

NUANCE COMMUNICATIONS

Form DEFM14A

August 02, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**SCHEDULE 14A**  
**(RULE 14a-101)**  
**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary  
Proxy Statement
- Definitive Proxy  
Statement
- Confidential, for  
use of the  
Commission Only  
(as permitted by  
Rule 14a-6(e)(2))
- Definitive  
Additional  
Materials
- Soliciting  
Material  
Pursuant to §  
240.14a-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):

No fee required.

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:

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August 1, 2005

**Dear Stockholders of Nuance Communications, Inc.:**

We will hold a special meeting of our stockholders at our offices located at 1350 Willow Road, Menlo Park, California 94025, on August 31, 2005 at 8:00 a.m. Pacific time.

At the special meeting, you will be asked to consider and vote upon the following proposal:

To adopt the merger agreement and approve the merger contemplated thereby. Upon completion of the merger, holders of Nuance common stock will be entitled to receive (i) 0.77 shares of ScanSoft common stock, and (ii) \$2.20 of cash, for each share of Nuance common stock they hold at that time. Nuance common stock is listed on the NASDAQ National Market under the trading symbol NUAN. ScanSoft common stock is listed on the NASDAQ National Market under the trading symbol SSFT.

The foregoing proposal is described in detail in the attached notice of special meeting of stockholders and joint proxy statement/ prospectus.

AFTER CAREFUL CONSIDERATION, YOUR BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE PROPOSAL REFERRED TO ABOVE RELATING TO THE ADOPTION OF THE MERGER AGREEMENT AND THE APPROVAL OF THE MERGER WITH SCANSOFT, AND DETERMINED THAT SUCH PROPOSAL IS FAIR TO AND IN THE BEST INTERESTS OF NUANCE AND ITS STOCKHOLDERS. YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO ADOPT THE MERGER AGREEMENT AND APPROVE THE MERGER.

In the material accompanying this letter, you will find a notice of special meeting of stockholders, a joint proxy statement/ prospectus relating to the actions to be taken by Nuance stockholders at the Nuance special meeting (as well as the actions to be taken by the ScanSoft stockholders at their special meeting) and a proxy. The joint proxy statement/ prospectus more fully describes the merger agreement and the proposed merger, and includes information about Nuance and ScanSoft.

**We encourage you to read the joint proxy statement/ prospectus, which includes important information about the merger. IN ADDITION, THE SECTION ENTITLED RISK FACTORS , BEGINNING ON PAGE 18 OF THE JOINT PROXY STATEMENT/ PROSPECTUS, CONTAINS A DESCRIPTION OF RISKS THAT YOU SHOULD CONSIDER IN EVALUATING THE MERGER.**

It is important that you use this opportunity to take part in the affairs of Nuance by voting on the business to come before this meeting. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE SO THAT YOUR SHARES MAY BE REPRESENTED AT THE MEETING. YOUR VOTE IS VERY IMPORTANT. Returning the proxy does not deprive you of your right to attend the meeting and to vote your shares in person.

Sincerely,

/s/ Charles W. Berger

Charles W. Berger  
Chief Executive Officer

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THIS TRANSACTION OR THE SECURITIES OF SCANSOFT TO BE ISSUED PURSUANT TO THE MERGER, OR DETERMINED IF THIS JOINT PROXY STATEMENT/ PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

This joint proxy statement/ prospectus is dated August 1, 2005, and is first being mailed to Nuance stockholders on or about August 3, 2005.

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**NUANCE COMMUNICATIONS, INC.**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
TO BE HELD**

Dear Stockholders of Nuance Communications, Inc.:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of Nuance Communications, Inc., a Delaware corporation, will be held on August 31, 2005 at 8:00 a.m. Pacific time, at Nuance's offices located at 1350 Willow Road, Menlo Park, California 94025, for the following purpose:

(1) To adopt the Agreement and Plan of Merger, dated as of May 9, 2005, among ScanSoft, Inc., a Delaware corporation, Nova Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of ScanSoft, Nova Acquisition LLC, a Delaware limited liability company and a wholly-owned subsidiary of ScanSoft, and Nuance (the merger agreement) and approve the merger contemplated thereby. Upon completion of the merger, holders of Nuance common stock will be entitled to receive (i) 0.77 shares of ScanSoft common stock, and (ii) \$2.20 of cash, for each share of Nuance common stock they hold at that time; and

(2) To transact such other business as may properly come before the special meeting or any postponement or adjournment thereof.

The terms of the proposed merger with ScanSoft and the related merger agreement are more fully described in the joint proxy statement/prospectus attached to this notice.

The Nuance board of directors has determined that the proposal described above relating to the adoption of the merger agreement and the approval of the merger is advisable and in the best interests of Nuance and its stockholders and that such proposal is fair to Nuance and to its stockholders, and unanimously recommends that Nuance stockholders vote FOR the proposal to adopt the merger agreement and approve the merger.

The Nuance board of directors has fixed the close of business on July 27, 2005 as the record date for determination of Nuance stockholders entitled to notice of, and to vote at, the Nuance special meeting and at any postponements or adjournments thereof. A list of stockholders entitled to vote will be available at 1350 Willow Road, Menlo Park, California 94025 for 10 days prior to the Nuance special meeting during ordinary business hours.

**WE ENCOURAGE YOU TO VOTE ON THESE IMPORTANT MATTERS.**

By Order of the Board of Directors of Nuance

/s/ Douglas Clark Neilsson

Douglas Clark Neilsson  
Vice President, Secretary and General Counsel

Menlo Park, California

August 1, 2005

**YOU ARE CORDIALLY INVITED TO ATTEND THE NUANCE SPECIAL MEETING IN PERSON.  
WHETHER OR NOT YOU PLAN TO ATTEND THE NUANCE SPECIAL MEETING, PLEASE SIGN,  
DATE AND RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED ENVELOPE.**

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**ADDITIONAL INFORMATION**

This joint proxy statement/ prospectus incorporates important business and financial information about ScanSoft and Nuance from documents filed with the Securities and Exchange Commission, which we refer to as the SEC, that are not included in or delivered with this joint proxy statement/ prospectus. ScanSoft will provide you with copies of this information, without charge, upon written or oral request to:

**SCANSOFT, INC.**

1 Wayside Road  
Burlington, MA 01803

Attention: Investor Relations

Telephone Number: (781) 565-5000

Nuance will provide you with copies of this information, without charge, upon written or oral request to:

**NUANCE COMMUNICATIONS, INC.**

1380 Willow Road  
Menlo Park, California 94025

Attention: Investor Relations

Telephone Number: (650) 847-0000

ANY REQUEST FOR SUCH INFORMATION FROM EITHER COMPANY MUST BE MADE NOT LATER THAN AUGUST 15, 2005. UPON TIMELY REQUEST, WE WILL MAIL SUCH INFORMATION TO YOU BY FIRST CLASS MAIL BY THE NEXT BUSINESS DAY.

See the section entitled *Where You Can Find More Information* on page 147 of this joint proxy statement/ prospectus for more information about the documents referred to in this joint proxy statement/ prospectus.

You should rely only on the information contained in, or incorporated by reference into, this joint proxy statement/ prospectus in deciding how to vote on the respective ScanSoft and Nuance proposals. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this joint proxy statement/ prospectus. This joint proxy statement/ prospectus is dated August 1, 2005. You should not assume that the information contained in, or incorporated by reference into, this joint proxy statement/ prospectus is accurate as of any date other than that date.

This joint proxy statement/ prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Information contained in this joint proxy statement/ prospectus regarding ScanSoft, Nova Acquisition Corporation and Nova Acquisition LLC has been provided by ScanSoft and information contained in this joint proxy statement/ prospectus regarding Nuance has been provided by Nuance.

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**QUESTIONS AND ANSWERS ABOUT THE MERGER OF SCANSOFT AND NUANCE  
GENERAL QUESTIONS AND ANSWERS**

**Q: WHY ARE SCANSOFT AND NUANCE PROPOSING THE MERGER?**

**A:** We are proposing the merger because we believe the combination of our two companies will result in a comprehensive portfolio of speech applications, industry-defining technologies and technical expertise in network speech, embedded speech and dictation, which will allow the combined company to support partners and customers on a global scale more effectively and efficiently. Furthermore, after reviewing numerous strategic alternatives for enhancing stockholder value, the boards of directors of both ScanSoft, Inc. and Nuance Communications, Inc. believe that the merger will:

1. better position the combined company to accelerate the development and adoption of innovative speech-enabled applications and services worldwide;
2. increase the rate of innovation through the exchange of ideas and technologies among varied development teams;
3. better equip the combined company to compete with a number of new, very large and well resourced competitors; and
4. generate cost synergies through headcount reductions, office site consolidations and reductions in marketing and administrative expenses.

**Q: WHAT WILL HAPPEN PURSUANT TO THE MERGER?**

**A:** We are proposing a two step merger pursuant to which in the first step, Nova Acquisition Corporation, a wholly owned subsidiary of ScanSoft, will merge with and into Nuance, and thereafter will cease to exist as a separate corporate entity. After the first step merger, Nuance will be a wholly owned subsidiary of ScanSoft. In the second step, Nuance will merge with and into Nova Acquisition LLC, a wholly owned subsidiary of ScanSoft, and thereafter Nuance will cease to exist as a separate corporate entity. After the second step, Nova Acquisition LLC will be a wholly owned subsidiary of ScanSoft. We refer to the first step merger, together with the second step merger, herein as the merger. Pursuant to the merger agreement, no later than 90 days following the effective time of the merger, ScanSoft will change its corporate name to Nuance.

Assuming the merger and the financing with Warburg Pincus and its affiliates pursuant to the Stock Purchase Agreement had been completed on May 9, 2005, Nuance stockholders would have owned approximately 18% of the outstanding shares of ScanSoft common stock immediately after the merger and financing and ScanSoft stockholders would have owned the remaining 82% (not including options, warrants and other convertible securities outstanding).

**Q: WHAT STOCKHOLDER APPROVALS ARE REQUIRED TO COMPLETE THE MERGER?**

**A:** We cannot complete the merger unless, among other things, a majority of the outstanding shares of Nuance common stock entitled to vote at the Nuance special meeting vote to adopt the merger agreement and approve the merger. As of July 27, 2005, Nuance directors and executive officers and one of its significant stockholders, SRI International, were entitled to vote approximately 8% of the outstanding shares of Nuance common stock (not including options, warrants and other convertible securities outstanding). These directors and executive officers and the significant stockholder have already agreed with ScanSoft, in a voting agreement, to vote their shares of Nuance common stock in favor of the adoption of the merger agreement and the approval of the merger. The voting agreements permit the sale of a limited number of shares of common stock by each of these directors and

executive officers and the significant stockholder.

In addition, a majority of the votes cast at the ScanSoft special meeting on (i) the proposal to approve the issuance of shares of ScanSoft common stock to Nuance stockholders in the merger and (ii) the proposal to approve the Stock Purchase Agreement by and among ScanSoft and Warburg

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Pincus Private Equity VIII, L.P. and certain of its affiliated entities (collectively, Warburg Pincus ) and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement must be voted in favor of such proposals in order to complete the merger. Although not required to complete the merger, ScanSoft is also soliciting the approval of its stockholders to assume certain Nuance stock options in the manner set forth in the merger agreement. As of July 27, 2005, ScanSoft directors, executive officers and certain affiliates were entitled to vote approximately 16% of the outstanding shares of ScanSoft common stock (not including options, warrants and other convertible securities outstanding). These directors, executive officers and affiliates have already agreed with Nuance to vote their shares of ScanSoft common stock in favor of the transactions contemplated by the merger agreement, including the issuance of shares of ScanSoft common stock to Nuance stockholders in the merger, the issuance of shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement and the assumption of certain Nuance stock options in the manner set forth in the merger agreement. The voting agreements permit the sale of a limited number of shares of common stock by ScanSoft directors, executive officers and affiliates.

**Q: HOW DO THE BOARDS OF DIRECTORS OF SCANSOFT AND NUANCE RECOMMEND THAT I VOTE?**

**A:** The ScanSoft board of directors unanimously recommends that ScanSoft stockholders vote FOR the proposal to approve the issuance of shares of ScanSoft common stock in connection with the merger, FOR the proposal to approve the Stock Purchase Agreement and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement, and FOR the proposal to approve the assumption by ScanSoft of stock options outstanding under Nuance s stock option plans with an exercise price of \$10.00 or less in the manner set forth in the merger agreement (the Option Assumption ).

The Nuance board of directors unanimously recommends that Nuance stockholders vote FOR the proposal to adopt the merger agreement and approve the merger.

**Q: WHEN DO YOU EXPECT TO COMPLETE THE MERGER?**

**A:** We expect to complete the merger as quickly as possible once all the conditions to the merger, including obtaining the approvals of ScanSoft and Nuance stockholders, are fulfilled. While we cannot predict the exact timing, we currently expect to complete the merger in September of 2005.

**Q: WHY ARE SCANSOFT STOCKHOLDERS BEING ASKED TO APPROVE THE STOCK PURCHASE AGREEMENT AND THE ISSUANCE OF THE SHARES OF SCANSOFT COMMON STOCK AND WARRANTS TO ACQUIRE SCANSOFT COMMON STOCK PURSUANT TO THE STOCK PURCHASE AGREEMENT?**

**A:** Rule 4350(i) of the Nasdaq Marketplace Rules requires that listed companies obtain stockholder approval in certain circumstances, which include: (i) when an issuance or potential issuance of securities would result in a change of control of the issuer as defined under the Nasdaq Marketplace Rules, (ii) when an equity compensation arrangement is made, pursuant to which stock may be acquired by directors or directors affiliates, and (iii) when in connection with the acquisition of the stock or assets of another company, where due to the issuance of common stock or securities convertible into common stock, the securities to be issued represent or will represent 20% or more of the voting power or number of shares of common stock outstanding before the issuance.

ScanSoft stockholders are being asked to approve the Stock Purchase Agreement and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase



Agreement because the acquisition of such securities by Warburg Pincus implicates each of these circumstances.  
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**Q: HOW MANY SHARES OF SCANSOFT COMMON STOCK WILL WARBURG PINCUS BENEFICIALLY OWN FOLLOWING THE MERGER AND THE ISSUANCE OF THE SECURITIES PURSUANT TO THE STOCK PURCHASE AGREEMENT?**

**A:** Warburg Pincus will beneficially own approximately 25% of ScanSoft's common stock following the merger and the issuance of the shares and warrants pursuant to the Stock Purchase Agreement, assuming that they do not dispose of the shares of ScanSoft common stock held by them prior to such time.

**Q: WHAT WILL HAPPEN IF SCANSOFT STOCKHOLDERS DO NOT APPROVE THE ISSUANCE OF THE SHARES OF SCANSOFT COMMON STOCK AND WARRANTS TO ACQUIRE SCANSOFT COMMON STOCK PURSUANT TO THE STOCK PURCHASE AGREEMENT?**

**A:** The completion of the merger is conditioned on the approval of the Stock Purchase Agreement and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement by ScanSoft's stockholders. If the Stock Purchase Agreement and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement are not approved by ScanSoft's stockholders, the merger will not be consummated. Accordingly, a vote against the Stock Purchase Agreement and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement is effectively a vote against the merger.

**Q: WHERE CAN I FIND MORE INFORMATION ABOUT SCANSOFT AND NUANCE?**

**A:** You can find more information about ScanSoft and Nuance from reading this joint proxy statement/ prospectus and the various sources described in this joint proxy statement/ prospectus under the section entitled "Where You Can Find More Information" on page 147.

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**QUESTIONS AND ANSWERS FOR SCANSOFT STOCKHOLDERS**

**Q: WHEN AND WHERE IS THE SCANSOFT SPECIAL MEETING?**

**A:** The ScanSoft special meeting will be held at ScanSoft's offices at 1 Wayside Road, Burlington, Massachusetts on August 31, 2005 at 11:00 a.m., Eastern time.

**Q: WHAT WILL HAPPEN AT THE SCANSOFT SPECIAL MEETING?**

**A:** At the ScanSoft special meeting, ScanSoft stockholders will vote on the approval of (i) the issuance of shares of ScanSoft common stock to Nuance stockholders in the merger, and (ii) the Stock Purchase Agreement and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement.

**Q: ARE ANY OTHER MATTERS BEING VOTED UPON AT THE SCANSOFT SPECIAL MEETING?**

**A:** ScanSoft stockholders are also being asked to vote to approve the assumption by ScanSoft of options to purchase Nuance common stock with an exercise price of \$10.00 or less that are outstanding under Nuance stock plans in the manner set forth in the merger agreement, although receipt of such approval regarding the assumption of options is not a condition to the merger.

**Q: WHY DO I NEED TO VOTE ON THE OPTION ASSUMPTION AND WHAT WILL NUANCE OPTIONHOLDERS RECEIVE IN THE MERGER?**

**A:** If you approve the Option Assumption, all options to purchase Nuance common stock outstanding under the Nuance stock option plans with an exercise price of \$10.00 or less will be assumed by ScanSoft and become options to purchase ScanSoft common stock on the same terms and conditions as were applicable to the assumed options prior to the closing of the merger, except each such option will be exercisable for such whole number of shares of ScanSoft common stock (rounded down to the nearest share) equal to the product obtained by multiplying the number of shares of Nuance common stock issuable upon the exercise of such option, by the option exchange ratio, and the exercise price per share for the ScanSoft common stock shall be equal to the quotient (rounded up to the nearest cent) of the exercise price per share for such option, divided by the option exchange ratio. The option exchange ratio is defined as 0.77 (the stock consideration to be received by Nuance stockholders in the merger for each share of Nuance common stock), plus the quotient of (a) \$2.20 (the cash consideration to be received by Nuance stockholders in the merger for each share of Nuance common stock), divided by (b) the average of the closing trading prices of the ScanSoft common stock during the five trading days immediately preceding the closing date, subject to potential adjustment for tax purposes.

The approval of ScanSoft's stockholders is being sought for the Option Assumption because ScanSoft's Amended and Restated By-Laws provide that stockholder approval is required for ScanSoft to sell securities exercisable into common stock with an exercise price that is fixed after the date of the agreement. Since under the proposed treatment of the assumed Nuance options in accordance with the merger agreement, the option exercise price is based in part on the average of the closing trading prices of the ScanSoft common stock during the five trading days immediately prior to the closing date, rather than being fixed as of the date the merger agreement was executed, the Option Assumption requires the approval of ScanSoft's stockholders.

In the event that the approval of the stockholders of ScanSoft is not obtained for the treatment of the Nuance options as described above, all options to purchase Nuance common stock outstanding under the Nuance stock option plans with an exercise price of \$10.00 or less will be assumed by ScanSoft, but on different terms. Each

assumed Nuance option will become an option to acquire ScanSoft common stock and cash, except each such assumed option will be exercisable for such number of shares of ScanSoft common stock (rounded down to the nearest share) equal to the number of shares of Nuance common stock issuable upon exercise of such option, multiplied by 0.77, and an amount of cash (rounded up to the nearest cent) equal to the number of shares of Nuance common stock issuable upon exercise of such option, multiplied by \$2.20, and the exercise price per share for the

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ScanSoft common stock and cash shall be equal to the quotient (rounded up to the nearest cent) of the exercise price per share for such option, divided by 0.77.

Regardless of the outcome of the ScanSoft stockholder vote regarding the assumption, all Nuance options with an exercise price of more than \$10.00, and not already fully vested, will accelerate and become fully vested prior to the effective time of the first step merger and shall terminate as of the effective time of the merger if not exercised prior to the effective time of the first step merger.

As of July 27, 2005, there were options to purchase 9,729,453 shares of Nuance common stock outstanding, of which 8,471,637 had an exercise price of \$10.00 or less.

**Q: WHAT DO I NEED TO DO TO VOTE?**

**A:** After carefully reading and considering the information contained in this joint proxy statement/ prospectus, please mail your completed and signed proxy card in the enclosed postage-paid return envelope as soon as possible so that your shares may be represented at the ScanSoft special meeting. In order to assure that we obtain your vote, please vote as instructed on your proxy card even if you currently plan to attend the ScanSoft special meeting and vote in person.

If you sign and mail your proxy and do not indicate how you want to vote, your proxy will be voted for the approval of the issuance of shares of ScanSoft common stock in connection with the merger, for the Stock Purchase Agreement and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement and for the assumption by ScanSoft of certain options to purchase Nuance common stock that are outstanding under Nuance stock plans in the manner set forth in the merger agreement.

**Q: MAY I CHANGE MY VOTE EVEN AFTER RETURNING A PROXY CARD?**

**A:** Yes. If you want to change your vote, you may do so at any time before your proxy is voted at the ScanSoft special meeting. You can do this in one of three ways. First, you can complete and send a proxy with a later date. Second, you can send a written notice to the corporate secretary of ScanSoft, stating that you would like to revoke your proxy. Third, you can attend the ScanSoft special meeting and vote in person. Your attendance at the ScanSoft special meeting alone will not revoke your proxy.

**Q: IF MY BROKER HOLDS MY SHARES IN STREET NAME, HOW DO I VOTE MY SHARES?**

**A:** You should contact your broker. You should follow the directions provided by your broker to vote your shares. Your broker will not be permitted to vote on the issuance of shares of common stock in connection with the merger, the financing contemplated in connection with the merger, or the treatment of the Nuance options as set forth in the merger agreement unless your broker receives appropriate instructions from you.

If you have instructed your broker to vote your shares, you must follow directions received from your broker to change those instructions. You cannot vote shares held in street name by returning a proxy card directly to ScanSoft or by voting in person at the ScanSoft special meeting.

**Q: ARE THERE RISKS I SHOULD CONSIDER IN DECIDING WHETHER TO VOTE FOR THE ISSUANCE OF SHARES OF SCANSOFT COMMON STOCK IN CONNECTION WITH THE MERGER AND FOR THE FINANCING CONTEMPLATED IN CONNECTION WITH THE MERGER?**

**A:** Yes. You should consider the risk factors set out in the section entitled **Risk Factors** beginning on page 18 of this joint proxy statement/ prospectus.

**Q: WHO CAN HELP ANSWER MY QUESTIONS?**

**A:** If you have any questions about the merger or if you need additional copies of this joint proxy statement/ prospectus or the enclosed proxy card, you should contact:

**SCANSOFT, INC.**  
1 Wayside Road  
Burlington, Massachusetts 01803  
Attention: Investor Relations  
Telephone Number: (781) 565-5000

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**QUESTIONS AND ANSWERS FOR NUANCE STOCKHOLDERS**

**Q: WHEN AND WHERE IS THE NUANCE SPECIAL MEETING?**

**A:** The Nuance special meeting will be held at Nuance's offices located at 1350 Willow Road, Menlo Park, California 94025 on August 31, 2005 at 8:00 a.m., Pacific time.

**Q: WHAT WILL HAPPEN AT THE NUANCE SPECIAL MEETING?**

**A:** At the Nuance special meeting, Nuance stockholders will be asked to consider and vote upon a proposal to adopt the merger agreement and to approve the merger.

**Q: WHAT DO I NEED TO DO TO VOTE?**

**A:** After carefully reading and considering the information contained in this joint proxy statement/ prospectus and the other information to which you have been referred, please mail your completed and signed proxy card in the enclosed postage-paid return envelope as soon as possible so that your shares may be represented at the Nuance special meeting. In order to assure that we obtain your vote, please vote as instructed on your proxy card even if you currently plan to attend the Nuance special meeting and vote in person.

If you sign and mail your proxy and do not indicate how you want to vote, your proxy will be voted for the adoption of the merger agreement and the approval of the merger.

**Q: MAY I CHANGE MY VOTE EVEN AFTER RETURNING A PROXY CARD?**

**A:** Yes. If you want to change your vote, you may do so at any time before your proxy is voted at the Nuance special meeting. You can do this in one of three ways. First, you can complete and send a proxy with a later date. Second, you can send a written notice to the corporate secretary of Nuance stating that you would like to revoke your proxy. Third, you can attend the Nuance special meeting and vote in person. Your attendance at the Nuance special meeting alone will not revoke your proxy.

**Q: IF MY BROKER HOLDS MY SHARES IN STREET NAME, WILL MY BROKER VOTE MY SHARES FOR ME?**

**A:** No. You should contact your broker. You should follow the directions provided by your broker to vote your shares. Your broker will not vote your shares on the merger proposal unless your broker receives appropriate instructions from you. If you do not provide your broker with voting instructions, your shares will be considered present at the Nuance special meeting for purposes of determining a quorum, but will not be considered to have been voted in favor of adoption of the merger agreement and approval of the merger. As a result, your shares will have the effect of a vote against adoption of the merger agreement and approval of the merger if you do not give voting instructions to your broker.

If you have instructed your broker to vote your shares, you must follow directions received from your broker to change those instructions. You cannot vote shares held in street name by returning a proxy card directly to Nuance or by voting in person at the Nuance special meeting.

**Q: WHAT WILL NUANCE STOCKHOLDERS AND OPTIONHOLDERS BE ENTITLED TO RECEIVE PURSUANT TO THE MERGER?**

**A:** If the merger is completed, Nuance stockholders will be entitled to receive (i) 0.77 of a share of ScanSoft common stock, and (ii) \$2.20 of cash, for each share of Nuance common stock held by Nuance stockholders immediately prior to the effective time of the merger, subject to potential adjustment as described below. Instead of a fractional share of ScanSoft common stock, Nuance stockholders will be entitled to receive an amount of cash (rounded to the nearest whole cent), without interest, equal to the value of the fractional share that the respective Nuance stockholder would otherwise be entitled to receive multiplied by \$4.46, which represents the closing price of a share of ScanSoft common stock on May 6, 2005, the business day immediately prior to the execution of the merger agreement and announcement of the merger.

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All options with an exercise price of more than \$10.00, and that are not already fully vested, will accelerate and become fully vested prior to the effective time of the first step merger, and shall terminate as of the effective time of the first step merger if not exercised prior to the effective time of the first step merger.

Subject to the approval of the stockholders of ScanSoft, all options to purchase Nuance common stock outstanding under the Nuance stock option plans with an exercise price of \$10.00 or less will be assumed by ScanSoft, and become options to purchase ScanSoft common stock on the same terms and conditions as were applicable to the assumed options prior to the closing of the merger, except each such option will be exercisable for that whole number of shares of ScanSoft common stock (rounded down to the nearest share) equal to the product obtained by multiplying the number of shares of Nuance common stock issuable upon the exercise of such option, by the option exchange ratio, and the exercise price per share for the ScanSoft common stock shall be equal to the quotient (rounded up to the nearest cent) of the exercise price per share for such option, divided by the option exchange ratio. The option exchange ratio is defined as 0.77 (the stock consideration to be received by Nuance stockholders in the merger for each share of Nuance stock), plus (a) \$2.20 (the cash consideration to be received by Nuance stockholders in the merger for each share of Nuance stock), divided by (b) the average of the closing trading prices of the ScanSoft common stock during the five trading days immediately preceding the closing date, subject to potential adjustment as described below.

In the event that the approval of the stockholders of ScanSoft is not obtained for the treatment of the Nuance options as described above, all options to purchase Nuance common stock outstanding under the Nuance stock option plans with an exercise price of \$10.00 or less will be assumed by ScanSoft, but on different terms. Each such option will become an option to acquire ScanSoft common stock and cash, except each such assumed option will be exercisable for that such number of shares of ScanSoft common stock equal to the number of shares of Nuance common stock issuable upon exercise of such option, multiplied by 0.77, and an amount of cash equal to the number of shares of Nuance common stock issuance upon exercise of such option, multiplied by \$2.20, and the exercise price per share for the ScanSoft common stock and cash shall be equal to the quotient of the exercise price per share for such option, divided by 0.77.

**Q: WHAT ARE THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER TO HOLDERS OF NUANCE COMMON STOCK?**

**A:** The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Consummation of the merger is conditioned upon receipt by ScanSoft and Nuance of tax opinions at closing from tax counsel to both ScanSoft and Nuance. The closing tax opinions will be given in reliance on customary representations and assumptions as to factual matters. In the event that the representations or assumptions are incorrect and the ultimate facts do not support reorganization treatment, the closing tax opinions cannot be relied upon.

Assuming the merger qualifies as a reorganization, the holders of Nuance common stock will recognize gain, if any, as of the effective time of the first step merger, but only to the extent of the amount of the cash consideration. Nuance stockholders will recognize gain, if any, on the shares of ScanSoft common stock they receive when they sell such ScanSoft common stock. If the Nuance common stock was held as a capital asset, then such gain would be capital gain and would be long term capital gain if the Nuance common stock was held for more than one year, as of the effective time of the first step merger. The holding period of the ScanSoft common stock received by a Nuance stockholder in the merger will include the holding period of the Nuance common stock exchanged therefore. Nuance's stockholders will not be permitted to recognize a loss in connection with the merger.

Tax matters are very complicated, and the tax consequences of the merger to a particular stockholder will depend in part on such stockholder's circumstances. Accordingly, you should read the summary under the caption Material U.S. Federal Income Tax Consequences for a more complete discussion

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of the U.S. federal income tax consequences of the merger. You should also consult your own tax advisor with respect to other tax consequences of the merger or any special circumstances that may affect the tax treatment to you of the cash or shares of ScanSoft common stock that you receive pursuant to the first step merger, including the applicability and effect of federal, state, local and foreign income tax and other tax laws.

**Q: WHAT IF THE AMOUNT OF CASH CONSIDERATION IN THE MERGER WOULD PREVENT TAX COUNSEL TO BOTH SCANSOFT AND NUANCE FROM RENDERING A TAX OPINION TO THE EFFECT THAT FOR U.S. FEDERAL INCOME TAX PURPOSES, THE MERGER WILL QUALIFY AS A REORGANIZATION WITHIN THE MEANING OF SECTION 368(A) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED?**

**A:** Under the merger agreement, if neither tax counsel to ScanSoft nor tax counsel to Nuance can render the closing tax opinion because they both reasonably determine that the merger may not satisfy the continuity of interest requirements for a tax-free reorganization under Section 368(a) of the Internal Revenue Code, or the continuity of interest test, then ScanSoft (after consultation with such tax counsel) will reduce the cash consideration and correspondingly increase the stock consideration to the minimum extent necessary to enable the closing tax opinion to be rendered. In addition, the option exchange ratio will be similarly adjusted to reflect the reduction in the cash consideration and the increase in the stock consideration. The aggregate cash consideration will be reduced by \$1.905 for each additional share of ScanSoft common stock to be issued in the merger. The continuity of interest test requires that, after the merger, the Nuance stockholders must continue to own a substantial part of the value of their proprietary interests in Nuance by virtue of their ownership of ScanSoft common stock. There is no definitive standard for determining whether the continuity of interest test has been met. For purposes of rendering the tax opinion, however, the continuity of interest test will be considered satisfied if the value, as of the effective time of the first step merger, of the ScanSoft common stock received by the Nuance stockholders constitutes at least 40% of the total value of the aggregate merger consideration, including amounts received by Nuance stockholders exercising their dissenters' or appraisal rights. For purposes of the continuity of interest test, tax counsel will consider the value of a share of ScanSoft common stock to be the average of the high and low sales prices of a share of ScanSoft common stock on the last trading day prior to the date of the closing of the first step merger, which we refer to as the closing date price. If less than 40% of the total value of the merger consideration consists of ScanSoft common stock (calculated using the closing date price), then the aggregate cash consideration will be reduced by \$1.905 for each additional share of ScanSoft common stock to be issued until the value of the common stock to be received constitutes at least 40% of the total value of the aggregate merger consideration.

**Q: WILL NUANCE STOCKHOLDERS BE ABLE TO TRADE THE SCANSOFT COMMON STOCK THAT THEY RECEIVE PURSUANT TO THE MERGER?**

**A:** Yes. Nuance stockholders will be able to trade the shares of ScanSoft common stock they receive pursuant to the merger once the stock certificates representing such shares have been received from the exchange agent upon their surrender to the exchange agent of the Nuance stock certificates. The shares of ScanSoft common stock that Nuance stockholders receive pursuant to the merger will initially be listed on the NASDAQ National Market under the symbol SSFT. Pursuant to the merger agreement, no later than 90 days following the effective time of the merger, ScanSoft will change its corporate name to Nuance and following such name change, ScanSoft will change its trading symbol to NUAN or another symbol mutually agreed to by Nuance and ScanSoft. Certain persons who are deemed affiliates of Nuance will be required to comply with Rule 145 promulgated under the Securities Act of 1933, as amended, which we refer to as the Securities Act, if they sell their shares of ScanSoft common stock received pursuant to the merger.

**Q: SHOULD I SEND IN MY NUANCE STOCK CERTIFICATES NOW?**

**A:** No. If Nuance stockholders adopt the merger agreement and approve the merger, after the merger is completed, ScanSoft will send Nuance stockholders written instructions, including a letter of

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transmittal, that will explain how to exchange Nuance stock certificates for ScanSoft common stock certificates and cash. Please do not send in any Nuance stock certificates until you receive these written instructions and the letter of transmittal.

**Q: AM I ENTITLED TO APPRAISAL RIGHTS IN CONNECTION WITH THE MERGER?**

**A:** Yes. The stockholders of Nuance may be entitled, under certain circumstances, to appraisal rights under Delaware law. For a detailed discussion of dissenters' rights under Delaware law, please see "The Merger Appraisal Rights" on page 81.

**Q: ARE THERE RISKS I SHOULD CONSIDER IN DECIDING WHETHER TO VOTE FOR THE ADOPTION OF THE MERGER AGREEMENT AND APPROVAL OF THE MERGER?**

**A:** Yes. You should consider the risk factors set out in the section entitled "Risk Factors" beginning on page 18 of this joint proxy statement/prospectus.

**Q: WHO CAN HELP ANSWER MY QUESTIONS?**

**A:** If you have any questions about the merger or if you need additional copies of this joint proxy statement/prospectus or the enclosed proxy card, you should contact:

**NUANCE COMMUNICATIONS, INC.**  
1380 Willow Road  
Menlo Park, California 94025  
Attention: Legal Department, Douglas Clark Neilsson  
Telephone Number: (650) 847-0000

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**SUMMARY OF THE MERGER**

The following is a summary of the information contained in this document relating to the merger of ScanSoft and Nuance. This summary may not contain all of the information that is important to you. You should carefully read this entire joint proxy statement/ prospectus and the other documents to which we refer. In particular, you should read the annexes attached to this joint proxy statement/ prospectus, including the merger agreement, which is attached as Annex A and is incorporated by reference into this joint proxy statement/ prospectus. In addition, ScanSoft and Nuance each incorporate by reference into this joint proxy statement/ prospectus important business and financial information. You may obtain the information incorporated by reference into this joint proxy statement/ prospectus without charge by following the instructions in the section entitled "Where You Can Find More Information" beginning on page 147.

**The Companies**

ScanSoft, Inc.  
1 Wayside Road  
Burlington, Massachusetts 01803  
(781) 565-5000  
<http://www.scansoft.com>

ScanSoft offers businesses and consumers market-leading speech and imaging solutions that facilitate the way people access, share, manage and use information in business and in daily life. ScanSoft's products and technologies automate manual processes and help enterprises, professionals and consumers increase productivity, reduce costs and save time. ScanSoft's products are sold as solutions into the financial, legal, healthcare, government, telecommunications and automotive industries through a global network of resellers, comprised of system integrators, independent software vendors, value-added resellers, hardware vendors, telecommunications carriers and distributors, and directly to businesses and consumers through a dedicated direct sales force and its e-commerce website ([www.scansoft.com](http://www.scansoft.com)). ScanSoft's common stock is traded on the NASDAQ National Market under the symbol SSFT.

Nuance Communications, Inc.  
1380 Willow Road  
Menlo Park, California 94025  
(650) 847-0000  
<http://www.nuance.com>

Nuance develops, markets and supports voice automation solutions for conducting interactions over the telephone for a range of industries and applications. Nuance's products include speech recognition software, which is used to recognize what a person says, deliver responses and information and perform transactions; text-to-speech synthesis software, which converts information, for example, from a database, email or web page into an audio signal for delivery over the telephone; voice authentication software, which is used to provide secure access to information, on a relatively secure basis, by verifying the identity of speakers using the unique qualities of their voices; pre-packaged speech applications, that, for instance, efficiently route callers to specific destinations within a company, and reduce deployment time and cost; and a standards-based software platform designed as a foundation for voice system deployment and management.

Nuance seeks to actively support both emerging industry standards as well as proprietary development environments. Nuance's software is designed to work with Voice eXtensible Markup Language, the recognized industry standard language for the creation of voice-driven products and services. Nuance also offers a range of consulting, support and education services that enable our customers and third-party resellers and channel partners to develop voice automation applications that use Nuance's software products. Nuance's common stock is traded on the NASDAQ National Market under the symbol NUAN.

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Nova Acquisition Corporation  
1 Wayside Road  
Burlington, Massachusetts 01803  
(781) 565-5000

Nova Acquisition LLC  
1 Wayside Road  
Burlington, Massachusetts 01803  
(781) 565-5000

Nova Acquisition Corporation and Nova Acquisition LLC are wholly owned subsidiaries of ScanSoft recently formed solely for the purpose of effecting the merger. They have no business operations.

**Structure of the Merger (See page 85)**

We propose a two step merger pursuant to which in the first step, Nova Acquisition Corporation, a wholly owned subsidiary of ScanSoft, will merge with and into Nuance, and thereafter will cease to exist as a separate corporate entity. After the first step merger, Nuance will be a wholly owned subsidiary of ScanSoft. In the second step, Nuance will merge with and into Nova Acquisition LLC, a wholly owned subsidiary of ScanSoft, and thereafter Nuance will cease to exist as a separate corporate entity. After the second step, Nova Acquisition LLC will be a wholly owned subsidiary of ScanSoft. Pursuant to the merger agreement, no later than 90 days following the effective time of the merger, ScanSoft will change its corporate name to Nuance.

The terms and conditions of the merger are contained in the merger agreement, which is attached as Annex A to this joint proxy statement/ prospectus. Please carefully read the merger agreement as it is the legal document that governs the proposed merger.

**Consideration in the Merger (See page 85)**

Each holder of a share of Nuance common stock, other than stockholders who exercise their appraisal rights, will receive the following upon effectiveness of the first step merger, subject to potential adjustment as described below under Reorganization for Tax Purposes; Tax Adjustment :

\$2.20 per share in cash, without interest, and

0.77 of a share of ScanSoft common stock.

**Reorganization for Tax Purposes; Tax Adjustment (See pages 77 and 86)**

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Consummation of the merger is conditioned upon receipt by ScanSoft and Nuance of tax opinions from counsel at closing. Assuming the merger qualifies as a reorganization, the holders of Nuance common stock will recognize gain, if any, only to the extent of the amount of the cash consideration, limited however by the stockholder's total gain (which is the difference between the fair market value of the consideration received by the stockholder in exchange for the Nuance common stock, less the stockholder's basis in the Nuance common stock). If the Nuance common stock was held as a capital asset then such gain would be capital gain and would be long term capital gain if the Nuance common stock was held for more than one year as of the effective time of the first step merger. Nuance's stockholders will not be permitted to recognize a loss in connection with the merger. You should also consult your own tax advisor with respect to other tax consequences of the merger or any special circumstances that may affect the tax treatment to you of the cash or shares of ScanSoft common stock that you receive pursuant to the first step merger.

Under the merger agreement, if neither tax counsel to ScanSoft nor tax counsel to Nuance can render the closing tax opinion because they both reasonably determine that the merger may not satisfy the continuity of interest requirements for a tax-free reorganization under Section 368(a) of the Internal

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Revenue Code, or the continuity of interest test, then ScanSoft (after consultation with such tax counsel) will reduce the cash consideration and correspondingly increase the stock consideration to the minimum extent necessary to enable the closing tax opinion to be rendered. In addition, the option exchange ratio will be similarly adjusted to reflect the reduction in the cash consideration and the increase in the stock consideration. The aggregate cash consideration will be reduced by \$1.905 for each additional share of ScanSoft common stock to be issued in the merger. The continuity of interest test requires that, after the merger, the Nuance stockholders must continue to own a substantial part of the value of their proprietary interests in Nuance by virtue of their ownership of ScanSoft common stock. There is no definitive standard for determining whether the continuity of interest test has been met. For purposes of rendering the tax opinion, however, the continuity of interest test will be considered satisfied if the value, as of the effective time of the first step merger, of the ScanSoft common stock received by the Nuance stockholders constitutes at least 40% of the total value of the aggregate merger consideration, including amounts received by Nuance stockholders exercising their dissenters' or appraisal rights. For purposes of the continuity of interest test, tax counsel will consider the value of a share of ScanSoft common stock to be the average of the high and low sales prices of a share of ScanSoft common stock on the last trading day prior to the date of the closing of the first step merger, which we refer to as the closing date price. If less than 40% of the total value of the merger consideration consists of ScanSoft common stock (calculated using the closing date price), then the aggregate cash consideration will be reduced by \$1.905 for each additional share of ScanSoft common stock to be issued until the value of the common stock to be received constitutes at least 40% of the total value of the aggregate merger consideration.

**Treatment of Options (See page 87)**

Subject to the approval of the stockholders of ScanSoft, all options to purchase Nuance common stock outstanding under the Nuance stock option plans with an exercise price of \$10.00 or less will be assumed by ScanSoft, and become an option to purchase ScanSoft common stock on the same terms and conditions as were applicable to the assumed option prior to the closing of the merger, except

each such option will be exercisable for such whole number of shares of ScanSoft common stock (rounded down to the nearest share) equal to the product obtained by multiplying the number of shares of Nuance common stock issuable upon the exercise of such option, by the option exchange ratio, and

the exercise price per share for the ScanSoft common stock shall be equal to the quotient (rounded up to the nearest cent) of the exercise price per share for such option, divided by the option exchange ratio.

The option exchange ratio is defined as 0.77 (the stock consideration to be received by Nuance stockholders in the merger for each share of Nuance stock), plus (a) \$2.20 (the cash consideration to be received by Nuance stockholders in the merger for each share of Nuance stock), divided by (b) the average of the closing trading prices of the ScanSoft common stock during the five trading days immediately preceding the closing date, subject to potential adjustment as described below under Reorganization for Tax Purposes; Tax Adjustment.

