NUANCE COMMUNICATIONS
Form DEF 14A
June 28, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant **x**
Filed by a Party other than the Registrant **o**

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-12

Nuance Communications, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

NUANCE COMMUNICATIONS, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JULY 22, 2004

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Nuance Communications, Inc., a Delaware corporation (the Company or Nuance), will be held on July 22, 2004, at 11:30 a.m., local time, at the Company s headquarters located at 1005 Hamilton Court, Menlo Park, California 94025, for the following purposes:

1. To elect three (3) Class I directors to the Board of Directors for a term of three years and until their successors are duly elected and qualified;

2. To ratify the appointment by the Company of Deloitte & Touche LLP as independent auditors of the Company for the fiscal year ending December 31, 2004; and

3. To transact such other business as may properly come before the meeting or any adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on May 28, 2004 are entitled to notice of and to vote at the meeting. A list of such stockholders will be available for inspection at our corporate headquarters located at 1005 Hamilton Court, Menlo Park, California, during ordinary business hours for the ten-day period preceding the Annual Meeting.

All stockholders are cordially invited to attend the meeting in person. However, to ensure your representation at the meeting, you are urged to vote, sign, date and return the enclosed Proxy as promptly as possible in the postage-prepaid envelope enclosed for that purpose or to vote by telephone or via the Internet, as instructed on the enclosed Proxy. Any stockholder attending the meeting may vote in person even if he, she or it previously returned a Proxy.

By order of the Board of
Directors of Nuance Communications, Inc.
/s/ Douglas Clark Neilsson

Douglas Clark Neilsson
Vice President, Secretary and General Counsel

Menlo Park, California
June 25, 2004

NUANCE COMMUNICATIONS, INC.

PROXY STATEMENT

2004 ANNUAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed Proxy is solicited on behalf of Nuance Communications, Inc. (the Company or Nuance) for use at its Annual Meeting of Stockholders to be held July 22, 2004, at 11:30 a.m., and at any adjournment thereof (the Annual Meeting or the Meeting), for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the Company s headquarters located at 1005 Hamilton Court, Menlo Park, California 94025. The Company s telephone number at that location is (650)

847-0000.

These proxy solicitation materials were mailed, on or about June 28, 2004, to all stockholders entitled to vote at the Meeting.

Record Date; Outstanding Shares

Stockholders of record at the close of business on May 28, 2004 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. At the Record Date, 35,517,685 shares of the Company s common stock, $0.001 par value, (the Common Stock) were issued and outstanding. The Common Stock is the only security entitling its holder to vote at the Annual Meeting.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by filing a written instrument revoking the proxy with the Secretary of the Company, by executing, and providing to the Secretary, a subsequently dated proxy, or by attending the Annual Meeting and voting in person. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must bring to the meeting a letter from the broker, bank or other nominee, confirming your beneficial ownership of the shares to be voted.

Voting Instructions and Solicitation

If you have telephone or Internet access, you may submit your Proxy by following the Vote by Phone or Vote by Internet instructions on the enclosed Proxy. You may also vote by mail by signing, dating and returning the enclosed Proxy in the envelope provided.

The cost of soliciting proxies will be borne by the Company. The Company may retain the services of a proxy solicitor to aid in the solicitation of proxies. If it does so, the Company will reimburse such proxy solicitor for its reasonable out-of-pocket expenses incurred in performing such services. The Company may reimburse brokerage firms and other persons representing beneficial owners of shares for

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their expenses in forwarding solicitation material to such beneficial owners. Proxies may also be solicited by certain of the Company s directors, officers and regular employees, without additional compensation, personally or by telephone, email, telefax or otherwise.

Deadline for Receipt of Stockholder Proposals

Proposals of stockholders of the Company that are intended to be presented by such stockholders at the Company s 2005 annual meeting of stockholders must be received by the Company no later than March 3, 2005, in order to be considered for possible inclusion in the proxy statement and form of proxy relating to that meeting.

In addition, the Company s Bylaws establish an advance notice procedure with regard to certain matters, including stockholder proposals not included in the Company s proxy statement, to be brought before a meeting of stockholders. For nominations or other business to be properly brought before a meeting by a stockholder, such stockholder must provide written notice delivered to the Secretary of the Company no later than 90 and no more than 120 days in advance of such meeting. Such notice must contain specified information concerning the matters to be brought before such meeting and the stockholder proposing such matters. In the event that less than 95 days notice of the date of a meeting is given to stockholders, notice by the stockholder, in order to be timely, must be received not later than the close of business on the seventh day following the day on which such notice of the date of such meeting was mailed. A copy of the full text of the Bylaw provision discussed above may be obtained by writing to the Secretary of the Company or by viewing the Company s SEC filings at www.sec.gov.

