product s essential functionality from the scope of ASC 985-605. EITF 09-3 is applied prospectively to all revenue transactions entered into, or materially modified, after June 15, 2010. Early adoption is permitted only when EITF 08-1 is also early adopted as of the same period. We are currently evaluating the potential impact of EITF 09-3 on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168*, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168), now referred to as ASC 105-10, *Generally Accepted*

Accounting Principles. This standard establishes the Codification as the sole source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws remain sources of authoritative GAAP for SEC registrants. ASC 105-10 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We have included references to the Codification, where appropriate, in our consolidated financial statements and throughout this annual report on Form 10-K.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165), now referred to as ASC 855-10. ASC 855-10 incorporates accounting and disclosure requirements related to subsequent events into U.S. GAAP. The requirements of ASC 855-10 for subsequent-events accounting and disclosure are not significantly different from those in existing auditing standards, which we have historically followed for financial reporting purposes. As a result, we do not believe this standard had any material impact on our financial statements. We have evaluated subsequent events through the date of issuance of these consolidated financial statements, which is November 23, 2009.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, now referred to as ASC 825-10. ASC 825-10 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. ASC 825-10 also requires those disclosures in summarized financial information at interim reporting periods. ASC 825-10 was effective for interim periods ending after June 15, 2009. We adopted ASC 825-10 in our third quarter fiscal 2009, and it had no material impact on our third quarter financial statements.

In April 2009, the FASB issued FSP FAS 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP 141R-1), the guidance from which is included in ASC 805. This FSP requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. This FSP is effective for the fiscal years beginning after December 15, 2008. As this FSP essentially reinstates to SFAS No. 141 (Revised), *Business Combinations* (SFAS 141R), now referred to as ASC 805, the guidance for accounting for acquired contingencies from SFAS No. 141, we do not believe FSP 141R-1 will have a material impact on our financial statements.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, now referred to as ASC 820-10. ASC 820-10 provides guidance on how to determine the fair value of assets and liabilities under ASC 820 (formerly known as SFAS No. 157, *Fair Value Measurements*) in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If we were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to *normal* market activities, quoted market values may not be representative of fair value and we may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. ASC 820 is effective for interim and annual periods ending after June 15, 2009. We adopted this FSP effective April 1, 2009 and such adoption has not had a material impact on our financial statements, nor do we expect it to in future periods.

In November 2008, the FASB ratified EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets*, now referred to as ASC 350-30-25-5. ASC 350-30-25-5 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, they must be recognized at fair value in accordance with ASC 805 and ASC 820. Defensive intangible assets recognized are required to be amortized over the estimated period during which an acquirer expects to receive benefit from preventing its competitors from obtaining access to the intangible asset. ASC 350-30-25-5 is effective for fiscal years beginning on or after December 15, 2008. The effect of adopting ASC 350-30-25-5 on our consolidated results of operations and financial condition will be largely dependent on the size and nature of any business combinations and asset acquisitions that we may complete after September 30, 2009.

In June 2008, the EITF ratified EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock*, now referred to as ASC 815-40-15. ASC 815-40-15 provides guidance in assessing whether derivative instruments meet the criteria in paragraph 11(a) of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, now referred to as ASC 815, for being considered indexed to an entity s own common stock. ASC 815-40-15 is effective for fiscal years beginning after December 15, 2008. We have completed our evaluation of the impact of ASC 815-40-15 and believe the impact will be immaterial based on the nature of our derivative and hedging activities.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments that May be Settled in Cash upon Conversion*, now referred to as ASC 470-20. ASC 470-20 requires companies to separately account for the liability (debt) and equity (conversion option) components of convertible debt instruments that require or permit settlement in cash upon conversion in a manner that reflects the issuers nonconvertible debt borrowing rate at the time of issuance. ASC 470-20 is effective for fiscal years beginning after December 15, 2008 and may not be adopted early. ASC 470-20 must be applied retrospectively to all periods presented. We have completed our evaluation of the adoption of this standard. We expect the adoption of this standard to result in additional quarterly non-cash interest expense of between $1.8 million and $2.2 million from adoption through fiscal 2014.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*, now referred to as ASC 350-30-65-1. It amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Intangible Assets*, now referred to as ASC 350. ASC 350-30-65-1 is effective for fiscal years beginning after December 15, 2008 and may not be adopted early. We are continuing to evaluate the potential impact of ASC 350-30-65-1.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, now referred to as ASC 820-10-15-1A, which delays the effective date of ASC 820 for nonfinancial assets and nonfinancial liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820-10-15-1A defers our adoption of these remaining provisions of ASC 820 to the first quarter of fiscal 2010. We do not believe the adoption of the remaining portions of ASC 820 will have a material impact on our financial statements.