All options with an exercise price of more than \$10.00, and not already fully vested, will accelerate and become fully vested prior to the effective time of the first step merger, and shall terminate as of the effective time of the first step merger if not exercised prior to the effective time of the first step merger.

The approval of ScanSoft's stockholders is being sought for the Option Assumption because ScanSoft's Amended and Restated By-Laws provide that stockholder approval is required for ScanSoft to sell securities exercisable into common stock with an exercise price that is fixed after the date of the agreement. Since under the proposed treatment of the assumed Nuance options in accordance with the merger agreement, the option exercise price is based in part on the average of the closing trading prices of the ScanSoft common stock during the five trading days immediately prior to the closing date, rather than being fixed as of the date the merger agreement was executed, the Option Assumption requires the approval of ScanSoft's stockholders.



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In the event that the approval of the stockholders of ScanSoft is not obtained for the treatment of the Nuance options as described above, each Nuance option outstanding under the Nuance stock option plans with an exercise price of \$10.00 or less will be assumed by ScanSoft and become an option to acquire ScanSoft common stock and cash, whereby

each such assumed option will be exercisable for such number of shares of ScanSoft common stock (rounded down to the nearest share) equal to the number of shares of Nuance common stock issuable upon exercise of such option, multiplied by 0.77, and an amount of cash (rounded up to the nearest cent) equal to the number of shares of Nuance common stock issuable upon exercise of such option, multiplied by \$2.20, and

the exercise price per share for the ScanSoft common stock and cash shall be equal to the quotient (rounded up to the nearest cent) of the exercise price per share for such option, divided by 0.77.

**Voting Requirements (See pages 44 and 48)**

ScanSoft and Nuance cannot complete the merger unless ScanSoft stockholders vote to approve (i) the issuance of shares of ScanSoft common stock in connection with the merger and (ii) the Stock Purchase Agreement by and among ScanSoft and Warburg Pincus Private Equity VIII, L.P. and certain of its affiliated entities and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement described below. We refer to the transactions contemplated by the Stock Purchase Agreement herein as the Warburg Pincus financing. ScanSoft and Nuance also cannot complete the merger unless Nuance stockholders vote to adopt the merger agreement and approve the merger. ScanSoft stockholders are also being asked to approve the treatment of Nuance options as described above, although receipt of such approval is not a condition to the merger.

**Recommendations of the Boards of Directors Regarding the Merger (See pages 55 and 63)**

After careful consideration of numerous factors, the ScanSoft board of directors has determined that the proposed merger is advisable, and is fair to and in the best interests of ScanSoft and its stockholders and unanimously recommends that ScanSoft stockholders vote FOR the proposal to approve the issuance of shares of ScanSoft common stock to Nuance stockholders in the merger, FOR the Warburg Pincus financing contemplated in connection with the merger, and FOR the treatment of the Nuance options in the manner set forth in the merger agreement.

After careful consideration of numerous factors, the Nuance board of directors has determined that the merger agreement and the merger are advisable, and are fair to and in the best interests of Nuance and its stockholders and unanimously recommends that Nuance stockholders vote FOR the proposal to adopt the merger agreement and approve the merger.

**Opinions of Financial Advisors (See pages 56 and 66)**

On May 9, 2005, Thomas Weisel Partners delivered its written opinion to the ScanSoft board of directors that, as of that date and based upon and subject to the assumptions, considerations and limitations set forth in its opinion, the exchange ratio in the merger agreement was fair, from a financial point of view, to ScanSoft. The opinion of Thomas Weisel Partners does not constitute a recommendation as to how any ScanSoft stockholder should vote with respect to the issuance of shares of ScanSoft common stock in connection with the merger.

The full text of the written opinion of Thomas Weisel Partners, which sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the opinion, is attached to this joint proxy statement/ prospectus as Annex B. ScanSoft stockholders are urged to read the opinion carefully and in its entirety. ScanSoft stockholders should carefully consider the discussion of Thomas Weisel Partners analysis in the section entitled Opinion of ScanSoft Financial Advisor beginning on page 56 of this joint proxy statement/ prospectus.

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On May 9, 2005, Credit Suisse First Boston LLC delivered its written opinion to the Nuance board of directors that, as of that date and based upon and subject to the various assumptions, considerations and limitations set forth in its opinion, the merger consideration to be received by the holders of Nuance common stock pursuant to the merger was fair, from a financial point of view, to the holders of Nuance common stock, other than affiliates of Nuance. The opinion of Credit Suisse First Boston does not constitute a recommendation as to how any Nuance stockholder should vote or act with respect to the merger or any other matter relating to the merger.

The full text of the written opinion of Credit Suisse First Boston, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached to this joint proxy statement/ prospectus as Annex C. Nuance stockholders are urged to, and should, read the opinion carefully and in its entirety. Credit Suisse First Boston provided its opinion for the information and assistance of Nuance's board of directors in connection with its consideration of the merger. Nuance stockholders should carefully consider the discussion of the Credit Suisse First Boston opinion in the section entitled "Opinion of Nuance Financial Advisor" beginning on page 66 of this joint proxy statement/ prospectus.

**Financing Transaction (See page 108)**

Under the terms of the Stock Purchase Agreement by and among ScanSoft and Warburg Pincus, ScanSoft agreed to issue an aggregate of 14,150,943 shares of ScanSoft common stock for an aggregate purchase price of approximately \$60 million, at a per share price equal to \$4.24, and warrants to purchase an aggregate of 3,177,570 shares of its common stock, exercisable at a price of \$5.00 per share, subject to adjustment as further described below. The warrants will be exercisable until the earlier of (i) the fourth anniversary of the date of issuance and (ii) the closing of a change of control of ScanSoft. Upon completion of the merger and the Warburg Pincus financing, Warburg Pincus is expected to beneficially own approximately 25% of the outstanding shares of ScanSoft common stock, assuming that they do not transfer the shares of ScanSoft common stock beneficially owned by them prior to such time.

The Warburg Pincus financing is designed to fund concurrent with the closing of the merger, and is conditioned upon the simultaneous closing of the merger. In connection with the Stock Purchase Agreement, ScanSoft agreed to amend its preferred share rights agreement. The effect of the amendment to the rights agreement is to generally permit Warburg Pincus to enter into agreements with ScanSoft and make certain acquisitions of ScanSoft's securities directly from ScanSoft without becoming an Acquiring Person under the rights agreement. In addition, the amendment to the rights agreement also permits Warburg Pincus to make additional limited acquisitions of ScanSoft common stock and other securities convertible into or exercisable for ScanSoft common stock under certain circumstances without becoming an Acquiring Person under the rights agreement.

**Completion and Effectiveness of the Merger (See page 85)**

ScanSoft and Nuance will complete the merger when all of the conditions to completion of the merger are satisfied or waived. The merger will become effective when the certificates of merger ScanSoft and Nuance file with the State of Delaware are accepted for filing or at a later time if so specified in the certificates.

While ScanSoft and Nuance cannot predict the exact timing, ScanSoft and Nuance currently expect to complete the merger in September of 2005.

**Conditions to Completion of the Merger (See page 96)**

Each of ScanSoft's and Nuance's obligation to complete the merger is subject to the satisfaction or waiver of a number of conditions, including:

- receipt of required approvals from ScanSoft stockholders regarding (i) the issuance of shares of ScanSoft common stock to Nuance stockholders in the merger and (ii) the Warburg Pincus financing;

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receipt of required approvals from Nuance stockholders regarding the adoption of the merger agreement and approval of the merger;

the absence of any statute, rule, regulation, executive order, decree, injunction or other order which has the effect of making the merger, the issuance of shares of ScanSoft common stock in the merger or the Warburg Pincus financing, illegal or otherwise prohibiting consummation of the merger, the issuance of shares of ScanSoft common stock in the merger or the Warburg Pincus financing;

expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and similar merger notification laws or regulations of foreign governmental entities in connection with the merger and the Warburg Pincus financing;

the absence of any pending suit, action or proceeding asserted by any governmental authority (i) challenging or seeking to restrain or prohibit the consummation of the merger, the issuance of shares of ScanSoft common stock in the merger or the Warburg Pincus financing or (ii) seeking to require ScanSoft or Nuance to effect an action of divestiture, and no specified governmental authority shall have made any statement or communication that would reasonably be construed to indicate a governmental authority is likely to commence any such suit, action or proceeding;

effectiveness of the registration statement, of which this joint proxy statement/ prospectus is a part;

receipt by each company of an opinion from its legal counsel that, for U.S. federal income tax purposes, the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code; provided, however, that if the counsel to either ScanSoft or Nuance does not render such opinion, this condition will be deemed to be satisfied with respect to such party if counsel to the other party renders an opinion to such party to the effect that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code;

each company's representations and warranties in the merger agreement being true and correct, to the extent set forth in the merger agreement, except when the failure of such representations or warranties to be true and correct has not resulted, and would not reasonably be expected to result in, individually or in the aggregate with other such failures, a material adverse change to the other party;

compliance in all material respects by each company with its covenants and agreements in the merger agreement, to the extent set forth in the merger agreement;

the absence of a material adverse change to each company;

the shares of ScanSoft common stock to be issued pursuant to the merger being authorized for listing on the NASDAQ National Market, subject to official notice of issuance; and

with respect to Nuance only, that the Warburg Pincus financing shall have been consummated prior to or simultaneous with the closing of the merger.

**Termination of the Merger Agreement (See page 102)**

ScanSoft and Nuance may mutually agree at any time to terminate the merger agreement without completing the merger, even after receipt of the requisite approvals of the stockholders of ScanSoft and Nuance. In addition, either of ScanSoft or Nuance may, without the consent of the other, terminate the merger agreement in any of the following circumstances:

if the merger is not completed by January 9, 2006;

if any governmental order, decree or ruling enjoining or prohibiting the merger, the stock issuance in connection with the merger or the Warburg Pincus financing has become final and nonappealable;

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if the other party breaches the merger agreement in a way that would entitle the party seeking to terminate the agreement not to consummate the merger and, if permitted by the merger agreement, the breaching party does not cure the breach within 30 days;

if the other party materially breaches its non-solicitation provisions in the merger agreement;

if a material adverse change (as defined in the merger agreement) to the other party shall have occurred since May 9, 2005, the date of the merger agreement, and is continuing;

if ScanSoft stockholders do not approve either the issuance of shares of ScanSoft common stock to Nuance's stockholders in the merger or the Warburg Pincus financing; or

if Nuance stockholders do not adopt the merger agreement and approve the merger.

In addition, ScanSoft may, without the consent of Nuance, terminate the merger agreement prior to the adoption of the merger agreement and approval of the merger by Nuance stockholders if Nuance enters into a letter of intent or similar document accepting a third party acquisition proposal or if the Nuance board of directors:

withdraws or adversely modifies its unanimous recommendation that Nuance stockholders adopt the merger agreement and approve the merger or fails to reconfirm its recommendation of the merger after the receipt of a written request to do so from ScanSoft;

recommends a third party acquisition proposal to Nuance stockholders; or

fails to recommend against a tender offer or exchange offer that is commenced by a third party.

**Payment of Termination Fee (See page 104)**

ScanSoft and Nuance have each agreed to pay the other party a termination fee of \$6.63 million if the merger agreement is terminated under certain circumstances.

**Prohibition from Soliciting Other Offers (See pages 98 and 100)**

Nuance and ScanSoft have each agreed that it will not solicit or encourage the initiation of any inquiries regarding any acquisition proposals by third parties.

Nuance may respond to unsolicited superior acquisition proposals in order for the Nuance board of directors to comply with its fiduciary duties to Nuance's stockholders. Nuance must promptly notify ScanSoft if Nuance receives any other acquisition proposals. ScanSoft may respond to unsolicited acquisition proposals if it provides Nuance written notice of its intention to respond.

**Boards of Directors Recommendations (See page 99)**

The merger agreement requires the Nuance board of directors to unanimously recommend that its stockholders vote in favor of the adoption of the merger agreement and approval of the merger, and not to withdraw, amend or modify, or to propose to withdraw amend or modify, its unanimous recommendation of the merger in a manner adverse to ScanSoft. The merger agreement also requires the ScanSoft board of directors to unanimously recommend that its stockholders vote in favor of the issuance of shares of ScanSoft common stock in connection with the merger, the Warburg Pincus financing and the assumption of the Nuance options in the merger, and not withdraw, amend or modify, or propose to withdraw amend or modify, its unanimous recommendation of such matters.

However, in response to a superior offer, the Nuance board of directors may withhold, withdraw, amend or modify its recommendation in favor of the merger and, in the case of a superior offer that is a

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tender or exchange offer made directly to the stockholders of Nuance, recommend that the stockholders accept the tender or exchange offer, if:

such superior offer has been made and has not been withdrawn;

the Nuance special meeting of stockholders has not occurred;

Nuance has delivered to ScanSoft (i) a written notice at least five business days before effecting its change of recommendation, which notice states that Nuance has received a superior offer and the material terms of such offer, including the identity of the person or persons making such offer, that the Nuance board of directors intends to change its recommendation and the manner in which it intends to do so or may intend to do so, (ii) provided to ScanSoft a copy of all written materials delivered to the person or group making the superior offer in connection with such superior offer, and (iii) made available to ScanSoft all materials and information made available to the person or group making the superior offer in connection with such superior offer (to the extent such material and information has not been previously furnished);

the Nuance board of directors has not breached any of its non-solicitation obligations under the merger agreement; and

the Nuance board of directors has concluded in good faith, after receipt of advice of its legal counsel, that, in light of such superior offer, the change of recommendation is required in order for the Nuance board of directors to comply with its fiduciary duties to Nuance's stockholders under applicable law.

During the required five business day notice period, the Nuance board of directors shall provide ScanSoft the opportunity to make adjustments to the terms and conditions of the merger, and shall give due consideration to these alternative proposals. The merger agreement also permits Nuance to comply with Rule 14d-9 and Rule 14e-2(a) under the Securities Exchange Act of 1934, as amended (the Exchange Act) in connection with any third party acquisition proposal. The merger agreement requires Nuance to submit the adoption of the merger agreement and approval of the merger to a stockholder vote even if the Nuance board of directors no longer recommends adoption of the merger agreement and approval of the merger.

In the event that the merger agreement is terminated because Nuance's board of directors has withheld, withdrawn, amended or modified its recommendation in favor of the merger, or under certain other circumstances, Nuance will be required to pay the termination fee discussed above.

**Voting Agreements (See pages 105 and 106)**

As a condition to ScanSoft entering into the merger agreement, each of Nuance's executive officers and directors and one of its significant stockholders, SRI International, entered into a voting agreement with ScanSoft in which each has agreed, among other things, to vote his, her or its shares of Nuance common stock in favor of the adoption of the merger agreement and approval of the merger and against any action that would delay or prevent the merger and against any alternative transaction. These persons have the right, as of July 27, 2005, to vote a total of approximately 2,950,000 shares of Nuance common stock, or approximately 8% of the outstanding shares of Nuance common stock (not including options, warrants and other convertible securities). In connection with the voting agreements, these persons have granted an irrevocable proxy appointing members of the ScanSoft board of directors, and each of them individually, as their sole and exclusive attorneys and proxies to vote their shares in accordance with the terms of the voting agreements.

As a condition to Nuance entering into the merger agreement, each of ScanSoft's executive officers, directors and affiliates entered into a voting agreement with Nuance in which each has agreed, among other things, to vote his or her shares of ScanSoft common stock in favor of the issuance of shares of ScanSoft common stock in connection with the merger, the Warburg Pincus financing, and the assumption of Nuance options as provided in the merger agreement, and against any action that would delay or



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prevent the merger and against any alternative transaction. These persons have the right, as of July 27, 2005, to vote a total of 17,767,862 shares of ScanSoft common stock, or approximately 16% of the outstanding shares of ScanSoft common stock as of such date (not including options, warrants and other convertible securities). In connection with the voting agreements, these persons have granted an irrevocable proxy appointing members of the Nuance board of directors, and each of them individually, as their sole and exclusive attorneys and proxies to vote their shares in accordance with the terms of the voting agreements.

**Interests of Directors and Executive Officers in the Merger (See page 74)**

At the close of business on July 27, 2005, directors and executive officers of ScanSoft and their affiliates beneficially owned approximately 24% of the ScanSoft common stock.

At the close of business on July 27, 2005, directors and executive officers of Nuance and their affiliates beneficially owned approximately 9% of the Nuance common stock.

You should be aware that certain ScanSoft and Nuance executive officers and directors have interests in the merger that may be different from, or in addition to, interests of ScanSoft and Nuance stockholders generally. These interests include, among others:

Mr. William H. Janeway, one of ScanSoft's directors, is a Vice Chairman of Warburg Pincus LLC and was nominated by Warburg Pincus to the board of directors of ScanSoft pursuant to the terms of the Stockholders Agreement between ScanSoft and Warburg Pincus. As such, Mr. Janeway may be deemed to have a pecuniary interest in the ScanSoft shares held by Warburg Pincus and the shares and warrants to be issued pursuant to the Warburg Pincus financing.

Ms. Katharine Martin, one of ScanSoft's directors, and the owner of record of 1,000 shares of ScanSoft common stock and options to purchase an aggregate of 135,000 shares of ScanSoft common stock, is a member of Wilson Sonsini Goodrich & Rosati, P.C., the law firm representing ScanSoft in connection with the merger and the Warburg Pincus financing and ScanSoft's primary outside corporate and securities counsel.

Directors and executive officers of Nuance hold shares of Nuance's common stock and will receive the merger consideration described above upon the effectiveness of the first step merger. In addition, all outstanding Nuance stock options, including those held by Nuance directors and executive officers, with an exercise price of \$10.00 or less will be assumed by ScanSoft and become options to purchase shares of ScanSoft common stock.

The employment agreement between Nuance and Charles Berger, Nuance's President and Chief Executive Officer, entitles him to certain benefits in the event of a change in control of Nuance.

The agreement of ScanSoft to honor the obligations of Nuance pursuant to indemnification agreements between Nuance and its directors and officers and to provide directors' and officers' liability tail coverage for a period of six years following the effective time of the merger.

Nuance has entered into a Change of Control and Retention Agreement with each of its officers, other than its Chief Executive Officer, who are subject to the reporting requirements of Section 16 of the Exchange Act and three other officers that provide for certain cash severance payments and options accelerations in the event of a termination within 18 months after a change of control of Nuance.

Continued representation of two Nuance directors on the ScanSoft board of directors.

Nuance has entered into option agreements with each of Nuance's executive officers that provide for certain accelerations of Nuance options held by such executive officers following a change of control of Nuance. In addition, all Nuance stock options, including those held by Nuance directors and officers, with an exercise price of more than \$10.00 that are not already fully vested, will accelerate and become fully vested prior to the effective time of the merger.



The ScanSoft and Nuance boards of directors were aware of these interests in approving the merger. The Warburg Pincus financing was unanimously approved by the disinterested members of the ScanSoft

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board. The interested member of the ScanSoft board did not participate in any deliberations concerning the Warburg Pincus financing.

**Restrictions on the Ability to Sell ScanSoft Stock (See page 106)**

Nuance will use all commercially reasonable efforts to deliver to ScanSoft from each person who may reasonably be deemed to be an affiliate of Nuance an executed affiliate agreement pursuant to which such affiliate shall agree to be bound by the provisions of Rule 145 promulgated under the Securities Act. ScanSoft will give stop transfer instructions to its transfer agent with respect to any ScanSoft common stock received pursuant to the merger by any stockholder of Nuance who may reasonably be deemed to be an affiliate. The certificates will contain a legend stating that the shares were issued in a transaction to which Rule 145 applies and may only be transferred (i) in conformity with Rule 145 or (ii) in accordance with a written opinion of counsel, reasonably acceptable to ScanSoft, in form and substance that such transfer is exempt from registration under the Securities Act.

**Regulatory Approvals (See page 96)**

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act, neither the merger nor the Warburg Pincus financing may be consummated unless certain filings have been submitted to the Federal Trade Commission, or the FTC, and the Antitrust Division of the U.S. Department of Justice, or the Antitrust Division, and certain waiting period requirements have been satisfied. ScanSoft and Warburg Pincus filed the appropriate notification and report forms with respect to the Warburg Pincus financing and ScanSoft and Nuance filed the appropriate notification and report forms with respect to the merger with the FTC and with the Antitrust Division on May 20, 2005 and May 23, 2005, respectively. The waiting period with respect to the Warburg Pincus financing has expired. The Antitrust Division has requested additional information and documentary material in connection with its review of the proposed merger. This request will result in an extension of the waiting period under the HSR Act. ScanSoft and Nuance plan to respond promptly to the Antitrust Division request.

The FTC and the Antitrust Division frequently scrutinize the legality under the antitrust laws of transactions like the proposed merger. At any time before or after the completion of the merger, the FTC or the Antitrust Division could take any action under the antitrust laws that it deems necessary or advisable in the public interest, including seeking to enjoin the completion of the merger or seeking the divestiture of substantial assets of ScanSoft or Nuance. In addition, certain private parties, as well as state attorneys general and other antitrust authorities, may challenge the transaction under antitrust laws under certain circumstances.

In addition, the merger may be subject to various foreign antitrust laws.

ScanSoft and Nuance believe that the completion of the merger will not violate any antitrust laws. However, there can be no assurance that a challenge to the merger on antitrust grounds will not be made, or, if such a challenge is made, that the result will be favorable.

**Listing of ScanSoft Common Stock (See page 81)**

ScanSoft will use all reasonable efforts to cause the shares of ScanSoft common stock issued pursuant to the merger to be authorized for listing on the NASDAQ National Market. The authorization of such shares for listing on the NASDAQ National Market is a condition to the merger.

**Appraisal Rights (See page 81)**

Subject to compliance with the procedures set forth in Section 262 of the Delaware General Corporation Law, or DGCL, Nuance stockholders who do not vote in favor of the approval and adoption of the merger agreement and the merger and otherwise comply with the requirements of the DGCL will be entitled to appraisal rights in connection with the merger, whereby such stockholders may receive the fair value of their shares in cash. Failure to take any of the steps required under Section 262 of the

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DGCL on a timely basis may result in a loss of those appraisal rights. The provisions of Delaware law that grant appraisal rights and govern such procedures are attached as Annex H.

**RECENT DEVELOPMENTS**

On May 18, 2005, Nuance received a copy of a complaint naming it and the members of its board of directors as defendants in a lawsuit filed on May 13, 2005 in the Superior Court of the State of California, County of San Mateo, by Mr. Frank Capovilla on behalf of himself and, purportedly, the holders of Nuance's common stock.

The complaint alleges, among other things, that Nuance's directors breached their fiduciary duties to Nuance's stockholders respecting the Agreement and Plan of Merger that Nuance entered into with ScanSoft, Inc. on May 9, 2005. The complaint seeks to declare that the Agreement and Plan of Merger is unenforceable. The complaint also seeks an award of attorneys' and experts' fees.

Nuance believes the allegations of this lawsuit are without merit, and expects that it and its directors will vigorously contest this action.

**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL DATA OF SCANSOFT**

On October 23, 2004, ScanSoft's board of directors approved a change in ScanSoft's fiscal year end from December 31 to September 30, effective beginning September 30, 2004. The following table presents summary historical consolidated financial data of ScanSoft for the nine months ended September 30, 2004 and the four most recent years and the first six months of the current fiscal year comparative to the same period in the prior fiscal year. The financial data is derived from ScanSoft's consolidated financial statements. The financial data for the interim periods presented is derived from unaudited financial statements and is not necessarily indicative of the results to be expected for any other interim period or for the fiscal year as a whole. Since the information in this table is only a summary and does not provide all of the information contained in ScanSoft's financial statements, including related notes, you should read ScanSoft's Management's Discussion and Analysis of Financial Condition and Results of Operations, and ScanSoft's consolidated financial statements, including related notes, incorporated by reference into this joint proxy statement/prospectus or as previously filed by ScanSoft with the SEC in its periodic reports. See "Where You Can Find More Information" on page 147.

**ScanSoft, Inc.**  
**Condensed Historical Financial Data**

	Six Months Ended March 31,		Nine Months Ended Sep. 30,	Year Ended December 31,			
	2005	2004	2004	2003	2002	2001	2000
(In thousands, except per share data)							
<b>Consolidated Statement of Operations Data:</b>							
Total revenue	\$ 113,691	\$ 89,646	\$ 130,907	\$ 135,399	\$ 106,619	\$ 62,717	\$ 47,961
Income (loss) from operations	4,648	(2,391)	(7,993)	(6,462)	6,603	(16,931)	(52,497)
Income (loss) before income taxes	4,082	(1,926)	(8,045)	(5,787)	6,587	(17,194)	(52,779)
Net income (loss)	\$ 2,139	\$ (1,483)	\$ (9,378)	\$ (5,518)	\$ 6,333	\$ (16,877)	\$ (53,251)
Net income (loss) per share: basic and diluted	\$ 0.02	\$ (0.01)	\$ (0.09)	\$ (0.07)	\$ 0.09	\$ (0.34)	\$ (1.26)
<b>Weighted average common shares outstanding:</b>							
Basic	105,264	101,213	103,780	78,398	67,010	49,693	42,107
Diluted	112,812	101,213	103,780	78,398	72,796	49,693	42,107

	As of Mar. 31, 2005	Sep. 30, 2004	Dec. 31, 2003	As of Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2000
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(In thousands)

**Consolidated Balance****Sheet Data:**

Cash and cash equivalents.	\$ 25,882	\$ 22,963	\$ 42,584	\$ 18,853	\$ 14,324	\$ 2,571
Marketable securities	3,858	24,728				62
Working capital	(29,269)	27,940	44,305	16,842	9,318	(6,484)
Total assets	452,690	392,653	401,940	143,690	142,070	109,480
Long-term liabilities	33,632	45,360	48,340	725	6,143	2,172
Total stockholders equity	309,009	301,745	303,226	119,378	114,534	87,461

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**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL DATA OF NUANCE**

The following table presents summary historical consolidated financial data of Nuance for the five most recent years and the six months ended March 31, 2005 and 2004. The financial data is derived from Nuance's consolidated financial statements. The financial data for the interim periods presented is derived from unaudited financial statements and is not necessarily indicative of the results to be expected for any other interim period or for the fiscal year as a whole. Since the information in this table is only a summary and does not provide all of the information contained in Nuance's financial statements, including related notes, you should read Nuance's Management's Discussion and Analysis of Financial Condition and Results of Operations, and Nuance's consolidated financial statements, including related notes, incorporated by reference into this joint proxy statement/prospectus or as previously filed by Nuance with the SEC in its periodic reports. See "Where You Can Find More Information" on page 147.

**Nuance Communications, Inc.**  
**Condensed Historical Financial Data**

	Six Months Ended March 31,		Year Ended December 31,				
	2005(1)	2004(2)	2004	2003	2002	2001	2000
(In thousands, except per share data)							
<b>Consolidated Statement of Operations Data:</b>							
Total revenue	\$ 28,114	\$ 29,430	\$ 57,877	\$ 55,038	\$ 44,085	\$ 39,300	\$ 51,818
Loss from operations	(5,990)	(3,186)	(27,691)	(22,287)	(73,071)	(117,781)	(29,825)
Loss before income taxes	(5,068)	(2,816)	(26,594)	(21,107)	(70,384)	(109,791)	(23,124)
Net loss	\$ (4,958)	\$ (2,794)	\$ (26,179)	\$ (19,301)	\$ (71,184)	\$ (110,365)	\$ (23,474)
Net loss per share:							
basic and diluted	\$ (0.14)	\$ (0.08)	\$ (0.74)	\$ (0.56)	\$ (2.11)	\$ (3.40)	\$ (1.03)
Weighted average common shares outstanding:							
Basic and diluted	36,025	34,947	35,487	34,471	33,666	32,480	22,717

	As of Mar. 31, 2005	As of December 31,				
		2004	2003	2002	2001	2000

(In thousands)

**Consolidated Balance Sheet Data:**

Cash and cash equivalents	\$ 69,547	\$ 53,583	\$ 40,206	\$ 43,771	\$ 132,618	\$ 219,047
Marketable securities	18,029	37,493	66,599	83,737	41,977	8,728
Working capital	74,469	81,113	99,661	110,034	128,672	226,366
Total assets	122,490	130,257	141,497	161,670	208,231	279,338
Long-term liabilities	50,772	53,286	43,612	43,122	21,911	2,552
Total stockholders' equity	44,675	49,216	72,561	89,273	154,825	251,991

- (1) Six month results for the period ended March 31, 2005 were derived from Nuance's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the SEC, Nuance's consolidated financial statements for the nine months ended September 30, 2004 included in its Quarterly Report on Form 10-Q for the three months ended September 30, 2004, as filed with the SEC, and Nuance's consolidated financial statements for the three months ended March 31, 2005 included in its Quarterly Report on Form 10-Q for the three months ended March 31, 2005, as filed with the SEC.
- (2) Six month results for the period ended March 31, 2004 were derived from Nuance's consolidated financial statements included its Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the SEC, Nuance's consolidated financial statements for the nine months ended September 30, 2003 included in its Quarterly Report on Form 10-Q for the three months ended September 30, 2003, as filed with the SEC, and Nuance's consolidated financial statements for the three months ended March 31, 2004 included in its Quarterly Report on Form 10-Q for the three months ended March 31, 2004, as filed with the SEC.

**Table of Contents****SUMMARY UNAUDITED PRO FORMA CONDENSED  
COMBINED CONSOLIDATED FINANCIAL DATA**

The following table presents summary unaudited pro forma combined financial data which reflects the proposed acquisition of Nuance by ScanSoft. The summary unaudited pro forma combined financial data is derived from and should be read in conjunction with the unaudited pro forma combined financial statements and related notes thereto included in this joint proxy statement/ prospectus. See Unaudited Pro Forma Financial Information on page F-1.

	<b>Six Months Ended Mar. 31, 2005</b>	<b>Nine Months Ended Sep. 30, 2004</b>
<b>(In thousands, except per share data)</b>		
<b>Pro Forma Combined Statement of Operations Data</b>		
Total revenue	\$ 146,047	\$ 181,414
Loss from operations	(15,683)	(55,315)
Loss before income taxes	(17,659)	(58,684)
Net loss	\$ (19,524)	\$ (59,661)
Net loss per share:		
Basic and diluted	\$ (0.13)	\$ (0.41)
Weighted average common shares outstanding:		
Basic and diluted	147,434	146,235

**As of March 31,  
2005**

<b>Pro Forma Combined Balance Sheet Data:</b>		
Cash and cash equivalents	\$	69,844
Marketable securities		20,720
Working capital		14,133
Total assets		714,925
Long-term liabilities		75,456
Total stockholders' equity		496,895



**Table of Contents****COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA**

The following table reflects (i) the historical income (loss) from continuing operations and book value per share of ScanSoft common stock in comparison to the pro forma income (loss) from continuing operations and book value per share after giving effect to the proposed merger with Nuance; and (ii) the historical loss from continuing operations and book value per share of Nuance common stock in comparison with the equivalent pro forma loss from continuing operations and book value per share. The equivalent pro forma loss from continuing operations and book value per share are equal to the pro forma loss from continuing operations and book value per share of ScanSoft, after giving effect to the proposed merger with Nuance, multiplied by 0.77, the number of shares of ScanSoft common stock to be issued in exchange for each share of Nuance common stock. The comparative historical and pro forma per share data should be read in conjunction with the unaudited pro forma combined financial statements and related notes thereto and the historical consolidated financial statements of ScanSoft and notes thereto, which information is incorporated by reference into this joint proxy statement/ prospectus, and the historical consolidated financial statements of Nuance, which information is incorporated by reference in this joint proxy statement/ prospectus.

The pro forma combined financial data is not necessarily indicative of the operating results of future operations or the actual results that would have occurred had the merger been completed at the beginning of the periods presented. The historical book value per common share was calculated by dividing stockholders' equity by the number of shares of common stock outstanding at March 31, 2005. ScanSoft's pro forma combined book value per share was computed by dividing pro forma stockholders' equity by the pro forma number of shares of ScanSoft common stock which would have been outstanding had the merger been completed as of March 31, 2005.

ScanSoft and Nuance did not declare or pay cash dividends on their common stock in the periods presented and they do not intend to pay dividends on their common stock in the foreseeable future. See "Comparative Per Share Market Price Data" on page 16.

	<b>Six Months Ended March 31, 2005</b>	<b>Nine Months Ended September 30, 2004</b>
<b>ScanSoft:</b>		
Income (loss) from continuing operations per share:		
Historical basic and diluted	\$ 0.02	\$ (0.09)
Pro forma basic and diluted	\$ (0.13)	\$ (0.41)
Book value per share at March 31, 2005:		
Historical	\$ 2.85	
Pro forma	\$ 3.31	

	<b>Six Months Ended March 31, 2005</b>	<b>Nine Months Ended September 30, 2004</b>
<b>Nuance:</b>		
Loss from continuing operations per share:		
Historical basic and diluted	\$ (0.14)	\$ (0.73)
Equivalent pro forma basic and diluted	\$ (0.10)	\$ (0.31)
Book value per share at March 31, 2005:		

Historical	\$	1.24
Equivalent pro forma	\$	2.55

**Table of Contents****COMPARATIVE PER SHARE MARKET PRICE DATA**

Nuance common stock trades on the NASDAQ National Market under the symbol NUAN. ScanSoft common stock trades on the NASDAQ National Market under the symbol SSFT.

The following table shows the high and low prices per share of Nuance common stock and ScanSoft common stock each as reported on the NASDAQ National Market on (1) May 9, 2005, the last full trading day preceding public announcement that ScanSoft and Nuance had entered into the merger agreement, and (2) July 27, 2005.

The table also includes the implied high and low prices per share of Nuance common stock on those dates. This implied high and low price per share reflects the fluctuating value of the ScanSoft common stock that Nuance stockholders would receive in exchange for each share of Nuance common stock if the merger was completed on either of these dates applying the exchange ratio of 0.77 shares of ScanSoft common stock and \$2.20 of cash, without interest, for each share of Nuance common stock exchanged in the merger.

As of July 27, 2005, there were approximately 362 holders of record of Nuance common stock and 36,700,643 shares of Nuance common stock outstanding.

	Nuance Common Stock		ScanSoft Common Stock		Implied Price per Share	
	High	Low	High	Low	High	Low
May 9, 2005	\$ 3.24	\$ 3.03	\$ 4.64	\$ 4.48	\$ 5.77	\$ 5.65
July 27, 2005	\$ 4.90	\$ 4.76	\$ 4.20	\$ 4.10	\$ 5.43	\$ 5.36

The foregoing table shows only historical comparisons. These comparisons may not provide meaningful information to you in determining whether to adopt the merger agreement and approve the merger. Because the number of shares of ScanSoft common stock to be issued for each share of Nuance common stock is fixed, changes in the market price of ScanSoft common stock will affect the dollar value of ScanSoft common stock to be received by Nuance stockholders pursuant to the merger. Nuance stockholders are urged to obtain current market quotations for ScanSoft common stock and to review carefully the other information contained in this joint proxy statement/prospectus or incorporated by reference into this joint proxy statement/prospectus in considering whether to adopt the merger agreement and approve the merger. See the section entitled *Where You Can Find More Information* on page 147.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This joint proxy statement/ prospectus and the documents incorporated by reference into this joint proxy statement/ prospectus contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, as well as assumptions, that, if they never materialize or prove incorrect, could cause the results of ScanSoft and its consolidated subsidiaries, on the one hand, or Nuance and its consolidated subsidiaries, on the other, to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements generally are identified by the words expects, anticipates, believes, intends, estimates, should, would, strategy, plan and similar expressions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. For example, forward-looking statements include projections of earnings, revenues, synergies, accretion or other financial items; any statements of the plans, strategies and objectives of management for future operations, including the execution of integration and restructuring plans and the anticipated timing of filings, approvals relating to, and the closing of, the merger or the Warburg Pincus financing; any statements concerning proposed new products, services, developments or industry rankings; any statements regarding future economic conditions or performance; statements of belief and any statement of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the difficulty of maintaining expense growth while increasing revenues; the challenges of integration and restructuring associated with the merger and the challenges of achieving the anticipated synergies; the possibility that the merger may not close or that ScanSoft or Nuance may be required to modify some aspect of the merger in order to obtain regulatory approval; the challenge of maintaining revenues on a combined company basis following the merger; and other risks and uncertainties described in the section entitled Risk Factors and in the documents that are incorporated by reference into this joint proxy statement/ prospectus.

If any of these risks or uncertainties materializes or any of these assumptions proves incorrect, results of ScanSoft and Nuance could differ materially from the expectations in these statements. The forward-looking statements included in this joint proxy statement/ prospectus are made only as of the date of this joint proxy statement/ prospectus, and neither ScanSoft nor Nuance is under any obligation to update their respective forward-looking statements and neither party intends to do so.

**Table of Contents****RISK FACTORS**

*You should carefully consider the risks described below before making your decision to approve the issuance of shares of ScanSoft common stock to Nuance stockholders, the Warburg Pincus financing or the Option Assumption or to adopt the merger agreement and approve the merger, as the case may be. The risks and uncertainties described below are not the only ones facing ScanSoft and Nuance. 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 respective business operations. If any of the events, contingencies, circumstances or conditions described in the following risks actually occurs, our respective businesses, financial condition or our results of operations could be seriously harmed. If that happens, the trading price of ScanSoft common stock or Nuance common stock could decline and you may lose part or all of the value of any ScanSoft shares or Nuance shares held by you.*

**Risks Related to the Merger and the Warburg Pincus Financing**

By voting to adopt the merger agreement and approve the merger, Nuance stockholders will be choosing to invest in ScanSoft common stock. In deciding whether to adopt the merger agreement and approve the merger, you should consider all of the information we have included in this joint proxy statement/ prospectus and its annexes and all of the information included in the documents ScanSoft and Nuance have incorporated by reference into this joint proxy statement/ prospectus. See the sections entitled **Documents Incorporated by Reference** and **Where You Can Find More Information**. 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 respective business operations. If any of the events, contingencies, circumstances or conditions described in the following risks actually occur, our respective businesses, financial condition or our results of operations could be seriously harmed. If that happens, the trading price of ScanSoft common stock or Nuance common stock could decline and you may lose part or all of the value of any ScanSoft shares or Nuance shares held by you.

You should pay particular attention to the following risks relating to the merger and the Warburg Pincus financing.

***Nuance stockholders will receive a fixed ratio of (i) 0.77 of a share of ScanSoft common stock, and (ii) \$2.20 of cash, for each share of Nuance common stock exchanged in the merger, regardless of any changes in market value of Nuance common stock or ScanSoft common stock before the completion of the merger.***

Upon completion of the merger, each share of Nuance common stock will be converted into the right to receive (i) 0.77 of a share of ScanSoft common stock and (ii) \$2.20 in cash. The market values of ScanSoft common stock and Nuance common stock have varied since ScanSoft and Nuance entered into the merger agreement and will continue to vary in the future due to changes in the business, operations or prospects of ScanSoft and Nuance, market assessments of the merger, regulatory considerations, market and economic considerations, and other factors. The dollar value of ScanSoft common stock that Nuance stockholders will receive upon completion of the merger will depend on the market value of ScanSoft common stock at the time of completion of the merger, which may be different from, and lower than, the closing price of ScanSoft common stock on the last full trading day preceding the public announcement that ScanSoft and Nuance entered into the merger agreement, the last full trading day prior to the date of this joint proxy statement/ prospectus or the date of the special meetings. Moreover, completion of the merger may occur some time after the requisite stockholder approvals have been obtained. There will be no adjustment to the exchange ratio (except for certain tax adjustments described below and adjustments to reflect the effect of any stock split or other recapitalization of ScanSoft common stock or Nuance common stock), and the parties do not have a right to terminate the merger agreement, based upon changes in the market price of either ScanSoft common stock or Nuance common stock.

**Table of Contents*****The merger consideration may be adjusted in order for the merger to qualify as a reorganization for tax purposes.***

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Consummation of the merger is conditioned upon receipt by ScanSoft and Nuance of tax opinions from their respective counsel at closing to such effect. Under the merger agreement, if neither tax counsel to ScanSoft nor tax counsel to Nuance can render the closing tax opinion because they both reasonably determine that the merger may not satisfy the continuity of interest requirements for a tax-free reorganization under Section 368(a) of the Internal Revenue Code, or the continuity of interest test, then ScanSoft (after consultation with such tax counsel) will reduce the cash consideration and correspondingly increase the stock consideration to the minimum extent necessary to enable the closing tax opinion to be rendered. Generally speaking, to satisfy this test 40% of the total value of the merger consideration must consist of ScanSoft common stock (calculated using the closing date price). If the cash consideration must be reduced and the stock consideration must be increased to satisfy this test, then the merger agreement provides that the aggregate cash consideration will be reduced by \$1.905 for each additional share of ScanSoft common stock to be issued in the merger. The ScanSoft common stock may be trading at a lower price than \$1.905 at the closing, which would effectively lower the aggregate value of the consideration Nuance stockholders will receive in the merger.

***Warburg Pincus will own a large percentage of the ScanSoft common stock after consummation of the merger and the Warburg Pincus financing, and will have significant control over matters submitted to the vote of stockholders.***

After completion of the merger and the Warburg Pincus financing, Warburg Pincus will beneficially own approximately 25% of the outstanding ScanSoft common stock on a fully diluted basis. Accordingly, Warburg Pincus would significantly influence the outcome of any corporate transaction or other matter submitted to the stockholders for approval, including mergers, consolidations and the sale of all or substantially all of ScanSoft's assets. The interests of Warburg Pincus may differ from the interests of other stockholders.