The proxy holders will be allowed to use discretionary voting authority from proxies granted in connection with the 2005 annual meeting of stockholders to vote on any stockholder proposal that is raised at the 2005 annual meeting of stockholders, unless the stockholder proposal is submitted before May 17, 2005. However, even if a stockholder does comply with the foregoing notice provision, the proxy holders still may be allowed to use their discretionary authority with respect to the proposal if conditions specified in Rule 14a-4(c) under the Exchange Act are met.

All notices of proposals by stockholders, whether or not included in the Company's proxy materials, should be sent to Nuance Communications, Inc., 1380 Willow Road, Menlo Park, California, 94025, Attn: General Counsel.

Quorum

The required quorum for the transaction of business at the Annual Meeting is attendance at the meeting, in person or by proxy, of holders of a majority of the Common Stock issued and outstanding and entitled to vote thereat. Shares that are voted FOR, AGAINST or ABSTAIN on a matter are treated as being present at the Meeting for purposes of establishing a quorum and are also treated as shares entitled to vote at the Meeting with respect to such matter. Broker non-votes (which are described below) also will be considered to be shares present at the Meeting for purposes of a quorum.

Voting

Each stockholder of record on the Record Date is entitled to one vote for each share of Common Stock held by such stockholder on that date. The effect of abstentions (i.e., if you or your broker mark ABSTAIN on a proxy card) and broker non-votes on the counting of votes for each proposal is described below. Broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal, because (1) the broker does not receive voting instructions

from the beneficial owner, and (2) the broker lacks discretionary authority to vote the shares. A broker possesses discretionary authority only with respect to proposals, such as Proposal No. 2, which are considered routine . The votes required to approve each proposal are as follows:

Proposal No. 1. Directors are elected by a plurality of the affirmative votes cast by those shares present in person, or represented by proxy, and entitled to vote at the Annual Meeting. The three (3) nominees for director receiving the highest number of affirmative votes will be elected. Abstentions and broker non-votes will not be counted toward a nominee s total.

Proposal No. 2. Ratification of the appointment of Deloitte & Touche LLP as the Company s independent public auditors for the fiscal year ending December 31, 2004, requires the affirmative vote of a majority of those shares present in person, or represented by proxy, entitled to vote at the Annual Meeting (including abstentions). Therefore, abstentions will have the effect of a vote against this proposal. Broker non-votes will not be counted as having been voted on the proposal.

Fiscal Year End

The Company s fiscal year ends on December 31. The Company s last fiscal year ended on December 31, 2003, and is referred to herein as the Last Fiscal Year.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) requires the Company s executive officers, directors and persons who own more than 10% of a registered class of the Company s equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the SEC). Based solely on its review of copies of Section 16 reports and amendments thereto furnished to the Company with respect to the Last Fiscal Year, and any written representations received by the Company from such persons, the Company believes that, during the Last Fiscal Year, the Company s executive officers and directors timely complied with all Section 16(a) reporting requirements applicable to them.

PROPOSAL ONE

ELECTION OF DIRECTORS

General

The Company s Board of Directors (the Board) is currently comprised of eight directors, who are divided into three classes with overlapping three-year terms. A director serves in office for a three year term, and until his or her respective successor is duly elected and qualified or his or her earlier death or resignation.

Nominees for Class I Directors

Three Class I directors are to be elected at the Annual Meeting for a three-year term ending in 2007. The Board has nominated RONALD CROEN, VINTON CERF and IRWIN FEDERMAN for re-election as Class I directors. Unless otherwise instructed, the persons named in the enclosed Proxy intend to vote proxies received by them for the re-election of Messrs. Croen, Cerf and Federman. The Company is not aware of any nominee that is unable or will decline to serve as a director. However, in the event that any nominee is unable to or declines to serve as a director at the time of the Annual Meeting, proxies will be voted for a substitute nominee or nominees designated by the present Board. The term of office of each person elected as a director at the Annual Meeting will continue until the Company s annual meeting of stockholders in 2007, and until such director s successor has been elected and qualified.

Information Regarding Nominees and Other Directors

The following table sets forth the name, age and current employment, as of April 30, 2004, of each nominees and each other director of the Company whose term of office continues after the Annual Meeting. Information as to the stock ownership of each director and all current directors and executive officers of the Company as a group is set forth below under Security Ownership of Certain Beneficial Owners and Management.

Name	Age	Position	Director Since
Class I Directors			
Ronald Croen	49	Chairman of the Board of Directors of the Company	1995
Vinton Cerf	60	Senior Vice President of Technology Strategy for MCI	1999
Irwin Federman	68	General Partner of U.S. Venture Partners	1995
Class II Directors			
Curtis Carlson	58	President and CEO of SRI International	1998
Alan Herzig	70	Consultant	1994
Philip Quigley	61	Chairman and CEO (Retired), Pacific Telesis Group	2000
Class III Directors			
Charles Berger	50	President and Chief Executive Officer of the Company	2003
Gary Morgenthaler	55	General Partner of Morgenthaler Ventures	1997

Nominees for Class I Directors for a Term Expiring in 2007

Ronald Croen, a co-founder of Nuance, served as the Company s President and Chief Executive Officer from 1994 to March 2003. He has served as one of the Company s directors since 1995, and currently serves as Chairman of the Board. From 1993 to 1994, Mr. Croen served as a consultant to SRI International. From 1989 to 1993, he was an independent management consultant in Paris, France. Prior to that position, he served in various positions at The Ultimate Corp., including Managing Director of European Operations and Vice President and General Counsel. Mr. Croen serves as a director of Logitech Corporation, a company that designs and manufactures personal interface products. He holds a J.D. from the University of Pennsylvania Law School and a B.A. from Tufts University.

