

Nuance Communications, Inc.
Form 10-Q
August 09, 2006

Table of Contents

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2006
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 0-27038

NUANCE COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

94-3156479

*(I.R.S. Employer
Identification Number)*

**1 Wayside Road
Burlington, MA 01803**

(Address of principal executive office)

Registrant's telephone number, including area code:

781-565-5000

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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act of 1934). Yes No

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168,962,397 shares of the registrant's Common Stock, \$0.001 par value, were outstanding as of July 31, 2006.

NUANCE COMMUNICATIONS, INC.

FORM 10-Q
Quarterly Period Ended June 30, 2006

INDEX

Page

PART I: FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	2
	a) <u>Consolidated Balance Sheets at June 30, 2006 (unaudited) and September 30, 2005</u>	2
	b) <u>Consolidated Statements of Operations for the three and nine month periods ended June 30, 2006 and 2005 (unaudited)</u>	3
	c) <u>Consolidated Statements of Cash Flows for the nine month periods ended June 30, 2006 and 2005 (unaudited)</u>	4
	d) <u>Notes to Consolidated Financial Statements (unaudited)</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	58
<u>Item 4.</u>	<u>Controls and Procedures</u>	59

PART II: OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	60
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	60
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	60
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	60
<u>Item 5.</u>	<u>Other Information</u>	60
<u>Item 6.</u>	<u>Exhibits</u>	60
<u>Signatures</u>		
<u>Exhibit Index</u>		
<u>Certifications</u>		
<u>Ex-31.1 Section 302 Certification of C.E.O.</u>		
<u>Ex-31.2 Section 302 Certification of C.F.O.</u>		
<u>Ex-32.1 Section 906 Certification of C.E.O. & C.F.O.</u>		

Table of Contents**Item 1. Financial Information****NUANCE COMMUNICATIONS, INC.****CONSOLIDATED BALANCE SHEETS**

	June 30, 2006 (Unaudited) (In thousands, except per share amounts)	September 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 82,620	\$ 71,687
Marketable securities		24,127
Accounts receivable, less allowances of \$22,677 and \$13,578, respectively (Note 4)	111,969	66,488
Acquired unbilled accounts receivable (Note 4)	30,487	3,052
Inventories, net	7,318	313
Prepaid expenses and other current assets	10,096	9,235
Total current assets	242,490	174,902
Property and equipment, net	28,099	14,333
Goodwill (Note 5)	694,218	458,313
Other intangible assets, net (Note 5)	230,602	92,350
Other assets (Notes 9 and 10)	27,154	17,314
Total assets	\$ 1,222,563	\$ 757,212
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 22,639	\$ 17,347
Accrued expenses (Note 6)	52,040	60,153
Accrued business combination costs (Note 11)	15,186	17,027
Deferred maintenance revenue	52,541	13,298
Unearned revenue and customer deposits	39,411	10,822
Debt and notes payable (Note 9)	4,068	27,711
Deferred acquisition payments, net (Note 7)	19,023	16,414
Total current liabilities	204,908	162,772
Deferred maintenance, unearned revenue and customer deposits, net of current portion	10,098	291
Long-term debt and notes payable, net of current portion (Note 9)	350,971	35

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Deferred tax liability	17,781	4,241
Deferred acquisition payment, net Phonetic (Note 7)		16,266
Accrued business combination costs, net of current portion (Note 11)	47,161	54,972
Other liabilities (Note 8)	19,706	3,970
Total liabilities	650,625	242,547
Commitments and contingencies (Notes 2, 7, 9, 13 and 14)		
Stockholders' equity (Note 13):		
Series B preferred stock, \$0.001 par value; 40,000,000 shares authorized; 3,562,238 shares issued and outstanding (liquidation preference \$4,631)	4,631	4,631
Common stock, \$0.001 par value; 280,000,000 shares authorized; 171,778,570 and 159,431,907 shares issued and 168,798,597 and 156,585,046 shares outstanding, respectively	172	160
Additional paid-in capital	761,306	699,427
Treasury stock, at cost (2,979,973 and 2,846,861 shares, respectively)	(12,445)	(11,432)
Deferred share-based payments (Note 2)		(8,782)
Accumulated other comprehensive income (loss)	1,185	(2,100)
Accumulated deficit	(182,911)	(167,239)
Total stockholders' equity	571,938	514,665
Total liabilities and stockholders' equity	\$ 1,222,563	\$ 757,212