***ScanSoft may fail to integrate successfully ScanSoft's and Nuance's operations. As a result, ScanSoft and Nuance may not achieve the anticipated benefits of the merger, which could adversely affect the price of ScanSoft common stock.***

ScanSoft and Nuance entered into the merger agreement with the expectation that the merger will result in benefits to ScanSoft and Nuance, including establishing a greater global presence, stronger channel and partner capabilities, and ScanSoft's ability to sell complementary products and technologies to a wider range of customers. However, these expected benefits may not be fully realized. Failure of the combined company to meet the challenges involved with successfully integrating the personnel, products, technology and sales operations of the two companies following the merger or to realize any of the other anticipated benefits of the merger, could have a material adverse effect on the business, financial condition and results of operations of ScanSoft and its subsidiaries, including Nuance. These integration efforts may be difficult and time consuming, especially considering the highly technical and complex nature of each company's products. The challenges involved in this integration include the following:

- coordinating software development operations in a rapid and efficient manner to ensure timely release of products to market;

- combining product offerings and product lines quickly and effectively;

- successfully managing difficulties associated with transitioning current customers to new product lines;

- demonstrating to our existing and potential customers that the merger will not result in adverse changes in customer service standards or business focus;

- retaining key alliances with partners and suppliers;

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coordinating sales and marketing efforts to communicate effectively the capabilities of the combined company;

absorbing costs and delays in implementing overlapping systems and procedures, including financial accounting systems;

persuading employees that ScanSoft's and Nuance's business cultures are compatible, maintaining employee morale and retaining key employees; and

overcoming potential distraction of management attention and resources from the business of the combined company.

The combined company may not successfully integrate the operations and technology of ScanSoft and Nuance in a timely manner, or at all, and the combined company may not realize the anticipated benefits of the merger to the extent, or in the timeframe, anticipated, which could significantly harm its business.

***ScanSoft's operating results could be adversely affected as a result of purchase accounting treatment, and the corresponding impact of amortization or impairment of other intangibles relating to its proposed merger with Nuance, if the results of the combined company do not offset these additional expenses.***

Under accounting principles generally accepted in the United States, ScanSoft will account for the merger using the purchase method of accounting. Under purchase accounting, ScanSoft will record the market value of its common stock, cash, and other consideration issued in connection with the merger and the amount of direct transaction costs as the cost of acquiring the business of Nuance. ScanSoft will allocate that cost to the individual assets acquired and liabilities assumed, including various identifiable intangible assets such as acquired technology, acquired trade names, and acquired customer relationships and assumed above-market lease liabilities based on their respective fair values. Intangible assets generally will be amortized over a four to ten year period. The amount of purchase price allocated to goodwill will be approximately \$109.4 million and the amount allocated to identifiable intangible assets will be approximately \$53.1 million. Goodwill is not subject to amortization but is subject to at least an annual impairment analysis, which may result in an impairment charge if the carrying value exceeds its implied fair value. If other identifiable intangible assets were amortized in equal quarterly amounts over a seven-year period following completion of the merger, the amortization attributable to these items would be approximately \$1.9 million per quarter and \$7.6 million per fiscal year. As a result, purchase accounting treatment of the merger could decrease net income for ScanSoft in the foreseeable future, which could have a material and adverse effect on the market value of ScanSoft common stock following completion of the merger.

***ScanSoft and Nuance expect to incur significant costs associated with the merger.***

ScanSoft estimates that it will incur direct transaction costs of approximately \$6.3 million associated with the merger, which will be included as a part of the total purchase consideration for accounting purposes. In addition, Nuance estimates that it will incur direct transaction costs for accounting, investment banking and legal services of approximately \$6 million, which are expensed in the quarter in which they are incurred. A portion of the Nuance costs will be determined upon the closing. ScanSoft and Nuance believe the combined entity may incur charges to operations, which currently are not reasonably estimable, in the quarter in which the merger is completed or the following quarters, to reflect costs associated with integrating the two companies. There can be no assurance that the combined company will not incur additional material charges in subsequent quarters to reflect additional costs associated with the merger.

***Nuance executive officers and directors have interests that are different from, or in addition to, interests of Nuance stockholders generally, which may influence them to support the merger.***

When considering the recommendation of the Nuance board of directors regarding the merger, you should be aware of the interests that executive officers and directors of Nuance have in the merger that

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are different from, or in addition to, interests of Nuance stockholders generally. These interests include, among others:

existing agreements that provide, among other things, for severance and other benefits as a result of the merger;

continued representation of two Nuance directors on the ScanSoft board of directors;

continued director and executive officer indemnification and insurance; and

acceleration of certain Nuance options held by its executive officers.

As a result, these executive officers may be more likely to vote to adopt the merger agreement and approve the merger than if they did not have these other interests. As of July 27, 2005, executive officers and directors and a significant stockholder, SRI International, of Nuance, who together owned approximately 2,950,000 shares of Nuance common stock, which represented approximately 8% of the outstanding shares of Nuance common stock (excluding options, warrants and other convertible securities), have agreed to vote in favor of the adoption of the merger agreement and the approval of the merger. The voting agreements permit the sale, prior to the merger becoming effective, of a limited number of shares of common stock held by Nuance directors and executive officers.

***Whether or not the merger is completed, the announcement and pendency of the proposed merger has caused disruptions in the business of Nuance and may cause further disruptions in the business of Nuance or disruptions in the business of ScanSoft, which could have material adverse effects on each company s or the combined company s business and operations.***

Whether or not the merger is completed, ScanSoft s and Nuance s customers, in response to the announcement and pendency of the merger, may delay or defer purchase decisions, which could have a material adverse effect on the business of each company or the combined company. In addition, current and prospective ScanSoft and Nuance employees may experience uncertainty about their future roles with the combined company. This uncertainty may adversely affect ScanSoft s and Nuance s ability to attract and retain key management, sales, marketing and technical personnel. The extent of this adverse effect could depend on the length of time prior to completion of the merger or termination of the merger agreement.

***Failure to complete the merger could negatively impact Nuance s and ScanSoft s stock price, future business and operations.***

If the merger is not completed for any reason, both Nuance and ScanSoft may be subject to a number of material risks, including the following:

Neither Nuance nor ScanSoft would realize any anticipated benefits from being a part of a combined company;

Nuance and ScanSoft may be obligated to pay the other a fee of \$6.63 million in liquidated damages if the merger agreement is terminated in certain circumstances;

the price of Nuance or ScanSoft common stock may decline to the extent that its current market price reflects a market assumption that the merger will be completed;

Nuance or ScanSoft may experience difficulties in attracting strategic customers and partners who were expecting to use the products proposed to be offered by the combined company;

Nuance and ScanSoft must pay all or a portion of certain costs relating to the merger, such as legal, accounting, financial advisor and printing fees, even if the merger is not completed, which costs will be substantial; and



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with respect to Nuance, Nuance may not be able to find another buyer willing to pay an equivalent or higher price in an alternative transaction than the price that would be paid pursuant to the merger.

***Regulatory agencies, private parties, state attorneys general and other antitrust authorities may raise challenges to the merger on antitrust grounds.***

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act, neither the merger nor the Warburg Pincus financing may be consummated unless certain filings have been submitted to the Federal Trade Commission ( FTC ) and the Antitrust Division of the U.S. Department of Justice (the Antitrust Division ) and certain waiting period requirements have been satisfied. ScanSoft and Warburg Pincus filed the appropriate notification and report forms with respect to the Warburg Pincus financing and ScanSoft and Nuance filed the appropriate notification and report forms with respect to the merger with the FTC and with the Antitrust Division on May 20, 2005 and May 23, 2005, respectively. The waiting period with respect to the Warburg Pincus financing has expired. The Antitrust Division has requested additional information and documentary material in connection with its review of the proposed merger. This request will result in an extension of the waiting period under the HSR Act until 30 days after ScanSoft and Nuance substantially comply with the request, unless the waiting period is terminated earlier or extended with the consent of ScanSoft and Nuance. ScanSoft and Nuance are continuing to cooperate with the Antitrust Division as it reviews the merger. If the request were to be complied with and this additional 30-day period were to run, the Antitrust Division could choose to do nothing further, in which case the HSR Act would impose no further obstacles to the closing of the merger, or the Antitrust Division could choose to pursue independent legal action in order to enjoin the closing of the merger. In addition, conditions may be imposed upon the approval of the merger. Such conditions may jeopardize or delay completion of the merger or may reduce the anticipated benefits of the merger. Subject to compliance with the terms of the merger agreement, ScanSoft may not be willing to accept such conditions, and the merger thus may not be consummated. Furthermore, ScanSoft and Nuance stockholders may be voting on the matters presented at their respective stockholder meetings before the waiting period terminates or before any challenge to the merger on antitrust grounds is resolved. Any conditions that must be agreed upon to obtain Antitrust Division approval of the merger may be finalized subsequent to the stockholder votes at the respective ScanSoft and Nuance stockholder meetings.

The FTC and the Antitrust Division frequently scrutinize the legality under the antitrust laws of transactions like the merger. At any time before or after the completion of the merger, the FTC or the Antitrust Division could take any action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the completion of the merger or seeking the divestiture of substantial assets of ScanSoft or Nuance. In addition, certain private parties, as well as state attorneys general and other antitrust authorities, may challenge the transaction under antitrust laws under certain circumstances.

In addition, the merger may be subject to various foreign antitrust laws.

Although ScanSoft and Nuance believe that the completion of the merger will not violate any antitrust laws, there can be no assurance that a challenge to the merger on antitrust grounds will not be made, or, if such a challenge is made, what the result will be.

***The price of ScanSoft common stock may be affected by factors different from those affecting the price of Nuance common stock.***

When the merger is completed, holders of Nuance common stock will become holders of ScanSoft common stock. ScanSoft's business differs from that of Nuance, and ScanSoft's results of operations, as well as the price of ScanSoft common stock, may be affected by factors different from those affecting Nuance's results of operations and the price of Nuance common stock.

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**Risks Related to ScanSoft and the Combined Company**

**Risks Related to ScanSoft's 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 we expect our revenue and operating results to continue to fluctuate in the future. Given this fluctuation, we believe that quarter to quarter comparisons of our 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 our 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;

rapid shifts in demand for products given the highly cyclical nature of the retail software industry;

the loss of, or a significant curtailment of, purchases by any one or more of our principal customers;

concentration of operations with one manufacturing partner and ability to control expenses related to the manufacture, packaging and shipping of our boxed software products;

customers delaying their purchasing decisions in anticipation of new versions of 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, where purchases tend to slow in the fourth fiscal quarter;

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

returns and allowance charges in excess of recorded amounts;

timing of significant marketing and sales promotions;

write-offs of excess or obsolete inventory and accounts receivable that are not collectible;

increased expenditures incurred pursuing new product or market opportunities;

inability to adjust our operating expenses to compensate for shortfalls in revenue against forecast; and

general economic trends as they affect retail and corporate sales.

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 enough to respond to a shortfall in projected revenue. Therefore, our failure to meet revenue expectations could 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 and could involve substantial integration risks.***

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. We may continue to issue equity securities for future acquisitions that would dilute our existing stockholders, perhaps significantly depending on the terms of the acquisition. We may also incur debt in connection with future acquisitions, which, if available at all, may place additional restrictions on our ability to operate our business. Furthermore, our acquisition of the

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speech and language technology operations of Lernout & Hauspie Speech Products N.V. and certain of its affiliates, including L&H Holdings USA, Inc. (collectively, L&H), our acquisition of the Speech Processing Telephony and Voice Control business units from Philips, our acquisition of SpeechWorks International, Inc., our acquisition of LocusDialog, Inc., and our acquisition of Telelogue, Inc. required substantial integration and management efforts. Our recently completed acquisitions of Rhetorical Systems Ltd., ART Advanced Recognition Technologies, Inc. and Phonetic Systems, Ltd., and our pending acquisition of Nuance Communications will likely pose similar, and likely greater, challenges. Acquisitions of this nature involve a number of risks, including:

difficulty in transitioning and integrating the operations and personnel of the acquired businesses, including different and complex accounting and financial reporting systems;

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;

unanticipated expenses and delays in completing acquired development projects and technology integration;

management of geographically remote units both in the United States and internationally;

impairment of relationships with partners and customers;

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

potential loss of key employees of the acquired company.

As a result of these and other risks, we may not realize 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.

***Purchase accounting treatment of our acquisitions could decrease our net income 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, we have accounted for our acquisitions using the purchase method of accounting. Under purchase accounting, we record the market value of our common stock or other form of consideration issued in connection with the acquisition and 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 trade names and acquired customer relationships based on their respective fair values. Intangible assets generally will be amortized over a five to ten year period. Goodwill is not subject to amortization but is subject to at least an annual impairment analysis, which may result in an impairment charge if the carrying value exceeds its implied fair value. As of March 31, 2005, we had identified intangible assets amounting to approximately \$54.4 million and goodwill of approximately \$300.8 million. We currently anticipate that the Nuance acquisition will significantly add to our intangible assets and goodwill. The combination of the organizations and the associated technologies could result in an impairment of such intangible assets or goodwill.

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

We reported a net loss of \$1.0 million for the three month period ended March 31, 2005, net income of \$2.1 million for the six month period ended March 31, 2005, and net losses of \$9.4 million and \$5.5 million for the nine month period ended September 30, 2004 and the twelve month period ended December 31, 2003, respectively.

We had an accumulated deficit of \$159.7 million at March 31, 2005. If

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we are unable to maintain profitability, the market price for our stock may decline, perhaps substantially. We cannot assure you that our revenues will grow or that we will maintain profitability in the future. If we do not maintain profitability, we may be required to raise additional capital to maintain or grow our operations. The terms of any 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.

***Historically, a small number of product areas have generated a substantial portion of our revenues. A significant reduction in the revenue contribution in absolute dollars from these product areas could seriously harm our business, results of operations, financial condition, cash flows and stock price.***

Sales of our dictation, document and PDF conversion products and our digital paper management products represented approximately 23%, 18% and 8%, of our revenue, respectively, for the three month period ended March 31, 2005, as compared to 21%, 23% and 8%, respectively, for the comparable period in 2004. For the six month period ended March 31, 2005, sales of our dictation, document and PDF conversion products and our digital paper management products represented approximately 22%, 18% and 10%, of our revenue, respectively, as compared to 19%, 27% and 8%, respectively, for the comparable period in 2004.

***We rely on a small number of distribution and fulfillment partners, including 1450, Digital River and Ingram Micro, to distribute many of our products, and any adverse change in our relationship with such partners may adversely impact our ability to deliver products.***

Our products are sold through, and a substantial portion of our revenue is derived from, a network of over 2000 channel partners, including value-added resellers, computer superstores, consumer electronic stores, mail order houses, office superstores and eCommerce Web sites. We rely on a small number of distribution and fulfillment partners, including 1450, Digital River and Ingram Micro to serve this network of channel partners. For the three month periods ended March 31, 2005 and 2004, one distribution and fulfillment partner, Ingram Micro, accounted for 13% and 14% of our consolidated revenue, respectively. For the six month period ended March 31, 2005, Ingram Micro accounted for 12% of our consolidated net revenues, as compared to the same period in 2004 when two distribution and fulfillment partners, Ingram Micro and Digital River, accounted for 14% and 11% of consolidated net revenues, respectively. A disruption in these distribution and fulfillment partner relationships could negatively affect our ability to deliver products, and hence our results of operations in the short term. Any prolonged disruption for which we are unable to arrange alternative fulfillment capabilities could have a more sustained adverse impact on our results of operations.

***A significant portion of our accounts receivable is concentrated among our largest customers, and non-payment by any of them would adversely affect our financial condition.***

Although we perform ongoing credit evaluations of our distribution and fulfillment partners' financial condition and maintain reserves for potential credit losses, we do not require collateral or other form of security from our major customers to secure payment. While, to date, losses due to non-payment from customers have been within our expectations, we cannot assure you that instances or extent of non-payment will not increase in the future. At March 31, 2005 and September 30, 2004, no one customer represented 10% of our net accounts receivable. If any of our significant customers were unable to pay us in a timely fashion, or if we were to experience significant credit losses in excess of our reserves, our results of operations, cash flows and financial condition would be seriously harmed.

***Speech technologies may not achieve widespread acceptance by businesses, 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 acceptance of speech

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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 the following factors:

consumer 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 software does not continue to develop or develops more slowly 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. Within imaging, we compete directly with, among others, ABBYY, Adobe, I.R.I.S. and NewSoft. Within speech, we compete with, among others, AT&T, Fonix, IBM, Microsoft, Nuance and Philips. 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, IBM and Microsoft, 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 and Microsoft, 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 implement, upgrade and deploy in a timely and effective manner new information systems and upgrades of our finance and accounting systems to address certain issues identified in connection with our fiscal 2004 year-end audit could harm our business.***

In connection with their audit of our 2004 consolidated financial statements, BDO Seidman, LLP, our independent registered public accounting firm, advised management and our Audit Committee of the following significant deficiencies which do not individually or in the aggregate raise to the level of material weakness: we lack the necessary corporate accounting resources to ensure consistently complete and accurate reporting of financial information which, when combined with our need to realign and cross-train current finance and accounting personnel, has led to a dependence on key personnel in the organization, the loss of whom could impair our ability to ensure consistently complete and accurate financial reporting. In certain circumstances our accounting transactions, including related judgments and estimates, were not

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always supported in a timely manner by a sufficiently formal processes or sufficiently comprehensive documentation.

In the third quarter of 2003, we commenced our Section 404 of the Sarbanes-Oxley Act compliance efforts. During 2004, we deployed Oracle 11i to process and report all of our general accounting functions in our three major locations (Massachusetts, Belgium and Hungary). During 2005, we are implementing additional modules to continue to enhance the functionality of our Oracle implementation.

Recently, three members of our finance and accounting organization, including our controller and assistant controller, resigned to pursue other opportunities. We are currently in the process of augmenting current processes, repositioning current finance and accounting personnel and recruiting additional personnel to ensure consistently complete and accurate reporting of financial information, to replace the three departed members of our finance and accounting organization and to reduce our dependence on key personnel in our finance and accounting organization. We currently expect these efforts to extend into the second half of fiscal 2005.

We have been and will continue to be required to devote substantial resources to these activities during 2005. Failure to successfully implement these systems, formalize and document these processes and controls or hire and train qualified personnel for our finance and accounting organization in a timely, effective and efficient manner could result in the disruption of our operations, our inability to comply with our Sarbanes-Oxley obligations and the inability to report our financial results in a timely manner, particularly given the added requirements associated with the integration of our recently completed acquisitions of Telelogue, Inc., Rhetorical Systems Ltd., ART Advanced Recognition Technologies, Inc. and Phonetic Systems Ltd., and our pending acquisition of Nuance Communications, Inc., further accelerated filing deadlines mandated by the SEC and the requirements of Section 404 of the Sarbanes-Oxley Act.

***A significant portion of our revenue is derived from sales in Europe and Asia. Our results could be harmed by economic, political, regulatory and other risks associated with these and other international regions.***

Since we license our products worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenue from international operations will represent an increasing portion of our total revenue. For the three month periods ended March 31, 2005 and 2004, reported international revenues represented 36% and 33% of our consolidated revenue, respectively. For the six month periods ended March 31, 2005 and 2004, reported international revenues represented 35% and 32% of our consolidated revenue, respectively. Most of these international revenues are generated by sales in Europe and Asia. In addition, some of our products are developed and manufactured outside the United States. A significant portion of the development and manufacturing of our speech products are completed in Belgium, and a significant portion of our imaging research and development is conducted in Hungary. In connection with the Philips acquisition, we added an additional research and development location in Germany, and in connection with the acquisition of Locus Dialog, we added an additional research and development location in Montreal, Canada. 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;



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difficulties in collecting trade accounts receivable in other countries; and

less effective protection of intellectual property.

***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 on intercompany balances with our foreign subsidiaries. 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. Hedges are designated and documented at the inception of the hedge and are evaluated for effectiveness monthly. 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 revenues projected to increase in fiscal 2005, we are exposed to changes in foreign currencies including the euro, Canadian dollar, Japanese yen, Israeli New Shekel, 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 revenues and operating results.

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

If any of our key employees were to leave us, 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 us in the past. We cannot assure you that one or more key employees will not leave us in the future. We intend to continue to hire additional highly qualified personnel, including software engineers and operational personnel, but we 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.

**Risks Related to ScanSoft's Intellectual Property and Technology**

***Unauthorized use of our proprietary technology and intellectual property will 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 ours 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.

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***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 is costly and time-consuming and diverts 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.

On September 9, 2004, BIS Advanced Software Systems, Ltd. ( "BIS" ) filed an action against us in the United States District Court for the District of Massachusetts claiming patent infringement. Damages are sought in an unspecified amount. In the lawsuit, BIS alleges that we are infringing United States Patent No. 6,401,239 entitled "System and Method for Quick Downloading of Electronic Files." We filed an Answer and Counterclaims on December 22, 2004. We believe this claim has no merit, and we intend to defend the action vigorously.

On August 5, 2004, Compression Labs, Inc. filed an action against us in the United States District Court for the Eastern District of Texas claiming patent infringement. Damages are sought in an unspecified amount. In the lawsuit, Compression Labs alleges that we are infringing United States Patent No. 4,698,672 entitled "Coding System for Reducing Redundancy." We believe this claim has no merit, and we intend to defend the action vigorously.

On July 15, 2003, Elliott Davis ( "Davis" ) filed an action against SpeechWorks in the United States District Court for the Western District for New York (Buffalo) claiming patent infringement. Damages are sought in an unspecified amount. In addition, on November 26, 2003, Davis filed an action against ScanSoft in the United States District Court for the Western District for New York (Buffalo) also claiming patent infringement. Damages are sought in an unspecified amount. SpeechWorks filed an Answer and Counterclaim to Davis's Complaint in its case on August 25, 2003 and ScanSoft filed an Answer and Counterclaim to Davis's Complaint in its case on December 22, 2003. We believe these claims have no merit, and we intend to defend the actions vigorously.

On November 27, 2002, AllVoice Computing plc filed an action against us in the United States District Court for the Southern District of Texas claiming patent infringement. In the lawsuit, AllVoice alleges that we are infringing United States Patent No. 5,799,273 entitled "Automated Proofreading Using Interface Linking Recognized Words to their Audio Data While Text is Being Changed" (the "273 Patent"). The 273 Patent generally discloses techniques for manipulating audio data associated with text generated by a speech recognition engine. Although we have several products in the speech recognition technology field, we believe that our products do not infringe the 273 Patent because, in addition to other defenses, they do not use the claimed techniques. Damages are sought in an unspecified amount. We filed an Answer on December 23, 2002. On January 4, 2005, the case was transferred to a new judge of the United States District Court for the Southern District of Texas for administrative reasons. The new judge placed the action on an accelerated track and set a trial date for later this year. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

We believe that the final outcome of the current litigation matters described above will not have a significant adverse effect on our financial position and results of operations. However, even if our defense is successful, the litigation could require significant management time and could be costly. Should we not prevail in these litigation matters, we may be unable to sell and/or license certain of our technologies we consider to be proprietary, and our operating results, financial position and cash flows could be adversely impacted.

**Table of Contents*****Our software products may have bugs, which could result in delayed or lost revenue, expensive correction, liability to our clients 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 client 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 ScanSoft's Corporate Structure, Organization and Common Stock*****The holdings of our two largest stockholders may enable them to influence matters requiring stockholder approval.***

On March 19, 2004, Warburg Pincus, a global private equity firm, agreed to purchase all outstanding shares of our stock held by Xerox Corporation for approximately \$80 million. As of April 30, 2005, Warburg Pincus beneficially owned approximately 16.6% of our outstanding common stock, including warrants exercisable for up to 3,025,732 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. On May 5, 2005, ScanSoft entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with Warburg Pincus pursuant to which Warburg Pincus agreed to purchase and ScanSoft agreed to sell an aggregate of 3,537,736 shares of ScanSoft common stock for an aggregate purchase price of \$15,000,000.64, and warrants to purchase an aggregate of 863,236 shares of ScanSoft common stock for an aggregate purchase price of \$107,904.50. On May 9, 2005, the sale of the shares and the warrants pursuant to the Securities Purchase Agreement was completed. In a separate transaction, ScanSoft also entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with Warburg Pincus pursuant to which Warburg Pincus agreed to purchase and ScanSoft agreed to sell an aggregate of 14,150,943 shares of ScanSoft common stock for an aggregate purchase price of \$59,999,998.32 and warrants to purchase an aggregate of 3,177,570 shares of ScanSoft common stock. The closing of the Stock Purchase Agreement is conditioned upon, among other things, the simultaneous closing of the Nuance merger and stockholder approval. Wellington Management Co., LLP ("Wellington") is our second largest stockholder, owning approximately 10.14% of our common stock as of April 30, 2005. Because of their large holdings of our capital stock relative to other stockholders, Warburg Pincus and Wellington, acting individually or together, have 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.***

Our stock price historically has been and may continue to be volatile. Various factors contribute to the volatility of our 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. 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.

***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 Nasdaq National Market rules, are resulting in increased general and administrative

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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.

***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:

a preferred shares rights agreement;

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.

### **Risks Related to Nuance**

***Our ability to accurately forecast our quarterly sales is limited, most of our short term costs are relatively fixed, certain of our costs are difficult to predict, and we expect our business to be affected by seasonality. As a result, our quarterly operating results are likely to fluctuate.***

Our quarterly operating results have varied significantly in the past, and we expect that they will vary significantly from quarter to quarter in the future. As a result, our quarterly operating results are difficult to predict. These quarterly variations are caused by a number of factors, including the following:

delays or cancellations in expected orders by customers due to concerns about product or technical support continuation following the close of the merger;

changes or projected changes in United States or international economic and political conditions;

delays or cancellations in expected orders by customers who are reducing or deferring spending or adjusting project plans;

delays in orders due to the complex nature of large telephony systems and the associated implementation projects;

timing of product deployments and completion of project phases, particularly for large orders and large solution projects;

delays in recognition of revenue for sales transactions completed but not earned, as required by applicable accounting principles;

our ability to develop, introduce, ship and support new and/or enhanced products, such as new versions of our software platform and applications, that respond to changing technology trends in a timely manner;

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our ability to manage product transitions;

rate of market adoption for speech technology and our products, such as our software platform and applications;

changes in our selling model, including focus of certain sales representatives on direct sales to end user customers and the resulting potential for channel conflict;

unexpected customer non-renewal of maintenance contracts or lower renewal instances than anticipated;

delays in the negotiation and documentation of orders, particularly large orders and orders from large companies;

expenses incurred in defending and settling litigation, which are difficult to predict and manage;

changes in the amount, and the timing of our expenses;

expenses incurred in responding to new corporate governance requirements, particularly those relating to the testing of internal controls; and

the utilization rate of our professional services personnel, which is dependent upon acquisition of new projects as large scale, multi-quarter projects near completion.

Due in part to these factors, and because the market for certain of our software is relatively new and rapidly changing, and our business model is evolving, our ability to accurately forecast our quarterly sales is limited. In addition, most of our costs are relatively fixed in the short term, even though we endeavor to manage these costs.

We do not know whether our business will grow at a rate necessary to absorb our expenses. If we have a shortfall in revenue in relation to our expenses, we may be unable to reduce our expenses quickly enough to avoid lower quarterly operating results. As a result, our quarterly operating results could fluctuate significantly and unexpectedly from quarter to quarter.

We also expect to experience seasonality in the sales of our products. For example, we anticipate that sales may be lower in the first and third quarters of each year due to patterns in the capital budgeting and purchasing cycles of our current and prospective customers. We also expect that sales may decline during summer months. These seasonal variations in our sales are likely to lead to fluctuations in our quarterly operating results. Nevertheless, it is difficult for us to evaluate the degree to which this seasonality may affect our business.

In addition, sales of our products and related services may decline due to customer concerns regarding the ongoing availability of our products and technical support following the merger.

***We depend on a limited number of orders for a substantial portion of our revenue during any given quarter.***

***The loss or delay of a significant order could substantially reduce our revenue in any given period and harm our business.***

Historically we have derived a significant portion of our revenue in each quarter from a limited number of direct and indirect customers. We expect that a small number of customers with significant orders for software products and professional services will continue to account for a substantial portion of our revenue in any given quarter. Generally, customers who make significant purchases from us are not expected to make subsequent, equally large purchases in the short term. Therefore we must attract new customers or new significant orders from other customers in order to maintain or increase our revenues in future quarters. If we experience delays or cancellations of orders from a major customer, if an anticipated sale is not made or is deferred, if our professional services team does not complete work on large projects ratably over one or more quarters, or if we fail to regularly obtain major new customers, our revenue in a given quarter could be impacted negatively and our business could be harmed.

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***Historically we have depended upon third-party resellers for a significant portion of our sales. The loss of key third-party resellers, or a decline in third-party resellers' resale of our products and services, could limit our ability to sustain and grow our revenue.***

The percentage of our revenue obtained through indirect sales was 50% for the three months ended March 31, 2005. Although this percentage may decrease in the future, we intend to continue to rely on third-party resellers for a significant portion of our future sales. As a result, our revenues are dependent upon the viability and financial stability of our third-party resellers, as well as upon their continued interest and success in selling our products. In addition, some of our third-party resellers are thinly capitalized or otherwise experiencing financial difficulties. The loss of a significant third-party reseller or our failure to develop new and viable third-party reseller relationships could limit our ability to sustain and grow our revenue. Furthermore, expansion or changes in the focus of our internal sales force, in an effort to increase third-party reseller sales or replace the loss of a significant third-party reseller, could require increased management attention and higher expenditures.

Our contracts with third-party resellers do not require a third-party reseller to purchase our products or services. In fact, many of our third-party resellers also offer the products of some of our competitors. We cannot guarantee that any of our third-party resellers will continue to market our products or devote significant resources to doing so. Additionally, our resellers may have concerns regarding the ongoing availability of our products and technical support following the merger, and, as a result, our resellers may choose to purchase the products of our competitors. In addition, although we are actively working to manage potential channel conflicts and maintain strong third-party reseller relationships, certain third-party reseller relationships likely have been adversely affected by the introduction of our own platform product or our direct sales activities, which may have an unfavorable impact on revenue from certain third-party resellers. Furthermore, we will, from time to time, terminate or adjust some of our relationships with third-party resellers in order to address changing market conditions, adapt such relationships to our business strategy, resolve disputes, or for other reasons. Any such termination or adjustment could have a negative impact on our relationships with third-party resellers and our business, and result in decreased sales through third-party resellers or threatened or actual litigation. If our third-party resellers do not successfully market and sell our products or services for these or any other reasons, our sales could be adversely affected and our revenue could decline. In addition, our third-party resellers possess confidential information concerning our products and services, product release schedules and sales, marketing and third-party reseller operations. Although we have nondisclosure agreements with our third-party resellers, we cannot guarantee that any third-party reseller would not use our confidential information to compete with us.

***Speech software products and services generally, and our products and services in particular, may not achieve widespread acceptance, which could require us to modify our sales and marketing efforts and could limit our ability to successfully grow our business.***

The market for speech software products remains immature and is rapidly changing. In addition, some of our products are relatively new to the market. Our ability to increase revenue in the future depends on the acceptance by our customers, third-party resellers and end users of speech software solutions generally and our products and services in particular. The adoption of speech software products could be hindered by the perceived costs of licensing and deploying such products, as well as by the perceived deployment time and risks of this relatively new technology. Furthermore, enterprises that have invested substantial resources in existing call centers or touch-tone-based systems may be reluctant to replace their current systems with new products. Accordingly, in order to achieve commercial acceptance, we may have to educate prospective customers, including large, established enterprises and telecommunications companies, about the uses and benefits of speech software in general and our products in particular. We may also need to modify or increase our sales and marketing efforts, or adopt new marketing strategies, to achieve such education. If these efforts fail, prove excessively costly or unmanageable, or if speech software generally does not continue to achieve commercial acceptance, our business would be harmed.

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The continued development of the market for our products will depend upon the following factors, among others:

acceptance by businesses of the benefits of speech technology;

widespread and successful deployment of speech software applications;

end-user demand for services and solutions having a voice user interface;

demand for new uses and applications of speech software technology, including adoption of voice user interfaces by companies that operate web-based and touch tone IVR self service solutions;

adoption of industry standards for speech software and related technologies; and

continuing improvements in hardware and telephony technology that may reduce the costs and deployment time of speech software solutions.

***Our products and services can have a long sales and implementation cycle and, as a result, our quarterly revenues and operating results may fluctuate.***

The sales cycles for our products have typically ranged from three to twelve months, depending on the size of the order and complexity of its terms, the amount of services we are providing, and whether the sale is made directly by us or indirectly through a third-party reseller.

Speech products often require a significant expenditure by a customer. Accordingly, a customer's decision to purchase our products and services typically requires a lengthy pre-purchase evaluation. We may spend significant time educating and providing information to prospective customers regarding the use and benefits of our products and services. During this evaluation period, we may expend substantial sales, technical, marketing and management resources in such efforts. Because of the length of the evaluation period, we are likely to experience a delay, occasionally significant, between the time we incur these expenditures and the time we generate revenues, if any, from such expenditures. Furthermore, such expenditures frequently do not result in a sale of our products. These factors may be complicated due to customer concerns regarding the ongoing availability of our products and technical support following the merger.

After purchase by a customer, it may take time and resources to complete any services we are providing and to integrate our software with the customer's existing systems. If we are performing services that are essential to the functionality of the software in connection with its implementation, we recognize license and service revenues based on the percentage of services completed, using contract accounting. In cases where the contract specifies milestones or acceptance criteria, we may not be able to recognize either license or service revenue until these conditions are met. We have in the past experienced, and may in the future experience, such delays in recognizing revenue. Consequently, the length of our sales and implementation cycles, the deployment process for our products, and the terms and conditions of our license and service arrangements often make it difficult to predict the quarter in which revenue recognition may occur and may cause license and service revenue and our operating results to vary significantly from quarter to quarter.

***Our current and potential competitors, some of whom have greater resources and experience than we have, may market or develop products, services or technologies that may cause demand for, and the prices of, our products to decline.***

A number of companies have developed, or are expected to develop, products that compete with our products. Competitors with respect to speech technologies include IBM and Microsoft. Competitors like IBM and Microsoft may leverage their existing business relationships with customers to induce the customers to use their speech products and services. With respect to our software platform, there are many vendors, including some of our third-party resellers and channel partners, who market and sell competing platforms for voice systems. We expect additional competition from other companies in the platform market. We also have competition in the professional services market, including for applications. Our





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competitors may combine with each other, and other companies may enter our markets, including by acquiring or entering into strategic relationships with our competitors. For example, IBM and Cisco Systems recently announced such a strategic relationship. Current and potential competitors may have established, or may establish, cooperative relationships among themselves or with third parties to increase the abilities of their advanced speech and language technology products, platforms and applications to address the needs of our prospective customers.

Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, product development and marketing resources, greater name recognition and larger customer bases than we do. Our present or future competitors may be able to develop products comparable or superior to those we offer, adapt more quickly than we do to new technologies, evolving industry trends and standards or customer requirements, or devote greater resources than we do to the development, promotion and sale of speech products. Accordingly, we may not be able to compete effectively in our markets, competition may intensify and future competition may cause us to reduce prices or may otherwise harm our business.

***Use of our products may infringe the intellectual property rights of others. Intellectual property infringement claims against our customers or us could be costly to us. Such claims could also slow our sales cycle or market adoption of our products.***

The software industry in general, and the field of speech and voice technologies in particular, is characterized by the existence of a significant number of patents. Litigation and threats of litigation based on allegations of patent infringement and the violation of intellectual property rights are common in software markets and appear to be increasing. Although we attempt to avoid infringing known proprietary rights of third parties, we do not engage in affirmative efforts to attempt to familiarize ourselves with such third-party rights, principally due to the costs that would be involved in such activities. We may be subject to claims and legal proceedings for alleged infringement, either by us or our customers, of third-party proprietary rights, such as patents, trade secrets, trademarks or copyrights. In addition, former employers of our employees may assert that these employees have improperly disclosed confidential or proprietary information to us.

We typically indemnify our customers from claims against them by third parties that our products infringe such third parties' intellectual property rights. Any claims relating to the infringement of third-party proprietary rights, even if not successful or meritorious, could result in costly litigation, divert management's attention from our business and require us and our customers to enter into royalty or license agreements that are costly and otherwise disadvantageous to us. Any such claims could also require us to defend our customer against the claim and indemnify our customer for its damages resulting from such claim. Any of these effects could have a material adverse effect on our business and results of operations. Further, parties making these claims may be able to obtain injunctions, preventing us from selling our products. These types of claims could also slow our sales cycle and/or market adoption generally with respect to the affected product, which could harm our business. We have recently been sued for patent infringement, and although we settled this case for less than the cost of taking it through trial, the defense of the matter was quite costly. We may be increasingly subject to infringement claims as the number and features of our products grow, we extend our speech application business and the speech market grows.

We understand that holders of a substantial number of patents have alleged that certain of their patents cover a wide range of automated services in the call center and computer telephony areas. We believe that one of such patent holders has sent letters to many providers of such automated services, including some of our customers, suggesting that a license under its portfolio is required in order to provide such automated services. This holder has also sued a number of such entities, alleging patent infringement. A number of the entities against which this holder has made such claims have entered into license agreements with respect to the holder's patents. Recently, one of our customers notified us that one of such holders has claimed that the customer's call center operations, which utilize our products, infringe one or more claims of the holder's patents, and has made a related indemnity claim against us. It is possible that one or more of our other customers, in response to an infringement claim by any of such

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patent holders, might assert indemnity rights against us, whether or not meritorious. It is also possible that one or more of such patent holders might make a claim against us directly, whether or not meritorious. The costs associated with resolving any such disputes, regardless of the legal outcome, could be substantial and could materially and adversely affect our operating results.

***We have a history of losses. We expect to continue to incur losses in the near term, and we may not achieve or maintain profitability.***

We have incurred losses aggregating approximately \$289 million since our inception, including a net loss of approximately \$4.6 million for the three months ended March 31, 2005. We expect to continue to spend significant amounts to develop and enhance our products, services and technologies and to enhance our delivery capabilities. As a result, we will need to generate increasing revenue to achieve profitability. No assurance can be given that we will be able to grow our revenue. Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. No assurances can be given that we will be profitable or have positive cash flow at any time in the future.

***Sales to customers outside the United States have historically accounted for a significant portion of our revenue, exposing us to risks inherent in international operations.***

International sales represented approximately 41% of our total revenue for the three months ended March 31, 2005. We anticipate that revenue from markets outside the United States will continue to represent a significant portion of our total revenue for the foreseeable future. We are subject to a variety of risks associated with conducting business internationally, any of which could harm our business. These risks include the following:

difficulties and costs of staffing and managing foreign operations;

the difficulty in establishing and maintaining an effective international third-party reseller network;

the burden of complying with a wide variety of foreign laws, particularly with respect to tax, intellectual property and license requirements;

longer sales and payment cycles than we experience in the United States;

political and economic instability outside the United States;

import or export licensing and product certification requirements;

tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers imposed by the United States or foreign countries;

potential adverse tax consequences, including higher marginal rates and withholding taxes;

the impact of foreign exchange translations on the expense of our foreign operations; and

a limited ability, and significant costs, to enforce agreements, intellectual property rights and other rights in most foreign countries.

***Our stock price may be volatile due to many factors, some of which are outside of our control.***

Since our initial public offering in April 2000, our stock price has been extremely volatile. During that time, the stock market in general, and The NASDAQ National Market and the securities of technology companies in particular, have experienced extreme price and trading volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of individual companies. The following factors, among others, could cause our stock price to fluctuate:

actual or anticipated variations in ScanSoft's operating results or announcements by ScanSoft;

concerns regarding the ability of us and ScanSoft to bring the merger to a close;

actual or anticipated variations in operating results;

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announcements of operating results and business conditions by our customers, suppliers or competitors;

announcements by our competitors relating to new customers, technological innovations or new products or services;

announcements by us of new products and/or shifts in business focus or sales and distribution models;

material increases in our capital expenditures, including for infrastructure and information technology;

economic developments in our industry as a whole;

general market and economic conditions; and

general decline and other changes in information technology and capital spending plans.

Broad market fluctuations may materially and adversely affect our stock price, regardless of our operating results. Furthermore, our stock price may fluctuate due to variations in our operating results.

***Any defects in, or other problems with, our products could harm our business and result in claims against us.***

Complex software products such as ours may contain errors, defects and bugs (collectively, errors). During the development of any product, we may discover errors. As a result, our products may take longer than expected to develop. In addition, we may discover that remedies for errors may be technologically unfeasible. Delivery of products with undetected errors, or reliability, quality or compatibility problems, could damage our reputation. The existence of errors, or reliability, quality or compatibility problems, could also cause interruptions, delays or cessations of sales to our customers. We could, as well, be required to expend significant capital and other resources to remedy these problems. In addition, customers whose businesses are disrupted by these errors, or reliability, quality or compatibility problems, could bring claims against us, the defense of which, even if successful, would likely be time-consuming and costly for us.

Furthermore, if any such defense was not successful, we might be obligated to pay substantial damages, which could materially and adversely affect our operating results.

***If we are unable to effectively manage our operations and resources in accordance with market and economic conditions, our business could be harmed.***

Our operations have changed significantly over time, due in part to volatility in our business, and may continue to change in the future. We have experienced significant growth in personnel in the past. However, between April 2001 and September 2004, in five separate restructuring actions, we reduced our workforce by approximately 42%. We may be required to expand or contract our business operations in the future to adapt to the market environment, and as a result may need to expand or contract our management, operational, sales, marketing, financial, engineering or other human resources, as well as management information systems and controls, to align with and support any such growth or contraction. Our failure to successfully manage these types of changes would place a substantial burden on our business, our operations and our management team, and could negatively impact sales, customer relationships and other aspects of our business.

***We could be adversely impacted by the need for an increase in our restructuring accrual for our Pacific Shores facility.***

Our restructuring accrual is represented by a lease loss created by our decision not to occupy our leased Pacific Shores facility. We added \$19.2 million to that restructuring accrual in the third quarter of 2004. The accrual assumptions for such loss are based upon estimates of real estate market conditions and

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values. These market conditions are subject to wide fluctuations, and market values may not improve or may decline further, which could require an additional restructuring accrual. We have attempted to sublease the Pacific Shores facility, but, to date, have not been successful in those efforts. There can be no assurances that we will be able to sublease the facility at a lease rate approximating our estimate of its lease value, or at all. If we are unable to sublease the facility, we will have to record an additional restructuring charge of up to \$22 million, which represents the sublease income we have estimated we may receive over the remaining life of the lease of approximately eight years.