Vinton Cerf has served as one of the Company s directors since 1999. Dr. Cerf has served as the Senior Vice President for Technology Strategy at MCI since late 2003. Dr. Cerf served as the Senior Vice President for Internet Architecture and Technology of MCI from 1994 to late 2003. From 1986 to 1994, Dr. Cerf served as Vice President of the Corporation for National Research Initiatives, a non-profit research and development organization. Prior to that position, he held positions with MCI Digital Information Services and the U.S. Department of Defense s Advanced Research Projects Agency. Dr. Cerf also serves as a director of Avanex Corporation, a supplier of fiber optic-based products, and several other private for-profit and non-profit organizations. He has served as Chairman of the Board of the Internet Corporation for Assigned Names and Numbers (ICANN) since November 2000. Dr. Cerf is the co-inventor of TCP/IP and the architecture of the Internet. He holds a Ph.D. and an M.S. in computer science from the University of California at Los Angeles and a B.S. from Stanford University.

Irwin Federman has served as one of the Company's directors since 1995. Mr. Federman has been a general partner of U.S. Venture Partners, a venture capital firm, since 1990. From 1988 to 1990, he was a managing director of Dillon, Read and Company, an investment bank. From 1981 to 1988, he was President and Chief Executive Officer of Monolithic Memories, an integrated circuit company. Mr. Federman also serves as a director of CheckPoint Software Technologies, Inc., an internet security company, Centillum Communications, Inc., an integrated circuit company, SanDisk Corp., a computer memory company, and several privately held companies. He holds a B.S. from Brooklyn College.

Incumbent Class II Directors Whose Terms Expire in 2005

Curtis Carlson has served as one of the Company's directors since 1998. Dr. Carlson has been President and Chief Executive Officer of SRI International since 1998. From 1996 to 1998, he served as Executive Vice President of Ventures and Licensing of the Sarnoff Corporation, an information technology company and one of SRI's two wholly-owned subsidiaries. Prior to that position, he served as a Technical Director at RCA Laboratories. Dr. Carlson also serves as a director of several private companies. He holds a Ph.D. and an M.S. from Rutgers University and a B.S. from Worcester Polytechnic Institute.

Alan Herzig has served as one of the Company's directors since 1994. He presently acts as a consultant and as an independent director. He was President and Chief Executive Officer of SRI Holdings, Inc., a subsidiary of SRI International, from 1997 until December 2002. From 1994 to 1997, he served in the Office of the Chairman of SRI International. From 1987 to 1994, he served as the President and Chief Executive Officer of Robert Fleming Pacific, Inc., the U.S. investment banking arm of Robert Fleming & Co., a U.K.-based merchant bank. From 1981 to 1987, he served as a Managing Director of L.F. Rothschild Unterberg Towbin, an investment bank. Mr. Herzig also serves on the board of directors of Sarnoff Corporation, a subsidiary of SRI International, and one privately held company. He holds a B.A. from Yale University.

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Philip Quigley has served as one of the Company s directors since 2000. From 1994 to 1997, Mr. Quigley served as Chairman and Chief Executive Officer of Pacific Telesis Group, a communications company, and Vice Chairman of SBC Communications, Inc., a telecommunications company. From 1987 to 1994, he served as the President and Chief Executive Officer of Pacific Bell, a telecommunications company. From 1986 to 1987, he served as Executive Vice President and Chief Operating Officer of PacTel Corporation, a cellular and paging company. From 1982 to 1986, he served as President and Chief Executive Officer of PacTel Corporation. Mr. Quigley serves as a director of Wells Fargo Bank & Co., SRI International and several other privately held companies. He has also served on the boards of Pacific Telesis, SBC Communications, Inc. and the United Way. He holds a B.S. from California State University, Los Angeles.