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**NUANCE COMMUNICATIONS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
	(Unaudited)			
	(In thousands, except per share data)			
Revenue:				
Product and licensing	\$ 60,535	\$ 40,958	\$ 162,271	\$ 125,380
Maintenance	27,462	3,227	43,035	9,629
Professional services, subscription and hosting	25,099	12,629	55,071	35,496
Total revenue	113,096	56,814	260,377	170,505
Costs and expenses:				
Cost of revenue:				
Cost of product and licensing(1)	8,553	4,782	18,290	14,769
Cost of maintenance(1)	6,223	1,363	9,871	3,293
Cost of professional services, subscription and hosting(1)	19,824	8,899	41,846	26,295
Cost of revenue from amortization of intangible assets	2,468	1,752	7,419	7,260
Total cost of revenue	37,068	16,796	77,426	51,617
Gross Margin	76,028	40,018	182,951	118,888
Operating expenses:				
Research and development(1)	16,457	9,891	41,516	29,291
Sales and marketing(1)	36,474	18,866	90,159	57,353
General and administrative(1)	15,018	7,686	40,571	21,714
Amortization of other intangible assets	6,377	1,083	10,361	2,731
Restructuring and other charges (credits), net	67	2,080	(1,233)	2,739
Total operating expenses	74,393	39,606	181,374	113,828
Income from operations	1,635	412	1,577	5,060
Other income (expense):				
Interest income	1,009	167	2,393	474
Interest expense	(7,797)	(438)	(9,584)	(1,004)
Other (expense) income, net	(79)	379	(861)	72
Income (loss) before income taxes	(5,232)	520	(6,475)	4,602
Provision for income taxes	4,168	360	8,524	2,303
Income (loss) before cumulative effect of accounting change	(9,400)	160	(14,999)	2,299
Cumulative effect of accounting change(1)			(672)	

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Net income (loss)	\$ (9,400)	\$ 160	\$ (15,671)	\$ 2,299
Basic and diluted earnings per share:				
Income (loss) before cumulative effect of accounting change	\$ (0.06)	\$ 0.00	\$ (0.10)	\$ 0.02
Cumulative effect of accounting change				
Net income (loss) per share	\$ (0.06)	\$ 0.00	\$ (0.10)	\$ 0.02
Weighted average common shares outstanding:				
Basic	167,482	108,713	162,400	106,414
Diluted	167,482	116,417	162,400	114,029

(1) Effective October 1, 2005, the Company adopted SFAS 123(R) Share-Based Payment, and uses the modified prospective method to value its share-based payments. Accordingly, for the three and nine months ended June 30, 2006, employee share-based payments were accounted for under SFAS 123R, while for the three and nine months ended June 30, 2005, employee stock-based compensation was accounted for under APB 25, Accounting for Stock Issued to Employees. See Note 2 Summary of Significant Accounting Policies.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**NUANCE COMMUNICATIONS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended June 30,	
	2006	2005
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities		
Net income (loss)	\$ (15,671)	\$ 2,299
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of property and equipment	6,173	3,363
Amortization of other intangible assets	17,780	9,991
Accounts receivable allowances	953	634
Share-based payments, including cumulative effect of accounting change	15,196	1,934
Foreign exchange gain (loss)	(227)	(966)
Non-cash interest expense	2,722	638
Deferred tax provision	5,681	782
Normalization of rent expense	1,013	
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	6,351	(9,854)
Inventories	(1,996)	428
Prepaid expenses and other assets	951	114
Accounts payable	3,613	1,944
Accrued expenses (including restructuring and business combination costs)	(14,030)	(2,517)
Deferred maintenance revenue, unearned revenue and customer deposits	(8,295)	(246)
Net cash provided by operating activities	20,214	8,544
Cash flows from investing activities		
Capital expenditures for property and equipment	(5,154)	(3,826)
Cash paid for acquisitions, net of cash acquired	(391,232)	(43,196)
Maturities of marketable securities	24,159	21,070
Proceeds from maturities of certificates of deposit	5,449	
Net cash used in investing activities	(366,778)	(25,952)
Cash flows from financing activities		
Payment of note payable and deferred acquisition obligations	(14,711)	(382)
Principal payments under long-term debt	(887)	
Proceeds from bank debt, net of issuance costs	346,032	
Purchase of treasury stock	(1,069)	(207)
Proceeds from issuance of common stock, net of issuance costs		