***We rely on the services of our key personnel, whose knowledge of our business and technical expertise would be difficult to replace.***

We rely upon the continued service and performance of a relatively small number of key technical and senior management personnel. Our future success will be impacted by our ability to retain these key employees. We cannot guarantee that we will be able to retain all our key employees, particularly given the uncertainties perceived by such employees as a result of the impending merger. Other than Charles Berger, our President and Chief Executive Officer and one senior sales employee, none of our key technical or senior management personnel have employment agreements with us, and, as a result, they may leave with little or no prior notice. If we lose any of our key technical and senior management personnel, replacing them could be difficult and costly. If we are not able to successfully and rapidly replace such personnel, our business could be materially harmed. We do not have life insurance policies covering any of our key employees.

***Our failure to successfully respond to and manage rapid change in the market for speech software could cause us to lose revenue and harm our business. It is essential that we continue to develop new products that achieve commercial acceptance.***

The speech software industry remains immature and is rapidly changing. Our future success will depend substantially upon our ability to enhance our existing products and to develop and introduce, on a timely and cost-effective basis, new products, services and features that meet changing third-party reseller and end-user requirements and incorporate technological advancements, such as products that speed deployment and accelerate customers' return on investment, as well as achieve commercial acceptance. Commercial acceptance of new products and technologies we may introduce will depend on, among other things, the ability of our services, products and technologies to meet and adapt to the needs of our target markets; the performance and price of our products and services and our competitors' products and services; and our ability to deliver speech solutions, customer service and professional services directly and through our third-party resellers. If we are unable to develop or deploy new products and enhance functionalities or technologies to adapt to these changes, we may be unable to retain existing customers or attract new customers, which could materially harm our business. In addition, as we develop new products, sales of existing products may decrease. If we are unable to offset a decline in revenue from existing products with sales of new products, our business would be adversely affected.

***Speech products are not 100% accurate, and we could be subject to claims related to the performance of our products. Any claims, whether successful or unsuccessful, could result in significant costs and could damage our reputation.***

Speech recognition natural language understanding and authentication technologies, including our own, are not accurate in every instance. Our customers, including several financial institutions, use our products to provide important services to their customers, including transferring funds to and from accounts, and buying and selling securities. Any misrecognition of voice commands or incorrect authentication of a user's voice in connection with these financial or other transactions could result in claims against our customers or us for losses incurred. Although our contracts usually contain provisions designed to limit our exposure to such liability claims, a claim brought against us based on misrecognition or incorrect authentication, even if unsuccessful, could be time-consuming, divert management's attention from our business operations, result in costly litigation and harm our reputation. If any such claim is

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successful, we could be exposed to an award of substantial damages and our reputation could be harmed greatly. Moreover, existing or future laws or unfavorable judicial decisions could limit the enforceability of limitations of liability, disclaimers of warranty or other protective provisions contained in many, but not all of, our contracts.

***We may incur a variety of costs to engage in future acquisitions of companies, products or technologies, and the anticipated benefits of those acquisitions may never be realized.***

As a part of our business strategy, we may make acquisitions of, or significant investments in, complementary companies, products or technologies. For instance, in November 2000 we acquired SpeechFront, a Canadian company. In February 2001, we acquired certain non-exclusive intellectual property rights from a third-party. For the year ended December 31, 2001, we performed an impairment analysis and determined that our asset related to the SpeechFront acquisition was impaired and the asset was subsequently written down to its estimated fair value. Any future acquisitions of companies or technologies would be accompanied by risks such as:

difficulties in assimilating the operations, personnel and technologies of acquired companies;

diversion of our management's attention from ongoing business concerns;

our potential inability to maximize our financial and strategic position through the successful incorporation of acquired technology and rights into our products and services;

additional expense associated with impairments of acquired assets, such as goodwill or acquired workforce;

increases in the risk of claims against us, related to the intellectual property or other activities of the businesses we acquire;

maintenance of uniform standards, controls, procedures and policies; and

impairment of existing relationships with employees, suppliers and customers as a result of the integration of new management personnel.

We cannot guarantee that we will be able to successfully integrate any business, products or technologies, or related personnel, that we might acquire in the future. Our inability to integrate successfully any business, products, technologies or personnel we may acquire in the future could materially harm our business.

***We are exposed to the liquidity problems of our customers. We may have difficulty collecting amounts owed to us.***

Certain of our customers and third-party resellers have experienced, and may in the future experience, credit-related issues. We perform ongoing credit evaluations of customers, but do not require collateral. We grant payment terms to most customers ranging from 30 to 90 days. However, in some instances we may provide longer payment terms. Should more customers than we anticipate experience liquidity issues, or if payment is not received on a timely basis, we may have difficulty collecting amounts owed to us by such customers, particularly those located outside the United States, and our business, operating results and financial condition could be adversely impacted.

***Due to changed requirements relating to accounting treatment for employee stock options, we may choose or be required to change our business practices.***

We currently account for the issuance of stock options under APB No. 25, Accounting for Stock Issued to Employees. The Financial Accounting Standards Board now requires companies to include, effective for the first quarter of fiscal 2006, ending March 31, 2006, a compensation expense in their statement of operations relating to the issuance of employee stock options. As a result, we could decide to decrease the number of employee stock options that we would grant. This could affect our ability to retain

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existing employees or to attract qualified candidates for open positions, and we may have to increase the cash compensation we would have to pay to them. Issuing a number of stock options comparable to the number we have issued in the past to new or existing employees would adversely impact our results of operations under the new accounting requirements, once they take effect.

***International sales opportunities may require us to develop localized versions of our products. If we are unable to do so timely, our ability to grow our international revenue and execute our international business strategy will be adversely affected.***

International sales opportunities may require investing significant resources in creating and refining different language models for particular languages or dialects. These language models are required to create versions of our products that allow end users to speak the local language or dialect and be understood and authenticated. If we fail to develop any necessary localized versions of our products on a timely basis, our ability to address international market opportunities and to grow our international business will be adversely affected. However, even if we expend resources to develop localized versions of our products, there is no assurance that we will be able to recognize sufficient revenues from these localized versions to make them profitable.

***If the industry standards we support are not adopted as the standards for speech software, customers may not use our speech software products.***

The market for speech software remains immature and emerging, and industry standards are still in a state of evolution. We may not be competitive unless our products support changing industry standards; otherwise, customers may choose not to use our speech software products. The emergence of industry standards, whether through adoption by official standards committees or widespread usage, could require costly and time-consuming redesign of our products. If these standards become widespread and our products do not support them, our customers and potential customers may not purchase our products. Multiple standards in the marketplace could also make it difficult for us to ensure that our products will support all applicable standards, which could in turn result in decreased sales of our products. Furthermore, the existence of multiple standards could chill the market for speech software in general, until a dominant standard emerges.

Our applications, our Nuance Application Environment product and our Nuance Voice Platform software are each designed to work, in all material respects, with the recently adopted VoiceXML standard. There are currently other, similar standards in development, some of which may become more widely adopted than VoiceXML. If VoiceXML is not widely accepted by our target customers or if another competing standard were to become widely adopted, then sales of our products could decline and our business would be materially harmed. In such an event, we may find it necessary to redesign our existing products or design new products that are compatible with alternative standards that are widely adopted or that replace VoiceXML. This design or redesign could be costly and time-consuming. If a third-party proprietary technology were to become a standard, we might be precluded from developing products to conform to that standard unless we are able to enter into agreements to license the rights to develop such products. Any such license could require us to pay substantial royalties, whether upfront or based on sales of such products, which could materially adversely affect our margins for such products and, as a result, our results of operations.

***Our inability to adequately protect our proprietary technology could harm our ability to compete.***

Our future success and ability to compete depends in part upon our proprietary technology and our trademarks, which we attempt to protect through reliance upon a combination of patent, copyright, trademark and trade secret laws, as well as with our confidentiality procedures and contractual provisions. These legal protections afford only limited protection, and may be time-consuming and expensive to obtain, maintain or enforce. Further, despite our efforts, we may be unable to prevent third parties from infringing or misappropriating our intellectual property or to recover adequate compensation from any such infringers.



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Although we have filed multiple U.S. patent applications, we have currently only been issued a small number of patents. There is no guarantee that we will be issued additional patents under our current or future patent applications. Any patents that are issued to us could be circumvented or challenged. If challenged, a patent might be invalidated or its claims might be substantially narrowed. Our intellectual property rights may not be adequate to provide us with a competitive advantage and, in any event, may not prevent competitors from entering the markets for our products. Additionally, our competitors could independently develop non-infringing technologies that are competitive with, equivalent to, or superior to our technology.

Monitoring infringement and misappropriation of intellectual property can be difficult, and there is no guarantee that we would detect any infringement or misappropriation of our proprietary rights. Even if we do detect infringement or misappropriation of our proprietary rights, litigation to enforce these rights could cause us to divert financial and other resources away from our business operations. Further, we license our products internationally, and the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

### ***Our charter and bylaws and Delaware law contain provisions which may delay or prevent a change of control of Nuance.***

Our Stockholder Rights Plan, as well as provisions of our charter and bylaws, may make it more difficult for a third-party to acquire, or may discourage a third-party from attempting to acquire, control of Nuance. The plan and these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

- the division of the board of directors into three separate classes;

- the elimination of cumulative voting in the election of directors;

- prohibitions on our stockholders acting by written consent and calling special meetings;

- procedures for advance notification of stockholder nominations and proposals; and

- the ability of the board of directors to alter our bylaws without stockholder approval.

In addition, our board of directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The issuance of preferred stock, while providing flexibility in connection with possible financings or acquisitions or other corporate purposes, could have the effect of making it more difficult for a third-party to acquire a majority of our outstanding voting stock.

We are subject to the anti-takeover provisions of the Delaware General Corporation Law, including Section 203, which may deter potential acquisition bids for our company. Under Delaware law, a corporation may opt out of Section 203. We do not presently intend to opt out of the provisions of Section 203.

### ***Our headquarters are located near known earthquake fault zones, and the occurrence of an earthquake or other natural disaster could cause damage to our facilities and equipment, which could require us to curtail or cease operations.***

Our headquarters are located in the San Francisco Bay Area, near known earthquake fault zones, and are vulnerable to damage from earthquakes. In October 1989, a major earthquake struck this area, causing significant property damage and a number of fatalities. We are also vulnerable to damage from other types of disasters, including fire, floods, power loss, communications failures and similar events. If any disaster were to occur, our ability to operate our business at our facilities could be seriously or completely impaired.

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***We rely on a continuous power supply to conduct our operations, and an energy crisis could disrupt our operations and increase our expenses.***

We currently do not have backup generators or alternate sources of power in the event of a blackout, and our current insurance does not provide coverage for any damages we, or our customers, may suffer as a result of any interruption in our power supply. If blackouts interrupt our power supply, we would be temporarily unable to continue operations at our facilities. If such interruption was lengthy or occurred repeatedly, it could adversely affect our ability to conduct operations, which could damage our reputation, harm our ability to retain existing customers and to obtain new customers, and result in lost revenue, any of which could substantially harm our business and results of operations.

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**THE SPECIAL MEETING OF SCANSOFT STOCKHOLDERS**

**General**

ScanSoft is furnishing this joint proxy statement/ prospectus to ScanSoft stockholders in connection with the solicitation of proxies by the ScanSoft board of directors for use at the special meeting of ScanSoft stockholders, including any adjournment or postponement of the meeting.

**Date, Time and Place**

The special meeting will be held at the ScanSoft headquarters, 1 Wayside Road, Burlington, Massachusetts 01803, on August 31, 2005 at 11:00 a.m. Eastern time.

**Purpose of the ScanSoft Special Meeting**

At the ScanSoft special meeting, including any adjournment or postponement thereof, ScanSoft stockholders will be asked:

1. To consider and vote upon a proposal to approve the issuance of shares of ScanSoft common stock in connection with a two step merger pursuant to which (i) in the first step, Nova Acquisition Corporation, a wholly owned subsidiary of ScanSoft, will merge with and into Nuance Communications, Inc., with Nuance surviving as a wholly owned subsidiary of ScanSoft and (ii) in the second step, Nuance will merge with and into Nova Acquisition LLC, a wholly owned subsidiary of ScanSoft, as contemplated by the Agreement and Plan of Merger, dated May 9, 2005, among ScanSoft, Nova Acquisition Corporation, Nova Acquisition LLC and Nuance;
2. To consider and vote upon a proposal to approve the Stock Purchase Agreement, dated as of May 5, 2005, by and among ScanSoft and Warburg Pincus Private Equity VIII, L.P. and certain of its affiliated entities and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement;
3. To consider and vote upon a proposal to approve the assumption by ScanSoft of stock options outstanding under the Nuance stock option plans with an exercise price of \$10.00 or less in the manner set forth in the merger agreement; and
4. To transact such other business as may properly come before the ScanSoft special meeting or any postponement or adjournment thereof.

A copy of the merger agreement is attached to this joint proxy statement/ prospectus as Annex A. ScanSoft stockholders are encouraged to read the merger agreement in its entirety.

THE MATTERS TO BE CONSIDERED AT THE SCANSOFT SPECIAL MEETING ARE OF GREAT IMPORTANCE TO SCANSOFT STOCKHOLDERS. ACCORDINGLY, SCANSOFT STOCKHOLDERS ARE URGED TO READ AND CAREFULLY CONSIDER THE INFORMATION PRESENTED IN THIS JOINT PROXY STATEMENT/ PROSPECTUS, AND TO COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED PRE-ADDRESSED POSTAGE-PAID ENVELOPE.

**Record Date, Shares Entitled to Vote**

Only holders of ScanSoft common stock at the close of business on July 27, 2005, the record date for the ScanSoft special meeting, are entitled to notice of and to vote at the ScanSoft special meeting. On the record date, 112,269,009 shares of ScanSoft common stock were issued and outstanding and there were 954 holders of record. ScanSoft stockholders on the record date are each entitled to one vote per share of ScanSoft common stock on the proposals described above.

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### **Voting Procedures**

You may vote in person at the ScanSoft special meeting or by proxy. ScanSoft recommends that you vote by proxy even if you plan to attend the special meeting and vote in person. You can change your vote at the ScanSoft special meeting at any time before the voting has been completed.

ScanSoft stockholders holding shares of ScanSoft common stock directly as stockholders of record or in street name may direct the voting of their shares without attending the ScanSoft special meeting.

ScanSoft stockholders may vote by granting proxies or, for shares held in street name, by submitting voting instructions to their brokers or nominees.

ScanSoft stockholders of record may submit proxies by completing, signing and dating the enclosed proxy card for the ScanSoft special meeting and mailing them in the enclosed pre-addressed postage-paid envelopes. All shares of ScanSoft common stock represented by properly executed proxies received in time for the ScanSoft special meeting and not revoked will be voted at the ScanSoft special meeting, and at any adjournment or postponement of the ScanSoft special meeting, in accordance with the instructions contained in the proxies. Properly executed proxies from ScanSoft stockholders holding shares directly as stockholders of record that do not contain voting instructions will be voted FOR the approval of the issuance of shares of ScanSoft common stock in connection with the merger, FOR the proposal to approve the Warburg Pincus financing, and FOR the proposal to approve the assumption of Nuance options as provided in the merger agreement.

If your broker holds your shares of ScanSoft common stock for you in street name, you should instruct your broker to vote your shares, following the directions your broker provides to you. Most brokers have procedures for telephone or Internet voting. Check the material your broker sends you or call your account representative for more information. In the event you do not instruct your broker how to vote any shares held for you in street name, your shares will not be counted as a vote cast on the proposal to approve the issuance of shares of ScanSoft common stock in connection with the merger, the proposal to approve the Warburg Pincus financing, or the proposal to approve the assumption of Nuance options as provided in the merger agreement, and will therefore have no effect on such proposals.

ScanSoft stockholders of record may also vote in person at the special meeting by submitting their proxy cards or by filling out a ballot at the ScanSoft special meeting.

### **Vote Required**

Under applicable rules of the NASDAQ National Market, the issuance of shares of ScanSoft common stock in connection with the merger requires an affirmative vote of a majority of the votes cast at the ScanSoft special meeting.

The proposal to approve the Warburg Pincus financing requires an affirmative vote of a majority of the votes cast at the ScanSoft special meeting.

The proposal to approve the assumption of Nuance options as provided in the merger agreement requires an affirmative vote of a majority of the shares present and entitled to vote at the ScanSoft special meeting.

### **Quorum, Abstentions and Broker Non-Votes**

A quorum of ScanSoft stockholders is required to have a valid ScanSoft special meeting of stockholders. A majority of the shares of ScanSoft common stock issued and outstanding and entitled to vote on the record date must be present in person or by proxy at the ScanSoft special meeting in order for a quorum to be established. ScanSoft's transfer agent will act as inspector of elections at the ScanSoft special meeting and will ascertain whether a quorum is present, tabulate the votes and determine the voting results on all matters presented to the ScanSoft stockholders at the special meeting. If a quorum is not present, ScanSoft expects that the ScanSoft special meeting will be adjourned to allow additional time to obtain additional proxies or votes, and at any subsequent reconvening of the ScanSoft special meeting,

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all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the special meeting, except for any proxies that have been effectively revoked or withdrawn prior to the reconvening of the ScanSoft special meeting.

Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients, the beneficial owners of the shares, brokers have discretion to vote these shares on routine matters but not on non-routine matters. The approval of (i) the issuance of shares of ScanSoft common stock in connection with the merger, (ii) the Warburg Pincus financing, and (iii) the assumption of Nuance options as provided in the merger agreement are all considered non-routine matters. Accordingly, brokers will not have discretionary voting authority to vote your shares at the special meeting on these proposals.

A broker non-vote occurs when a broker returns a signed and dated proxy but fails to vote on a proposal, such as when a broker does not have discretionary voting authority and has not received instructions from the beneficial owners of the shares. A broker will not be permitted to vote on the share issuance, the Warburg Pincus financing or the assumption of Nuance options as provided in the merger agreement without instruction from the owner of the shares of ScanSoft common stock held by that broker. Broker non-votes count as present for purposes of establishing a quorum described above, but will not be counted as a vote cast on the proposal to approve the issuance of shares of ScanSoft common stock in connection with the merger or the proposal to approve the Warburg Pincus financing and will therefore have no effect on those proposals. Broker non-votes will have the effect of being cast against the proposal to approve the assumption of Nuance options as provided in the merger agreement. ScanSoft stockholders are urged to return the enclosed proxy card marked to indicate their vote or to instruct their broker to vote shares held in street name.

Abstentions will have the effect of being cast against the proposal to approve assumption of Nuance options as provided in the merger agreement, even though the stockholder so abstaining may intend a different interpretation. Abstentions will have no effect on the proposal to approve the issuance of shares of ScanSoft common stock in connection with the merger and the proposal to approve the Warburg Pincus financing.

### **Shares Owned and Voted by ScanSoft Directors and Executive Officers**

At the close of business on July 27, 2005, directors, executive officers and affiliates of ScanSoft owned and were entitled to vote, in the aggregate, 17,767,862 shares of ScanSoft common stock. These shares represent approximately 16% of the ScanSoft common stock outstanding as of such date (excluding options, warrants and other convertible securities).

Each of these individuals has entered into a voting agreement with Nuance in which he or she has agreed, among other things, to vote all shares of ScanSoft common stock beneficially owned by him or her in favor of the approval of the transactions contemplated by the merger agreement, including the issuance of shares of ScanSoft common stock to Nuance stockholders in connection with the merger, the Warburg Pincus financing, and the assumption of Nuance options as provided in the merger agreement, against any other acquisition proposal and against any action that would delay or prevent the merger. In connection with and in support of the voting agreements, these persons have granted an irrevocable proxy to an affiliate of Nuance to vote the shares in accordance with the terms of the voting agreements.

### **Revoking Your Proxy**

You may revoke your proxy at any time before the proxy is voted at the ScanSoft special meeting by:

submitting a written notice of revocation to the corporate secretary of ScanSoft at 1 Wayside Road, Burlington, Massachusetts 01803 bearing a later date than the proxy;

granting a duly executed proxy relating to the same shares and bearing a later date (which automatically revokes the earlier proxy) and delivering it to the corporate secretary of ScanSoft; or

by attending the ScanSoft special meeting and voting in person.

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Simply attending the ScanSoft special meeting will not revoke a proxy. If you do not hold your shares of ScanSoft common stock in your own name, you may revoke a previously granted proxy by following the revocation instructions provided by the bank, broker or other party that is the registered owner of the shares.

**Solicitation of Proxies and Expenses**

ScanSoft and Nuance will share equally expenses incurred in connection with the filing, printing and mailing of this joint proxy statement/ prospectus. ScanSoft will be responsible for any fees incurred in connection with the solicitation of proxies for the ScanSoft special meeting. In addition to solicitation by mail, the directors, officers, employees and agents of ScanSoft may solicit proxies from ScanSoft stockholders by telephone or other electronic means or in person. Some of these individuals may have interests in the merger that are different from, or in addition to, the interests of ScanSoft stockholders generally. See the section entitled *The Merger Interests of Certain Persons in the Merger and the Warburg Pincus Financing Interests of ScanSoft Directors and Executive Officers in the Merger and the Warburg Pincus Financing*. Brokerage houses and other custodians, nominees and fiduciaries will be requested to forward soliciting materials to the beneficial owners of shares held of record by these persons, and ScanSoft will reimburse them for their reasonable out-of-pocket expenses in sending proxy materials to beneficial owners. In addition, ScanSoft has retained Georgeson Shareholder Communications, Inc. to assist in the solicitation of proxies, at an estimated cost of approximately \$9,000, plus reasonable expenses.

**Other Matters**

The ScanSoft board of directors is not aware of any other business to be brought before the ScanSoft special meeting or any adjournment or postponement of the meeting. If, however, other matters are properly brought before the ScanSoft special meeting, including any proposal to adjourn the special meeting to allow ScanSoft additional time to solicit proxies in favor of the proposal to approve the issuance of shares of ScanSoft common stock in connection with the merger, the proposal to approve the Warburg Pincus financing, or the proposal to approve the assumption of Nuance options as provided in the merger agreement or an adjournment or postponement thereof, the persons appointed as proxies will have discretionary authority to vote the ScanSoft shares represented by duly executed proxies in accordance with their discretion and judgment.

**Recommendation of the ScanSoft Board of Directors**

After careful consideration, the ScanSoft board of directors has unanimously determined it advisable and in the best interests of ScanSoft and its stockholders that ScanSoft proceed with the merger and that the terms of the merger agreement are fair to ScanSoft and its stockholders, and unanimously recommends that you vote FOR the proposal to approve the issuance of shares of ScanSoft common stock in connection with the merger, FOR the proposal to approve the Warburg Pincus financing, and FOR the proposal to approve the assumption of Nuance options as provided in the merger agreement.

In considering such recommendation, ScanSoft stockholders should be aware that some ScanSoft directors and officers have interests in the merger that are different from, or in addition to, those of ScanSoft stockholders generally. See the section entitled *The Merger Interests of Certain Persons in the Merger and the Warburg Pincus Financing Interests of ScanSoft Directors and Executive Officers in the Merger and the Warburg Pincus Financing* on page 74.

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**THE SPECIAL MEETING OF NUANCE STOCKHOLDERS**

**General**

Nuance is furnishing this joint proxy statement/ prospectus to Nuance stockholders in connection with the solicitation of proxies by the Nuance board of directors for use at the special meeting of Nuance stockholders, including any adjournment or postponement of the meeting.

**Date, Time and Place**

The Nuance special meeting will be held at Nuance's offices located at 1350 Willow Road, Menlo Park, California 94025, on August 31, 2005 at 8:00 am Pacific time. Nuance's telephone number at that location is (650) 847-0000.

**Purpose of the Nuance Special Meeting**

At the Nuance special meeting, including any adjournment or postponement of thereof, Nuance stockholders will be asked:

1. To consider and vote upon a proposal to adopt the merger agreement and approve the merger; and
2. To transact such other business as may properly come before the Nuance special meeting or any postponement or adjournment thereof.

A copy of the merger agreement is attached to this joint proxy statement/ prospectus as Annex A. Nuance stockholders are encouraged to read the merger agreement in its entirety.

THE MATTERS TO BE CONSIDERED AT THE NUANCE SPECIAL MEETING ARE OF GREAT IMPORTANCE TO NUANCE STOCKHOLDERS. ACCORDINGLY, NUANCE STOCKHOLDERS ARE URGED TO READ AND CAREFULLY CONSIDER THE INFORMATION PRESENTED IN THIS JOINT PROXY STATEMENT/ PROSPECTUS AND THE OTHER INFORMATION INCORPORATED BY REFERENCE HEREIN, AND TO COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED PRE-ADDRESSED POSTAGE-PAID ENVELOPE.

**Record Date, Shares Entitled to Vote**

Only holders of Nuance common stock at the close of business July 27, 2005, the record date for the Nuance special meeting, are entitled to notice of and to vote at the Nuance special meeting. On the record date, 36,700,643 shares of Nuance common stock, \$0.001 par value per share, were issued and outstanding, and there were 362 holders of record. The common stock is the only security entitling its holder to vote at the Nuance special meeting.

**Voting Procedures**

You may vote in person at the Nuance special meeting or by proxy. Nuance recommends that you vote by proxy even if you plan to attend the special meeting and vote in person.

Nuance stockholders of record may submit proxies by completing, signing and dating the enclosed proxy card for the Nuance special meeting and mailing them in the enclosed pre-addressed postage-paid envelopes. All shares of Nuance common stock represented by properly executed proxies received in time for the special meeting and not revoked will be voted at the Nuance special meeting, and at any adjournment or postponement of the meeting, in accordance with the instructions contained in the proxies.

Nuance stockholders holding shares of Nuance common stock directly as stockholders of record or in street name may direct the voting of their shares without attending the Nuance special meeting. Nuance stockholders may vote by granting proxies or, for shares held in street name, by submitting voting

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instructions to their brokers or nominees. If your broker holds your shares of Nuance common stock for you in street name, you should instruct your broker to vote your shares, following the directions your broker provides to you.

Nuance stockholders of record may also vote in person at the Nuance special meeting by submitting their proxy cards or by completing a ballot at the Nuance special meeting.

**Quorum, Abstentions and Broker Non-Votes**

The required quorum for the transaction of business at the Nuance special 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 on the record date. Nuance transfer agent will act as inspector of elections at the special meeting and will ascertain whether a quorum is present, tabulate the votes and determine the voting results on all matters presented to the Nuance stockholders at the special meeting. If a quorum is not present, Nuance expects that the Nuance special meeting will be adjourned to allow additional time to obtain additional proxies or votes, and at any subsequent reconvening of the Nuance special meeting, all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the special meeting, except for any proxies that have been effectively revoked or withdrawn prior to the reconvening of the Nuance special meeting. Shares that are voted FOR, AGAINST or ABSTAIN on a matter are treated as being present at the Nuance special meeting for purposes of establishing a quorum and are also treated as shares entitled to vote at the Nuance special meeting with respect to such matter. Broker non-votes (which are described below) also will be considered to be shares present at the Nuance special meeting for purposes of a quorum.

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. Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients, the beneficial owners of the shares, brokers have discretion to vote these shares on routine matters, but not on non-routine matters. The adoption of the merger agreement and the approval of the merger at the special meeting are considered non-routine matters. Accordingly, brokers will not have discretionary voting authority to vote your shares at the special meeting. Although abstentions and broker non-votes count as present for purposes of establishing a quorum as described above, they will not be voted on the proposal to adopt the merger agreement and approve the merger. Consequently, an abstention and broker non-vote will have the same effect as a vote against the proposal. Nuance stockholders are urged to return the enclosed proxy card marked to indicate their vote or to instruct their broker to vote shares held in street name.

**Vote Required**

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 affirmative votes cast by a majority of the outstanding shares of Nuance common stock as of the record date is required to adopt the merger agreement and approve the merger. An abstention and broker non-vote will have the same effect as a vote against the proposal. Properly executed proxies that do not contain voting instructions will be voted FOR the adoption of the merger agreement and approval of the merger.

**Voting Electronically Via the Internet**

If your shares are registered in the name of a bank or brokerage, you may be eligible to vote your shares electronically over the Internet or by telephone. A large number of banks and brokerage firms are participating in the ADP Investor Communication Services online program, which provides eligible stockholders who receive a paper copy of the proxy statement with the opportunity to vote via the Internet or by telephone. If your bank or brokerage firm is participating in ADP's program, your voting form from the bank or brokerage firm will provide instructions. If your voting form does not reference Internet or



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telephone information, please complete and return the accompanying paper proxy card in the enclosed self-addressed, postage paid envelope.

### **Voting Agreements**

At the close of business on July 27, 2005, each of Nuance's executive officers and directors and one of its significant stockholders, SRI International, has agreed to vote an aggregate of approximately 2,950,000 shares of Nuance common stock in favor of the proposal to adopt the merger agreement and approve the merger. These shares represent approximately 8% of the Nuance common stock outstanding as of the record date (not including options, warrants and other convertible securities outstanding).

Each of these individuals has entered into a voting agreement with ScanSoft in which he, she, or it has agreed, among other things, to vote all shares of Nuance common stock beneficially owned by him or her in favor of the merger agreement and the merger, against any other acquisition proposal and against any action that would delay or prevent the merger. In connection with and in support of the voting agreements, these persons have granted an irrevocable proxy to an affiliate of ScanSoft to vote the shares in accordance with the terms of the voting agreements. See Agreements Related to the Merger Nuance Voting Agreements.

### **Revoking Your Proxy**

You may revoke your proxy at any time before the proxy is voted at the Nuance special meeting by:

1. submitting a written notice of revocation to the corporate secretary of Nuance at 1350 Willow Road, Menlo Park, California 94025 bearing a later date than the proxy;
2. granting a duly executed proxy relating to the same shares and bearing a later date (which automatically revokes the earlier proxy) and delivering it to the corporate secretary of Nuance; or
3. by attending the Nuance special meeting and voting in person.

Attending the Nuance special meeting will not, by itself, revoke a proxy. Please note, however, that if your shares of Nuance common stock are held of record by a broker, bank or other nominee and you wish to vote at the Nuance special meeting, you must bring to the meeting a letter from the broker, bank or other nominee, confirming your beneficial ownership of the shares of common stock to be voted. If you do not hold your shares of Nuance common stock in your own name, you may revoke a previously granted proxy by following the revocation instructions provided by the bank, broker or other party that is the registered owner of the shares.

### **Solicitation of Proxies and Expenses**

ScanSoft and Nuance will share equally expenses incurred in connection with the filing, printing and mailing of this joint proxy statement/ prospectus. The cost of soliciting proxies for the Nuance special meeting will be borne by Nuance. In addition to solicitation by mail, the directors, officers, employees and agents of Nuance, without additional compensation, may solicit proxies from Nuance stockholders by telephone or other electronic means or in person. Some of these individuals may have interests in the merger that are different from, or in addition to, the interests of Nuance stockholders generally. See the section entitled The Merger Interests of Certain Persons in the Merger and the Warburg Pincus Financing Interests of Nuance Directors and Executive Officers in the Merger. Following the mailing of this joint proxy statement/ prospectus, Nuance will request brokers, custodians, nominees and other record holders to forward copies of this joint proxy statement/ prospectus to persons for whom they hold shares of Nuance common stock and to request authority for the exercise of proxies. In such cases, Nuance, upon the request of the record holder, will reimburse such holder for their reasonable expenses. In addition, Nuance has retained Georgeson Shareholder Communications, Inc. to assist in the solicitation of proxies, at an estimated cost of approximately \$7,000, plus reasonable expenses.

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**Other Matters**

The Nuance board of directors is not aware of any other business to be brought before the Nuance special meeting or any adjournment or postponement of the meeting. If, however, other matters are properly brought before the Nuance special meeting (including any proposal to adjourn the special meeting to allow Nuance additional time to solicit proxies in favor of the proposal to adopt the merger agreement) or an adjournment or postponement thereof, the persons appointed as proxies will have discretionary authority to vote the shares of Nuance common stock represented by duly executed proxies in accordance with their discretion and judgment.

**Recommendation of the Nuance Board of Directors**

After careful consideration, the Nuance board of directors has unanimously approved the proposal described above relating to the adoption of the merger agreement and the approval of the merger, and has determined that such proposal is advisable, fair and in the best interests of Nuance and its stockholders. **The Nuance board of directors unanimously recommends that you vote FOR the proposal to adopt the merger agreement and approve the merger.**

In considering such recommendation, Nuance stockholders should be aware that some Nuance directors and officers have interests in the merger that are different from, or in addition to, those of Nuance stockholders generally. See the section entitled "The Merger - Interests of Certain Persons in the Merger and the Warburg Pincus Financing Interests of Nuance Directors and Executive Officers in the Merger."

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**THE MERGER**

The following is a description of the material aspects of the proposed merger and related transactions. The following description may not contain all of the information that is important to you. You should read this entire joint proxy statement/ prospectus, including the section entitled *Agreements Related to the Merger*, and the other documents we refer to, carefully for a more complete understanding of the merger and the related transactions.

**Background of the Merger**

Both ScanSoft and Nuance regularly evaluate strategic opportunities, including potential mergers with other companies, acquisitions of other companies or assets, and licensing, marketing and development alliances.

From time to time, during the period from late 2002 until the second half of 2004, representatives of ScanSoft attempted to engage Nuance in discussions regarding a potential strategic transaction between the companies. While representatives of both companies spoke periodically, no significant discussions materialized during that period.

During the second half of 2004 and early 2005, Paul Ricci, Chairman and Chief Executive Officer of ScanSoft, and Charles Berger, Chief Executive Officer of Nuance, met on several occasions, in person and by telephone, at the request of Mr. Ricci. During these meetings, Mr. Ricci raised the possibility of a business combination between ScanSoft and Nuance. Mr. Berger and Mr. Ricci reported on these inquiries at regular meetings of the Nuance and ScanSoft boards of directors, respectively. During this same period, William Janeway, a member of the ScanSoft board of directors, and Alan Herzig, a member of the Nuance board of directors, met on several occasions, in person and by telephone, at the request of Mr. Janeway, during which Mr. Janeway raised the possibility of a business combination between ScanSoft and Nuance. After a January 17, 2005 meeting, Messrs. Ricci and Berger agreed that ScanSoft and Nuance would not engage in discussions concerning a business combination until, at the earliest, the financial results for the quarter ended December 31, 2004, for both ScanSoft and Nuance, were available. In all of these meetings, the Nuance representative indicated that Nuance was not presently interested in pursuing a sale of Nuance.

On February 23, 2005, during a conversation with Mr. Berger, a representative of a third party (referred to as the other party for purposes of this section of this joint proxy statement/ prospectus) raised the possibility of a business combination between the other party and Nuance, at which time, Mr. Berger replied that Nuance was not presently interested in pursuing a sale of Nuance.

On February 28, 2005, the ScanSoft board of directors held a special meeting to discuss a possible business combination with Nuance and consider: (1) the strategic benefits of the transaction; (2) detailed financial analyses and other information with respect to the companies presented by Thomas Weisel Partners, ScanSoft's financial advisor; (3) the financing alternatives available to ScanSoft in order to consummate the transaction; and (4) the impact of the transaction on ScanSoft and its stockholders. Following this meeting, Mr. Ricci sent a letter, dated February 28, 2005, to Mr. Berger outlining a proposal whereby ScanSoft would acquire, through a merger, all of the outstanding stock of Nuance for a purchase price of \$5.25 per share, consisting of a combination of cash and common stock of ScanSoft.

On February 28, 2005, Mr. Berger circulated a copy of the February 28, 2005 ScanSoft letter to each member of the Nuance board, Nuance's legal counsel and Nuance's financial advisor, Credit Suisse First Boston, which Nuance engaged for the potential transaction.

Between February 28, 2005 and March 3, 2005, members of the ScanSoft board of directors and ScanSoft's external advisors contacted certain members of Nuance's board of directors and discussed the strategic benefits of a proposed merger of ScanSoft and Nuance.

On March 1, 2005, Mr. Ricci and Mr. Berger discussed the proposal by ScanSoft for the merger of ScanSoft and Nuance and appropriate next steps for ScanSoft and Nuance.

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On March 3, 2005, the Nuance board of directors held a regular meeting, at which it reviewed with Nuance's financial and legal advisors the terms proposed by ScanSoft for a merger of ScanSoft and Nuance. The Nuance board of directors resolved to give full evaluation to the proposal by ScanSoft, and directed Nuance's management to continue discussions with ScanSoft and to consider further Nuance's prospects as an independent company and its strategic alternatives, including other possible business combinations. The Nuance board of directors also instructed Nuance's management to contact the other party to ascertain whether it remained interested in a business combination with Nuance.

After the March 3, 2005 meeting of the Nuance board of directors, Mr. Berger contacted Mr. Ricci, indicating that Nuance would be open to discussing a potential business combination. Also on March 3, 2005, Mr. Berger telephoned a representative of the other party to determine whether the other party remained interested in a potential acquisition of Nuance.

On March 4, 2005, Mr. Berger called Mr. Ricci to discuss the timing of a potential business combination and the process under which Nuance would evaluate ScanSoft's proposal, which Mr. Berger and Mr. Ricci agreed would include a meeting between the managements of Nuance and ScanSoft and a presentation by Mr. Ricci to the Nuance board of directors.

On March 7, 2005, Mr. Ricci telephoned Mr. Berger to set the dates for the meeting between the managements of Nuance and ScanSoft and the presentation by Mr. Ricci to the Nuance board of directors.

On March 11, 2005, representatives of Credit Suisse First Boston contacted two additional third parties to determine whether either one of them would be interested in a potential acquisition of Nuance. Each of these third parties subsequently confirmed to Credit Suisse First Boston, in late March and early April, that it would not be interested in an acquisition of Nuance at that time.

On March 14, 2005, the Nuance board of directors held a special meeting, at which it reviewed with Nuance's financial advisors the proposed terms of a merger of ScanSoft and Nuance, Nuance's prospects as an independent company, and Nuance's present strategic alternatives. Mr. Berger reported to the Nuance board about his separate discussions with ScanSoft and the other party. The Nuance board of directors resolved to have Nuance conduct a due diligence review of ScanSoft and its business, and directed Nuance's management to consider further Nuance's strategic alternatives, including a possible business combination with the other party and other third parties, and report back to the Nuance board of directors concerning those alternatives.

On March 14, 2005, Mr. Ricci, members of the ScanSoft management team and representatives of Thomas Weisel Partners and Credit Suisse First Boston participated in a telephone conference call during which Mr. Ricci provided an overview of ScanSoft's business, and certain due diligence matters were discussed by the participants.

On March 16, 2005, the Nuance board of directors held a special meeting at which Mr. Berger presented to the Nuance board of directors an update on the proposed business combination with ScanSoft and related matters and summarized recent conversations with Mr. Ricci. Mr. Berger also summarized recent actions taken by Nuance's management respecting Nuance's strategic alternatives, including related discussions with the other party and additional third parties.

On March 17, 2005, Mr. Berger and members of the Nuance management team met with representatives of the other party to discuss the strategic fit between the two companies. After the meeting, members of the Nuance management team and representatives of the other party met on a number of occasions by telephone over the course of several weeks to discuss, in further detail, a potential acquisition of Nuance by the other party.

On March 22, 2005, Mr. Ricci and members of the ScanSoft management team met with Mr. Berger and members of the Nuance management team and representatives of Credit Suisse First Boston to discuss ScanSoft's business and the strategic benefits of the proposed business combination.

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On March 23, 2005, the Nuance board of directors held a special meeting at which Mr. Berger presented to the Nuance board of directors an update on the proposed business combination with ScanSoft and with respect to related matters and summarized recent actions taken by Nuance's management respecting Nuance's strategic alternatives, including discussions with the other party.

On March 29, 2005, Mr. Ricci and certain of ScanSoft's advisors met with the Nuance board of directors to provide a comprehensive overview of ScanSoft's business, the strategic benefits of the proposed business combination and ScanSoft's vision for the combined organization. Mr. Ricci also discussed with the Nuance board of directors ScanSoft's potential alternatives for financing the proposed transaction. Mr. Ricci then left the meeting of the Nuance board of directors and the board of directors discussed Mr. Ricci's presentation. Following this discussion, the Nuance board of directors determined that Nuance should continue to explore a potential business combination with ScanSoft.

On April 1, 2005, the Nuance board of directors held a special meeting, at which it discussed Nuance's recent financial results and the status of various potential transactions, in particular the proposed merger of ScanSoft and Nuance and a potential acquisition of Nuance by the other party. At this meeting, the Nuance board of directors authorized Nuance's management to proceed with the discussions regarding each of these potential business combinations.

On April 7, 2005, ScanSoft and Nuance signed a mutual non-disclosure agreement to cover their strategic discussions and related confidential disclosures.

On April 8, 2005, Mr. Berger received a letter from the other party indicating an interest to acquire Nuance. After the receipt of this letter, Mr. Berger and Nuance's financial advisors engaged in several discussions with representatives of the other party over the course of several days. These discussions involved preliminary pricing and other general terms of an acquisition of Nuance.

On April 8, 2005, Mr. Ricci and Mr. Berger discussed by telephone a counter-proposal by Nuance regarding price and other significant terms of the proposed merger of ScanSoft and Nuance. During the remainder of April 2005 and early May 2005, Messrs. Ricci and Berger discussed several times by telephone the general terms and conditions of the proposed merger of ScanSoft and Nuance.

On April 11, 2005, the Nuance board of directors held a special meeting, at which it discussed the status of various potential business combinations, in particular the proposed business combinations with ScanSoft and with the other party, and authorized Nuance's management and financial advisors to continue discussions, including the negotiation of pricing and other terms, with ScanSoft and with the other party.

On April 12, 2005, the ScanSoft board of directors held a special meeting to discuss the proposed business combination. The board reviewed and discussed Nuance's counter-proposal. Members of the management of ScanSoft presented the strategic rationale, projected synergies and an analysis of the financial impact of the transaction for ScanSoft and its stockholders.