Incumbent Class III Directors Whose Terms Expire In 2006

Charles Berger joined Nuance as President and Chief Executive Officer in March 2003. He became a director of the Company in May 2003. He has more than 25 years experience in high technology companies. Mr. Berger was President and Chief Executive Officer of Vicinity, Inc., a provider of location-based technology and solutions, from December 2001 to December 2002. He was Chairman and CEO of AdForce, LLC, a provider of centralized, outsourced ad management and delivery services, from 1997 to June 2001. He was Chairman and CEO of Radius, Inc., a developer of graphic and video products for Macintosh computers, from 1993 to 1997. Between 1977 and 1993, Mr. Berger held management and senior executive positions at a number of market-leading companies, including Sun Microsystems, Apple Computer, ROLM and Memorex. Mr. Berger serves as a director of Tier Technology, the principal business of which is to provide technology solutions to state and local governments. He holds a B.S. in Business Administration from Bucknell University, for which he currently serves as a Trustee, and an M.B.A. from Santa Clara University.

Gary Morgenthaler has served as one of the Company's directors since 1997. Mr. Morgenthaler has been a general partner at Morgenthaler Ventures, a venture capital firm, since 1989. He also serves as Chairman of Versata, Inc., and as a director of Catena Networks, Inc., Crossbow Technology, Inc., Terawave Communications, Inc., Westwave Communications, Inc., and Yotta Networks, Inc. Mr. Morgenthaler was a co-founder and past Chairman of Illustra Information Technologies, Inc., and served as a director on Illustra's board until it was acquired by Informix in 1995. He served as Chairman of Ingres Corporation (formerly Relational Technology) until its sale in 1990, and was a founder of that company in 1980. Between 1984 and 1988, he was Chief Executive Officer of Ingres. Earlier Mr. Morgenthaler was with McKinsey & Company, Tymshare, Inc., and Stanford University's Institute for Mathematical Studies in the Social Sciences. He holds an A.B. from Harvard University.

There are no family relationships among any of the Company s directors or officers.

Board Composition

The Company currently has eight directors. In accordance with the terms of Nuance s Certificate of Incorporation, the terms of office of the members of the Board are divided into three classes: Class I, whose term will expire at the Annual Meeting; Class II, whose term will expire at the annual meeting of stockholders to be held in 2005; and Class III, whose term will expire at the annual meeting of stockholders to be held in 2006. The Class I directors are Dr. Cerf, Mr. Croen and Mr. Federman, the Class II directors are Dr. Carlson, Mr. Herzig and Mr. Quigley and the Class III directors are Mr. Berger and Mr. Morgenthaler.

At each annual meeting of stockholders, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Any additional directorships resulting from an increase in the number of directors will

be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the Company s directors. This classification of the Board may have the effect of delaying or preventing changes in control of the Company. The Company s directors may be removed for cause by the affirmative vote of the holders of a majority of the outstanding Common Stock.

Corporate Governance

Meetings and Related Governance Matters

The Board has determined that each of the directors presently serving on the Board, other than Mr. Berger, who is the Company s President and Chief Executive Officer, and Mr. Croen, who served as the Company s President and Chief Executive Officer through March 2003, is independent, as defined by Nasdaq Rule 4200(a)(15).

The Board held a total of six meetings during the Last Fiscal Year. During the Last Fiscal Year, no director attended fewer than 75% of the aggregate number of meetings held by the Board or of the aggregate number of meetings of each committee of the Board upon which such director served. Certain matters approved by the Board were approved by unanimous written consent.

The Board s policy with respect to director attendance at each annual meeting of stockholders is that all directors are required to attend. All of the members of the Board attended the Company s 2003 Annual Meeting of Stockholders.

Committees and Related Governance Matters

The Board has three standing committees: the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. The Board has determined that each member of each committee of the Board is independent, as defined by Nasdaq Rule 4200(a)(15). Each of these committees has a written charter adopted by the Board. A copy of each charter can be found on the Company s website at www.nuance.com by clicking Investor and then Corporate Governance.

The Audit Committee consists of Messrs. Federman, Herzig and Quigley. Each member of the Audit Committee is an audit committee financial expert , as defined by SEC rules, is financially literate and financially sophisticated within the meaning of Nasdaq rules, and otherwise meets the Nasdaq requirements for audit committee members. The Audit Committee approves the appointment of the Company s independent auditors, reviews the scope and results of annual audits and other accounting-related services, evaluates the Company s internal control functions and approves the fees to be paid to the accounting firms that provide services to the Company, whether audit, audit related, tax or other services. The Audit Committee held a total of four meetings during the Last Fiscal Year.

The Compensation Committee consists of Messrs. Quigley and Herzig. The Compensation Committee makes recommendations concerning, and reviews and approves, new equity-based compensation plans of the Company and any amendments to such plans in effect. It also approves all matters concerning executive officer compensation. The Compensation Committee held a total of five meetings during the Last Fiscal Year.

The Corporate Governance and Nominating Committee, which was established in March 2004, consists of Messrs. Carlson and Herzig. This committee makes recommendations, and approves matters, relating to the Company s corporate governance obligations and actions, reviews and approves, as appropriate, each of the Company s related party transactions, and considers and approves nominations

for directors of the Company, whether made by management, a stockholder of the Company or the committee itself.