In December 2007, the FASB issued SFAS 141R, now referred to as ASC 805. ASC 805 supersedes the previous accounting guidance related to business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of and subsequent accounting for contingent consideration, the recognition of acquired in-process research and development, the accounting for acquisition-related restructurings, the treatment of acquisition-related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. The guidance is applied prospectively from the date of acquisition with minor exception related to income tax contingencies from companies acquired prior to the adoption date. ASC 805 is effective for fiscal years beginning after December 15, 2008 and may not be adopted early. The effect of adopting ASC 805 on our consolidated results of operations and financial condition will be largely dependent on the size and nature of any business combinations that we may complete after September 30, 2009; however we expect to write-off transaction costs of approximately $2.2 million that are capitalized as of September 30, 2009 related to pending acquisitions that were not consummated prior to our adoption date of October 1, 2009.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments.

Exchange Rate Sensitivity

We are 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 our balance sheet. Therefore, the change in the value of the U.S. dollar compared to foreign currencies will have either a positive or negative effect on our financial position and results of operations. Historically, our primary exposure has related to transactions denominated in the Euro, British Pound, Canadian Dollar, Japanese Yen, Indian Rupee and Hungarian Forint.

A hypothetical change of 10% in appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2009 would not have a material impact on our revenue, operating results or cash flows.

Periodically, we enter into forward exchange contracts to hedge against foreign currency fluctuations. These contracts may or may not be designated as cash flow hedges for accounting purposes. We have no foreign currency contracts designated as cash flow hedges outstanding at September 30, 2009. The notional contract amount of outstanding foreign currency exchange contracts not designated as cash flow hedges was 44.3 million at September 30, 2009. Based on the nature of the transaction for which the contracts were purchased, a hypothetical change of 10% in exchange rates would not have a material impact on our financial results. During fiscal 2009 and 2008, we recorded foreign exchange gains (losses) of $7.0 million and ($0.3) million, respectively.

Interest Rate Sensitivity

We are exposed to interest rate risk as a result of our significant cash and cash equivalents, and the outstanding debt under the Credit Facility.

At September 30, 2009, we held approximately $527.0 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 our investments, a hypothetical change in market rates of one percentage point would not have a material effect on the fair value of our portfolio or results of operations.

At September 30, 2009, our total outstanding debt balance exposed to variable interest rates was $650.3 million. To partially offset this variable interest rate exposure, we use interest rate swaps to convert specific variable-rate debt into fixed-rate debt. As of September 30, 2009, we have two outstanding interest rate swaps designated as cash flow hedges with an aggregate notional amount of $200.0 million. The interest rates on these swaps are 2.7% and 2.1%, plus the applicable margin for the Credit Facility, and they expire in October 2010 and November 2010, respectively. As of September 30, 2009 and September 30, 2008, the aggregate cumulative unrealized losses related to these derivatives were $4.0 million and $0.9 million, respectively. A hypothetical change in market rates would have a significant impact on interest expense and amounts payable relating to the $450.3 million of debt that is not offset by the interest rate swaps. Assuming a one percentage point increase in interest rates, our interest expense relative to our outstanding debt would increase $4.5 million per annum.

Item 8. ***Financial Statements and Supplementary Data***

Nuance Communications, Inc. Consolidated Financial Statements

NUANCE COMMUNICATIONS, INC.

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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. as of September 30, 2009 and 2008, and the related consolidated statements of operations, stockholders equity and comprehensive loss, and cash flows for each of the three years in the period ended September 30, 2009. 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, 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, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Nuance Communications, Inc. s internal control over financial reporting as of September 30, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO), and our report dated November 25, 2009 expressed an unqualified opinion thereon.

/s/ BDO SEIDMAN, LLP
BDO Seidman, LLP

Boston, Massachusetts
November 25, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Nuance Communications, Inc.
Burlington, Massachusetts

We have audited Nuance Communication Inc. s internal control over financial reporting as of September 30, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Nuance Communications, Inc. 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, included in the accompanying Item 9A, Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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.

In our opinion, Nuance Communications, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Nuance Communications, Inc. as of September 30, 2009 and 2008, and the related consolidated statements of operations, stockholders equity and comprehensive loss, and cash flows for each of the three years in the period ended September 30, 2009 and our report dated November 25, 2009 expressed an unqualified opinion thereon.