On April 19, 2005, Nuance and representatives of Credit Suisse First Boston met with ScanSoft and Thomas Weisel Partners to discuss an overview of Nuance's business, the strategic merits and projected synergies of a business combination and appropriate follow on steps.

On April 22, 2005, the Nuance board of directors held a special meeting, at which it discussed the status and pricing and other terms of the proposed business combinations with ScanSoft and with the other party, and determined that the proposal from ScanSoft was superior from a financial point of view. Representatives of Credit Suisse First Boston subsequently conveyed the determination of the Nuance board of directors to the other party and requested that the other party increase the value of its offer for Nuance. The other party subsequently declined to increase the value of its offer for Nuance.

During the week of April 25, 2005, Richard Palmer, Senior Vice President of Corporate Development for ScanSoft, Doug Neilsson, Vice President, Secretary and General Counsel for Nuance, and legal counsel for each company engaged in a series of discussions concerning the price and other significant

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terms of the proposed business combination and conveyed a series of proposals and counter-proposals. Mr. Berger participated in some of these discussions.

On April 29, 2005, the Nuance board of directors held a special meeting, at which Nuance's management reviewed with the board the proposed terms of the merger of ScanSoft and Nuance. The Nuance board of directors directed Nuance's management to continue negotiations with ScanSoft.

On May 1, 2005, Nuance and its outside counsel received the initial draft of the merger agreement from ScanSoft's outside counsel. From May 1, 2005 until May 9, 2005, representatives of Nuance and ScanSoft and their respective legal counsels negotiated and exchanged several drafts of the merger agreement and related transaction agreements.

During the week of May 2, 2005, ScanSoft and Nuance conducted reciprocal due diligence.

On May 3, 2005, the ScanSoft board of directors was provided with an update on the status of discussions with Nuance as part of a regular meeting of the board.

On May 4, 2005, Messrs. Ricci and Berger met to negotiate certain remaining open points of the merger agreement.

From May 3 through May 9, 2005, the parties and their financial and legal advisors continued to negotiate the terms of the merger agreement and related transaction agreements, and completed their due diligence reviews.

On May 6, 2005, the Nuance board of directors held a special meeting at which Nuance's management, representatives of Credit Suisse First Boston and Fenwick & West LLP, Nuance's legal counsel, discussed the findings of due diligence and the strategic benefits of the merger and reported on the terms of the merger agreement and related agreements. Representatives of Credit Suisse First Boston reviewed with the members of the board the financial analyses performed by Credit Suisse First Boston with respect to the proposed merger consideration offered by ScanSoft.

On the morning of May 9, 2005, the ScanSoft board of directors held a special meeting at which management and representatives of Thomas Weisel Partners, Wilson Sonsini Goodrich and Rosati, P.C., ScanSoft's legal counsel, and KPMG, ScanSoft's accounting due diligence consultant, discussed the findings of due diligence and the strategic benefits of the merger and reported on the final terms of the merger agreement and related agreements. Representatives of Thomas Weisel Partners reviewed their financial analyses with respect to the proposed merger and delivered an oral opinion (subsequently confirmed in writing) that, as of that date and based upon and subject to the factors and assumptions set forth therein, the merger consideration payable under the merger agreement was fair, from a financial point of view, to ScanSoft. After consideration of these presentations, the ScanSoft board of directors unanimously approved the merger and the merger agreement.

On the morning of May 9, 2005, the Nuance board of directors held a special meeting at which management and representatives of Credit Suisse First Boston and Fenwick & West LLP discussed the findings of due diligence and the strategic benefits of the merger and reported on the final terms of the merger agreement and related agreements. Representatives of Credit Suisse First Boston delivered the oral opinion of Credit Suisse First Boston (subsequently confirmed in writing) that, as of May 9, 2005 and based upon and subject to the various assumptions, considerations and limitations set forth in its opinion, the merger consideration to be received by the holders of Nuance common stock pursuant to the merger was fair, from a financial point of view, to the holders of Nuance common stock. After consideration of these presentations, the Nuance board of directors unanimously approved the merger and the merger agreement.

Following the approval of the board of directors of each company, ScanSoft and Nuance executed the definitive merger agreement and issued a press release announcing the proposed transaction on the afternoon of May 9, 2005.

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Throughout the period the merger was being negotiated, ScanSoft's management and board of directors were exploring and evaluating potential financing alternatives for the transaction, including an equity investment by Warburg Pincus, a public convertible debt offering, a public secondary offering of ScanSoft common stock and commercial bank credit facilities.

On May 5, 2005, ScanSoft and Warburg Pincus executed a definitive agreement for Warburg Pincus to purchase 14,150,943 shares of ScanSoft common stock for an aggregate price of \$59,999,998.32, conditional upon the closing of the merger with Nuance.

Separately, also on May 5, 2005 and independent of the Nuance transaction, ScanSoft and Warburg Pincus executed a definitive agreement for Warburg Pincus to purchase 3,537,736 shares of ScanSoft common stock for an aggregate price of \$15,000,000.64. This transaction was completed on May 9, 2005.

### **Consideration of the Merger by ScanSoft**

#### ***ScanSoft's Reasons for the Merger and Recommendation of the ScanSoft Board of Directors***

The ScanSoft board of directors considered a number of alternatives for enhancing its competitive position in the speech technology markets and increasing stockholder value. The ScanSoft board of directors believes that the proposed merger is in the best interests of ScanSoft and its stockholders. The ScanSoft board of directors unanimously approved the merger agreement and the merger and unanimously recommends that its stockholders approve the issuance of shares of ScanSoft common stock in connection with the merger. This decision was based on a number of factors, including the potential benefits that the ScanSoft board of directors believes will contribute to the future success of the combined company. These benefits include:

- a complete product portfolio with the widest language coverage in the speech industry;
  - network automated speech recognition, or ASR, in 46 languages, network text to speech, or TTS, in 26 languages;
  - embedded ASR in 12 languages, embedded TTS in 20 languages;
  - large vocabulary continuous dictation in 7 languages;
- the ability to better serve the customer base of each company with a comprehensive portfolio of technologies, applications and expertise that will enable customers to effectively deploy innovative speech-solutions;
- the ability of the combined company to bring together an array of technical resources including scientists and engineers and a broad patent portfolio to handle complex implementations and solve more difficult problems with speech technology, develop new products and greater functionality for existing products;
- the complementary nature of the technologies of the combined company;
- the ability to leverage a unified sales infrastructure to expand sales coverage and create improved opportunities for selling the products of the combined company;
- the ability to leverage combined technical assets and expertise to focus on technology specific to specific verticals, increased ability to develop applications more efficiently and optimization of technology to improve performance;
- increased combined technical depth in the face of AT&T's, Microsoft's and IBM's investments in speech technology;
- the ability of the combined company to employ the skills and resources of both companies' management teams; and

the expected synergies from the combined research and development, marketing, sales and administrative areas of the company following the merger.



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The ScanSoft board of directors evaluated all of the potential benefits described above in light of their knowledge of ScanSoft's business, financial condition and prospects, Nuance's business, financial condition and prospects, and the market for speech technology solutions. The ScanSoft board of directors also identified and considered potentially negative factors that could result from the merger, including the risks posed by the necessary integration of the businesses and operations of the two companies and the risk that the combined company will not be able to fully realize potential synergies and cost saving opportunities. In addition, the ScanSoft board of directors considered a number of other factors in evaluating the proposed merger, including presentations given by ScanSoft's management and the opinion of Thomas Weisel Partners as financial advisor to ScanSoft. In view of the variety of factors considered by the ScanSoft board of directors in its evaluation of the merger, the ScanSoft board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weight to the specific factors considered in reaching its decision. In addition, individual members of the ScanSoft board of directors may have given different weight to different factors. While the list of potential benefits described in this section as having been considered by the ScanSoft board of directors is not intended to be the complete list of all of the potential benefits considered, it is believed to include the potential benefits considered by the ScanSoft board of directors to be material.

The ScanSoft board of directors believes that the merger is advisable, and is fair to and in the best interests of ScanSoft and its stockholders, and unanimously recommends that ScanSoft stockholders approve the issuance of shares of ScanSoft common stock in connection with the merger.

***Opinion of ScanSoft Financial Advisor***

ScanSoft retained Thomas Weisel Partners LLC (which we refer to as Thomas Weisel Partners) to act as financial advisor to ScanSoft in connection with the merger. On May 9, 2005, Thomas Weisel Partners delivered its oral opinion, which was subsequently confirmed in writing, to the ScanSoft board of directors that, as of that date and based upon and subject to the factors and assumptions set forth therein, the merger consideration payable under the merger agreement was fair, from a financial point of view, to ScanSoft.

The full text of the written opinion of Thomas Weisel Partners is set forth as Annex B to this joint proxy statement/ prospectus and describes the assumptions made, general procedures followed, matters considered and limits and qualifications on the review undertaken by Thomas Weisel Partners and is incorporated herein by reference. Thomas Weisel Partners' opinion is directed only to whether the merger consideration is fair, from a financial point of view, to ScanSoft and does not constitute a recommendation to any ScanSoft director or stockholder as to how such director or stockholder should vote with respect to the merger. The summary of the opinion of Thomas Weisel Partners set forth below is qualified in its entirety by reference to the full text of such opinion. **STOCKHOLDERS OF SCANSOFT ARE URGED TO READ THE OPINION CAREFULLY AND IN ITS ENTIRETY.**

In connection with rendering its opinion, Thomas Weisel Partners, among other things:

reviewed certain publicly available financial data with respect to Nuance and ScanSoft, including the consolidated financial statements for their three most recent fiscal years and for any subsequent interim periods to December 31, 2004, as well as the draft interim financial statements for the quarter ended March 31, 2005, and certain other relevant financial and operating data relating to Nuance and ScanSoft made available to Thomas Weisel Partners from published sources and from the internal records of Nuance and ScanSoft;

reviewed the financial terms and conditions of the merger agreement;

reviewed certain publicly available information concerning the trading of, and the trading market for, Nuance common stock and ScanSoft common stock;

compared Nuance and ScanSoft from a financial point of view with certain other public companies that Thomas Weisel Partners deemed to be relevant;

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considered the financial terms, to the extent publicly available, of selected recent business combinations which Thomas Weisel Partners deemed to be comparable, in whole or in part, to the merger;

reviewed and discussed with representatives of the management of Nuance and ScanSoft certain information of a business and financial nature regarding Nuance and ScanSoft, furnished to Thomas Weisel Partners by Nuance and ScanSoft, including financial forecasts and related assumptions of Nuance and ScanSoft;

made inquiries and held discussions regarding the merger and the merger agreement and other matters related thereto with ScanSoft's counsel; and

performed such other analyses and examinations as Thomas Weisel Partners has deemed appropriate.

For purposes of its analysis and opinion, Thomas Weisel Partners assumed and relied upon, without assuming any responsibility for independent verification of, the accuracy and completeness of the information publicly available and the information supplied or otherwise made available to, discussed with, or reviewed by Thomas Weisel Partners. With respect to the financial projections of ScanSoft and Nuance and the underlying analysis concerning the potential synergies that were furnished to Thomas Weisel Partners, or discussed with Thomas Weisel Partners by the managements of ScanSoft or Nuance, Thomas Weisel Partners assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of ScanSoft's and Nuance's management of the future financial performance of ScanSoft and Nuance and that they provide a reasonable basis upon which Thomas Weisel Partners could form its opinion. This notwithstanding, as regards certain forecasts and/or projections with respect to Nuance, for purposes of Thomas Weisel Partners' analyses Thomas Weisel Partners has adopted the forecasts provided by ScanSoft's management regarding revenue growth and profitability. Thomas Weisel Partners has discussed the adjusted forecasts with management of ScanSoft, which has acknowledged Thomas Weisel Partners' use of such adjusted forecasts in arriving at its opinion. Thomas Weisel Partners has also assumed that there have been no material changes in Nuance's or ScanSoft's assets, financial condition, results of operations, business or prospects since the respective dates of their last financial statements made available to Thomas Weisel Partners. Thomas Weisel Partners further assumed that, in all material respects, such financial projections and synergies would be realized in the amounts and times indicated thereby. Thomas Weisel Partners expressed no view as to such financial projections or synergies, or the assumptions on which they were based. Additionally, Thomas Weisel Partners relied on ScanSoft management's views as to the future strategic benefits of the merger.

Thomas Weisel Partners did not make nor assume any responsibility for making any independent valuation or appraisal of the assets or liabilities of ScanSoft or Nuance, nor was Thomas Weisel Partners furnished with any such appraisals, nor did Thomas Weisel Partners evaluate the solvency or fair value of Nuance or ScanSoft under any state or federal laws relating to bankruptcy, insolvency or similar matters. Thomas Weisel Partners' opinion is based on economic, market and other conditions as in effect on, and the information and merger agreement made available to Thomas Weisel Partners as of, the date of the opinion. Thomas Weisel Partners assumed the merger will qualify as a tax-free reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended. Thomas Weisel Partners did not evaluate, nor did ScanSoft request Thomas Weisel Partners to evaluate, alternatives to the merger or ScanSoft's underlying decision to proceed with or effect the merger. In addition, Thomas Weisel Partners was not asked to provide an opinion with respect to ScanSoft's financing arrangements in connection with the merger. Thomas Weisel Partners' opinion does not address ScanSoft's underlying business decision to effect the merger nor constitute a recommendation to any ScanSoft director or stockholder as to how such director or stockholder should vote with respect to such financing arrangements or the merger. Furthermore, Thomas Weisel Partners expresses no opinion as to the price or range of prices at which the shares of ScanSoft common stock will trade at any future time.

For purposes of rendering its opinion, Thomas Weisel Partners assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the merger agreement are true

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and correct, that each party will perform all the covenants and agreements required under the merger agreement, and that all conditions to the consummation of the merger will be satisfied without waiver thereof. Thomas Weisel Partners also assumed that in the course of obtaining the necessary regulatory or other approvals (contractual or otherwise) for the merger, no restrictions, including any divestiture requirements or amendments and modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the merger. Thomas Weisel Partners further assumed that the merger will be consummated in accordance with the terms described in the merger agreement, without any further amendments thereto or modification thereof, and without waiver by ScanSoft of any of the conditions to its obligations thereunder.

In connection with a presentation to the ScanSoft board of directors on May 9, 2005, Thomas Weisel Partners advised the ScanSoft board of directors that, in evaluating the fairness of the merger consideration to be paid by ScanSoft, Thomas Weisel Partners performed a variety of financial analyses with respect to ScanSoft and Nuance. The following is a summary of the material analyses contained in the presentation. Some of the summaries of the financial analyses include information presented in tabular format. The tables are not intended to stand alone, and in order to more fully understand the financial analyses performed by Thomas Weisel Partners, the tables must be read together with the full text of each summary.

*Historical Exchange Ratio Analysis.* Thomas Weisel Partners reviewed the daily closing prices of ScanSoft common stock and Nuance common stock to determine the exchange ratio and the implied merger consideration per share for each share of Nuance common stock based upon the relative prices of these securities for each considered time period and the closing price per share of \$4.46 of ScanSoft common stock on May 6, 2005. Thomas Weisel Partners analyzed the exchange ratio between ScanSoft common stock and Nuance common stock for various time periods between May 4, 2004 and May 6, 2005. Thomas Weisel Partners noted that the implied merger consideration per share of Nuance common stock of \$5.63 was within the range of historical implied merger consideration per share in certain of the periods examined as shown below:

**Exchange Ratio/ Implied Consideration per Share**

<b>Period</b>	<b>High</b>	<b>Average</b>	<b>Low</b>
30 Day	0.821x/ \$ 3.66	0.730x/ \$ 3.26	0.647x/ \$ 2.89
90 Day	1.007x/ \$ 4.49	0.789x/ \$ 3.51	0.647x/ \$ 2.89
180 Day	1.363x/ \$ 6.08	0.929x/ \$ 4.14	0.647x/ \$ 2.89
One Year	1.363x/ \$ 6.08	0.944x/ \$ 4.21	0.647x/ \$ 2.89

*Synergies Analysis.* Relying on ScanSoft management's estimates of the estimated annual synergies resulting from the merger, Thomas Weisel Partners estimated the present value of the future, unlevered free cash flows resulting from such synergies based on two methods: (i) discounted cash flow analysis based on perpetual growth rates and (ii) capitalization of 2006 earnings on a fully realized basis.

The first method utilized the net present value of the implied annual cash flows from the synergies and a terminal value in 2009 calculated based upon perpetual growth rates of free cash flow, and adjusted for Nuance's estimated net cash balance as of March 31, 2005 (the Perpetuity Method). For purposes of this calculation, Thomas Weisel Partners used a range of discount rates of 12% to 16%, a range of tax rates of 30% to 40% and a perpetual growth rate of 0%. The discount rates were based on weighted average cost of capital computations and qualitative assessments of ScanSoft's and Nuance's projected results and the synergies and risks inherent therein. This method produced implied values of synergies ranging from a low of \$109 million, or \$2.93 per share of Nuance common stock (using a discount rate of 16% and a tax rate of 40%), to a high of \$170 million, or \$4.44 per share of Nuance common stock (using a

discount rate of 12% and a tax rate of 30%).

The second method capitalized the fully realized synergy projections from ScanSoft management at net income multiples ranging from a low of 10x to a high of 20x projected 2006 earnings (after applying estimated tax rates ranging from 30% to 40%) (the Capitalization Method ). This method produced implied values of synergies ranging from a low of \$177 million, or \$4.59 per share of Nuance common

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stock (using a net income multiple of 10x and a tax rate of 40%), to a high of \$412 million, or \$9.99 per share of Nuance common stock (using a net income multiple of 20x and a tax rate of 30%).

Thomas Weisel Partners then utilized the value of the projected synergies in various other analyses, as described below.

*Public Company Trading Analysis.* Thomas Weisel Partners compared selected financial, market and operating information of Nuance with corresponding data of selected publicly traded companies with operations Thomas Weisel Partners deemed to be similar in some respect to those of Nuance for purposes of this analysis. In such analysis, Thomas Weisel Partners compared the multiples of enterprise value to certain financial data of Nuance on a stand alone basis, as well as based on the terms of the merger, to the corresponding multiples for the selected comparable companies. The multiples that were analyzed by Thomas Weisel Partners were derived by (i) dividing the enterprise value of each company (based on closing stock prices on May 6, 2005) by its estimated 2005 and 2006 revenues and earnings before interest, taxes depreciation and amortization ( EBITDA ), and (ii) the closing price per share of the common stock of each company on May 6, 2005 by its estimated 2005 and 2006 earnings per share. In order to give effect to the estimated operating synergies as described above, Thomas Weisel Partners applied the median synergy value as estimated by the Perpetual Method to the multiples derived from the financial results of selected publicly traded companies in order to arrive at an estimated range of values per share inclusive of the impact of synergies. Thomas Weisel Partners included in its review of companies the following software companies:

Aspect Communications Corp.

Brooktrout Inc.

Comverse Technology, Inc.

Interactive Intelligence Inc.

InterVoice Inc.

NMS Communications Corporation

Openwave Systems Inc.

Witness Systems, Inc.

In addition, certain metrics for International Business Machines Corporation and Microsoft Corporation, which are also market participants, were reviewed by Thomas Weisel Partners but excluded from the analysis, because each of these companies is several times the size of each of the other companies listed.

For ScanSoft and Nuance, projections were based on ScanSoft management's estimates for 2005 and 2006. For the comparable companies, projections were based on publicly available Wall Street research estimates.

Thomas Weisel Partners reviewed the multiples of enterprise value to estimated 2005 revenue, EBITDA and net income and estimated 2006 revenue, EBITDA and net income. Thomas Weisel Partners noted that, because Nuance was not projected to have positive EBITDA or net income, the valuation multiples based on EBITDA and net income were not meaningful for Nuance, and therefore these metrics were excluded from the analysis. Thomas Weisel Partners noted that, based upon closing stock prices as of May 6, 2005, the implied price per share of Nuance common stock of \$5.63 fell within the overall ranges (inclusive of synergies) implied by both CY2005 and CY2006 revenue multiples of prices per share of the comparable publicly-traded companies.

<b>Enterprise Value as a Multiple of:</b>	<b>Low</b>	<b>High</b>	<b>Implied Price per Share without Synergies</b>	<b>Implied Price per Share with Synergies</b>
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CY2005E Revenues	0.8x	2.9x	\$ 2.29	\$ 5.22	\$ 5.59	\$ 8.36
CY2006E Revenues	0.6x	2.6x	\$ 2.11	\$ 5.12	\$ 5.43	\$ 8.26

Thomas Weisel Partners noted that no company used in the comparable company analyses summarized above is identical to Nuance. Thomas Weisel Partners noted that, because of the differences

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between the business mix, operations and other characteristics of Nuance and the comparable public companies, Thomas Weisel Partners believed that an appropriate use of the comparable public company analysis would also involve qualitative judgments concerning the differences between Nuance and the comparable companies that would affect the public trading values of the common stock of the companies. Accordingly, any analysis of the fairness of the merger consideration involves complex evaluations and judgments concerning differences in the financial and operating characteristics of the comparable companies and other factors in relation to the trading values of the comparable companies.

*Precedent Transactions Analysis.* Thomas Weisel Partners reviewed and analyzed the implied transaction multiples paid in selected merger and acquisition transactions in the software industry that Thomas Weisel Partners deemed to be similar in some respect to the merger and compared these multiples to the multiples implied for Nuance based on the terms of the merger. The following table sets forth the transactions that were used for purposes of this analysis:

<b>Acquiror</b>	<b>Target</b>
Adobe Systems, Inc.	Macromedia Inc.
Oracle Corporation	Retek Inc.
Infor Global Solutions	MAPICS, Inc.
International Business Machines Corporation	Corio, Inc.
Computer Associates International, Inc.	Netegrity, Inc.
Symantec Corp.	Brightmail Inc.
BMC Software Inc.	Marimba Inc.
TIBCO Software Inc.	Staffware plc
Pitney Bowes	Group 1 Software Inc.
Ariba	FreeMarkets, Inc.
Symantec Corp.	On Technology Corp.
EMC Corp.	Documentum, Inc.
Interwoven Inc.	iManage, Inc.
Business Objects SA	Crystal Decisions Inc.
PeopleSoft Inc.	J.D. Edwards & Company
ScanSoft, Inc.	Speechworks Inc.

To illustrate, Thomas Weisel Partners calculated the multiples of enterprise value to actual revenue for the last twelve months. Thomas Weisel Partners noted that the valuation multiple for Nuance based on the terms of the merger falls within the range found for the selected companies.

	<b>Enterprise Value to Last Twelve Months Revenue</b>	<b>Enterprise Value to Next Twelve Months Revenue</b>
<b>NUANCE TRANSACTION</b>		
Software Transactions	3.3x	3.3x
Maximum	7.5x	6.7x
Mean	3.4x	3.2x
Median	3.0x	2.8x
Minimum	1.6x	1.6x

Among other factors, Thomas Weisel Partners noted that the merger and acquisition transaction environment varies over time because of macroeconomic factors such as interest rate and equity market fluctuations and microeconomic factors such as industry results and growth expectations. Thomas Weisel Partners noted that no transaction used in the comparable transaction analysis summarized above is identical to the terms of the proposed merger. Accordingly, the analysis performed by Thomas Weisel Partners involves complex considerations and judgments concerning differences in financial and operating



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characteristics of the comparable transactions and other factors in relation to the acquisition values of the comparable companies.

*Premiums Paid Analysis.* Thomas Weisel Partners analyzed the premiums paid relative to public market pre-announcement trading prices for a selected group of transactions that occurred since January 1, 2002 in the technology industry with transaction values from \$100 million to \$1,000 million that it deemed to be similar in some respect to the merger involving companies that Thomas Weisel Partners deemed to be similar to Nuance for the purposes of this analysis. Thomas Weisel Partners then compared these premiums to the premium implied for Nuance based on the terms of the merger.

Thomas Weisel Partners calculated and compared the premiums paid in these transactions based on the value of the per share consideration received in the transaction relative to the closing stock price of the target company one day, one week and one month prior to the respective date of announcement of the transaction and relative to the one week and one month average exchange ratio premium. The premium calculations for Nuance based on the terms of the merger were based upon an announcement date of May 9, 2005 for the merger. Thomas Weisel Partners noted that the premium for Nuance based on the terms of the merger generally fall within the range found for the selected transactions. This analysis produced the following results:

<b>Transactions Since 1/1/02</b>	<b>Average % Stock Premium</b>			<b>Average Exchange Ratio Premium</b>	
	<b>1 Day</b>	<b>1 Week</b>	<b>1 Month</b>	<b>1 Week</b>	<b>1 Month</b>
Nuance Transaction	84.6%	89.7%	99.1%	79.9%	79.9%
High	141.4%	138.1%	161.2%	146.7%	149.2%
3rd Quartile	54.3%	57.1%	53.7%	49.2%	57.3%
Mean	39.4%	41.3%	45.6%	40.4%	42.7%
Median	30.5%	34.3%	40.1%	33.6%	34.6%
1st Quartile	21.3%	22.5%	22.9%	21.6%	19.0%
Low	4.1%	3.7%	(6.8)%	9.1%	(15.2)%

Among other factors, Thomas Weisel Partners noted that the merger and acquisition transaction environment varies over time because of the macroeconomic factors such as interest rate and equity market fluctuations and microeconomic factors such as industry results and growth expectations. Thomas Weisel Partners noted that no transaction used in the premiums paid analysis summarized above is identical to the merger. Accordingly, the analysis performed by Thomas Weisel Partners involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable transactions and other factors in relation to the acquisition values of the comparable companies.

*Discounted Cash Flow Analysis.* Relying on ScanSoft management's estimates of the projected financial performance of Nuance, Thomas Weisel Partners estimated the present value of the future stand alone, unlevered free cash flows that could be produced by Nuance. Thomas Weisel Partners estimated a range of theoretical values for Nuance based on the net present value of its implied annual cash flows and a terminal value in 2009 calculated based upon multiples of estimated EBITDA, and adjusted for Nuance's estimated net cash balance as of March 31, 2005. Thomas Weisel Partners used a range of discount rates from 12.0% to 16.0% and a range of terminal EBITDA multiples from 8.0x to 12.0x relative to estimated 2009 EBITDA. The discount rates were based on weighted average cost of capital computations and qualitative assessments of Nuance's projected results and the risks inherent therein. In order to give effect to the estimated operating synergies as described above, Thomas Weisel Partners applied the median synergy value estimated by the Perpetual Method to the value per share of Nuance common stock derived from the discounted cash flow analysis in order to arrive at an estimated range of values per share inclusive of the impact of synergies. The discounted cash flow valuation implied values of per share of \$2.34 to \$3.29 per share of Nuance common stock on a stand-alone basis and \$5.63 to \$6.51 per share of Nuance common stock inclusive of

synergies. Thomas Weisel Partners noted that the

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implied price per share of Nuance common stock of \$5.63 fell within the overall ranges (inclusive of synergies) implied by the discounted cash flow analysis.

*Contribution Analysis.* Thomas Weisel Partners analyzed the relative contributions of ScanSoft and Nuance to the pro forma combined company with respect to a selected group of operating and financial statistics for the estimated results for the 2005 and 2006 fiscal years. Thomas Weisel Partners also reviewed the pro forma ownership of the combined company, taking into account ScanSoft's outstanding options and warrants to purchase shares of ScanSoft common stock treated under the treasury stock method and assuming that all Nuance in the money options are converted into shares of ScanSoft common stock. For each of ScanSoft and Nuance, Thomas Weisel Partners utilized ScanSoft management's estimates.

	% Contribution		Implied Agg. Value	Implied Equity Value	Implied Ownership
	ScanSoft	Nuance			
FY 2005E					
Total Revenues	80.2%	19.8%	\$ 130.0	\$ 168.1	24.1%
Gross Profit	80.3%	19.7%	129.2	\$ 167.4	24.1%
FY 2006E					
Total Revenues	82.0%	18.0%	\$ 115.7	\$ 153.8	22.5%
Gross Profit	82.1%	17.9%	114.4	152.5	22.4%

To illustrate, Thomas Weisel Partners calculated the relative revenue and gross profit contributions of ScanSoft and Nuance to the pro forma combined company and compared the relative value per share implied by this analysis to the relative value per share implied for the stockholders of the companies by the merger consideration. In order to give effect to the estimated operating synergies as described above, Thomas Weisel Partners applied the median synergy value as estimated by the Perpetual Method to the value per share as derived by the contribution analysis in order to arrive at an estimated range of values per share inclusive of the impact of synergies. On a stand-alone basis, Thomas Weisel Partners calculated values per share of \$4.30 to \$4.96 for each share of Nuance common stock; inclusive of synergies, Thomas Weisel Partners calculated values per share of \$7.46 to \$8.11 for each share of Nuance common stock.

*Pro Forma Merger Analysis.* Relying on ScanSoft management's estimates, Thomas Weisel Partners analyzed the potential pro forma effects of the merger on ScanSoft's estimated 2006 earnings per share before amortization and nonrecurring restructuring charges and ScanSoft's earnings per share after amortization but before nonrecurring restructuring charges based on various assumptions regarding the merger. Thomas Weisel Partners performed such analysis due to the fact that several Wall Street research analysts use earnings per share before amortization and nonrecurring charges, among other measurements, as a valuation measurement. This analysis, taking into account certain operating cost synergies estimated by ScanSoft management, indicated that the merger would be accretive to ScanSoft's projected earnings per share before amortization and nonrecurring restructuring charges in 2006. The merger, taking into account certain operating cost synergies estimated by ScanSoft management, would be slightly accretive to ScanSoft's projected earnings per share after amortization but before nonrecurring restructuring charges in 2006. The actual results achieved by the combined company may vary from projected results and the variations may be material.

The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analysis or the summary set forth above, without considering the analysis as a whole, could create an incomplete view of the processes underlying the opinion of Thomas Weisel Partners. In arriving at its fairness determination, Thomas Weisel Partners considered the results of all these constituent analyses and did not attribute

any particular weight to any particular factor or analysis considered by it; rather, Thomas Weisel Partners made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all such analyses. Analyses based

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upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. The foregoing summary does not purport to be a complete description of the analyses performed by Thomas Weisel Partners. As described above, Thomas Weisel Partners opinion to the ScanSoft board of directors was among the many factors taken into consideration by the ScanSoft board of directors in making its determination to approve the merger agreement. The parties to the merger agreement determined the exchange ratio based on the result of arms length negotiations, and Thomas Weisel Partners was not asked to, and did not, propose any alternative exchange ratio to the ScanSoft board of directors.

Thomas Weisel Partners is a nationally recognized investment banking firm that is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions. ScanSoft retained Thomas Weisel Partners based on these qualifications as well as its familiarity with ScanSoft. Thomas Weisel Partners has previously acted as an underwriter in connection with offerings of securities of each of ScanSoft and Nuance, for which Thomas Weisel Partners received customary underwriting compensation.

Pursuant to the terms of an engagement letter, Thomas Weisel Partners, provided financial advisory services and an opinion with respect to the fairness to ScanSoft of the merger consideration payable in connection with the transaction, and ScanSoft agreed to pay Thomas Weisel Partners a fee in connection therewith, a significant portion of which is contingent upon the consummation of the transaction. The ScanSoft board of directors was aware of this fee structure and took it into account in considering Thomas Weisel Partners opinion and in approving the transaction. Whether or not the merger is completed, ScanSoft has agreed to reimburse Thomas Weisel Partners for all its reasonable out-of-pocket expenses, including the reasonable fees and disbursements of its counsel and other advisors, incurred in connection with its engagement by ScanSoft, and to indemnify Thomas Weisel Partners against liabilities, including liabilities under federal securities law, and expenses in connection with its engagement.

### **Consideration of the Merger by Nuance**

#### ***Nuance's Reasons for the Merger and Recommendation of the Nuance Board of Directors***

The Nuance board of directors has determined that the terms of the merger agreement and the merger are advisable, fair to, and in the best interests of, Nuance and its stockholders. In the course of reaching its decision to approve the merger and to approve and adopt the merger agreement, the Nuance board of directors consulted with our management, Credit Suisse First Boston and legal counsel.

The decision of the Nuance board of directors was based upon a number of potential benefits of the transaction, including the following:

- the ability to better serve the customer base and partners of each company with a comprehensive portfolio of technologies, applications and expertise that will enable customers to effectively deploy innovative speech-solutions;

- the belief that a merger with ScanSoft could enhance the combined company's ability to compete with larger, better-resourced competitors by bringing together the speech-focused talents, resources and intellectual property of the two companies;

- the opportunity for each company to introduce its complementary product lines into the customer base of the other company;

- the greater global presence of the combined company;

- the expected synergies and cost-saving opportunities that should result from headcount reductions, office site consolidations and eliminating redundant operating expenses; and

- the belief that the merger would combine two experienced and respected management teams, resulting in a combined management team that is stronger than the management teams of each of the individual companies.



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In addition to the potential benefits accruing to Nuance and its stockholders from the merger, the Nuance board of directors also considered a number of other factors in approving the merger, including the following:

the merger consideration relative to the current and historical market prices of Nuance common stock, and in particular the fact that, based on the closing price of ScanSoft common stock on May 6, 2005, the (i) 0.77 of a share of ScanSoft common stock, and (ii) \$2.20 of cash, for each share of Nuance common stock represented a 84.73% premium over the closing price of Nuance common stock on May 6, 2005, the last trading day before the announcement of the proposed transaction, a 99.7% premium over the average of the closing prices of Nuance common stock during the month leading up to the announcement and a 63.31% premium over the average for the closing prices during the six months leading up to the announcement;

the fact that part of the merger consideration will be paid in cash provides some certainty as to the value to be received by Nuance stockholders, while the stock portion of the merger consideration will allow Nuance stockholders to participate in the growth and opportunities of the combined company;

the financial analyses reviewed with the Nuance board of directors on May 6, 2005 by Credit Suisse First Boston LLC and the oral opinion of Credit Suisse First Boston rendered to the Nuance board of directors on May 9, 2005, subsequently confirmed in writing, to the effect that, as of the date of the Credit Suisse First Boston opinion, and based upon and subject to the factors and assumptions set forth in its opinion, the merger consideration of (i) 0.77 of a share of ScanSoft common stock, and (ii) \$2.20 of cash, for each share of Nuance common stock to be received by the holders of Nuance common stock pursuant to the merger was fair, from a financial point of view, to the holders of Nuance common stock, other than affiliates of Nuance (a copy of such written opinion is attached as Annex C to this proxy statement/ prospectus);

the judgment of the Nuance board of directors, based on arm's-length negotiations with ScanSoft, that the merger consideration of (i) 0.77 of a share of ScanSoft common stock, and (ii) \$2.20 of cash, for each share of Nuance common stock represented the highest price that could be negotiated with ScanSoft;

the progress of negotiations with a third party that had expressed an interest in acquiring Nuance, including without limitation that (i) the Nuance board of directors determined that the price proposal from the other company was not superior to that offered by ScanSoft, and (ii) the judgment of the Nuance board of directors that further negotiations with the other party would not yield a substantial improvement in terms;

the prospects for our business and the potential stockholder value that could be expected to be generated if we were to remain an independent, publicly traded company, including our business strategy going forward, our cash reserves, the uncertainty of being able to expand our product lines and sales channels and continued consolidation in our industry and increased competition, especially from competitors with greater name recognition and financial and other resources, and the difficulty of achieving substantial revenue growth;

the terms and conditions of the merger agreement including:

the fact that the merger agreement enables the Nuance board of directors, in the exercise of its fiduciary duties, to authorize Nuance to participate in discussions and negotiations with and furnish non-public information to a third party in connection with an unsolicited bid to acquire Nuance, change its recommendation in favor of the merger with ScanSoft, and potentially enter into a transaction with another acquirer, subject to certain limitations as set forth in the merger agreement, and in certain circumstances, subject to the payment of a termination fee of \$6.63 million, which constitutes approximately 3% of the merger consideration;

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Nuance is not obligated to pay the \$6.63 million termination fee upon a termination of the merger agreement due to the Nuance stockholders failing to approve the merger unless prior to such termination there has been public disclosure of an acquisition proposal and within 12 months following the termination of the merger agreement, Nuance consummates an acquisition or enters into an agreement providing for an acquisition of Nuance; and

the limited number and nature of the conditions to ScanSoft's obligation to close the merger and the limited risk of non-satisfaction of such conditions;

the intent that the stock portion of the merger consideration be tax-free to Nuance's U.S. stockholders;

the competitive and market environments in which Nuance and ScanSoft operate;

the results of the due diligence investigation of ScanSoft conducted by Nuance's management, financial advisor, accountants and legal counsel;

the Nuance board of directors' own knowledge of Nuance, ScanSoft and their respective businesses; and

the likelihood the merger will be completed on a timely basis, including the likelihood that the merger will be approved by the appropriate regulatory authorities.

In reaching its decision to approve the merger agreement and the merger, the Nuance board of directors also identified and considered a number of potentially negative factors that could result from the merger, including the following:

the risks that the integration of the businesses, products and personnel of the two companies will not be successfully implemented and may require a significant amount of management time and resources;

the risk that the potential synergies and cost-saving opportunities identified by ScanSoft and Nuance will not be fully realized or not fully realized in the time frame anticipated;

in the event that the transaction is not consummated, the possible negative effects of the announcement of the merger on our relationships with customers and suppliers, employee morale and potential loss of key employees, and the impact on our sales, operating results and stock price, and the negative impact that the transaction costs incurred in connection with the proposed merger would have on our cash reserves and operating results;

the possibility that the reactions of existing and potential competitors to the combination of the two businesses could adversely impact the competitive environment in which the companies operate;

because Nuance stockholder will receive shares of ScanSoft common stock as part of the merger consideration, the price volatility of ScanSoft's common stock which may reduce the market price of the ScanSoft common stock that Nuance stockholders will receive upon the closing of the merger;

the restrictions that the merger agreement imposes on actively soliciting competing bids, and the fact we would be obligated to pay a termination fee of \$6.63 million in certain circumstances;

the limitations that the merger agreement imposes on our ability to operate our business until the transaction closes or is terminated;

the risk of diverting management's attention from other strategic priorities to implement merger integration efforts; and



the other risks described in this joint proxy statement/prospectus in the section entitled Risk Factors.

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The Nuance board of directors evaluated all of the factors described above in light of its knowledge of Nuance's business, financial condition and prospects, ScanSoft's business, financial condition and prospects, and the market opportunities for speech technology solutions. In view of the variety of factors considered by the Nuance board of directors in its evaluation of the merger, the Nuance board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weight to the specific factors considered in reaching its decision. In addition, individual members of the Nuance board of directors may have given different weight to different factors. The list of factors described in this section as having been considered by the Nuance board of directors is not intended to be the complete list of all factors considered but is believed to include all of the factors considered by the Nuance board of directors to be material.

After considering all of the information and factors described in this section, the Nuance board of directors unanimously approved the merger, the merger agreement and the other transactions contemplated by the merger agreement. The Nuance board of directors believes that the merger agreement and the merger are fair to, advisable and in the best interests of Nuance and its stockholders. The Nuance board of directors has unanimously recommended that the Nuance stockholders vote FOR the adoption of the merger agreement and approval of the merger.

***Opinion of Nuance Financial Advisor***

Nuance retained Credit Suisse First Boston to act as its financial advisor in connection with the merger. In connection with Credit Suisse First Boston's engagement, Nuance requested that Credit Suisse First Boston evaluate the fairness, from a financial point of view, to the holders of Nuance common stock, other than affiliates of Nuance, of the merger consideration to be received by the holders of Nuance common stock in the merger. On May 6, 2005, the Nuance board of directors met to review the proposed merger. During this meeting, Credit Suisse First Boston reviewed with the Nuance board of directors certain financial analyses, as described below. On May 9, 2005, the Nuance board of directors met to review the proposed merger and the terms of the merger agreement. During this meeting, Credit Suisse First Boston rendered its oral opinion to the Nuance board of directors, subsequently confirmed in writing on May 9, 2005, that, as of the date of its opinion and based upon and subject to the various considerations set forth in the Credit Suisse First Boston opinion, the merger consideration to be received by the holders of Nuance common stock was fair, from a financial point of view, to the holders of Nuance common stock, other than affiliates of Nuance.

The full text of the Credit Suisse First Boston opinion, which sets forth, among other things, assumptions made, procedures followed, matters considered and limitations on the scope of the review undertaken by Credit Suisse First Boston in rendering its opinion, is attached as Annex C to this joint proxy statement/prospectus and is incorporated by reference in its entirety. Nuance stockholders are urged to, and should, read the Credit Suisse First Boston opinion carefully and in its entirety. The Credit Suisse First Boston opinion addresses only the fairness, from a financial point of view, to the holders of Nuance common stock, other than affiliates of Nuance, of the merger consideration to be received by the holders of Nuance common stock in the merger as of the date of the Credit Suisse First Boston opinion, and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to the merger or any other matter relating to the merger. The summary of the Credit Suisse First Boston opinion in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the Credit Suisse First Boston opinion.

In connection with its opinion, Credit Suisse First Boston, among other things,  
reviewed the merger agreement and certain related documents;

reviewed certain publicly available business and financial information relating to Nuance and ScanSoft;

reviewed certain other information relating to Nuance and ScanSoft, including financial forecasts provided to or discussed with Credit Suisse First Boston by Nuance and ScanSoft, and met with

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the managements of Nuance and ScanSoft to discuss the business and prospects of Nuance and ScanSoft;

considered certain financial and stock market data of Nuance and ScanSoft, and compared that data with similar data for other publicly held companies in businesses which Credit Suisse First Boston deemed similar to those of Nuance and ScanSoft;

considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have recently been effected or announced; and

considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which Credit Suisse First Boston deemed relevant.