Director Candidates

The Corporate Governance and Nominating Committee will consider candidates submitted by stockholders of the Company, as well as candidates recommended by directors and management, for nomination to the Board. To date, the Company has not received any such recommendations from stockholders. Stockholders may recommend candidates for nomination to the Board by writing to Nuance Communications, Inc., 1380 Willow Street, Menlo Park, California 94025, Attn: General Counsel. To be considered for election at next year s Annual Meeting, submissions by stockholders must be submitted by mail and must be received by the General Counsel no later than March 3, 2005, to ensure adequate time for meaningful consideration by the committee. Each submission must include the following information.

the full name and address of the candidate;

the number of shares of Common Stock beneficially owned by the candidate;

a certification that the candidate consents to being named in the proxy statement and intends to serve on the Board if elected; and

biographical information, including work experience during the past five years, other board positions, and educational background, such as provided under Other Information Executive Officers below.

The goal of the Corporate Governance and Nominating Committee is to assemble a board of directors that offers a variety of perspectives, knowledge and skills derived from high-quality business and professional experience. The committee considers candidates by first evaluating the current members of the Board who intend to continue in service, balancing the value of continuity of service with that of obtaining new perspectives, skills and experience. If the committee determines that an opening exists, the committee identifies the desired skills and experience of a new nominee, including the need to satisfy SEC and Nasdaq rules. The committee generally will evaluate each candidate based on the extent to which the candidate contributes to the range of talent, skill and expertise appropriate for the Board generally, as well as the candidate s integrity, business acumen, diversity, availability, independence of thought, and overall ability to represent the interests of the Company s stockholders. The committee does not assign specific weights to particular criteria, and no particular criterion is necessarily applicable to all prospective nominees. Although the committee uses these and other criteria as appropriate to evaluate potential nominees, the committee has no stated minimum criteria for nominees. The committee intends to evaluate candidates recommended by stockholders and candidates recommended by directors and management in accordance with the same criteria. To date, the Company has not paid any third parties to assist it in this process.

Stockholder Communication with the Board

Stockholders may communicate with the Board in writing by mailing written communications to Nuance Communications, Inc., 1380 Willow Street, Menlo Park, California 94025, Attn: General Counsel. Correspondence may be addressed to the Board as a whole, or to individual directors. The General Counsel will review all such correspondence and provide regular summaries to the Board or to individual directors, as relevant. He will also retain copies of such correspondence for at least six months, and make copies of such correspondence available to the Board or individual directors upon request. Any correspondence relating to accounting, internal controls or auditing matters will be handled in accordance with the Company s policy regarding accounting complaints and concerns.

Code of Ethics/Code of Conduct

The Company has adopted a Code of Business Conduct and Ethics that applies to all of the Company s employees, including our principal executive officer, principal financial officer, principal accounting officer and controller. This Code, which meets the requirements of NASDAQ rules, covers a variety of topics, ranging from accounting and SEC reporting matters, to conflicts of interest and use of company resources, to employment and harassment policies. This Code is posted on the Company s website at www.nuance.com, and may be found by first highlighting Company Info , clicking on Investor Relations , and then clicking on Corporate Governance . The Company intends to satisfy the disclosure requirement under Form 8-K regarding an amendment to, or waiver from, a provision of this Code by posting such information on the Company s website, at the address and location specified above.

Director Compensation

Non-employee directors (Outside Directors) receive an annual retainer fee of $15,000, paid quarterly. Board members also receive a Board meeting attendance fee and a committee meeting attendance fee of $1,000, which is paid for each Board and committee meeting attended. The Company also pays the Chairman of the Audit Committee an additional annual retainer fee of $2,500. The Company reimburses each director for the expenses the director incurs in attending any Board or committee meeting.

Options are granted to Outside Directors under the Company s 2000 Stock Plan (the Stock Plan), which was approved by the Company s stockholders in 2000. The Company grants all Outside Directors options to purchase 20,000 shares of the Company s Common Stock on an annual basis. Each option granted to directors under the Stock Plan contain the following provisions: the exercise price per share of Common Stock is 100% of the fair market value of the Common Stock on the date the option is granted; the term of the option may be no more than ten years from the date of grant; the option will vest monthly, and will be fully vested one year from the grant date; the option may be exercised only while the Outside Director remains a director or within ninety days after the date he or she ceases to be a director or service provider of the Company; upon a proposed liquidation or dissolution of the Company, the option will terminate immediately prior to such action; and, in the event of a merger or sale of substantially all of the Company s assets, the option may be assumed or an equivalent option substituted by the successor corporation. The Board may at any time amend, alter, suspend or discontinue the Stock Plan, subject to any required stockholder approval.

