

Nuance Communications, Inc.

Form 10-Q

August 07, 2007

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**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, 2007**
- 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

184,592,695 shares of the registrant's Common Stock, \$0.001 par value, were outstanding as of July 31, 2007.

NUANCE COMMUNICATIONS, INC.

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	<b>June 30, 2007</b>	<b>September 30, 2006</b>
	<b>(Unaudited)</b>	
	<b>(In thousands, except share and per share amounts)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 168,031	\$ 112,334
Marketable securities	7,846	
Accounts receivable, less allowances of \$17,757 and \$20,207, respectively	131,741	110,778
Acquired unbilled accounts receivable	8,213	19,748
Inventories, net	8,391	6,795
Prepaid expenses and other current assets	15,233	13,245
Deferred tax assets	420	421
Total current assets	339,875	263,321
Land, building and equipment, net	37,018	30,700
Goodwill	882,987	699,333
Other intangible assets, net	259,826	220,040
Other long-term assets	36,650	21,680
Total assets	\$ 1,556,356	\$ 1,235,074
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and obligations under capital leases	\$ 5,062	\$ 3,953
Accounts payable	42,490	27,768
Accrued expenses	66,757	52,674
Current portion of accrued business combination costs	13,402	14,810
Deferred maintenance revenue	67,301	63,269
Unearned revenue and customer deposits	31,563	30,320
Deferred acquisition payments, net		19,254
Total current liabilities	226,575	212,048

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Long-term debt and obligations under capital leases, net of current portion	436,461	349,990
Accrued business combination costs, net of current portion	37,991	45,255
Deferred maintenance revenue, net of current portion	11,286	9,800
Deferred tax liability	32,161	19,926
Other liabilities	62,267	21,459
<b>Total liabilities</b>	<b>806,741</b>	<b>658,478</b>
Commitments and contingencies		
Stockholders' equity:		
Series B preferred stock, \$0.001 par value; 40,000,000 shares authorized; 3,562,238 shares issued and outstanding (liquidation preference \$4,631)	4,631	4,631
Common stock, \$0.001 par value; 560,000,000 and 280,000,000 shares authorized, respectively; 187,516,138 and 173,182,430 shares issued and 184,364,122 and 170,152,247 shares outstanding, respectively	188	174
Additional paid-in capital	954,265	773,120
Treasury stock, at cost (3,152,016 and 3,030,183 shares, respectively)	(14,694)	(12,859)
Accumulated other comprehensive income	5,950	1,656
Accumulated deficit	(200,725)	(190,126)
<b>Total stockholders' equity</b>	<b>749,615</b>	<b>576,596</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,556,356</b>	<b>\$ 1,235,074</b>

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

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## NUANCE COMMUNICATIONS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(Unaudited)			
	(In thousands, except per share amounts)			
<b>Revenue:</b>				
Product and licensing	\$ 74,868	\$ 60,535	\$ 220,931	\$ 162,271
Professional services, subscription and hosting	49,271	25,099	110,078	55,071
Maintenance and support	32,500	27,462	91,113	43,035
Total revenue	156,639	113,096	422,122	260,377
<b>Costs and expenses:</b>				
Cost of revenue:				
Cost of product and licensing	9,448	8,553	31,734	18,290
Cost of professional services, subscription and hosting	32,339	19,824	75,458	41,846
Cost of maintenance and support	6,973	6,223	20,512	9,871
Cost of revenue from amortization of intangible assets	3,367	2,468	9,209	7,419
Total cost of revenue	52,127	37,068	136,913	77,426
Gross margin	104,512	76,028	285,209	182,951
Operating expenses:				
Research and development	19,661	16,457	53,748	41,516
Sales and marketing	46,733	36,474	132,454	90,159
General and administrative	19,705	15,018	52,630	40,571
Amortization of other intangible assets	6,347	6,377	16,613	10,361
Restructuring and other charges (credits), net	(54)	67	(54)	(1,233)
Total operating expenses	92,392	74,393	255,391	181,374
Income from operations	12,120	1,635	29,818	1,577
Other income (expense):				
Interest income	1,384	1,009	4,100	2,393
Interest expense	(9,119)	(7,797)	(24,301)	(9,584)
Other (expense) income, net	364	(79)	(476)	(861)
Income (loss) before income taxes	4,749	(5,232)	9,141	(6,475)
Provision for income taxes	12,384	4,168	19,740	8,524

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Loss before cumulative effect of accounting change	(7,635)	(9,400)	(10,599)	(14,999)
Cumulative effect of accounting change				(672)
Net loss	\$ (7,635)	\$ (9,400)	\$ (10,599)	\$ (15,671)
<b>Basic and diluted earnings per share:</b>				
Loss before cumulative effect of accounting change	\$ (0.04)	\$ (0.06)	\$ (0.06)	\$ (0.10)
Cumulative effect of accounting change				
Net loss per share	\$ (0.04)	\$ (0.06)	\$ (0.06)	\$ (0.10)
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	180,356	167,482	173,786	162,400

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

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## NUANCE COMMUNICATIONS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30,	
	2007	2006
	(Unaudited)	
	(In thousands, except share amounts)	
<b>Cash flows from operating activities</b>		
Net loss	\$ (10,599)	\$ (15,671)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	8,521	6,173
Amortization of other intangible assets	25,822	17,780
Accounts receivable allowances	1,199	953
Share-based payments, including cumulative effect of accounting change	33,079	15,196
Non-cash interest expense	3,025	2,722
Deferred tax provision	14,152	5,681
Normalization of rent expense	542	1,013
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	4,265	6,351
Inventories	(1,047)	(1,996)
Prepaid expenses and other assets	(2,999)	4,001
Accounts payable	9,449	3,613
Accrued expenses and other liabilities	791	(5,637)
Deferred maintenance revenue, unearned revenue and customer deposits	5,470	(8,295)
Net cash provided by operating activities	91,670	31,884
<b>Cash flows from investing activities</b>		
Capital expenditures for property and equipment	(8,987)	(5,154)
Payments for acquisitions, net of cash acquired	(96,308)	(391,232)
Proceeds from maturities of investments	494	29,608
Payments for capitalized patent defense costs	(3,400)	(3,050)
Decrease in restricted cash	709	
Net cash used in investing activities	(107,492)	(369,828)
<b>Cash flows from financing activities</b>		
Payments of notes payable and capital leases	(4,922)	(1,165)
Deferred acquisition payments	(18,650)	(14,433)
Proceeds from bank debt, net of issuance costs	87,658	346,032
Purchase of treasury stock	(1,833)	(1,069)



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Repurchase of shares from former MVC stockholders	(3,178)	
Payments on other long-term liabilities	(8,431)	(8,620)
Net proceeds from issuance of common stock under employee share-based payment plans	20,176	28,076
Net cash provided by financing activities	70,820	348,821
Effects of exchange rate changes on cash and cash equivalents	&nbs	