In connection with its review, Credit Suisse First Boston did not assume any responsibility for independent verification of any of the foregoing information and relied on such information being complete and accurate in all material respects. With respect to the financial forecasts for Nuance and ScanSoft that Credit Suisse First Boston reviewed, Credit Suisse First Boston was advised, and Credit Suisse First Boston assumed, that such forecasts had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of Nuance and ScanSoft as to the future financial performance of Nuance and ScanSoft. In addition, Credit Suisse First Boston relied upon, without independent verification, the assessment of the managements of ScanSoft and Nuance as to:

their ability to retain key employees;

the strategic benefits and potential costs savings and other synergies (including the amount, timing and achievability thereof) anticipated to result from the merger;

the existing technology, products and services of Nuance and ScanSoft and the validity of, and risks associated with, the future technology, products and services of Nuance and ScanSoft;

their ability to integrate the businesses of Nuance and ScanSoft; and

In addition, Credit Suisse First Boston relied upon, without independent verification, the assessment of the managements of Nuance and ScanSoft as to the future ability of ScanSoft and Nova Acquisition LLC to satisfy their financial obligations as they become due.

Credit Suisse First Boston assumed, with Nuance's consent, that the merger will be treated as a tax-free reorganization for federal income tax purposes. Credit Suisse First Boston also assumed, with Nuance's consent, that in the course of obtaining any necessary regulatory and third party approvals and consents for the merger, no modification, delay, limitation, restriction or condition will be imposed that will have an adverse effect on Nuance or ScanSoft or the contemplated benefits of the merger, and that the merger will be consummated in accordance with the terms of the merger agreement, without waiver, modification or amendment of any material term, condition or agreement contained in the merger agreement. In addition, Credit Suisse First Boston was not requested to make, and did not make, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Nuance or ScanSoft, nor was Credit Suisse First Boston furnished with any such evaluations or appraisals. The Credit Suisse First Boston opinion addresses only the fairness, from a financial point of view, to the holders of Nuance common stock, other than affiliates of Nuance, of the merger consideration to be received by the holders of Nuance common stock in the merger, and does not address any other aspect or implication of the merger or any other agreement, arrangement or understanding entered into in connection with the merger or otherwise. The Credit Suisse First Boston opinion is necessarily based upon information made available to Credit Suisse First Boston as of the date of its opinion, and upon financial, economic, market and other conditions as they existed and could be evaluated on the date of the Credit Suisse First Boston opinion. Credit Suisse First Boston did not express any opinion as to what the value of ScanSoft common stock will be when issued to holders of Nuance common stock pursuant to the merger or the prices at which ScanSoft common stock will trade at any time. The Credit Suisse First Boston opinion does not

address the relative merits of the merger as compared to other business strategies that might be available to Nuance, nor does it address the underlying business decision of Nuance to proceed with the merger.

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In preparing its opinion, Credit Suisse First Boston performed a variety of financial and comparative analyses. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Credit Suisse First Boston believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all analyses and factors, could create a misleading view of the processes underlying the Credit Suisse First Boston opinion. No company or transaction used in the analyses performed by Credit Suisse First Boston as a comparison is identical to Nuance, ScanSoft or the contemplated merger. In addition, Credit Suisse First Boston may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions, so that the range of valuation resulting from any particular analysis described below should not be taken to be Credit Suisse First Boston's view of the actual value of Nuance or ScanSoft. The analyses performed by Credit Suisse First Boston are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of businesses or assets do not purport to be appraisals or to necessarily reflect the prices at which businesses or assets may actually be sold. The analyses performed were prepared solely as part of Credit Suisse First Boston's analysis of the fairness, from a financial point of view, to the holders of Nuance common stock, other than affiliates of Nuance, of the merger consideration, and were provided to the board of directors of Nuance in connection with the delivery of the Credit Suisse First Boston opinion.

The following is a summary of material financial analyses performed by Credit Suisse First Boston in connection with the preparation of its opinion and reviewed with the Nuance board of directors at a meeting of the Nuance board of directors held on May 6, 2005. Certain of the following summaries of financial analyses that were performed by Credit Suisse First Boston include information presented in tabular format. In order to understand fully the material financial analyses that were performed by Credit Suisse First Boston, the tables should be read together with the text of each summary. The tables alone do not constitute a complete description of the material financial analyses.

*Implied Transaction Statistics.* Credit Suisse First Boston calculated several values implied by the merger consideration, including (i) the implied price per share of Nuance common stock, (ii) the implied Nuance fully-diluted equity value and (iii) the implied Nuance fully-diluted aggregate value (calculated as fully-diluted equity value plus net debt). Aggregate value is often also characterized as enterprise value. Credit Suisse First Boston also calculated the implied pro forma fully-diluted equity ownership of Nuance stockholders in ScanSoft following the consummation of the merger and the Warburg Pincus financings. All calculations were based on the merger consideration of 0.77 of a share of ScanSoft common stock and \$2.20 in cash per share of Nuance common stock and ScanSoft's common stock closing share price of \$4.24 on May 4, 2005. The following table summarizes the results of these analyses:

Implied price per Nuance share	\$5.46
Implied fully-diluted Nuance equity value	\$212 million
Implied fully-diluted Nuance aggregate value	\$185 million
Implied pro forma fully-diluted equity ownership of Nuance stockholders in ScanSoft	19.1%

Credit Suisse First Boston also calculated the premium of the price per share of Nuance common stock implied by the merger consideration over (i) the closing trading price of Nuance common stock on May 4, 2005 and (ii) the average of the closing trading prices of Nuance common stock over the five and thirty trading days prior to and including May 4, 2005. The following table summarizes the results of this analysis:

	Average Closing Price	Premium of Price per Share Implied by Merger Consideration Over Average Closing Price
Period ending May 4, 2005		

May 4, 2005	\$	3.05	79%
Last 5 trading days	\$	2.88	90%
Last 30 trading days	\$	2.83	93%

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Credit Suisse First Boston also calculated certain trading multiples for Nuance implied by Nuance's common stock closing share price of \$3.05 on May 4, 2005 and the price of \$5.46 per share of Nuance common stock implied by the merger consideration, including the implied fully-diluted aggregate value of Nuance as a multiple of (i) revenues for calendar year 2004 and (ii) estimated revenues for calendar year 2005 based on two sets of Nuance forecasts prepared by Nuance management, referred to as Nuance Case 1 and Nuance Case 2. Nuance Case 1 and Nuance Case 2 were each based on different assumptions relating to, among other things, future growth in licensing, maintenance and professional services revenues and future operating expenses, in each case through 2010. Credit Suisse First Boston also calculated the same trading multiples for ScanSoft implied by ScanSoft's common stock closing share price of \$4.24 on May 4, 2005. Estimated revenues for ScanSoft for calendar year 2005 were based on the internal forecasts of ScanSoft's management. The following table summarizes the results of these analyses:

	<b>Based on Nuance Closing Share Price on May 4, 2005</b>	<b>Based on Price per Share Implied by Merger Consideration</b>	<b>Based on ScanSoft Closing Share Price on May 4, 2005</b>
Multiple of implied fully-diluted aggregate value to:			
2004 revenues	1.5x	3.2x	2.5x
2005 estimated revenues	1.3x	2.8x	1.9x
	(Nuance Case 1)	(Nuance Case 1)	
2005 estimated revenues	1.4x	3.0x	
	(Nuance Case 2)	(Nuance Case 2)	

*Nuance Historical Stock Trading Performance.* Credit Suisse First Boston analyzed the prices at which Nuance common stock traded from April 13, 2000 (the date of Nuance's initial public offering) through May 4, 2005. Credit Suisse First Boston noted that the high closing price of Nuance common stock during this period was \$175.00 on August 8, 2000, and that the low closing price of Nuance common stock during this period was \$1.33 on October 14, 2002. Credit Suisse First Boston also noted the average closing price of Nuance common stock over various periods prior to and including May 4, 2005 as summarized below:

<b>Period Prior to and Including May 4, 2005</b>	<b>Average Closing Price</b>
May 4, 2005	\$ 3.05
Last 5 trading days	\$ 2.88
Last 10 trading days	\$ 2.87
Last 30 trading days	\$ 2.83
Last 60 trading days	\$ 3.03
Last 90 trading days	\$ 3.21
Last 180 trading days	\$ 3.73
Last 360 trading days	\$ 4.92

*Nuance Discounted Cash Flow Analyses.* Using a discounted cash flow analysis, Credit Suisse First Boston calculated various implied equity values for Nuance based on the financial forecasts provided by Nuance management as Nuance Case 1. The discounted cash flow analysis was based on various assumptions provided by the management

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of Nuance, including assumptions relating to revenue growth rates, operating income margins, taxes, working capital, capital expenditures, restructuring costs and depreciation and amortization projections. Credit Suisse First Boston's analysis used discount rates ranging from 21% to 25% and terminal multiples of forward net operating profit after taxes ranging from 15.0x to 20.0x. The following table summarizes the results of this analysis:

Implied Price Per Nuance Share	\$	4.78 - \$6.36
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Credit Suisse First Boston then performed a discounted cash flow analysis based on the financial forecasts provided by Nuance management as Nuance Case 2 and the assumptions relating to the same matters as described above, but assuming materially lower year-to-year overall revenue growth rates due to assumed slower growth rates for each of license, maintenance and professional services revenues and assuming smaller increases in the associated operating expenses of sales and marketing, research and development, and general and administrative expenses. Using this discounted cash flow analysis, Credit Suisse First Boston calculated additional various implied equity values for Nuance. Credit Suisse First Boston's analysis used discount rates ranging from 21% to 25% and terminal revenue multiples ranging from 1.0x to 2.0x. The following table summarizes the results of this analysis:

Implied Price Per Nuance Share \$ 2.69 - \$4.00

*Trading Statistics of Selected Comparable Companies.* Credit Suisse First Boston compared certain financial information of Nuance with that of other companies in the voice recognition and enhanced services sectors of the software and services industries, including:

**Voice Recognition Software Vendors****Enhanced Services Vendors**

ScanSoft, Inc.  
Intervoice, Inc.  
Brooktrout, Inc.  
Fonix Corporation

Verisign, Inc.  
Comverse Technology, Inc.  
Openwave Systems Inc.  
Ulticom, Inc.

The information compared included, among other things, observed trading multiples of (i) fully-diluted aggregate value as a multiple of estimated revenues for calendar years 2005 and 2006 and (ii) share price as a multiple of estimated earnings for calendar years 2005 and 2006. Estimated financial data for the selected companies were based on consensus estimates compiled by the Institutional Brokerage Estimate System. Estimated financial data for Nuance were based on two sets of financial forecasts prepared by Nuance management, Nuance Case 1 and Nuance Case 2. The following table summarizes the results of this analysis:

	<b>Fully-Diluted Aggregate Value/ Revenues</b>		<b>Price per Share/ Earnings per Share</b>	
	<b>2005E</b>	<b>2006E</b>	<b>2005E</b>	<b>2006E</b>
Voice recognition software companies:				
Multiple range	1.0x - 1.9x	0.9x - 1.7x	17.6x - 81.3x	12.5x - 29.5x
Enhanced services companies:				
Multiple range	2.0x - 3.7x	1.7x - 3.1x	20.7x - 46.4x	15.6x - 31.8x

Credit Suisse First Boston then calculated a range of implied prices per share of Nuance common stock using (i) a derived range of multiples of fully-diluted aggregate value to Nuance Case 1 estimated revenues for calendar years 2005 and 2006 of 0.9x to 2.0x, (ii) a derived range of multiples of fully-diluted aggregate value to Nuance Case 2 estimated revenues for calendar years 2005 and 2006 of 0.9x to 2.0x, and (iii) a derived range of share price to Nuance Case 1 estimated earnings for calendar year 2006 of 13.0x to 23.0x. The following table summarizes the results of this analysis:

**Implied Price per**

**Nuance Share****Multiple of:**

Fully-diluted aggregate value to Nuance Case 1 estimated revenues for 2005 and 2006	\$	2.55 - \$4.51
Fully-diluted aggregate value to Nuance Case 2 estimated revenues for 2005 and 2006	\$	2.42 - \$3.98
Share price to Nuance Case 1 estimated earnings per share for 2006	\$	2.68 - \$4.74

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Credit Suisse First Boston also calculated implied prices per share of Nuance common stock using a derived range of share price to Nuance Case 2 estimated earnings per share for calendar year 2006 of 13.0x to 23.0x. The results of this analysis were not meaningful. No company utilized as a comparison in these analyses is identical to Nuance or ScanSoft.

*Precedent Transaction Multiples.* Credit Suisse First Boston reviewed the following 35 selected precedent transactions in the software industry under \$500 million since January 2004 and calculated several metrics for those selected transactions for which financial information of the target company was publicly available.

<b>Announcement Date</b>	<b>Target</b>	<b>Acquiror</b>
04/07/05	Concord Communications, Inc.	Computer Associates International, Inc.
03/22/05	Eidos plc	SCi Entertainment Group Plc
03/21/05	Lenel Systems International, Inc.	United Technologies Corporation
03/07/05	Marlborough Stirling Plc	Vertex Data Science Limited
03/01/05	Blue Martini Software, Inc.	Multi-Channel Holdings, Inc.
02/22/05	JDV Ltd.	IWL Ltd.
02/17/05	Financial Models Company Inc.	SS&C Technologies, Inc.
01/27/05	MAPICS, Inc.	Infor Global Solutions, Inc.
01/25/05	Corio, Inc.	IBM Corp.
01/24/05	Speedware Corp., Inc.	Activant Solutions, Inc.
01/18/05	Cedara Software Corp.	Merge eFilm
01/18/05	IMPAC Medical Systems, Inc.	Elekta AB
01/07/05	Vastera Inc.	JP Morgan Chase and Company
01/04/05	Tecnomatix Technologies, Ltd	UGS Corp.
12/29/04	Financial Models Company Inc.	1066821 Ontario, Inc.
12/17/04	BHC Investments (Fiserv) Inc.	Fidelity Investments
12/03/04	i-Many, Inc.	Selectica, Inc.
12/01/04	Nassda Corporation	Synopsys Inc.
11/15/04	Digital Illusions CE AB	Electronic Arts Inc.
11/15/04	Phonetic Systems, Ltd	ScanSoft, Inc.
11/15/04	Alphameric PLC-Retail Division	Torex Retail PLC
11/08/04	Yayoi Co., Ltd.	Livedoor Co., Ltd.
11/08/04	Mosaic Software Holdings Limited	S1 Corp.
10/20/04	nCUBE Corp.	C-COR Inc.
10/06/04	Netegrity, Inc.	Computer Associates International, Inc.
10/06/04	Encoda Systems Holdings, Inc.	Harris Corp.
10/05/04	QAS Ltd.	Experian, Inc.
10/05/04	AD OPT Technologies Inc.	Kronos Inc.
06/29/04	Inet Technologies, Inc.	Tektronix, Inc.
04/29/04	Marimba, Inc.	BMC Software, Inc.
03/25/04	DigitalThink, Inc.	Convergys Corp.
01/29/04	Poorman-Douglas Corp.	EPIQ systems, Inc.
01/28/04	Sanchez Comp. Assoc., Inc.	Fidelity National Financial, Inc.
01/23/04	FreeMarkets, Inc.	Ariba, Inc.

The metrics calculated by Credit Suisse First Boston included the fully-diluted aggregate value of each target company as a multiple of estimated next twelve months (NTM) revenues and last twelve months (LTM) revenues and the price per share as a multiple of estimated next twelve months earnings and last



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twelve months earnings. Credit Suisse First Boston Credit Suisse First Boston derived the following information from data observed for the selected precedent transactions:

	Fully-Diluted Aggregate Value/ Revenues		Price per Share/ Earnings per Share	
	LTM	NTM	LTM	NTM
Multiple range	0.8x - 8.9x	0.6x - 8.3x	13.5x - 206.3x	15.8x - 58.6x

Credit Suisse First Boston then calculated implied prices per Nuance share using (i) a derived range of multiples of aggregate value to Nuance last twelve months revenues of 2.0x to 3.5x, (ii) a derived range of multiples of aggregate value to Nuance Case 1 and Nuance Case 2 estimated next twelve months revenues of 2.0x to 3.0x and (iii) a derived range of multiples of price per share to estimated next twelve months Nuance Case 1 earnings per share of 15.0x to 50.0x. The analysis described above indicated the following range of implied prices per share of ScanSoft common stock:

Implied Price Per Nuance Share \$ 1.44 - \$6.20

No company or transaction utilized as a comparison in this analysis is identical to Nuance or ScanSoft or the contemplated merger. Mathematical analysis, such as determining the mean or the median, is not in itself a meaningful method of using comparable market trading data.

*Precedent Transaction Premiums.* Credit Suisse First Boston calculated the premium paid in 207 selected transactions in the global technology sector over \$50 million since January 1, 2002. Premiums calculated for the selected transactions were based on the target company's stock price one day and thirty days prior to announcement of the relevant transaction. Credit Suisse First Boston derived the following information from data observed for the selected precedent transactions:

207 Global Technology Transactions	Premium Over Stock Price One Day Prior to Transaction	Premium Over Stock Price Thirty Days Prior to Transaction
25 <sup>th</sup> Percentile	13.8%	16.7%
Median Premium	26.2%	35.4%
Mean Premium	34.4%	39.9%
75 <sup>th</sup> Percentile	43.4%	57.0%

Credit Suisse First Boston then calculated that applying (i) a premium of 13.8% to 43.4% to the Nuance common stock closing share price of \$3.05 on May 4, 2005 and (ii) a premium of 16.7% to 57.0% to the Nuance common stock closing share price of \$2.94 on March 23, 2005 (the date thirty trading days prior to May 4, 2004) resulted in the following range of implied prices per share of Nuance common stock:

Implied Price Per Nuance Share \$3.43 - \$4.62

Credit Suisse First Boston also reviewed 35 selected transactions in the software industry under \$500 million since January 2004 and calculated the premium paid by the acquiror in those transactions in which the target company was

publicly listed. Premiums calculated for the selected transactions were based on the target company's stock price one day and thirty days prior to announcement of the relevant transaction. Credit Suisse First Boston derived the following information from data observed for the selected precedent transactions:

	<b>Premium Over Stock Price One Day Prior to Transaction</b>	<b>Premium Over Stock Price Thirty Days Prior to Transaction</b>
<b>35 Software Transactions</b>		
Mean Premium	34%	39%
Median Premium	36%	42%

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Credit Suisse First Boston also calculated that applying a premium of 20% to 60% to (i) the Nuance common stock closing share price of \$3.05 on May 4, 2005 and (ii) the Nuance common stock closing share price of \$2.94 on March 23, 2005 resulted in the following range of implied prices per share of Nuance common stock:

Implied Price Per Nuance Share	\$	3.53 - \$4.88
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No company or transaction utilized as a comparison in this analysis is identical to Nuance or ScanSoft or the contemplated merger. Mathematical analysis, such as determining the mean or the median, is not in itself a meaningful method of using comparable market trading data.

*Relative Contribution Analysis.* Credit Suisse First Boston analyzed the relative contributions of Nuance and ScanSoft to the pro forma total revenues, gross profit and operating income of the combined company, based on forecasts for Nuance and ScanSoft for calendar years 2005 and 2006 and a transaction in which the merger consideration would have consisted solely of ScanSoft common stock. Forecasts for ScanSoft were based on the internal forecasts of ScanSoft's management while forecasts for Nuance were based on the financial forecasts provided by Nuance management as Nuance Case 1 and Nuance Case 2. Credit Suisse First Boston derived, among other things, the exchange ratio and the price per share of Nuance common stock implied by such relative contributions based on the ScanSoft closing common stock share price of \$4.24 on May 4, 2005. This analysis indicated the ranges of implied prices per share and implied exchange ratios set forth in the table below. Credit Suisse First Boston also calculated that the merger consideration and the ScanSoft closing common stock price on May 4, 2005, implied an exchange ratio of 1.289x (assuming a transaction in which the merger consideration consisted solely of ScanSoft common stock).

Implied Price Per Nuance Share	\$3.59 - \$4.42
Implied Exchange Ratio	0.847x - 1.042x

*Pro Forma Earnings per Share Impact Analysis.* Credit Suisse analyzed certain pro forma effects estimated to result from the merger, including, among other things, the estimated effect of the merger on the estimated earnings per share for the combined company for the 12 months period ending on September 30, 2006 both excluding and including the potential synergies estimated by the managements of ScanSoft and Nuance to result from the merger. Credit Suisse First Boston's analysis was based on the internal forecasts provided by the management of ScanSoft and on the internal forecasts provided by the management of Nuance as Nuance Case 1 and Nuance Case 2. Credit Suisse First Boston's analysis also assumed the successful consummation of the Warburg Pincus financings. Credit Suisse First Boston's analysis did not take into account restructuring charges or non-cash accounting charges. The following table sets forth the estimated accretion/(dilution) to the combined company's estimated earnings per share for the 12 months period ending on September 30, 2006 derived from this analysis:

	<b>Percentage Accretion/ (Dilution)</b>
Estimated pro forma earnings per share for the 12 months period ending September 30, 2006 based on:	
Nuance Case I (including estimated synergies)	12.9%
Nuance Case I (excluding estimated synergies)	(13.5)%
Nuance Case II (including estimated synergies)	(0.2)%
Nuance Case II (excluding estimated synergies)	(26.6)%

Credit Suisse First Boston's opinion and presentation to the Nuance board of directors was one of many factors taken into consideration by the Nuance board of directors in making its determination to engage in the merger.

Consequently, the analyses described above should not be viewed as determinative of the determination of the Nuance board of directors or the management of Nuance with respect to the value of Nuance or whether the Nuance board of directors would have been willing to agree to a different merger consideration.



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The Nuance board of directors retained Credit Suisse First Boston to act as its financial advisor in connection with the merger. Credit Suisse First Boston was selected by the Nuance board of directors based on Credit Suisse First Boston's qualifications, expertise and reputation. Credit Suisse First Boston is an internationally recognized investment banking and advisory firm. Credit Suisse First Boston, as part of its investment banking business, is continuously engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. Credit Suisse First Boston and its affiliates have in the past provided investment banking and other financial services to Nuance unrelated to the merger for which Credit Suisse First Boston and its affiliates have received compensation and Credit Suisse First Boston and its affiliates may in the future provide investment banking and other financial services to Nuance and ScanSoft, for which Credit Suisse First Boston and its affiliates would expect to receive compensation. In the ordinary course of its business, Credit Suisse First Boston and its affiliates may acquire, hold or sell, for their own accounts and for the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of Nuance, ScanSoft and any other company that may be involved in the Merger, as well as provide investment banking and other financial services to such companies. Credit Suisse First Boston and certain of its affiliates and certain of Credit Suisse First Boston and its affiliates respective employees and certain private investment funds affiliated or associated with Credit Suisse First Boston hold directly or indirectly securities in stockholders of ScanSoft, including investment funds associated or affiliated with Warburg Pincus.

Pursuant to an engagement letter dated as of December 3, 2002, Nuance engaged Credit Suisse First Boston to provide financial advisory services to the Nuance board of directors in connection with strategic transactions such as the merger, including, among other things, rendering its opinion. Pursuant to the terms of the engagement letter, Credit Suisse First Boston will receive a transaction fee for its services, the total amount of which will be calculated upon consummation of the merger in accordance with the terms of the engagement letter and will depend upon the average closing trading price of the ScanSoft common stock over a period prior to consummation of the merger. If calculated based on the average closing trading price of the ScanSoft common stock over a comparable period prior to announcement of the proposed merger on May 9, 2005, the Credit Suisse First Boston fee would be approximately \$3.7 million, a significant portion of which would be contingent upon the consummation of the merger. Credit Suisse First Boston will also receive a fee equal to 25% of the transaction fee described above for rendering its opinion, which fee, to the extent paid, will be credited against the transaction fee described above. In addition, Nuance has agreed to reimburse Credit Suisse First Boston for its out-of-pocket expenses, including attorney's fees, incurred in connection with its engagement and to indemnify Credit Suisse First Boston and certain related persons against certain liabilities and expenses arising out of or in conjunction with its rendering of services under its engagement, including liabilities arising under the federal securities laws.

**Interests of Certain Persons in the Merger and the Warburg Pincus Financing**

When ScanSoft and Nuance stockholders consider the recommendation of the boards of directors of ScanSoft and Nuance with respect to the merger and when ScanSoft stockholders consider the recommendation of the board of directors of ScanSoft with respect to the Warburg Pincus financing they should be aware that some of the executive officers and directors of ScanSoft and Nuance have interests in connection with the merger, and that a director of ScanSoft has an interest in connection with the Warburg Pincus financing, that are different from, or in addition to, the interests of their respective stockholders, as summarized below. In making their decision to recommend the merger, the boards of directors of ScanSoft and Nuance were aware of these interests and considered them among the other matters described above under the sections entitled "The Merger - Consideration of the Merger by ScanSoft - ScanSoft's Reasons for the Merger and Recommendation of the ScanSoft Board of Directors" on page 55 and "The Merger - Consideration of the Merger by Nuance - Nuance's Reasons for the Merger and Recommendation of the Nuance Board of Directors" on page 63. In addition, in making its

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decision to recommend the Warburg Pincus financing, the board of directors of ScanSoft was aware of these interests and considered them among other factors.

***Interests of ScanSoft Directors and Executive Officers in the Merger and the Warburg Pincus Financing***

Mr. William H. Janeway, one of ScanSoft's directors, is a Vice Chairman of Warburg Pincus LLC and was nominated by Warburg Pincus to the board of directors of ScanSoft pursuant to the terms of the Original Stockholders Agreement. As such, Mr. Janeway may be deemed to have a pecuniary interest in the ScanSoft shares held by Warburg Pincus. Before the closing of the merger and the Warburg Pincus financing, Warburg Pincus may be deemed to beneficially own, in the aggregate, 23,242,544 shares of ScanSoft common stock or 19.8% of the outstanding class of ScanSoft common stock which includes (i) 15,791,338 shares of ScanSoft common stock, (ii) warrants that are exercisable for up to an aggregate of 3,888,968 shares of ScanSoft common stock, and (iii) 3,562,238 shares of ScanSoft common stock issuable upon the conversion of non-voting Series B Preferred Stock. In addition, Mr. Janeway is the owner of record of options to purchase an aggregate of 65,000 shares of ScanSoft common stock.

Ms. Katharine Martin, one of ScanSoft's directors, and the owner of record of 1,000 shares of ScanSoft common stock and options to purchase an aggregate of 135,000 shares of ScanSoft common stock, is a member of Wilson Sonsini Goodrich & Rosati, P.C., the law firm representing ScanSoft in connection with the merger and the Warburg Pincus financing and ScanSoft's primary outside corporate and securities counsel. Wilson Sonsini will receive customary fees in connection with services performed relating to the merger and the Warburg Pincus financing.

In connection with the Warburg Pincus financing, Warburg Pincus has agreed to purchase an aggregate of 14,150,943 shares of ScanSoft common stock and warrants to purchase an aggregate of 3,177,570 shares of ScanSoft common stock contingent upon the closing of the merger and pursuant to the terms of the Stock Purchase Agreement, such that Warburg Pincus will beneficially own approximately 25% of the common stock of ScanSoft following the closings of the merger and Warburg Pincus financing, assuming that they do not transfer the shares of ScanSoft common stock beneficially owned by them prior to such time.

Further, pursuant to a commitment letter, dated as of May 5, 2005, Warburg Pincus agreed to enter into an agreement to purchase \$25.0 million of additional ScanSoft common stock, if ScanSoft should so request it to do so, subject to satisfaction of certain conditions.

***Interests of Nuance Directors and Executive Officers in the Merger***

***Ownership of Nuance Common Stock.*** Nuance directors and executive officers hold shares of Nuance's common stock as set forth in the section entitled "Other Information - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters." Upon the effectiveness of the first step merger, each such share of Nuance's common stock held by Nuance's directors and executive officers will be converted into the right to receive the merger consideration described above.

***Assumption of Stock Options and Accelerated Vesting.*** In the merger, all outstanding Nuance stock options, including those held by Nuance directors and executive officers, with an exercise price of \$10.00 or less will be assumed by ScanSoft and become options to purchase shares of ScanSoft common stock. In addition, all Nuance stock options with an exercise price of more than \$10.00, and that are not already fully vested, will accelerate and become fully vested prior to the effective time of the merger.

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The following table identifies, for each Nuance director and executive officer, as of July 15, 2005 (other than as noted below), the number of shares of Nuance common stock owned, the aggregate number of shares subject to outstanding options of Nuance common stock, the aggregate number of shares subject to outstanding vested and unvested options to purchase Nuance common stock (determined as of September 15, 2005), the weighted average exercise price of those respective stock options and that person's relationship to Nuance. An optionholder who exercises vested options at the effective time of the merger would realize, for each option exercised, the difference between the exercise price and the value of 0.77 shares of ScanSoft common stock plus \$2.20. On July 28, 2005, the closing price of Scansoft common stock was \$4.16 per share.

Name	Aggregate Shares of Nuance Common Stock Outstanding	Aggregate Shares Subject to Options Outstanding	Aggregate Shares Subject to Vested Options	Aggregate Shares Subject to Unvested Options	Weighted Average Exercise Price of Outstanding Options	Weighted Average Exercise Price of Vested Options	Relationship to Nuance
Berger, Charles	0	1,484,000	720,454	763,546	\$ 2.41	\$ 2.18	Executive Officer & Director
Bergeron, Sandra	0	50,000	20,832	29,168	\$ 2.98	\$ 2.98	Director
Carlson, Curtis	0	90,000	85,000	5,000	\$ 8.04	\$ 8.26	Director
Croen, Ronald	330,333	1,028,236	993,232	35,004	\$ 6.19	\$ 6.31	Director
Federman, Irwin	40,000	90,000	85,000	5,000	\$ 8.04	\$ 8.26	Director
Herzig, Alan	76,333	115,000	110,000	5,000	\$ 6.78	\$ 6.89	Director
Morgenthaler, Gary	89,419	90,000	84,999	5,001	\$ 8.04	\$ 8.26	Director
Nagel, David	0	50,000	37,498	12,502	\$ 4.39	\$ 4.39	Director
Quigley, Phillip	7,000	160,000	155,000	5,000	\$ 7.12	\$ 7.20	Director
Blasing, Karen	0	310,000	154,062	155,938	\$ 5.24	\$ 5.50	Executive Officer
Cross, Glenn	0	200,000	58,333	141,667	\$ 4.26	\$ 4.26	Executive Officer
Lee, Eng Yew	10,024	255,209	172,709	82,500	\$ 6.98	\$ 7.74	Executive Officer
Neilsson, Douglas Clark	1,944	205,000	54,166	150,834	\$ 6.21	\$ 7.87	Executive Officer
Sharp, R. Douglas	2,000	258,730	126,186	132,544	\$ 5.74	\$ 6.87	Executive Officer
Smith, Lynda Kate	6,000	350,000	208,853	141,147	\$ 6.10	\$ 6.81	Executive Officer
Taylor, Donna	14,085	316,250	239,895	76,355	\$ 7.26	\$ 8.04	Executive Officer

*Stock Option Agreements with Executive Officers.* Nuance has entered into stock option agreements with each of its executive officers, including Ronald Croen, its former President and Chief Executive Officer, who is currently a director of Nuance, which provide that, in the event the executive officer is constructively terminated or terminated without cause within one year following a change of control, the officer will receive accelerated vesting of 50% of all of such officer's then unvested options, provided that the officer has also been employed with Nuance for at least one year prior to any change of control. The stock option agreements entered into with Douglas Clark Neilsson, Nuance's Vice President, Secretary and General Counsel, also provide that, if such termination occurs after 36 months of employment, 100% of his unvested options will vest immediately.

*Employment Agreement with Nuance's CEO.* The employment agreement with Charles Berger, Nuance's President and Chief Executive Officer, which was entered into in March 2003, entitles him to certain benefits in the event of a change in control of Nuance. If Mr. Berger is terminated by a successor corporation without cause, or if Mr. Berger resigns for good reason within 12 months following a change in control, 50% of his unvested options will vest immediately. If such termination occurs after 36 months of employment, 100% of his unvested options will vest immediately.

*Change in Control and Retention Agreements.* Nuance has entered into a Change of Control and Retention Agreement (the "Retention Agreement") with each of its officers, other than its Chief Executive Officer, who are subject to the reporting requirements of Section 16 of the Exchange Act and three other officers (the "Other Officers"). Under the terms of the Retention Agreement, in the event of a

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change of control of Nuance, each such Nuance officer will be entitled, if terminated without cause or constructively terminated with good reason within 18 months after the change of control, (a) to receive a cash severance payment equal to her or his annual salary and annual bonus (six months of salary and annual bonus, in the case of the Other Officers), and (b) to have accelerated the vesting of 50% of his or her unvested options. In December 2004, the board of directors of Nuance approved the company entering into the Retention Agreements, all of which were ultimately entered into in March 2005.

*Indemnification.* ScanSoft and Nuance directors and officers have customary rights to indemnification against losses incurred as a result of actions or omissions occurring prior to the effective time of the merger. The merger agreement provides that, for a period of six years after the completion of the merger, ScanSoft shall, and will cause Nuance (as a wholly owned subsidiary) to, fulfill all obligations of Nuance to indemnify Nuance directors and officers under any indemnification agreements between Nuance and its directors and employees, and the limited liability operating agreement of the surviving entity in the merger will contain provisions with respect to exculpation and indemnification that are at least as favorable to Nuance directors and officers as those contained in the certificate of incorporation and by-laws of Nuance prior to the effective time of the merger. In addition, subject to certain limitations, for a period of six years after the effective time of the merger, ScanSoft or the surviving entity of the merger will agree to purchase directors and officers liability tail coverage, on terms comparable to those applicable to the current directors and officers of Nuance, and covering all periods prior to the effective time of the merger.

*Voting Agreements.* Nuance directors and officers have entered into voting agreements with ScanSoft in connection with the merger. See the section entitled *Agreements Related to the Merger* Nuance Voting Agreements beginning on page 105 for a description of these agreements.

*Appointment of Nuance Designees to the Board of Directors of ScanSoft.* Under the merger agreement, ScanSoft has agreed to take all action necessary to appoint two persons designated by Nuance and reasonably acceptable to ScanSoft to serve on the board of directors of ScanSoft.

As a result of the interests described above under each heading, Nuance's executive officers and directors have interests in the merger that may have made them more likely to vote to adopt, and recommend adoption of, the merger agreement, than if they did not hold these interests.

**Board of Directors of ScanSoft Following the Merger**

ScanSoft currently intends to make changes to the ScanSoft board of directors following completion of the merger such that the ScanSoft board of directors shall include two directors designated by Nuance, one of whom is expected to be Charles W. Berger, the Chief Executive Officer of Nuance and a director of Nuance.

Pursuant to the terms of the Amended and Restated Stockholders Agreement, Warburg Pincus will have the opportunity to appoint an additional director following the closing of the merger, provided that certain conditions regarding Warburg Pincus' share ownership continue to be maintained.

**Material U.S. Federal Income Tax Consequences of the Merger**

Subject to the assumptions and limitations discussed below and in the opinions of Wilson Sonsini Goodrich & Rosati, P.C., counsel to ScanSoft, and Fenwick & West LLP, counsel to Nuance, the following discussion sets forth the material U.S. federal income tax consequences of the merger to Nuance stockholders. This discussion is based on the currently existing provisions of the Internal Revenue Code, the regulations thereunder, and interpretations thereof by courts and governmental agencies, all of which are subject to change, possibly with retroactive effect. It does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular stockholder in light of such stockholder's particular circumstances (such as stockholders who acquired shares of Nuance common stock in connection with certain stock option or stock purchase plans or in certain other compensatory transactions) or to a person that may be subject to special treatment under the Internal Revenue Code (such as a stockholder that is a tax-exempt entity, foreign persons, financial institutions, dealers in securities or currencies, insurance

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companies, mutual funds, regulated investment companies, real estate investment trusts, a stockholder who holds his or her shares as a hedge, straddle or other risk reduction strategy, or a stockholder treated as a partnership or other flow-through entity). This summary does not discuss any tax considerations under local, state, or foreign laws or under estate, gift, excise or other non-income tax laws. It does not discuss the tax consequences of transactions effectuated prior or subsequent to, or concurrently with, the merger (whether or not in connection with the merger, including, without limitation, any transaction in which shares of Nuance common stock are acquired or shares of ScanSoft common stock are disposed of). This summary does not discuss the tax consequences of the merger to holders of debt, options, warrants or other securities of Nuance other than stock. This summary assumes that the shares of Nuance common stock are held as capital assets within the meaning of Section 1221 of the Internal Revenue Code (generally, assets held for investment purposes). Except as indicated, this summary assumes that a stockholder is a citizen or resident of the United States, a corporation or other entity treated as a corporation created or organized in the United States, or otherwise a person treated as a U.S. person for U.S. federal income tax purposes.

**ACCORDINGLY, NUANCE STOCKHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES OF THE MERGER INCLUDING APPLICABLE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE MERGER IN THEIR PARTICULAR CIRCUMSTANCES.**

The parties intend that the merger will qualify as a reorganization pursuant to Section 368(a) of the Code. Completion of the first step merger is conditioned upon the receipt by ScanSoft and Nuance of the closing tax opinions. The closing tax opinions will be subject to certain assumptions, limitations and qualifications, and will be based upon the truth and accuracy of certain customary representations of ScanSoft, Nova Acquisition Corporation, Nova Acquisition LLC and Nuance. The closing tax opinions will neither bind the IRS nor preclude the IRS from adopting a contrary position.

In order for the closing tax opinions to be rendered, the continuity of interest test must be met. The continuity of interest test requires that, after the merger, the Nuance stockholders must continue to own a substantial part of the value of their proprietary interests in Nuance by virtue of their ownership of ScanSoft common stock. There is no definitive standard for determining whether the continuity of interest test has been met. For purposes of rendering the tax opinion, however, the continuity of interest test will be considered satisfied if the value, as of the effective time of the first step merger, of the ScanSoft common stock received by the Nuance stockholders constitutes at least 40% of the total value of the aggregate merger consideration, including amounts received by Nuance stockholders exercising their dissenters or appraisal rights. For purposes of the continuity of interest test, tax counsel will consider the value of a share of ScanSoft common stock to be the average of the high and low sales prices of a share of ScanSoft common stock on the last trading day prior to the date of the closing of the first step merger, which we refer to as the closing date price. If less than 40% of the total value of the merger consideration consists of ScanSoft common stock (calculated using the closing date price), then the aggregate cash consideration will be reduced by \$1.905 for each additional share of ScanSoft common stock to be issued in the merger, until the value of the common stock received constitutes at least 40% of the total value of the aggregate merger consideration.

No ruling from the IRS has been or will be requested in connection with the merger. In addition, the tax opinions discussed in this section are not binding on the IRS. The Internal Revenue Service could adopt a contrary position and a contrary position could be sustained by a court. If the IRS successfully challenges the reorganization status of the Merger, the tax consequences of the transaction could differ materially from those summarized below.

As a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, the following U.S. federal income tax consequences will result:

- (i) No gain or loss will be recognized by a Nuance stockholder who receives ScanSoft common stock in exchange for Nuance common stock, except that gain realized will be recognized to the extent of cash received in the merger;

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(ii) The tax basis of the ScanSoft common stock received by a Nuance stockholder in the merger will be the same as the tax basis in the Nuance common stock exchanged therefor, increased by the gain recognized and reduced by the cash consideration received in the merger and the tax basis allocable to fractional shares;

(iii) The holding period of the ScanSoft common stock received by a Nuance stockholder in the merger will include the holding period of the Nuance common stock exchanged therefore;

(iv) No gain or loss will be recognized by Nuance or ScanSoft in the merger; and

(v) In the case of cash received in lieu of fractional shares, such fractional shares shall be treated as having been issued and then immediately redeemed for cash in a separate transaction. The sale of a fractional share generally will result in capital gain or loss to the stockholder measured by the difference between the proceeds of the sale and the basis of the fractional share. Any such capital gain will be long term capital gain if the Nuance stockholder's holding period for his or her Nuance stock is more than one year.

The gain realized on the disposition of property is computed by reference to the tax basis in the property disposed of and the amount realized on the disposition, which is the sum of the cash and the fair market value of the ScanSoft common stock received in exchange for the Nuance common stock. Any gain realized by a Nuance stockholder in the merger is recognized only to the extent of the cash consideration received. Nuance stockholders will not be permitted to recognize any loss in connection with the merger. For this purpose, a Nuance stockholder must calculate gain or loss separately for each identifiable block of shares of Nuance common stock that the stockholder surrenders in the first step merger. Because losses are not permitted to be recognized, a Nuance stockholder cannot offset a loss realized on one block of shares against a gain recognized on another block of shares. In general, any gain recognized should be capital gain and should generally be long term capital gain if the holding period of Nuance common stock exchanged in the merger is more than one year. In the case of an individual, the maximum U.S. federal income tax rate on long-term capital gain is currently 15%; otherwise, capital gains are generally taxed at regular rates for individuals and corporations.

A Nuance stockholder who exercises appraisal or dissenter's rights with respect to a share of Nuance common stock will generally recognize capital gain or loss measured by the difference between the amount of cash received and the tax basis of such Nuance common stock. Such capital or loss will be long-term gain or loss if the shares of Nuance common stock were held for more than one year at the time of the First Step merger. However, the amount of cash received may be treated as a dividend if the dissenting Nuance stockholder actually or constructively owns ScanSoft common stock after the First Step merger.

In order to avoid backup withholding of federal income tax on payments to Nuance stockholders, each Nuance stockholder must, unless an exception applies, provide the payor with such stockholder's correct taxpayer identification number ( TIN ) on IRS Form W 9 (or, if appropriate, another withholding form) and certify under penalties of perjury that such number is correct and that such stockholder is not subject to backup withholding. A Form W 9 will be provided to you. If a Nuance stockholder fails to provide the correct TIN or certification, payments received may be subject to backup withholding at a 28% rate. Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the IRS.

Nuance stockholders will be required to attach a statement to their United States federal income tax returns for the year of the merger that contains the information listed in Treasury Regulation Section 1.368-3(b). Such statement must include the stockholder's tax basis in shares of Nuance common stock and a description of the ScanSoft common stock received.

THE PRECEDING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER AND DOES NOT

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PURPORT TO BE A COMPLETE ANALYSIS OR DISCUSSION OF ALL POTENTIAL TAX EFFECTS RELEVANT THERETO. STOCKHOLDERS ARE STRONGLY URGED TO CONSULT AND RELY ON THEIR OWN RESPECTIVE TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF U.S. FEDERAL, FOREIGN, STATE, LOCAL, AND OTHER APPLICABLE TAX LAWS.