Employment Contracts, Termination of Employment and Change-in-Control Arrangements

The Company entered into an Executive Employee Agreement with Ronald Croen, dated as of January 1, 2003. Mr. Croen resigned as President and Chief Executive Officer of the Company in April 2003, when his successor was appointed, at which point the agreement terminated. The agreement had a term of up to one year, and provided that Mr. Croen would continue to serve as President and Chief Executive Officer until his successor was selected. The agreement provided that Mr. Croen will serve as Chairman of the Board until he voluntarily resigns or until the Board elects another director as Chairman. Additionally, the agreement provided that Mr. Croen will continue to serve as a member of the Board until he either voluntarily resigns or is not reelected as a member because the Board does not nominate him on the slate of directors in connection with an annual meeting. The agreement provided for a base annual salary of $250,000 for 2003, and for an option to purchase up to 160,000 shares of Common Stock, subject to a four-year vesting schedule. The agreement also provided for an option to purchase up to an additional 150,000 shares of Common Stock, the vesting of which accelerated in full as a result of

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Mr. Croen recruiting Mr. Berger to become CEO. Furthermore, the agreement provided for an option to purchase up to an additional 50,000 shares of Common Stock (the Performance Option), which option was subject to a two-year vesting schedule, with vesting to be accelerated if certain operating income and revenue metrics were achieved. The agreement also provided that, while an employee, Mr. Croen was eligible for an annual target cash bonus of $125,000, with actual payments ranging from zero to up to $187,500, based on the achievement of certain performance metrics. The agreement also provided for certain severance benefits, which resulted in Mr. Croen being paid a lump sum severance payment in the amount of $250,000. As a result of Mr. Croen s recruitment of Mr. Berger, pursuant to the agreement, Mr. Croen also was paid a lump sum bonus of $100,000 for recruiting Mr. Berger.

The Company entered into an Executive Employee Agreement with Charles Berger, effective March 31, 2003. The agreement provides that Mr. Berger will serve as President and Chief Executive Officer of the Company for a one-year term, with such term to be extended upon mutual agreement of the Company and Mr. Berger. The agreement further provides that Mr. Berger will be elected to the Board. The agreement provides for a base annual salary of $275,000, and an option to purchase up to 900,000 shares of Common Stock, which option vested as to 25% of the shares on his one-year anniversary with the company, and vests monthly thereafter over three years. The agreement also provides for an additional option to purchase up to 300,000 shares of Common Stock, which option vests as to 112,500 shares 18 months after the commencement of Mr. Berger s employment of the Company and monthly thereafter over 30 months, subject to acceleration should the Company meet certain performance standards. The agreement also provides that, while an employee, Mr. Berger is eligible for an annual target cash bonus of $137,500. The actual bonus payout may range from 0% to 150% of such amount (provided that a cash bonus of no less than

$101,336 is guaranteed for 2003), based on Mr. Berger s achievement of certain performance criteria as agreed upon by the Board and Mr. Berger. The agreement provides for certain benefits in the event of a Change in Control of the Company (as defined in the agreement). In the event of a Change of Control, if Mr. Berger is terminated by a successor corporation without Good Cause or resigns for Good Reason (each as defined in the agreement) within twelve months following such Change in Control, 50% of Mr. Berger s unvested options will vest upon the date of termination. If such termination occurs after 36 months of employment, 100% of any unvested options granted in 2003 will vest upon the date of termination. The agreement also provides for certain severance benefits arising out of the termination of Mr. Berger s employment, such that, upon either nonrenewal of the agreement by the Company, termination of Mr. Berger by the Company without Good Cause, or termination by Mr. Berger for Good Reason, Mr. Berger is entitled to such severance benefits. Such severance benefits include the payment of a sum equal to twelve months of Mr. Berger s current base salary, and a sum equal to Mr. Berger s unpaid earned or guaranteed, whichever is higher, bonus for 2003. Such severance benefits also include continuation of coverage under the Company s benefit plans for twelve months from the date of termination or, alternatively, reimbursement for all premiums paid by Mr. Berger to maintain health coverage under COBRA for twelve months from the date of termination. Furthermore, in the event of any such nonrenewal or termination, Mr. Berger s options are to vest as to 1/48(th) of the options for each month of employment and vesting of any of the non-vested options, on the date of non-renewal or termination, will accelerate by 12 months.

See Security Ownership Change-in-Control Arrangements below for a discussion of certain change-in-control arrangements applicable to the Company s executive officers, including Mr. Berger.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee of the Company are Mr. Quigley and Mr. Herzig. Neither of the members of the Compensation Committee is currently or has been, at any time since the formation of the Company, an officer or employee of the Company. During the Last Fiscal Year, no executive officer of the Company (i) served as a member of the compensation committee (or other board committee performing similar functions or, in the absence of any such committee, the board of directors) of another entity, one of whose executive officers served on the Company s Compensation Committee, (ii) served as a director of another entity, one of whose executive officers served on the Company s Compensation Committee, or (iii) served as a member of the compensation committee (or other board committee performing similar functions or, in the absence of any such committee, the board of directors) of another entity, one of whose executive officers served as a director of the Company.