/s/ BDO SEIDMAN, LLP
BDO Seidman, LLP

Boston, Massachusetts
November 25, 2009

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended September 30,		
	2009	2008	2007
	(In thousands, except per share amounts)		
Revenue:			
Product and licensing	$ 373,367	$ 414,360	$ 311,847
Professional services and hosting	411,363	305,540	165,520
Maintenance and support	165,622	148,562	124,629
Total revenue	950,352	868,462	601,996
Cost of revenue:			
Product and licensing	37,255	45,746	43,162
Professional services and hosting	254,777	214,031	114,228
Maintenance and support	29,129	31,477	27,461
Amortization of intangible assets	38,390	24,389	13,090
Total cost of revenue	359,551	315,643	197,941
Gross profit	590,801	552,819	404,055
Operating expenses:			
Research and development	119,434	114,986	80,024
Sales and marketing	219,226	231,244	184,948
General and administrative	112,068	105,910	75,564
Amortization of intangible assets	76,978	58,245	24,596
In-process research and development		2,601	
Restructuring and other charges (credits), net	5,520	7,219	(54)
Total operating expenses	533,226	520,205	365,078
Income from operations	57,575	32,614	38,977
Other income (expense):			
Interest income	3,562	8,032	5,991
Interest expense	(40,103)	(55,196)	(36,501)
Other income (expense), net	7,155	(964)	20
Income (loss) before income taxes	28,189	(15,514)	8,487
Provision for income taxes	40,391	14,554	22,502
Net loss	$ (12,202)	$ (30,068)	$ (14,015)

Net loss per share:						
Basic and diluted	$	(0.05)	$	(0.14)	$	(0.08)
Weighted average common shares outstanding:						
Basic and diluted		253,644		209,801		176,424

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2009	September 30, 2008
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 527,038	$ 261,540
Marketable securities		56
Accounts receivable, less allowances for doubtful accounts of $6,833 and $6,925	199,548	203,542
Acquired unbilled accounts receivable	9,171	14,457
Inventories, net	8,525	7,152
Prepaid expenses and other current assets	51,545	28,536
Total current assets	795,827	515,283
Land, building and equipment, net	53,468	46,485
Goodwill	1,891,003	1,655,773
Intangible assets, net	706,805	585,023
Other assets	52,511	43,635
Total assets	$ 3,499,614	$ 2,846,199
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and capital leases	$ 6,862	$ 7,006
Contingent and deferred acquisition payments	91,431	113,074
Accounts payable	59,574	31,517
Accrued expenses and other current liabilities	104,819	102,099
Accrued business combination costs	12,144	9,166
Deferred maintenance revenue	84,607	80,521
Unearned revenue and customer deposits	59,788	38,381
Total current liabilities	419,225	381,764
Long-term portion of debt and capital leases	888,611	894,184
Long-term portion of accrued business combination costs	24,904	32,012
Deferred revenue, net of current portion	33,904	18,134
Deferred tax liability	56,346	46,745
Other liabilities	73,186	48,452
Total liabilities	1,496,176	1,421,291

Commitments and contingencies (Notes 3, 5, and 19)		
Stockholders equity:		
Series B preferred stock, $0.001 par value; 15,000 shares authorized; 3,562 shares issued and outstanding (liquidation preference $4,631)	4,631	4,631
Common stock, $0.001 par value; 560,000 shares authorized; 280,647 and 232,592 shares issued and 276,935 and 229,370 shares outstanding	281	232
Additional paid-in capital	2,254,511	1,658,512
Treasury stock, at cost (3,712 and 3,222 shares)	(16,214)	(16,070)
Accumulated other comprehensive income	7,567	12,739
Accumulated deficit	(247,338)	(235,136)
Total stockholders equity	2,003,438	1,424,908
Total liabilities and stockholders equity	$ 3,499,614	$ 2,846,199

See accompanying notes.

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NUANCE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE LOSS

Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income	Accumulated Deficit	Tota Stockhol Equit
3,562,238	$ 4,631	173,182,430	$ 174	$ 773,120	3,030,183	$ (12,859)	$ 1,656	$ (190,126)	$ 576,
		6,383,051	6	30,654					30,
		958,124	1						
		(164,300)	(1)	(2,219)	159,554	(2,559)			(4,
				48,135					48,
				4,172					4,
		14,794,848	15	227,337					227,
		1,400,091	1	(1)					
		(261,422)		(3,178)					(3,
		75,623							
								(14,015)	(14,
							(355)		(
							9,628		9,

							4,050		4,
3,562,238	4,631	196,368,445	196	1,078,020	3,189,737	(15,418)	14,979	(204,141)	878,
		6,513,027	7	28,424					28,
		3,315,736	3	(3)					
		(911,031)	(1)	(17,007)	32,582	(652)			(17,
				68,631					68,
				5,200					5,
		19,158,369	19	330,398					330,
		6,382,809	6	132,245					132,
		1,765,017	2	(2)					
				32,606					32,
								(927)	(