**Accounting Treatment of the Merger**

ScanSoft will account for the merger using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. As such, the assets acquired and liabilities assumed of Nuance will be recorded at their fair values as of the date of the merger. Any excess of the purchase price over the fair value of the net tangible assets and identifiable intangible assets acquired will be recorded as goodwill. The results of operations of Nuance will be included in ScanSoft's results of operations from the date of the closing of the merger.

**Regulatory Approvals**

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, neither the merger nor the Warburg Pincus financing may be consummated unless certain filings have been submitted to the FTC and the Antitrust Division and certain waiting period requirements have been satisfied. ScanSoft and Warburg Pincus filed the appropriate notification and report forms with respect to the Warburg Pincus financing and ScanSoft and Nuance filed the appropriate notification and report forms with respect to the merger with the FTC and with the Antitrust Division on May 20, 2005 and May 23, 2005, respectively. The waiting period with respect to the Warburg Pincus financing has expired. The Antitrust Division has requested additional information and documentary material in connection with its review of the proposed merger. This request will result in an extension of the waiting period under the HSR Act until 30 days after ScanSoft and Nuance substantially comply with the request, unless the waiting period is terminated earlier or extended with the consent of ScanSoft and Nuance. The Antitrust Division may impose conditions upon its approval of the merger, which may jeopardize or delay completion of the merger or may reduce the anticipated benefits of the merger. Subject to compliance with the terms of the merger agreement, ScanSoft may not be willing to accept such conditions, and the merger thus may not be consummated. Furthermore, ScanSoft and Nuance stockholders may be voting on the matters presented at their respective stockholder meetings before the waiting period terminates or before any challenge to the merger on antitrust grounds is resolved. Any conditions that must be agreed upon to obtain Antitrust Division approval of the merger may be finalized subsequent to the stockholder votes at the respective ScanSoft and Nuance stockholder meetings.

The FTC and the Antitrust Division frequently scrutinize the legality under the antitrust laws of transactions like the merger. At any time before or after the completion of the merger, the FTC or the Antitrust Division could take any action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the completion of the merger or seeking the divestiture of substantial assets of ScanSoft or Nuance. In addition, certain private parties, as well as state attorneys general and other antitrust authorities, may challenge the transaction under antitrust laws under certain circumstances.

In addition, the merger may be subject to various foreign antitrust laws.

ScanSoft and Nuance believe that the completion of the merger will not violate any antitrust laws. However, there can be no assurance, however, that a challenge to the merger on antitrust grounds will not be made, or, if such a challenge is made, what the result will be.

**Listing on the Nasdaq National Market of ScanSoft Shares Issued Pursuant to the Merger**

ScanSoft will use all reasonable efforts to cause the shares of ScanSoft common stock to be issued in connection with the merger to be authorized for listing on the NASDAQ National Market before the



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completion of the merger, subject to official notice of issuance. The authorization of such shares for listing on the NASDAQ National Market is a condition to the merger.

### **Delisting and Deregistration of Nuance Common Stock After the Merger**

When the merger is completed, Nuance common stock will be delisted from the NASDAQ National Market and deregistered under the Exchange Act. Pursuant to the merger agreement, no later than 90 days following the effective time of the merger, ScanSoft will change the corporate name to Nuance and following such name change, ScanSoft will change its trading symbol to NUAN or another symbol mutually agreed to by Nuance and ScanSoft.

### **Restrictions on Sales of Shares of ScanSoft Common Stock Received in the Merger**

The shares of ScanSoft common stock to be issued in connection with the merger will be registered under the Securities Act and will be freely transferable, except for shares of ScanSoft common stock issued to any person who is deemed to be an affiliate of Nuance prior to the merger. Persons who may be deemed to be affiliates of Nuance prior to the merger include individuals or entities that control, are controlled by, or are under common control of Nuance prior to the merger, and may include officers and directors, as well as principal stockholders of Nuance prior to the merger. Affiliates of Nuance will be notified separately of their affiliate status.

Persons who may be deemed to be affiliates of Nuance prior to the merger may not sell any of the shares of ScanSoft common stock received by them in connection with the merger except pursuant to:

an effective registration statement under the Securities Act covering the resale of those shares;

an exemption under paragraph (d) of Rule 145 under the Securities Act; or

any other applicable exemption under the Securities Act.

ScanSoft's registration statement on Form S-4, of which this joint proxy statement/prospectus is a part, does not cover the resale of shares of ScanSoft common stock to be received in connection with the merger by persons who may be deemed to be affiliates of Nuance prior to the merger.

### **Appraisal Rights**

Holders of record of Nuance common stock who do not vote in favor of adopting the merger agreement and the transactions contemplated by the merger agreement, including the merger, and who otherwise comply with the applicable provisions of Section 262 of the Delaware General Corporation Law, which we refer to throughout this joint proxy statement/prospectus as the DGCL, will be entitled to exercise appraisal rights under Section 262 of the DGCL. A person having a beneficial interest in shares of Nuance common stock held of record in the name of another person, such as a broker, bank or other nominee, must act promptly to cause the record holder to follow the steps summarized below properly and in a timely manner to perfect appraisal rights.

**The following discussion is not a complete statement of the law pertaining to appraisal rights under the DGCL and is qualified in its entirety by the full text of Section 262 of the DGCL, which is reprinted in its entirety as Annex H and incorporated into this joint proxy statement/prospectus by reference. All references in Section 262 of the DGCL and in this summary to a shareholder, stockholder or holder are to the record holder of the shares of Nuance common stock as to which appraisal rights are asserted.**

Under Section 262 of the DGCL, holders of shares of Nuance common stock who follow the procedures set forth in Section 262 of the DGCL will be entitled to have their Nuance common stock appraised by the Delaware Court of Chancery and to receive payment in cash of the fair value of these shares of Nuance common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, as determined by that court.

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Under Section 262 of the DGCL, when a proposed merger is to be submitted for approval at a meeting of stockholders, as in the case of the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger, by Nuance stockholders, the company, not less than 20 days prior to the meeting, must notify each of its stockholders who was a stockholder on the record date for this meeting with respect to shares for which appraisal rights are available, that appraisal rights are so available, and must include in this required notice a copy of Section 262 of the DGCL.

This joint proxy statement/prospectus constitutes the required notice to the holders of these shares of Nuance common stock and the applicable statutory provisions of the DGCL are attached to this joint proxy statement/prospectus as Annex H. Any Nuance stockholder who wishes to exercise their appraisal rights or who wishes to preserve their right to do so should review the following discussion and Annex H carefully, because failure to timely and properly comply with the procedures specified in Annex H will result in the loss of appraisal rights under the DGCL.

A holder of Nuance common stock wishing to exercise appraisal rights must not vote in favor of the approval and adoption of the merger agreement and must deliver to Nuance before the taking of the vote on the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the Nuance stockholder meeting a written demand for appraisal of their Nuance common stock. This written demand for appraisal must be separate from any proxy or vote abstaining from the vote on the merger or against the merger. This demand must reasonably inform Nuance of the identity of the stockholder and of the stockholder's intent thereby to demand appraisal of their shares. A holder of Nuance common stock wishing to exercise appraisal rights must be the record holder of these shares of Nuance common stock on the date the written demand for appraisal is made and must continue to hold these shares of Nuance common stock through the effective date of the merger. Accordingly, a holder of Nuance common stock who is the record holder of Nuance common stock on the date the written demand for appraisal is made, but who thereafter transfers these shares of Nuance common stock prior to consummation of the merger, will lose any right to appraisal in respect of these shares of Nuance common stock.

A proxy that is signed and does not contain voting instructions will, unless revoked, be voted in favor of the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, and it will constitute a waiver of the stockholder's right of appraisal and will nullify any previously delivered written demand for appraisal. Therefore, a stockholder who votes by proxy and who wishes to exercise appraisal rights must vote against the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, or abstain from voting on the merger agreement.

Only a holder of record of Nuance common stock on the record date for the Nuance special meeting is entitled to assert appraisal rights for the shares of Nuance common stock registered in that holder's name. A demand for appraisal should be executed by or on behalf of the holder of record, fully and correctly, as the holder's name appears on the holder's stock certificates, should specify the holder's mailing address and the number of shares registered in the holder's name, and must state that the person intends to demand appraisal of the holder's shares pursuant to the merger agreement. If the shares of Nuance common stock are held of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity, and if the Nuance common stock is held of record by more than one holder as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all joint holders. An authorized agent, including an agent for one or more joint holders, may execute a demand for appraisal on behalf of a holder of record. The agent, however, must identify the record holder or holders and expressly disclose the fact that, in executing the demand, the agent is acting as agent for the holder or holders. A record holder such as a broker who holds Nuance common stock as nominee for several beneficial owners may exercise appraisal rights with respect to the shares of Nuance common stock held for one or more beneficial owners while not exercising appraisal rights with respect to the Nuance common stock held for other beneficial owners. In this case, the written demand should set forth the number of shares of Nuance common stock as to which appraisal is sought. When no number of shares of Nuance common stock is expressly mentioned, the demand will be

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presumed to cover all Nuance common stock in brokerage accounts or other nominee forms held by such record holder, and those who hold shares in brokerage accounts or other nominee forms and who wish to exercise appraisal rights under Section 262 of the DGCL are urged to consult with their brokers to determine the appropriate procedures for the making of a demand for appraisal by such a nominee.

**All written demands for appraisal should be sent or delivered to Nuance Communications, 1350 Willow Road, Menlo Park, California 94025, Attention: Corporate Secretary.**

Within ten days after the effective date of the merger, Nova Acquisition LLC, or its successor in interest, which we refer to generally as the surviving company, will notify each former Nuance stockholder who has properly asserted appraisal rights under Section 262 of the DGCL and has not voted in favor of adopting the merger agreement and the transactions contemplated by the merger agreement, including the merger, of the date the merger became effective.

Within 120 days after the effective date of the merger, but not thereafter, the surviving company or any former Nuance stockholder who has complied with the statutory requirements summarized above may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares of Nuance common stock that are entitled to appraisal rights. None of ScanSoft, the surviving company or Nuance is under any obligation to and none of them has any present intention to file a petition with respect to the appraisal of the fair value of the shares of Nuance common stock. Accordingly, it is the obligation of Nuance stockholders wishing to assert appraisal rights to take all necessary action to perfect and maintain their appraisal rights within the time prescribed in Section 262 of the DGCL.

Within 120 days after the effective date of the merger, any former Nuance stockholder who has complied with the requirements for exercise of appraisal rights will be entitled, upon written request, to receive from the surviving company a statement setting forth the aggregate number of shares of Nuance common stock not voted in favor of adopting the merger agreement and the transactions contemplated by the merger agreement, including the merger, and with respect to which demands for appraisal have been timely received and the aggregate number of former holders of these shares of Nuance common stock. These statements must be mailed within ten days after a written request therefore has been received by the surviving company or within 10 days after expiration of the period for delivery of demands for appraisal under Section 262 of the DGCL, whichever is later.

If a petition for an appraisal is filed timely with the Delaware Court of Chancery by a former Nuance stockholder and a copy thereof is served upon the surviving company, the surviving company will then be obligated within 20 days of service to file with the Delaware Register in Chancery a duly certified list containing the names and addresses of all former Nuance stockholders who have demanded appraisal of their shares of Nuance common stock and with whom agreements as to value have not been reached. After notice to such former Nuance stockholders as required by the Delaware Court of Chancery, the Delaware Court of Chancery may conduct a hearing on such petition to determine those former Nuance stockholders who have complied with Section 262 of the DGCL and who have become entitled to appraisal rights thereunder. The Delaware Court of Chancery may require the former Nuance stockholders who demanded appraisal of their shares of Nuance common stock to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceeding. If any former stockholder fails to comply with such direction, the Delaware Court of Chancery may dismiss the proceedings as to that former stockholder.

After determining which, if any, former Nuance stockholders are entitled to appraisal, the Delaware Court of Chancery will appraise their shares of Nuance common stock, determining their fair value, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. Nuance stockholders considering seeking appraisal should be aware that the fair value of their shares of Nuance common stock as determined under Section 262 of the DGCL could be more than, the same as or less than the value of the consideration they would receive pursuant to the merger agreement if they did not seek appraisal of their shares of Nuance common stock.

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The costs of the appraisal action may be determined by the Delaware Court of Chancery and levied upon the parties as the Delaware Court of Chancery deems equitable. Upon application of a former Nuance stockholder, the Delaware Court of Chancery may also order that all or a portion of the expenses incurred by any former Nuance stockholder in connection with an appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts used in the appraisal proceeding, be charged pro rata against the value of all of the shares of Nuance common stock entitled to appraisal.

Any holder of Nuance common stock who has duly demanded an appraisal in compliance with Section 262 of the DGCL will not, after the consummation of the merger, be entitled to vote the shares of Nuance common stock subject to this demand for any purpose or be entitled to the payment of dividends or other distributions on those shares of Nuance common stock (except dividends or other distributions payable to holders of record of Nuance common stock as of a record date prior to the effective date of the merger).

If any stockholder who properly demands appraisal of their Nuance common stock under Section 262 of the DGCL fails to perfect, or effectively withdraws or loses, their right to appraisal, as provided in Section 262 of the DGCL, that stockholder's shares of Nuance common stock will be converted into the right to receive the consideration payable with respect to those shares of Nuance common stock in accordance with the merger agreement (without interest). A Nuance stockholder will fail to perfect, or effectively lose or withdraw, their right to appraisal if, among other things, no petition for appraisal is filed within 120 days after the effective date of the merger, or if the stockholder delivers to Nuance or the surviving company, as the case may be, a written withdrawal of their demand for appraisal. Any attempt to withdraw an appraisal demand in this matter more than 60 days after the effective date of the merger will require the written approval of the surviving company and, once a petition for appraisal is filed, the appraisal proceeding may not be dismissed as to any holder absent court approval.

Failure to follow the steps required by Section 262 of the DGCL for perfecting appraisal rights may result in the loss of these rights, in which event a Nuance stockholder will be entitled to receive the consideration payable with respect to their shares of Nuance common stock in accordance with the merger agreement (without interest).

Consequently, any Nuance stockholder willing to exercise appraisal rights is urged to consult with legal counsel prior to attempting to exercise such rights.

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**AGREEMENTS RELATED TO THE MERGER**

**The Merger Agreement**

The following is a summary of the material provisions of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, a copy of which is attached as Annex A to this joint proxy statement/prospectus and is incorporated into this joint proxy statement/prospectus by reference. You should read the merger agreement in its entirety, as it is the legal document governing this merger, and the provisions of the merger agreement are not easily summarized.

***Structure of the Merger***

We propose a two step merger pursuant to which in the first step, Nova Acquisition Corporation, a wholly-owned subsidiary of ScanSoft, will merge with and into Nuance, and thereafter will cease to exist as a separate corporate entity. After the first step merger, Nuance will be a wholly owned subsidiary of ScanSoft. In the second step, Nuance will merge with and into Nova Acquisition LLC, a wholly-owned subsidiary of ScanSoft, and thereafter Nuance will cease to exist as a separate corporate entity. After the second step, Nova Acquisition LLC will be a wholly owned subsidiary of ScanSoft. Pursuant to the merger agreement, no later than 90 days following the effective time of the merger, ScanSoft will change its corporate name to Nuance .

***Effective Time and Timing of Closing***

The first step merger will be completed and become effective when the certificate of merger related to the first step merger is filed with the Secretary of State of the State of Delaware, or at such later time as we may agree and as is specified in the certificate of merger, in accordance with Delaware law. The second step merger will be completed and become effective with the certificate of merger related to the second step merger is filed with the Secretary of State of the State of Delaware, in accordance with Delaware law and the Delaware LLC Act. We anticipate the effectiveness of the second step merger to occur as promptly as practicable after the first step merger. The first step merger and second step merger are collectively referred to as the merger. The closing of the merger will take place as soon as practicable after all conditions to the merger have been satisfied or waived, or on such other date as we may agree. We currently anticipate that we will complete the merger as soon as practicable after the ScanSoft special meeting and the Nuance special meeting, assuming ScanSoft's and Nuance stockholders give their requisite approvals and all conditions to the merger have been satisfied or waived.

***Merger Consideration***

Upon completion of the merger, each share of Nuance common stock outstanding immediately prior to the effective time of the merger will be canceled and extinguished and automatically converted into the right to receive (i) 0.77 of a share of ScanSoft common stock and (ii) \$2.20 of cash upon surrender of the certificate representing such share of Nuance common stock in the manner provided in the merger agreement, subject to adjustment as described under Reorganization for Tax Purposes; Tax Adjustment.

The exchange ratio in the merger will be adjusted to reflect fully the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into ScanSoft common stock or Nuance common stock), reorganization, recapitalization, reclassification or other like change with respect to ScanSoft common stock or Nuance common stock having a record date on or after the date of the merger agreement and prior to completion of the merger.

Based on the exchange ratio and the number of shares of Nuance common stock outstanding as of May 9, 2005, a total of approximately 28,216,295 shares of ScanSoft common stock will be issued, and a total of approximately \$80,617,988 in cash will be paid, in connection with the merger to holders of shares of Nuance common stock.

**Table of Contents*****Reorganization for Tax Purposes; Tax Adjustment***

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Consummation of the merger is conditioned upon receipt by ScanSoft and Nuance of tax opinions from counsel at closing to such effect. Under the merger agreement, if neither tax counsel to ScanSoft nor tax counsel to Nuance can render the closing tax opinion because they both reasonably determine that the merger may not satisfy the continuity of interest requirements for a tax-free reorganization under Section 368(a) of the Internal Revenue Code, or the continuity of interest test, then ScanSoft (after consultation with such tax counsel) will reduce the cash consideration and correspondingly increase the stock consideration to the minimum extent necessary to enable the closing tax opinion to be rendered. In addition, the option exchange ratio will be similarly adjusted to reflect the reduction in the cash consideration and the increase in the stock consideration. The aggregate cash consideration will be reduced by \$1.905 for each additional share of ScanSoft common stock to be issued in the merger. The continuity of interest test requires that, after the merger, the Nuance stockholders must continue to own a substantial part of the value of their proprietary interests in Nuance by virtue of their ownership of ScanSoft common stock. There is no definitive standard for determining whether the continuity of interest test has been met. For purposes of rendering the tax opinion, however, the continuity of interest test will be considered satisfied if the value, as of the effective time of the first step merger, of the ScanSoft common stock received by the Nuance stockholders constitutes at least 40% of the total value of the aggregate merger consideration, including amounts received by Nuance stockholders exercising their dissenters' or appraisal rights. For purposes of the continuity of interest test, tax counsel will consider the value of a share of ScanSoft common stock to be the average of the high and low sales prices of a share of ScanSoft common stock on the last trading day prior to the date of the closing of the first step merger, which we refer to as the closing date price. If less than 40% of the total value of the merger consideration consists of ScanSoft common stock (calculated using the closing date price), then the aggregate cash consideration will be reduced by \$1.905 for each additional share of ScanSoft common stock to be issued until the value of the common stock to be received constitutes at least 40% of the total value of the aggregate merger consideration.

***Fractional Shares***

ScanSoft will not issue any fractional shares of common stock in connection with the merger. Instead, each holder of Nuance common stock who would otherwise be entitled to receive a fraction of a share of ScanSoft common stock will be entitled to receive cash, without interest, in an amount equal to such fraction multiplied by \$4.46.

***Exchange of Nuance Stock Certificates for ScanSoft Stock Certificates***

Promptly following completion of the merger, US Stock Transfer Corporation, the exchange agent for the merger, will mail to each record holder of Nuance common stock a letter of transmittal and instructions for surrendering the record holder's Nuance stock certificates in exchange for the consideration to be received by Nuance stockholders in the merger. Only those holders of Nuance common stock who properly surrender their Nuance stock certificates in accordance with the exchange agent's instructions will receive:

certificates representing the number of whole shares of ScanSoft common stock to which they are entitled pursuant to the merger agreement;

cash representing the cash portion of the consideration to which they are entitled pursuant to the merger agreement; and

cash in lieu of any fractional share of ScanSoft common stock.

The surrendered certificates representing Nuance common stock will be canceled. After the effective time of the merger, each certificate representing shares of Nuance common stock that has not been surrendered will represent only the right to receive each of the items, as the case may be, enumerated

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above. Following the completion of the merger, Nuance will not register any transfers of Nuance common stock on its stock transfer books. Holders of Nuance common stock should not send in their Nuance stock certificates until they receive a letter of transmittal from US Stock Transfer Corporation, the exchange agent for the merger, with instructions for the surrender of Nuance stock certificates.

***Appraisal Rights***

Subject to compliance with the procedures set forth in Section 262 of the Delaware General Corporation Law, or DGCL, Nuance stockholders who do not vote in favor of the approval and adoption of the merger agreement and the merger and otherwise comply with the requirements of the DGCL will not receive the merger consideration in exchange for their shares, but instead will be entitled to appraisal rights in connection with the merger, whereby such stockholders may receive the appraised value of their shares of Nuance common stock held by them in accordance with the provisions of such Section 262 of the DGCL. Failure to take any of the steps required under Section 262 of the DGCL on a timely basis may result in a loss of those appraisal rights.

***Distributions with Respect to Unexchanged Shares; Adjustments***

Holders of Nuance common stock are not entitled to receive any dividends or other distributions on ScanSoft common stock until the merger is completed. Such holders will not receive interest in respect of the cash portion of the merger consideration. In the event of any stock split, reverse stock split, stock dividend, reorganization, reclassification, combination, recapitalization or other like change with respect to Nuance common stock or ScanSoft common stock occurring after May 9, 2005 and prior to the closing of the merger, all calculations in the merger agreement that are based upon numbers of shares of any class or series (or trading prices therefor) affected by such event will be equitably adjusted to the extent necessary to provide the same economic effect as contemplated by the merger agreement prior to such stock split, reverse stock split, stock dividend, reorganization, reclassification, combination, recapitalization or other like change.

***Transfers of Ownership and Lost Stock Certificates***

If the payment of the portion of the merger consideration to which a Nuance stockholder is entitled is to be paid to a person other than the person in whose name the certificates surrendered in exchange therefor are registered, it will be a condition of payment that the certificates so surrendered be properly endorsed and otherwise in proper form for transfer (including, if requested, a medallion guarantee), and that the persons requesting such payment will have paid to ScanSoft or any agent designated by it any transfer or other taxes required. In the event that any certificates representing Nuance common stock shall have been lost, stolen or destroyed, the holder of such certificate may need to deliver a bond prior to receiving any merger consideration.

***Treatment of Nuance Stock Options***

Subject to the approval of the stockholders of ScanSoft, all options to purchase Nuance common stock outstanding under the Nuance 2001 Nonstatutory Stock Option Plan, the Nuance 2000 Stock Plan and the Nuance 1998 Stock Plan with an exercise price of \$10.00 or less, and all options under the Nuance 1994 Flexible Stock Incentive Plan, regardless of exercise price, will be assumed by ScanSoft, and become an option to purchase ScanSoft common stock on the same terms and conditions as were applicable to the assumed option prior to the closing of the merger, except each such option will be exercisable for such whole number of shares of ScanSoft common stock (rounded down to the nearest share) equal to the product obtained by multiplying the number of shares of Nuance common stock issuable upon the exercise of such option, by the option exchange ratio, and

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the exercise price per share for the ScanSoft common stock shall be equal to the quotient (rounded up to the nearest cent) of the exercise price per share for such option, divided by the option exchange ratio.

The option exchange ratio is defined as 0.77 (the stock consideration to be received by Nuance stockholders in the merger for each share of Nuance stock), plus the quotient of (a) \$2.20 (the cash consideration to be received by Nuance stockholders in the merger for each share of Nuance stock), divided by (b) the average of the closing trading prices of the ScanSoft common stock during the five trading days immediately preceding the closing date, subject to potential adjustment as described below under Reorganization for Tax Purposes; Tax Adjustment.

The approval of ScanSoft's stockholders is being sought for the Option Assumption because ScanSoft's Amended and Restated By-Law provides that stockholder approval is required for ScanSoft to sell securities exercisable into common stock with an exercise price that is fixed after the date of the agreement. Since under the proposed treatment of the assumed Nuance options in accordance with the merger agreement, the option exercise price is based in part on the average of the closing trading prices of the ScanSoft common stock during the five trading days immediately prior to the closing date, rather than being fixed as of the date the merger agreement was executed, the Option Assumption requires the approval of ScanSoft's stockholders.

In the event that the approval of the stockholders of ScanSoft is not obtained for the treatment of the Nuance options as described above, each Nuance option outstanding under the Nuance stock option plans with an exercise price of \$10.00 or less will be assumed by ScanSoft and become an option to acquire ScanSoft common stock and cash, whereby

each such assumed option will be exercisable for that such number of shares of ScanSoft common stock equal to the number of shares of Nuance common stock issuable upon exercise of such option, multiplied by 0.77, and an amount of cash equal to the number of shares of Nuance common stock issuance upon exercise of such option, multiplied by \$2.20, and

the exercise price per share for the ScanSoft common stock and cash shall be equal to the quotient of the exercise price per share for such option, divided by 0.77.

All options outstanding with an exercise price of more than \$10.00, and that are not already fully vested, will accelerate and become fully vested prior to the effective time of the first step merger, and shall terminate as of the effective time of the first step merger if not exercised prior to the effective time of the first step merger.

***Treatment of Rights Under the Nuance Stock Purchase Plan***

The Nuance employee stock purchase plan shall be terminated immediately prior to the effective time of the merger if not earlier terminated by its terms, and Nuance shall take no action, pursuant to the terms of the Nuance employee stock purchase plan, to commence any new purchase and/or offering period. Any offering period underway under the Nuance employee stock purchase plan that extends beyond the effective time of the merger shall be shortened, such that (i) a new purchase date for each such offering shall occur prior to the effective time of the merger, (ii) Nuance common stock shall be purchased by the Nuance employee stock purchase plan participants in connection with such new purchase date prior to the effective time of the merger and (iii) all administrative actions required to transfer ownership of Nuance common stock to such purchasing Nuance employee stock purchase plan participants shall have been completed.

***Treatment of Unvested Nuance Common Stock***

The ScanSoft common stock consideration issued in exchange for any shares of Nuance common stock that are unvested or subject to a repurchase option, risk of forfeiture or other condition under any applicable restricted stock purchase agreement or other agreement with Nuance will also be unvested and subject to the same repurchase option, risk of forfeiture or other condition. The cash portion of the



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consideration payable upon conversion of any such unvested or restricted shares of Nuance common stock will initially be withheld and shall be paid to each such holder in accordance with the vesting and other provisions set forth in the applicable restricted stock agreement.

***Representations and Warranties***

The merger agreement contains generally reciprocal representations and warranties made by each of ScanSoft, Nova Acquisition Corporation and Nova Acquisition LLC, on the one hand, and Nuance, on the other, regarding aspects of their respective businesses, financial condition and structure, as well as other facts pertinent to the merger. These representations and warranties relate to the following subject matters with respect to each party:

corporate organization, qualifications to do business, corporate standing and corporate power;

absence of any breach of the certificate of incorporation and bylaws and the certificates of incorporation, bylaws and similar organizational documents of subsidiaries;

ownership of subsidiary capital stock and the absence of restrictions or encumbrances with respect to the capital stock of any significant subsidiary;

capitalization;

corporate authorization to enter into and consummate the transactions contemplated by the merger agreement and the enforceability of the merger agreement;

governmental and regulatory approvals required to complete the merger;

absence of any conflict or violation of any applicable legal requirements, corporate charter and bylaws, and the charter, bylaws and similar organizational documents of subsidiaries as a result of entering into and consummating the transactions contemplated by the merger agreement;

the effect of entering into and consummating the transactions contemplated by the merger agreement on material contracts;

filings and reports with the SEC;

financial statements;

the absence of undisclosed liabilities;

absence of any material adverse change or certain other changes in each party's respective businesses between the date of such party's last audited balance sheet and May 9, 2005, the date of the merger agreement;

taxes;

intellectual property;

compliance with applicable laws;

possession of and compliance with permits required for the operation of business;

litigation;

payment, if any, required to be made to brokers and agents on account of the merger;

transactions with affiliates;

employee benefit plans and labor relations;

real property and environmental matters;

existence of material contracts and absence of breaches of material contracts;

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accuracy of information supplied in this joint proxy statement/prospectus and the related registration statement filed by ScanSoft with the SEC;

insurance policies in place;

approvals by the board of directors;

the taking of any action necessary so that the transactions contemplated by the merger agreement, including the merger, will not result in the grant of any rights to any person under each of the party's respective rights plans; and

the receipt of a fairness opinion.

In addition, Nuance made representations and warranties regarding:

the inapplicability of certain state takeover statutes to ScanSoft during the pendency of the merger agreement.

In addition, ScanSoft made representations and warranties regarding:

the sufficiency of cash on hand at closing to pay the full aggregate amount of the cash consideration in the merger, and the effectiveness of the agreements entered into in connection with the Warburg Pincus financing.

The representations and warranties contained in the merger agreement will not survive the merger, but they form the basis of certain conditions to ScanSoft's and Nuance's obligations to complete the merger.

***Covenants of Nuance***

Except as contemplated by the merger agreement, Nuance has agreed that, until completion of the merger or termination of the merger agreement, it will use commercially reasonable efforts to (i) conduct its and its subsidiaries business in the usual, regular and ordinary course, in substantially the same manner as previously conducted and in compliance in all material respects with all applicable laws and regulations, (ii) in the ordinary course of business consistent with past practices pay its debts and pay or perform other material obligations and, when due, its taxes (subject to good faith disputes over such debts, taxes or obligations), (iii) preserve intact in all material respects its present business organization, (iv) keep available the services of its present executive officers and other key employees, and (v) preserve in the ordinary course of business its relationships with customers, suppliers, licensors, licensees, and others with which it has business dealings. In addition, Nuance shall promptly notify ScanSoft in writing of any material adverse effect involving its business or operations.

Under the merger agreement, Nuance also agreed that, until the earlier of the completion of the merger or termination of the merger agreement, or unless ScanSoft consents in writing, Nuance and its subsidiaries will conduct their businesses in compliance with restrictions relating to the following:

entering into any new line of business;

declaring, setting aside or paying dividends or making any other distributions, subject to certain exceptions relating to distributions by subsidiaries of Nuance and repurchases of unvested shares at cost under stock option or purchase agreements existing as of May 9, 2005 to which an employee is party;

purchasing, redeeming or acquiring its capital stock or the capital stock of its subsidiaries other than repurchases of unvested shares at cost under stock option or purchase agreements existing as of May 9, 2005 to which an employee is party;

issuing, delivering, selling, authorizing or encumbering its capital stock, or securities convertible into its capital stock, or entering into any agreement or obligation to do the same, subject to certain exceptions, including (i) the issuance of shares in connection with option or warrant exercises and

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pursuant to the Nuance employee stock purchase plan, (ii) the granting of stock options in the ordinary course of business and consistent with past practices to newly hired employees, and (iii) the granting of stock options to purchase up to 250,000 shares of Nuance common stock in the ordinary course of business and consistent with past practices to other non-executive officer employees;

modifying or amending its certificate of incorporation and bylaws or the certificate of incorporation, bylaws or similar organizational documents of its subsidiaries;

acquiring or agreeing to acquire by merger or consolidation with, or by purchasing any equity or voting interest in or a portion of the assets of, any business of any person or entity, or otherwise acquiring any assets outside of the ordinary course of business;

entering into binding agreements, agreement in principles, letters of intent, memorandums of understanding or similar agreements with respect to any joint venture, strategic partnership or alliance, other than in connection with certain customer arrangements;

selling, leasing, licensing, encumbering or otherwise disposing of any property material to its business, except (i) sales of inventory in the ordinary course of business consistent with past practice, (ii) the sale, lease or disposition (other than through licensing) of property or assets which are not material, individually or in the aggregate, to the business of Nuance and its subsidiaries, (iii) the sale of goods or non-exclusive licenses of intellectual property in the ordinary course of business and consistent with past practices, and (iv) dispositions of other immaterial assets in the ordinary course of business and consistent with past practices;

making any loans, advances or capital contributions to, or investments in, any other person, other than employee advances for travel, business and entertainment expenses made in the ordinary course of business consistent with past practice, provided such employee loans are in compliance with applicable law;

making any material change in its methods or principles of accounting since December 31, 2004, except as required by generally accepted accounting principles or the SEC;

making or changing any material tax election or adopting or changing any accounting method;

revaluing any of its assets, except as required by generally accepted accounting principles or the SEC;

paying, discharging, settling or satisfying any claims (including any tax claim), liabilities or obligations, or litigation (whether or not commenced prior to May 9, 2005, the date of the merger agreement) other than (i) in the ordinary course of business consistent with past practice, or the payment of obligations incurred in the ordinary course of business in accordance with their terms, or (ii) the payment of obligations required by an agreement existing as of May 9, 2005 in accordance with its terms;

knowingly waiving the benefits of, agreeing to modify in any manner, terminating, releasing any person from or knowingly fail to enforce any confidentiality or similar agreement to which Nuance or any of its subsidiaries is a party or a beneficiary;

except as required by applicable law or existing contract, increasing the compensation of, or making severance or termination payment to, any director or officer or other key employee of Nuance; or making any increase in or commitment to increase any Nuance employee benefit plan, subject to certain exceptions;

waiving any stock repurchase rights, accelerating, amending or changing the period of exercisability of any options to purchase shares of Nuance common stock, or repricing any options or authorizing cash payments in exchange for any option to purchase shares of Nuance common stock;

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entering into any employment, severance, termination or indemnification agreement with any Nuance employee or entering into any collective bargaining agreement, subject to certain exceptions, including the entering into offer letters and letter agreements in the ordinary course of business and consistent with past practices with employees who are terminable at will ;

making any material oral or written representation or commitment with respect to any material aspect of any Nuance employee benefit plan that is not materially in accordance with the existing written terms and provision of such Nuance employee benefit plan;

granting any stock appreciation right, phantom stock award, stock-related award or performance award to any person;

entering into any agreement with any Nuance employee, the benefits of which are contingent or the terms of which are materially altered in favor of the Nuance employee upon the occurrence of a change in control;

granting any exclusive rights with respect to any intellectual property of Nuance, subject to certain exceptions with respect to custom work product;

entering into or renewing any contracts containing any non-competition, exclusivity or other material restrictions on Nuance or the combined company following the closing of the merger, subject to certain exceptions with respect to custom work product;

entering into any agreement or commitment the effect of which would be to grant to a third party following the merger any actual or potential right of license to any intellectual property owned by ScanSoft or any of its subsidiaries;

hiring or offering to hire employees, subject to certain limited exceptions;

incurring any indebtedness for borrowed money or guarantee any such indebtedness of another person or issuing or selling any debt securities or any option to acquire any such debt securities;

making any individual or series of related payments outside of the ordinary course of business or commit to make capital expenditures in excess of \$200,000 individually and \$500,000 in the aggregate during any three month period;

modifying, terminating or amending in any material respect any lease, sublease or material contract of Nuance, subject to limited exceptions, or knowingly waiving, releasing or assigning any material rights or claims thereunder;

entering into any contract outside of the ordinary course of business, or requiring Nuance or any of its subsidiaries to pay in excess of an aggregate of \$500,000 under each agreement; and

agreeing in writing or otherwise to take any of the foregoing actions.

***Covenants of ScanSoft***

Except as contemplated by the merger agreement, ScanSoft has agreed that, until completion of the merger or termination of the merger agreement, it will use commercially reasonable efforts to (i) conduct its and its subsidiaries business in the usual, regular and ordinary course, in substantially the same manner as previously conducted and in all material respects in compliance with all applicable laws and regulations, (ii) in the ordinary course of business consistent with past practices pay its debts and pay or perform other material obligations and, when due, its taxes

(subject to good faith disputes over such debts, taxes or obligations), (iii) preserve intact in all material respects its present business organization, (iv) keep available the services of its present executive officers and other key employees, and (v) preserve in the ordinary course of business its relationships with customers, suppliers, licensors, licensees, and others with which it has business dealings. In addition, ScanSoft shall promptly notify Nuance in writing of any material adverse effect involving its business or operations.

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Under the merger agreement, ScanSoft also agreed that, until the earlier of the completion of the merger or termination of the merger agreement, or unless Nuance consents in writing, ScanSoft and its subsidiaries will conduct their businesses in compliance with restrictions relating to the following:

causing, permitting or proposing any amendments to its certificate of incorporation or bylaws or the certificate of incorporation or bylaws of its subsidiaries that would materially impair or adversely affect the ability of ScanSoft to consummate the merger;

declaring, setting aside or paying any dividends on or make any other distributions in respect of any ScanSoft capital stock unless the exchange ratio is appropriately adjusted;

adopting a plan of liquidation or dissolution;

purchasing, redeeming or otherwise acquiring, directly or indirectly, shares of its or its subsidiaries' capital stock for an aggregate repurchase price in excess of \$5,000,000, except repurchases of unvested shares at cost in connection with the termination of the employment relationship with any employee pursuant to stock option or purchase agreements in effect on May 9, 2005, the date of the merger agreement;

performing any acquisition that is in excess of \$15,000,000 individually or \$45,000,000 in the aggregate, or that is likely to materially delay the merger;

causing, permitting or proposing any material amendment to the agreements related to the Warburg Pincus financing;

issue or agree to issue a material amount of its capital stock or securities convertible into common stock, subject to limited exceptions, including (i) pursuant to ScanSoft's stock option plans, (ii) pursuant to convertible securities outstanding as of May 9, 2005, (iii) in conjunction with employment or consulting arrangements, and (iv) pursuant to the Warburg Pincus financing;

except as required by GAAP or the SEC, revaluing any of its assets or making any change in accounting methods, principles or practices;

adopting any resolution that is intended to treat the shares of ScanSoft common stock issued pursuant to the merger differently under the ScanSoft's rights agreement than other outstanding shares of ScanSoft common stock, subject to certain exceptions; and

agreeing in writing or otherwise to take any of the foregoing actions.

***Other Covenants***

The merger agreement contains a number of other covenants by Nuance and ScanSoft, including:

*Preparation of Registration Statement and Proxy Statement.* Nuance and ScanSoft agreed to promptly prepare and file the joint proxy statement/prospectus included as part of the registration statement, and ScanSoft agreed to promptly prepare and file the registration statement following the execution of the merger agreement. Both parties also agreed to use commercially reasonable efforts to have the registration statement declared effective by the SEC as promptly as practicable, and ScanSoft agreed to take any action required by applicable state securities laws. Nuance agreed to furnish information regarding Nuance and its stockholders as reasonably required.

*Meeting of Stockholders.* Nuance agreed to take all actions necessary to hold the Nuance special meeting to consider and vote upon the adoption of the merger agreement and the approval of the merger. ScanSoft agreed to take all actions necessary to hold the ScanSoft special meeting to consider and vote upon the approval of the



issuance of shares of ScanSoft common stock in connection with the merger, the Warburg Pincus financing, and the assumption of the options in the merger.

*Treatment as a Reorganization.* ScanSoft, Nova Acquisition Corporation, Nova Acquisition LLC and Nuance have agreed not to, and agreed not to permit any of their respective subsidiaries to,

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take any action prior to or following the closing that would reasonably be expected to cause the merger to fail to qualify as a reorganization within Section 368(a) of the Internal Revenue Code.

*Stock Exchange Listing.* ScanSoft has agreed to use all commercially reasonable efforts to authorize for listing on the NASDAQ National Market the shares of ScanSoft common stock issuable in connection with the merger, subject to official notice of issuance.

*Access to Information.* Each party has agreed to afford the other party's accountants, counsel and other identified representatives reasonable access during normal business hours to its properties, books, records and personnel during the period prior to the effective time of the merger to obtain all reasonable information concerning its business as may be reasonably requested, except as prohibited or restricted by applicable law or the confidentiality agreement between the parties.

*Public Announcements.* Nuance and ScanSoft have agreed to consult with one another before issuing any press release or otherwise making any public statements about the merger or related transactions, unless otherwise required by any applicable laws or regulations.

*Notification of Certain Matters.* ScanSoft and Nuance each agreed to give prompt notice to the other of any representation or warranty in the merger agreement becoming untrue or inaccurate, or any failure to comply with or satisfy in any material respect any covenant or condition to be complied with or satisfied under the merger agreement, in each case where the respective party could not satisfy the closing condition with respect to representations or warranties.

*Affiliates.* Nuance has agreed to use all commercially reasonable efforts to obtain a letter agreement from all Nuance stockholders who may be affiliates of Nuance or ScanSoft pursuant to which those stockholders would, among other things, agree not to transfer shares of ScanSoft common stock they receive pursuant to the merger in violation of the Securities Act and related rules and regulations.

*Third Party Consents.* Nuance has agreed to use all commercially reasonable efforts to obtain any material consents, waivers or approvals under any of its contracts which are required to be obtained in connection with the consummation of the merger.

*Form S-8 Filing.* ScanSoft has agreed to file with the SEC a registration statement on Form S-8 covering the shares of ScanSoft common stock issuable upon exercise of ScanSoft stock options resulting from the assumption of Nuance stock options in the merger.

*Termination of 401(k) Plans and Other Plans.* Nuance has agreed to adopt resolutions to terminate its 401(k) and other group severance, separation and salary continuation plans effective no later than the date immediately preceding the effective date of the merger, if so requested by ScanSoft, no later than 5 days prior to the effective date of the merger.

*Nuance Rights Plan.* Nuance shall not redeem its rights plan or amend, modify or terminate its rights plan, unless it is required to do so by order of a court of competent jurisdiction or the Nuance board has concluded, in good faith, after receipt of advice from outside counsel, that, in light of a superior offer with respect to it, the failure to effect such amendment, modification or termination is reasonably likely to result in a breach of the Nuance board's fiduciary obligations to its stockholders under applicable law.

*Section 16 Matters.* Provided that Nuance delivers to ScanSoft certain information, ScanSoft and Nuance have agreed to take all such steps as may be required to cause any dispositions of Nuance common stock resulting

from the transactions contemplated by the merger agreement by each individual who is subject to the reporting requirements of Section 16(b) of the Exchange Act with respect to Nuance to be exempt under Rule 16b-3 promulgated under the Exchange Act.