Required Vote

If a quorum is present and voting, the three nominees for director receiving the highest number of votes will be elected to the Board. Votes withheld from any nominee are counted for purposes of determining the presence or absence of a quorum, but have no other legal effect under Delaware law. See Information Concerning Solicitation and Voting Quorum; Voting above.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES LISTED ABOVE.

PROPOSAL TWO

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee of the Board has appointed Deloitte & Touche LLP (Deloitte & Touche), independent auditors, to audit the financial statements of the Company for its 2004 fiscal year. The Board has ratified this appointment. Deloitte & Touche has audited the Company s financial statements since the Company s 2002 fiscal year. Representatives of Deloitte & Touche are expected to be present at the Annual Meeting, with the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions. In the event of a negative vote on ratification of Deloitte & Touche, the Audit Committee will reconsider its selection. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent accounting firm at any time during the year if the Board feels that such a change would be in the Company s and its stockholders best interests.

Fees paid to Deloitte & Touche LLP

The following table sets forth the aggregate fees billed to the Company by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates for audit services rendered in connection with the consolidated financial statements and reports of the Company for the Last Fiscal Year and for other services rendered during 2003 and 2002 to the Company and its subsidiaries, as well as all out-of-pocket costs incurred in connection with these services.

Fee Category	Fiscal 2003	% of Total	Fiscal 2002	% of Total
Audit Fees	$ 462,621	43	$ 433,000	65
Audit Related Fees	27,310	3	18,000	3
Tax Fees	585,063	53	195,115	29
All Other Fees	10,500	1	17,280	3
Total Fees	$ 1,085,494	100	$ 663,395	100

Audit Fees: Consist of fees billed for professional services rendered for the audit of the Company s consolidated financial statements and review of the Company s interim condensed consolidated financial statements included in quarterly reports, services that are normally provided by Deloitte & Touche in connection with statutory and regulatory filings or engagements and attest services, except those not required by statute or regulation.

Audit-Related Fees: Consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company s consolidated financial statements and are not reported under Audit Fees . These services include attest services that are not required by statute or regulation, consultations concerning financial accounting transactions and reporting standards, and consents related to SEC and other registration statements.

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Tax Fees: Consist of tax planning, compliance and preparation services. Tax compliance and preparation consist of professional services related to federal, state and international tax compliance, assistance with tax audits and appeals, transfer price studies and assistance with customs and duties audits.

All Other Fees: Consist of fees for all services other than those described above. These services include workshop seminars and subscriptions for research services.

All services falling under Audit-Related Fees, Tax Fees and All Other Fees were pre-approved by the Audit Committee in accordance with the pre-approval policy described below.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee s policy is to pre-approve all audit and permissible non-audit services provided by the Company s independent auditors. These services may include audit services, audit-related services, tax services and other services. Under this policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis. For each proposed service, the independent auditors are required to provide detailed back-up documentation at the time of approval. The independent auditors and management are required to periodically report to the Audit Committee with respect to the extent of services provided by the independent auditors in accordance with this pre-approval and the fees for such services. The Audit Committee may delegate pre-approval authority to one or more of its members. Such member must report any approvals to the Audit Committee at the next scheduled meeting.

Required Vote

The affirmative vote of the holders of a majority of the shares of Common Stock represented and entitled to vote at the Annual Meeting will be required to ratify the selection of Deloitte & Touche as the Company s independent auditors for the fiscal year ending December 31, 2004. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE AS THE COMPANY S INDEPENDENT AUDITORS FOR THE 2004 FISCAL YEAR.

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OTHER INFORMATION

Executive Officers

The Company s executive officers, and their ages and positions with the Company, as of April 30, 2004, are as follows:

Name	Age	Position
Charles Berger	50	President and Chief Executive Officer
Karen Blasing	47	Vice President and Chief Financial Officer
Rodwin Hamlin	38	Senior Vice President of Global Sales and Services
Eng Yew Lee	43	Vice President, Technical Services
Douglas Clark Neilsson	56	Vice President, Secretary and General Counsel
Douglas Sharp	44	Vice President, Engineering
Lynda Kate Smith	42	Vice President and Chief Marketing Officer
Donna Allen Taylor	59	Vice President, Human Resources and Chief People Officer

For information about *Charles Berger*, see Election of Directors Information Regarding Nominees and Other Directors above.

Karen Blasing has served as Vice President and Chief Financial Officer since April 2002. She joined Nuance from Counterpane Internet Security, Inc., where she served as Vice President and Chief Financial Officer from May 2000 to April 2002. Ms. Blasing worked at Informix Corporation (now Ascential Corp.) from November 1992 to April 2000. During her eight year tenure at Informix, she held a number of senior management positions, including Vice President, Corporate Business Development, Finance, Vice President, Corporate Controller and Director of Financial Planning and Reporting. She holds a B.A. in Economics and a B.A. in Business Administration and Finance from the University of Montana and an M.B.A. from the University of Washington.

Rodwin Hamlin has served as Senior Vice President of Global Sales and Services since September 2002. Prior to joining Nuance, he held the position of Executive Vice President of Sales at ViAir, Inc., a wireless web applications infrastructure company, from October 2000 to June 2002. Mr. Hamlin was Vice President of Business Development and International Operations at FreeI Networks, Inc., an internet service provider, from 1999 to October 2000. He held the position of Vice President Worldwide Channel Sales at Onyx Software Corporation, a global supplier of customer relationship management enterprise applications, from 1996 to 1999. Mr. Hamlin was Director of Business Development and International Sales for FileNET Corporation, a provider of Web content management solutions, from 1995 to 1996. He began his career at IBM in 1988. He holds an M.B.A. from Seattle University and a B.A. from Pacific Lutheran University.

Eng Yew Lee has served as Vice President, Technical Services since February 2000. From 1998 to February 2000, he served as the Company s Director of Technical Services. From 1995 to 1998, he served as Director of Server Technologies Support at Oracle Corporation. From 1989 to 1994, Mr. Lee held a variety of manager positions with Oracle in the United States and the United Kingdom. He holds an M.S. in Business Systems Analysis and Design from the City University of London, England, and a B.S. from London University.

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Douglas Clark Neilsson has served as Vice President, Secretary and General Counsel since January 2004. In 2003, Mr. Neilsson was in private practice in the Silicon Valley, providing legal services to private and public companies. During 2001 and 2002, he served as Special Counsel at the Palo Alto, California office of Gray Cary & Freidenrich. From 1979 through 2000, Mr. Neilsson was in private practice in the Silicon Valley, including over ten years as a partner in the San Jose, California office of Gibson Dunn & Crutcher, and acted as General Counsel for two public companies. He received a B.A. from UCLA and a J.D. from the UCLA School of Law.

Douglas Sharp has served as Vice President of Engineering since May 2003. Previously, he was the Company s Vice President of Software Engineering from January 1999 to May 2003. Prior to joining the Company in 1988, he held key positions in AT&T Research s Speech Processing Software & Technology Research Group, Bell Labs Research, and Nortel s Speech Recognition Research Groups. With more than 15 years experience in interactive voice technologies for telecommunications, Mr. Sharp has been granted four speech technology patents. He holds a Bachelors in Mathematics, with a minor in Computer Science, from McGill University.

Lynda Kate Smith has served as Vice President and Chief Marketing Officer since December 2001. From 1998 to December 2001, she served as Vice President of Worldwide Marketing at Genesys (a subsidiary of Alcatel) and as a member of the company s executive committee. From 1996 to 1998, Ms. Smith worked with Lockheed Martin Telecommunications and American Eurocopter, a joint venture between Daimler Benz and Aerospatiale. She holds an M.B.A. from the University of Pennsylvania s Wharton School of Business and a B.A. from Simpson College.

Donna Allen Taylor has served as Vice President, Human Resources and Chief People Officer since January 2000. From 1996 to December 1999, she served as Vice President of Human Resources of The Vantive Corporation, a worldwide customer asset management applications software company. From 1995 to 1996, she served as a senior consultant of Post Associates, an organizational consulting firm. From September 1993 to September 1995, she served as a Corporate Human Resources Director of Intel Corporation. Prior to that position, Ms. Taylor held several senior Human Resource management positions with various divisions of Digital Equipment Corporation, a computer hardware, software and services company. She holds a B.F.A. from Kansas University.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information known to the Company with respect to the beneficial ownership of the Company s Common Stock, as of May 28, 2004 (except as specifically noted otherwise), by (i) each person or entity owning beneficially more than 5% of the outstanding shares of Common Stock, (ii) each of the Named Executive Officers (as defined below in the section entitled Executive Officer Compensation Summary Compensation), (iii) each of the Company s directors, and (iv) all of the Company s directors and executive officers as a group.

Beneficial ownership is determined under the rules of the SEC, and generally includes voting or investment power with respect to the applicable securities. Except as otherwise indicated, and subject to applicable community property laws, to the Company s knowledge, the persons named below have sole voting and investment power with respect to all shares of Common Stock held by them. For the purposes of calculating the percentage ownership, as of May 28, 2004, 35,517,685 shares of the Common Stock were issued and outstanding. Shares of Common Stock subject to options or warrants that were exercisable as of May 28, 2004, or within 60 days of March 31, 2004, are deemed outstanding for the purpose of computing the percentage ownership of the person or entity holding such options or warrants, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or entity.

	Shares of Common Stock Beneficially Owned	
Name and Address of Beneficial Owner	**Number**	**Percent**
5% Stockholders:		
SRI International (1)	2,335,580	6.6%
333 Ravenswood Avenue		
Menlo Park, California 94025		
Cisco Systems, Inc. (2)	1,935,000	5.4%
170 West Tasman Drive		