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*Disqualified Individuals.* Within five business days prior to the closing of the merger, Nuance shall deliver to ScanSoft a schedule which sets forth each person who Nuance reasonably believes is, with respect to Nuance or any Nuance ERISA affiliate, a disqualified individual within the meaning of Section 280G of the Internal Revenue Code and the regulations promulgated thereunder.

*Spreadsheet.* Nuance shall deliver to ScanSoft at or prior to the closing of the merger a spreadsheet that sets forth (i) the names of all holders of Nuance options and unvested shares and their respective address and taxpayer identification number, (ii) the number of shares of Nuance common stock subject to Nuance options and the number of unvested shares held by such persons, (iii) the exercise price per share in effect for each Nuance option, (iv) the vesting status and schedule with respect to each Nuance option and the unvested shares held by such persons, and (v) the tax status of each Nuance option under Section 422 of the Internal Revenue Code.

***Name Change and Trading Symbol***

Pursuant to the merger agreement, not later than ninety (90) days following the closing date, ScanSoft shall change its corporate name to Nuance, Inc. Following such name change, ScanSoft will change its trading symbol to NUAN or another symbol mutually agreeable to Nuance and ScanSoft.

***Indemnification and Insurance***

The merger agreement provides that, for a period of six years after the completion of the merger, ScanSoft shall, and will cause Nuance (as a wholly owned subsidiary) to, fulfill all obligations of Nuance to indemnify Nuance directors and officers under any indemnification agreements between Nuance and its directors and employees, and the limited liability operating agreement of the surviving entity will contain provisions with respect to exculpation, advancement of expenses and indemnification that are at least as favorable to Nuance directors and officers as those contained in the certificate of incorporation and by-laws of Nuance prior to the effective time of the merger. In addition, subject to certain limitations, for a period of six years after the effective time of the merger, ScanSoft or the surviving entity of the merger will maintain directors and officers liability tail insurance coverage on terms comparable to those applicable to the current directors and officers of Nuance, and covering all periods prior to the effective time of the merger, to cover any such liabilities.

***Employee Benefits***

ScanSoft and Nuance agreed that their respective chief executive officers will work together to determine the continuing workforce of ScanSoft after the merger (including retention programs for any key employees), and it is contemplated that a significant number of employees of Nuance will be offered employment by ScanSoft. Such offers will have terms and conditions determined by ScanSoft and consistent with standard ScanSoft employment arrangements and will supersede any prior employment agreements and other arrangements with such employees in effect prior to the closing of the merger, subject to any existing individual retention and severance agreements. Continuing employees who are terminated involuntarily following the closing will be eligible to participate in a severance program mutually agreed to by the chief executive officers of Nuance and ScanSoft (it being understood that such program is intended to be at least as beneficial to such employees as those of Nuance's existing program or a new program agreed upon between the chief executive officers of Nuance and ScanSoft that is mid-way between Nuance's severance program and ScanSoft's severance program). Continuing employees shall be eligible to receive benefits consistent with ScanSoft's applicable human resource policies and in accordance with the terms of ScanSoft's employee benefit plans. Each continuing employee shall receive credit for prior service with Nuance for purposes of determining eligibility to participate and vesting in ScanSoft benefit plans, including applicability of minimum waiting periods for participation. ScanSoft will implement a stock option grant program, in consultation with the chief executive officer of Nuance, for the benefit of continuing employees to effect retention goals and new hire policies.

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***Board of Directors of ScanSoft Following the Merger***

The ScanSoft board of directors agreed to take all actions necessary such that, immediately following completion of the merger, two directors of Nuance reasonably acceptable to ScanSoft shall become members of the ScanSoft board, one of whom is expected to be Charles W. Berger, the Chief Executive Officer of Nuance and a director of Nuance, and such directors shall be nominated by the ScanSoft board for re-election to the ScanSoft board at ScanSoft's next annual meeting following the closing of the merger.

***Regulatory Approvals***

Each of ScanSoft, Nova Acquisition Corporation, Nova Acquisition LLC and Nuance agreed to coordinate and cooperate with one another and use all commercially reasonable efforts to comply with, and refrain from actions that would impede compliance with, applicable laws, regulations and any other requirements of any governmental entity. ScanSoft, Nova Acquisition Corporation, Nova Acquisition LLC and Nuance also agreed, as promptly as practicable, to make all filings and submissions required by any governmental entity in connection with the merger and the other transactions contemplated by the merger agreement, including the following:

those filings or submissions required under the Hart-Scott-Rodino Act, as well as any other comparable merger notification or control laws of any applicable jurisdiction, as agreed by the parties; and

any filings required under the Securities Act, the Exchange Act, any applicable state or securities or blue sky laws and the securities laws of any foreign country.

Except as prohibited or restricted by applicable law or the confidentiality agreement among the parties, each of ScanSoft, Nova Acquisition Corporation, Nova Acquisition LLC and Nuance generally agreed to do the following: consult with the other with respect to the filings or submissions described above, coordinate with the other in preparing and exchanging information with respect to such filing or submissions and provide the other party an opportunity to review and comment on such filings or submissions;

promptly notify the other upon the receipt of any comments or requests for amendments or supplements to any filings or submissions made pursuant to, or information provided to comply with, any applicable laws, regulations and any other requirements of any governmental entity; and

promptly provide the other copies of any filing or submission made with any governmental entity.

***Commercially Reasonable Efforts to Obtain Regulatory Approvals***

Each of ScanSoft and Nuance agreed to use all commercially reasonable efforts to resolve any objections that may be asserted by any governmental entity. If any proceeding is instituted or threatened by any governmental entity with appropriate jurisdiction under antitrust laws seeking to restrain or impose conditions on the merger, ScanSoft and Nuance will use all commercially reasonable efforts to resolve such proceeding through negotiation or settlement.

ScanSoft shall not be required to litigate or contest any administrative or judicial action or proceeding or any decree, judgment, injunction or other order, whether temporary, preliminary or permanent.

***Conditions to Completion of the Merger***

The respective obligations of ScanSoft, Nova Acquisition Corporation and Nova Acquisition LLC, on the one hand, and Nuance, on the other, to complete the merger and the other transactions contemplated

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by the merger agreement are subject to the satisfaction or waiver, by the party entitled to waive such condition, of each of the following conditions before completion of the merger:

the merger agreement shall have been adopted and the merger shall have been duly approved by the stockholders of Nuance as required under applicable law and marketplace rules;

both the issuance of shares of ScanSoft common stock in the merger and the Warburg Pincus financing shall have been duly approved by the stockholders of ScanSoft, as required under applicable law and marketplace rules;

no law, regulation or order has been enacted or issued by a governmental entity of competent jurisdiction which is in effect and has the effect of making the merger, the issuance of shares of ScanSoft common stock in the merger or the Warburg Pincus financing illegal or otherwise prohibiting completion of the merger, the issuance of shares of ScanSoft common stock in the merger or the Warburg Pincus financing;

the SEC has declared ScanSoft's registration statement, of which this joint proxy statement/prospectus is a part, effective, and no stop order suspending its effectiveness has been issued and no proceedings for suspension of the registration statement's effectiveness, or a similar proceeding in respect of this joint proxy statement/prospectus, has been initiated or threatened in writing by the SEC;

all waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act with respect to the merger and the Warburg Pincus financing have expired or terminated early and all foreign antitrust approvals required to be obtained prior to the merger have been obtained;

there is no pending suit, action or proceeding asserted by any governmental agency (i) challenging or seeking to restrain or prohibit the consummation of the merger, the issuance of shares of ScanSoft common stock in the merger or the Warburg Pincus financing or (ii) seeking to require ScanSoft or Nuance to effect an action of divestiture, and no specified governmental authority shall have made any statement or communication that would reasonably be construed to indicate a governmental authority is likely to commence any such suit, action or proceeding;

ScanSoft and Nuance have each received from its respective tax counsel an opinion to the effect that the merger will constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and such opinions have not been withdrawn, provided that if one of their counsels does not render such an opinion, the opinion of the other counsel shall satisfy this condition; and

the shares of ScanSoft common stock to be issued pursuant to the merger have been authorized for listing on the NASDAQ National Market, subject to official notice of issuance.

In addition, individually, the respective obligations of ScanSoft, Nova Acquisition Corporation and Nova Acquisition LLC on the one hand, and Nuance on the other, to effect the merger and the other transactions contemplated by the merger agreement are subject to the satisfaction or waiver of the following additional conditions:

the representations and warranties of the other party were true and correct on May 9, 2005 and are true and correct as of the date the merger is to be completed as if made at and as of that time, except:

to the extent the representations and warranties of the other party address matters only as of a particular date, then they must be true and correct as of that date; and

if any of the representations and warranties are not true and correct but the failure of such representations or warranties to be true and correct have not resulted, and would not reasonably be expected to result in, individually or in the aggregate with other such failures to be true and correct, a material adverse change, as defined below, to the other party;



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the other party has performed or complied in all material respects with all of its agreements and covenants required by the merger agreement to be performed or complied with by it before completion of the merger; and

no material adverse change, as defined below, on the other party has occurred since May 9, 2005 and is continuing.

Finally, the obligations of Nuance to effect the merger and the other transactions contemplated by the merger agreement are conditioned on the closing of the Warburg Pincus financing prior to or simultaneously with the closing of the merger.

***Alternative Transactions Nuance***

Nuance has agreed that neither it, nor any of its subsidiaries, nor any of the executive officers or directors of it or its subsidiaries shall, and that it shall use its commercially reasonable efforts to cause all other employees and any investment banker, attorney, accountant or other representative retained by Nuance not to, directly or indirectly:

solicit or initiate, or knowingly encourage, knowingly facilitate or induce the making, submission or announcement of any acquisition proposal, as defined below;

participate in any discussions or negotiations regarding, or furnish to any person any nonpublic information with respect to, or take any other action to facilitate or induce any inquiries or the making of any proposal that constitutes, or that may reasonably be expected to lead to any acquisition proposal;

engage in any discussions with any person with respect to any acquisition proposal, except as provided below;

approve, endorse or recommend any acquisition proposal, except as provided below; or

enter into any letter of intent, agreement or commitment regarding any acquisition proposal.

However, if Nuance receives an unsolicited, bona fide written acquisition proposal from a third party, then Nuance may:

furnish nonpublic information with respect to Nuance pursuant to a confidentiality agreement containing customary limitations and with terms at least as restrictive as the confidentiality agreement in place between ScanSoft and Nuance, provided that Nuance gives concurrent written notice to ScanSoft of its intention to furnish this information and furnishes such nonpublic information to ScanSoft (to the extent such nonpublic information has not been previously so furnished); and

engage in discussions or negotiations with the third party with respect to the acquisition proposal, provided that it gives ScanSoft concurrent written notice of its intention to enter into such negotiations;

but only if:

the Nuance board of directors has concluded in good faith, following the receipt of the advice of its outside legal counsel, that such action is required for it to comply with its fiduciary duties to its stockholders under applicable law; and

the Nuance board of directors has in good faith concluded, following the receipt of the advice of its financial advisor, that such acquisition proposal is, or is reasonably likely to result in, a superior offer, as defined below.



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An acquisition proposal means any offer or proposal relating to any transaction or series of related transactions, other than the merger, involving:

any purchase or acquisition by any person or group of more than a 15% interest in the total outstanding voting securities of Nuance or any of its subsidiaries or any tender offer or exchange offer that, if consummated, would result in any person or group beneficially owning 15% or more of the total outstanding voting securities of Nuance or any of its subsidiaries;

any merger, consolidation, business combination or similar transaction involving Nuance or any of its subsidiaries;

any sale, lease (other than in the ordinary course of business), exchange, transfer, exclusive or other material license outside the ordinary course of business, acquisition or disposition of more than 15% of the assets of Nuance (including its subsidiaries taken as a whole); or

any liquidation or dissolution of Nuance.

A superior offer means an unsolicited, bona fide written offer made by a third party to acquire, directly or indirectly, pursuant to a tender offer, exchange offer, merger, consolidation or other business combination, all or substantially all of the assets of Nuance or all of the outstanding voting securities of Nuance and as a result of which Nuance stockholders immediately preceding such transaction would hold less than 50% of the equity interests in the surviving or resulting entity of such transaction or any direct or indirect parent or subsidiary thereof. The terms of which offer the Nuance board of directors has in good faith concluded (following consultation with its outside legal counsel and its financial advisers), taking into account, among other things, all legal, financial, regulatory and other aspects of the offer and the person making the offer, to be more favorable to Nuance stockholders (in their capacities as stockholders) than the terms of the merger with ScanSoft and is reasonably capable of being consummated.

Nuance also has agreed to notify ScanSoft as promptly as practicable (but in no event more than 48 hours) after if it receives any acquisition proposal (as defined above) or any request for nonpublic information or inquiry which it reasonably believes would lead to an acquisition proposal, and to provide ScanSoft with oral and written notice of the material terms and conditions of the acquisition proposal, request or inquiry, the identity of the person or group making the proposal, request or inquiry and a copy of all written materials provided in connection with such acquisition proposal, request or inquiry. Nuance has further agreed to provide ScanSoft with oral and written notice as promptly as practicable (but in no event more than 48 hours) setting forth all such information as is reasonably necessary to keep ScanSoft informed in all material respects of the status and details of any such acquisition proposal, request or inquiry. In addition, Nuance has agreed to provide ScanSoft with 48 hours prior notice (or such lesser prior notice as is provided to the members of the Nuance board of directors) of any meeting at which the Nuance board of directors is reasonably expected to consider any acquisition proposal.

***Nuance Board of Directors Recommendations***

The merger agreement requires the Nuance board of directors:

to unanimously recommend that its stockholders vote in favor of the adoption of the merger agreement and approval of the merger; and

not to withdraw, amend or modify, or to propose to withdraw amend or modify, its unanimous recommendation of the merger in a manner adverse to ScanSoft.

However, in response to a superior offer, the Nuance board of directors may withhold, withdraw, amend or modify its recommendation in favor of the merger and, in the case of a superior offer that is a tender or exchange offer made directly to the stockholders of Nuance, recommend that the stockholders accept the tender or exchange offer, if:

such superior offer has been made and has not been withdrawn;

the Nuance special meeting of stockholders has not occurred;



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Nuance has delivered to ScanSoft (i) a written notice at least five business days before effecting its change of recommendation, which notice states that Nuance has received a superior offer and the material terms of such offer, including the identity of the person or persons making such offer, that the Nuance board of directors intends to change its recommendation and the manner in which it intends to do so or may intend to do so, (ii) provided to ScanSoft a copy of all written materials delivered to the person or group making the superior offer in connection with such superior offer, and (iii) made available to ScanSoft all materials and information made available to the person or group making the superior offer in connection with such superior offer (to the extent such material and information has not been previously furnished);

the Nuance board of directors has not breached any of its non-solicitation obligations under the merger agreement; and

the Nuance board of directors has concluded in good faith, after receipt of advice of its legal counsel, that, in light of such superior offer, the change of recommendation is required in order for the Nuance board of directors to comply with its fiduciary duties to Nuance's stockholders under applicable law.

During the required five business day notice period, the Nuance board of directors shall provide ScanSoft the opportunity to make adjustments to the terms and conditions of the merger, and shall give due consideration to these alternative proposals.

The merger agreement also permits Nuance to comply with Rule 14d-9 and Rule 14e-2(a) under the Exchange Act in connection with any third party acquisition proposal.

The merger agreement requires Nuance to submit the adoption of the merger agreement and approval of the merger to a stockholder vote even if the Nuance board of directors no longer recommends adoption of the merger agreement and approval of the merger.

***Non-Solicitation ScanSoft***

ScanSoft has agreed, subject to certain exceptions, that neither it, nor any of its subsidiaries, nor any of the executive officers or directors of it or its subsidiaries shall, and that it shall use its commercially reasonable efforts to cause its and its subsidiaries' employees, agents, investment bankers, attorneys and other representatives not to, directly or indirectly:

solicit or initiate, or knowingly encourage, knowingly facilitate or induce the making, submission or announcement of any ScanSoft acquisition proposal, as defined below;

participate in any discussions or negotiations regarding, or furnish to any person any nonpublic information with respect to, or take any other action to facilitate or induce any inquiries or the making of any proposal that constitutes, or that may reasonably be expected to lead to any ScanSoft acquisition proposal;

engage in any discussions with any person with respect to any acquisition proposal, except as provided below;

approve, endorse or recommend any ScanSoft acquisition proposal, except as provided below; or

enter into any letter of intent, agreement or commitment regarding any ScanSoft acquisition proposal.

However, if ScanSoft receives an unsolicited, bona fide written acquisition proposal from a third party, then ScanSoft may:

furnish nonpublic information with respect to ScanSoft, provided that prior to furnishing such information ScanSoft notifies Nuance of its intention to furnish this information;

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engage in negotiations with the third party with respect to the ScanSoft acquisition proposal, provided that it provides Nuance concurrent written notice of its intention to enter into negotiations; and

enter into any letter of intent or similar document or any contract relating to any ScanSoft acquisition proposal, provided that ScanSoft may not enter into any such letter of intent or contract if the terms of such transaction would be reasonably expected to materially interfere with or materially delay the consummation of the merger.

A ScanSoft acquisition proposal means any offer or proposal relating to any transaction or series of related transactions, other than the merger, involving:

any purchase or acquisition by any person or group of more than a 50% interest in the total outstanding voting securities of ScanSoft or any of its subsidiaries or any tender offer or exchange offer that, if consummated, would result in any person or group beneficially owning 50% or more of the total outstanding voting securities of ScanSoft or any of its subsidiaries;

any merger, consolidation, business combination or similar transaction involving ScanSoft or any of its subsidiaries where the stockholders of ScanSoft prior to such transaction would own less than 50% of the equity interests of the surviving entity after such transaction;

any sale, lease (other than in the ordinary course of business), exchange, transfer, exclusive or other material license outside the ordinary course of business, acquisition or disposition of more than 15% of the assets of ScanSoft (including its subsidiaries taken as a whole); or

any liquidation or dissolution of ScanSoft.

ScanSoft also has agreed to notify Nuance as promptly as practicable after if it receives any ScanSoft acquisition proposal (as defined above), request for nonpublic information or inquiry from a third party regarding the making of a ScanSoft acquisition proposal or as to the manner in which such third party could proceed with the making of a ScanSoft acquisition proposal, and to provide Nuance with oral and written notice of the material terms and conditions of the proposal, request or inquiry, the identity of the person or group making the proposal, request or inquiry and a copy of such written proposal, request or inquiry. ScanSoft has further agreed to provide Nuance with oral and written notice as promptly as practicable setting forth reasonable details of any material amendments or proposed material amendments to the proposal, request or inquiry and to keep Nuance informed, on a current basis, of all material developments with respect to the status of any negotiations or related discussions in connection with such ScanSoft acquisition proposal. In addition, ScanSoft and its subsidiaries have agreed to cease immediately all existing activities, discussions or negotiations with any third parties with respect to any ScanSoft acquisition proposal.

***ScanSoft Board of Directors Recommendations***

The merger agreement requires that the ScanSoft board of directors:

unanimously recommend that its stockholders vote in favor of the issuance of shares of ScanSoft common stock in connection with the merger, the Warburg Pincus financing and the assumption of the Nuance options in the merger; and

not withdraw, amend or modify, or propose to withdraw amend or modify, its unanimous recommendation of such matters.

However, the merger agreement does not prohibit the board of directors of ScanSoft from fulfilling its duty of candor or disclosure to ScanSoft stockholders.

***Definition of Material Adverse Change***

Material Adverse Change, when used in connection with an entity, means any change, event, violation, inaccuracy, circumstance or effect (any such item, an Effect), individually or when taken

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together with all other Effects that have occurred prior to the date of determination of the occurrence of the Material Adverse Change, that (i) is or is reasonably likely to be materially adverse to the business, assets (including intangible assets), capitalization, financial condition or results of operations of such entity taken as a whole with its subsidiaries or (ii) will or is reasonably likely to materially impede the ability of such entity to timely consummate the transactions contemplated by the merger agreement in accordance with the terms thereof and applicable legal requirements; provided, however, that, for purposes of clause (i) above, in no event shall any of the following be taken into account in determining whether there has been or will be a Material Adverse Change respecting any entity: (A) any Effect directly resulting from compliance with, or the taking of any action required by, the terms and conditions of the merger agreement; (B) any Effect directly resulting from the announcement or pendency of the merger (including any disruption in supplier, distributor or partner relationships, any cancellation of or delays in customer orders, any reduction in sales or any loss of employees directly resulting from the announcement or pendency of the merger); (C) any change in and of itself in such entity's stock price or trading volume; (D) any Effect that results from changes affecting any of the industries in which such entity operates generally (which changes in each case do not disproportionately affect such entity in any material respect); (E) any Effect that results from changes affecting general United States or worldwide economic or capital market conditions (which changes in each case do not disproportionately affect such entity in any material respect); (F) any Effect resulting from the payment of any amounts due, or the provision of any other benefits, to any officers or employees of such entity under employment contracts, employee benefit plans, severance arrangements or other arrangements in existence as of the date of the merger Agreement to the extent that such payments or provisions of benefits are reflected on the Financial Statements of such entity or disclosed in the merger agreement or any schedule thereto; (G) any Effect resulting from stockholder class action litigation, derivative suits or similar claims or actions, arising from allegations of breach of fiduciary duty or other claims relating to such entity's entering into the merger agreement; or (H) the failure in and of itself by such entity to meet any internal projections or forecasts or revenue or earnings predictions.

***Termination of the Merger Agreement***

The merger agreement may be terminated in accordance with its terms at any time, except as set forth below, prior to completion of the merger, whether before or after the approval of stockholders:

by mutual written consent of ScanSoft and Nuance;

by ScanSoft or Nuance if the merger is not completed by January 9, 2006, except that this right to terminate the merger agreement is not available to any party whose action or failure to act has been a principal cause of or resulted in the failure of the merger to occur on or before that date, and the action or failure to act constitutes a breach of the merger agreement;

by ScanSoft or Nuance, if there is any order of a court or other action or inaction of any governmental entity having the effect of permanently restraining, enjoining or prohibiting the completion of the merger which is final and nonappealable;

by ScanSoft or Nuance if either the proposal for the issuance of shares of ScanSoft common stock in connection with the merger or the proposal for the Warburg Pincus financing fail to receive the requisite affirmative vote by ScanSoft stockholders at the ScanSoft special meeting or at any adjournment of that meeting, except that the right to terminate the merger agreement is not available to ScanSoft where the failure to obtain ScanSoft stockholder approvals was caused by ScanSoft's action or failure to act and the action or failure to act constitutes a material breach by ScanSoft of the merger agreement;

by ScanSoft or Nuance if the proposal for the adoption of the merger agreement and approval of the merger fails to receive the requisite affirmative vote at the Nuance special meeting or at any adjournment of that meeting, except that this right to terminate the merger agreement is not available to Nuance where the failure to obtain Nuance stockholder approval was caused by



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Nuance action or failure to act, and the action or failure to act constitutes a material breach by Nuance of the merger agreement;

by ScanSoft, if any of the following triggering events occur with respect to Nuance:

the Nuance board of directors withdraws, amends or modifies, in a manner adverse to ScanSoft, its unanimous recommendation described in the section entitled Agreements Related to the Merger The Merger Agreement Nuance Board of Directors Recommendations beginning on page 99 of this joint proxy statement/prospectus;

the Nuance board of directors fails to reaffirm (publicly, if ScanSoft requests) its recommendation that its stockholders vote in favor of the adoption of the merger agreement and approval of the merger within 10 business days after being requested in writing by ScanSoft to reaffirm such recommendation;

the Nuance board of directors approves or recommends any acquisition proposal of the type described in the section entitled Agreements Related to the Merger The Merger Agreement Alternative Transactions Nuance beginning on page 98 of this joint proxy statement/prospectus;

Nuance shall have entered into any letter of intent or similar document or any contract accepting any acquisition proposal of the type described in the section entitled Agreements Related to the Merger The Merger Agreement Alternative Transactions Nuance beginning on page 98 of this joint proxy statement/prospectus; or

a tender or exchange offer relating to Nuance securities is initiated by a third party and Nuance does not send to its securityholders, pursuant to Rule 14e-2 promulgated under the Exchange Act within 10 business days after the tender or exchange offer is first published, sent or given, a statement disclosing that its board of directors recommends rejection of the tender or exchange offer;

by Nuance upon a breach of any representation, warranty, covenant or agreement on the part of ScanSoft in the merger agreement or if any representation or warranty of ScanSoft has become untrue so that the condition to completion of the merger regarding ScanSoft's representations and warranties or covenants would not be met. However, if the breach or inaccuracy is curable by ScanSoft by the termination date of the merger agreement through the exercise of commercially reasonable efforts, then Nuance may not terminate the merger agreement for 30 days after receipt of written notice from Nuance to ScanSoft of the breach, so long as ScanSoft continues to use all commercially reasonable efforts to cure the breach during this period. If the breach is cured during those 30 days, or if Nuance is otherwise in material breach of the merger agreement, Nuance may not exercise this termination right;

by ScanSoft upon a breach of any representation, warranty, covenant or agreement on the part of Nuance in the merger agreement or if any representation or warranty of Nuance has become untrue so that the condition to completion of the merger regarding Nuance's representations and warranties or covenants would not be met. However, if the breach or inaccuracy is curable by Nuance by the termination date of the merger agreement through the exercise of commercially reasonable efforts, then ScanSoft may not terminate the merger agreement for 30 days after receipt of written notice from ScanSoft to Nuance of the breach, so long as Nuance continues to use all commercially reasonable efforts to cure the breach during this period. If the breach is cured during those 30 days, or if ScanSoft is otherwise in material breach of the merger agreement, ScanSoft may not exercise this termination right;

by ScanSoft or Nuance upon a material breach of the other of its obligations regarding non-solicitation under the merger agreement;

by ScanSoft, if a material adverse change to Nuance shall have occurred since May 9, 2005 and be continuing; or





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by Nuance, if a material adverse change to ScanSoft shall have occurred since May 9, 2005 and be continuing.

***Payment of Termination Fee***

Under the terms of the merger agreement, ScanSoft must pay a termination fee of \$6.63 million to Nuance if all of the following conditions are met:

the merger agreement has been terminated because the ScanSoft stockholders failed to approve the issuance of shares of ScanSoft common stock in connection with the merger or the Warburg Pincus financing at the ScanSoft special meeting or an adjournment of that meeting;

because (i) the ScanSoft board shall for any reason have withdrawn or withheld or shall have amended in a manner adverse to Nuance the ScanSoft board's unanimous recommendation in favor of the stock issuance in connection with the merger and the Warburg Pincus financing, or (ii) ScanSoft shall have failed to include in this proxy statement/prospectus the unanimous recommendation of the ScanSoft board that holders of ScanSoft vote in favor of the stock issuance in connection with the merger and the Warburg Pincus financing; and

the ScanSoft board fails to reaffirm its recommendation that its stockholders vote in favor of the stock issuance in connection with the merger and the Warburg Pincus financing within 10 business days after being requested in writing by Nuance to reaffirm such recommendation.

Under the terms of the merger agreement, Nuance must pay a termination fee of \$6.63 million to ScanSoft if:

a triggering event (as defined above) shall be deemed to have occurred; or

if all of the following conditions are met:

between May 9, 2005 and the termination of the merger agreement there has been public disclosure of an acquisition proposal by a third party with respect to Nuance of the type described in the section entitled "Agreements Related to the Merger - The Merger Agreement - Alternative Transactions - Nuance" beginning on page 98 of this joint proxy statement/prospectus;

the merger agreement has been terminated on any of the following bases:

the merger has not been completed by January 9, 2006; or

Nuance stockholders failed to adopt the merger agreement and approve the merger at the Nuance special meeting or an adjournment of that meeting; and

either of the following has occurred:

within 12 months following termination of the merger agreement, Nuance is the subject of an acquisition of the type described below; or

within 12 months following termination of the merger agreement, Nuance enters into an agreement contemplating an acquisition of it in the type described below.

In this case, the termination fee must be paid to ScanSoft within two business days following the occurrence of any such event.

Under the terms of the merger agreement, an acquisition of Nuance for the purposes of these termination provisions, means any of the following:

a merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving Nuance pursuant to which its stockholders immediately preceding such transaction hold less than 60% of the aggregate equity interests in the surviving or resulting entity of such transaction, or any direct or indirect parent thereof;

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a sale or other disposition by Nuance of assets representing in excess of 40% of the aggregate fair market value of its business, immediately prior to such sale; or

the acquisition by any person or group, including by way of a tender offer or an exchange offer or issuance by Nuance, directly or indirectly, of beneficial ownership or a right to acquire beneficial ownership of shares representing in excess of 40% of the voting power of the then outstanding shares of Nuance capital stock.

Payment of a termination fee by ScanSoft or Nuance is not in lieu of damages incurred in the event of breach of the merger agreement. If the party entitled to payment of the termination fee has to make a claim against the other party to obtain such payment and such claim results in a judgment against the other party, the party required to pay the termination fee will also have to pay the other party's reasonable costs and expenses, including reasonable attorneys fees and expenses, in connection with the suit together with interest on the unpaid termination fee.

***Costs and Expenses***

In general, all costs and expenses incurred in connection with the merger agreement will be paid by the party incurring such expenses whether or not the merger is consummated, except that those expenses incurred in connection with filing the registration statement of which this joint proxy statement/prospectus is a part (excluding accounting and attorney fees), including any amendments, printing and filing this joint proxy statement/prospectus and making required filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 or other similar foreign merger notification laws will be shared equally by ScanSoft and Nuance.

***ScanSoft Voting Agreements***

The following is a summary of certain material provisions of the ScanSoft voting agreements. This summary is qualified in its entirety by reference to the form of voting agreement, a copy of which is attached as Annex D to this joint proxy statement/prospectus and is incorporated into this joint proxy statement/prospectus by reference.

***Agreement to Vote***

Each of James R. Arnold Jr., Steve Chambers, Peter Hauser, Jeanne McCann, Mike Phillips, Paul Ricci, John Shagoury, Robert Finch, Robert Frankenberg, John Freker, William Janeway, Katharine Martin, Mark Myers, Robert Teresi and Warburg Pincus Private Equity VIII, L.P. and certain of its affiliated entities has entered into a voting agreement with Nuance. Each of these ScanSoft directors, executive officers and affiliates has agreed to vote his or her shares of ScanSoft common stock, and all options, warrants and other rights to acquire shares of ScanSoft common stock, (i) in favor of the approval of the transactions contemplated by the merger agreement, including the issuance of shares of ScanSoft common stock in connection with the merger, the Stock Purchase Agreement and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement, and the assumption of options in connection with the merger, (ii) against any proposal in competition with the merger as contemplated by the merger agreement, (iii) against any amendment to ScanSoft's certificate of incorporation or bylaws, (iv) against any action that would delay or prevent the merger, (v) against any proposal that would result in a breach by ScanSoft of the merger agreement and (vi) against an election of a group of individuals to replace a majority or more of the individuals on the board of directors of ScanSoft. Each stockholder's obligation to vote in this manner applies whether or not the ScanSoft board of directors continues to recommend the merger to ScanSoft stockholders. These stockholders have the right, as of July 27, 2005, to vote a total of 17,767,862 shares of ScanSoft common stock, or approximately 16% of the outstanding shares of ScanSoft common stock as of such date (not including options, warrants or other convertible securities).

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Each stockholder has also granted the directors on the board of directors of Nuance an irrevocable proxy to vote the shares of ScanSoft common stock owned by such stockholder, including additional shares of ScanSoft common stock subsequently acquired, as described above.

### ***Transfer Restrictions***

The voting agreement, subject to certain exceptions, restricts or limits the ability of each stockholder that is a party to the agreement to sell, tender, transfer, pledge, encumber, assign or otherwise dispose of any of his or her shares of ScanSoft common stock, or to agree to do the foregoing, other than with Nuance's prior written consent.

Several exceptions to this restriction exist, such as (i) the authorization to sell shares of ScanSoft common stock pursuant to 10b5-1 plans, and (ii) the authorization to sell not more than 20,000 shares (or, in the case of Mike Phillips, a former executive of ScanSoft, 290,000 shares) in the aggregate after May 9, 2005. Paul Ricci, Chairman and Chief Executive Officer of ScanSoft, is further permitted to transfer additional shares of ScanSoft common stock to ScanSoft in order to satisfy any tax required by law to be withheld in connection with the vesting of shares of restricted stock.

### ***Termination***

The irrevocable proxy and voting agreement will terminate upon the earlier to occur of:  
the completion of the merger; or

the termination of the merger agreement in accordance with its terms.

## **Nuance Voting Agreements**

The following is a summary of certain material provisions of the Nuance voting agreements. This summary is qualified in its entirety by reference to the form of voting agreement, a copy of which is attached as [Annex E](#) to this joint proxy statement/prospectus and is incorporated into this joint proxy statement/prospectus by reference.

### ***Agreement to Vote***

Each of Charles Berger, Karen Blasing, Glenn Cross, Eng Yew Lee, Douglas Clark Neilsson, Douglas Sharp, Lynda Kate Smith, Donna Allen Taylor, Ronald Croen, David Nagel, Curtis Carlson, Irwin Federman, Alan Herzig, Philip Quigley, Sandra Bergeron, Gary Morgenthaler, and SRI International has entered into a voting agreement with ScanSoft. Each of these Nuance directors, executive officers and this significant stockholder has agreed to vote his or her shares of Nuance common stock, and any and all options, warrants and other rights to acquire shares of Nuance common stock, (i) in favor of the merger and the adoption and approval of the merger agreement, (ii) against any proposal made in opposition to or in competition with the merger, (iii) against any amendment to Nuance's certificate of incorporation or bylaws, (iv) against any action that would delay, interfere or prevent the merger, (v) against any proposal that would result in a breach by Nuance of the merger agreement, and (vi) against an election of a group of individuals to replace a majority or more of the individuals on the Nuance board of directors. Each stockholder's obligation to vote in this manner applies whether or not the Nuance board of directors continues to recommend the merger to Nuance stockholders. These stockholders have the right, as of July 27, 2005, to vote a total of approximately 2,950,000 shares of Nuance common stock, or approximately 8% of the outstanding shares of Nuance common stock as of such date (not including option, warrants or other convertible securities).

Each stockholder has also granted the directors on the board of directors of ScanSoft an irrevocable proxy to vote the shares of Nuance common stock owned by such stockholder, including additional shares of Nuance common stock subsequently acquired, as described above.

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***Transfer Restrictions***

The voting agreement, subject to certain exceptions, restricts or limits the ability of each stockholder that is a party to the agreement to sell, transfer, tender pledge, encumber, assign or otherwise dispose of any of his or her shares of Nuance common stock, or to agree to do the foregoing, other than with ScanSoft's prior written consent. Several exceptions to this restriction exist, such as (i) the authorization to sell shares of ScanSoft common stock pursuant to 10b5-1 plans, and (ii) the authorization to sell not more than 35,000 shares (or, in the case of Charles Berger, 50,000 shares) in the aggregate after May 9, 2005.

***Termination***

The irrevocable proxy and voting agreement will terminate upon the earlier to occur of:  
the completion of the merger; or

the termination of the merger agreement in accordance with its terms.

***Affiliate Agreements***

Nuance is required to use all commercially reasonable efforts to deliver or cause to be delivered to ScanSoft from each person who may reasonably be deemed to be an affiliate of Nuance for purposes of Rule 145 promulgated under the Securities Act an executed affiliate agreement pursuant to which such affiliate shall agree to be bound by the provision of Rule 145 promulgated under the Securities Act in a form provided by ScanSoft and reasonably acceptable to Nuance. ScanSoft will give stop transfer instructions to its transfer agent with respect to any ScanSoft common stock received pursuant to the merger by any stockholder of Nuance who may reasonably be deemed to be an affiliate of Nuance for purposes of Rule 145 promulgated under the Securities Act and there will be placed on the certificates representing such ScanSoft common stock, or any substitutions therefor, a legend stating in substance that the shares were issued in a transaction to which Rule 145 promulgated under the Securities Act applies and may only be transferred (i) in conformity with Rule 145 or (ii) in accordance with a written opinion of counsel, reasonably acceptable to ScanSoft, in form and substance that such transfer is exempt from registration under the Securities Act.

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**ADDITIONAL MATTERS BEING SUBMITTED TO A  
VOTE OF SCANSOFT STOCKHOLDERS**

**Proposal Two Warburg Pincus Financing**

Proposal No. 2 asks you to approve the Stock Purchase Agreement and the issuance of 14,150,943 shares of ScanSoft common stock and warrants to acquire up to 3,177,570 shares of ScanSoft common stock to Warburg Pincus pursuant to the Stock Purchase Agreement. Upon completion of the merger and the Warburg Pincus financing, Warburg Pincus is expected to beneficially own approximately 25% of the outstanding shares of ScanSoft common stock, assuming that they do not transfer the shares of ScanSoft common stock beneficially owned by them prior to such time.

Simultaneously with the entering into of the Stock Purchase Agreement on May 5, 2005, ScanSoft entered into a Securities Purchase Agreement with Warburg Pincus pursuant to which Warburg Pincus purchased and ScanSoft sold an aggregate of 3,537,736 shares of ScanSoft common stock for an aggregate purchase price of \$15,000,000.64, and warrants to acquire an aggregate of 863,236 shares of ScanSoft common stock for an aggregate purchase price of \$107,904.50. The warrants have an exercise price of \$5.00 per share and a term of four years.

Also on May 5, 2005, ScanSoft received a Commitment Letter from Warburg Pincus LLC, whereby Warburg Pincus agreed to purchase \$25 million of ScanSoft common stock, if ScanSoft should request it to do so. The commitment was provided in connection with ScanSoft's potential future acquisition activities. The number of shares purchased will be based on the closing price of ScanSoft common stock on the trading date prior to the execution of the securities purchase agreement relating to the purchase and sale of the shares. The Commitment Letter will expire at 5:00 p.m. Eastern Time on August 5, 2005, unless certain conditions are met. The Commitment Letter will not be binding on Warburg Pincus if: (i) the closing price of ScanSoft common stock on The Nasdaq National Market is less than \$3.25 per share or more than \$4.75 per share at the signing of the securities purchase agreement relating to the purchase and sale of the shares, or (ii) if a material adverse change to ScanSoft occurs since the date of the Commitment Letter.

Finally, on May 5, 2005, ScanSoft and Warburg Pincus also amended and restated the Stockholders Agreement between the parties, as described below.

If the closing contemplated by the Stock Purchase Agreement occurs, ScanSoft will be entitled to receive an aggregate of approximately \$60 million for the shares to be sold to Warburg Pincus under the Stock Purchase Agreement. ScanSoft will not be entitled to receive any consideration upon the sale of the warrants to Warburg Pincus under the Stock Purchase Agreement.

ScanSoft intends to use the net proceeds it expects to receive from the Warburg Pincus financing to finance a portion of the merger consideration and the costs of the merger and the transactions contemplated thereby. The Warburg Pincus financing will result in dilution to ScanSoft's current stockholders.

The following summaries of the Stock Purchase Agreement and Amended and Restated Stockholders Agreement are qualified by reference to the complete text of the Stock Purchase Agreement and the Amended and Restated Stockholders Agreement, which are incorporated by reference and attached as Annexes F and G, respectively.

***Financing Terms***

Under the terms of the Stock Purchase Agreement, ScanSoft agreed to issue an aggregate of 14,150,943 shares of ScanSoft common stock for an aggregate purchase price of approximately \$60 million, at a per share price equal to \$4.24, and warrants to purchase an aggregate of 3,177,570 shares of its common stock, exercisable at a price of \$5.00 per share, subject to adjustment as further described below. The warrants will be exercisable until the earlier of (i) the fourth anniversary of the date of issuance and (ii) the closing of a Change of Control (as such term is defined in the warrants).

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The number of shares subject to such warrants will be adjusted in the event that ScanSoft issues a dividend or affects a stock split (reverse or forward). In the case of a dividend or a forward stock split, the exercise price in effect immediately prior to such dividend or stock split will be proportionately decreased and the number of shares of ScanSoft common stock purchasable upon exercise of such warrant will be proportionately increased. In the case of a reverse stock split, the exercise price in effect immediately prior to such dividend or stock split will be proportionately increased and the number of shares of ScanSoft common stock purchasable upon exercise of such warrant will be proportionately decreased. In the event of a capital reorganization or reclassification of the capital stock of ScanSoft or any consolidation or merger of ScanSoft other than a Change of Control (as such term is defined in the Stock Purchase Agreement), in such a way that holders of ScanSoft common stock will be entitled to receive stock, securities or assets with respect to or in exchange for ScanSoft common stock, then, as a condition of such reorganization, reclassification, consolidation, exercise, merger or sale, lawful and adequate provision will be made whereby such warrant holder will thereafter have the right to receive upon the basis and upon the terms and conditions specified therein and in lieu of the shares of ScanSoft common stock immediately theretofore receivable upon the exercise of such warrant, that number of shares of stock, securities or assets (including cash) as may be issued or payable with respect to or in exchange for a number of outstanding shares of such ScanSoft common stock equal to the number of warrant shares for which such warrant could have been exercised immediately prior to such reorganization, reclassification, consolidation, merger or sale, and in any such case appropriate provision will be made with respect to the rights and interests of such warrant holder to the end that the provisions thereof shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets (including cash) thereafter deliverable upon the exercise of such warrant. ScanSoft will not effect any such consolidation, merger or sale, unless prior to the consummation thereof the successor corporation (if other than ScanSoft) resulting from such consolidation or merger or the corporation purchasing such assets shall assume the obligation to deliver to such warrant holder such shares of stock, securities or assets (including cash) as such warrant holder may be entitled to receive.

The Warburg Pincus financing is designed to fund concurrent with the closing of the merger, and is conditioned upon the simultaneous closing of the merger. In connection with the Stock Purchase Agreement, ScanSoft also agreed to amend and restate the Stockholders Agreement with Warburg Pincus, which is summarized below. Further, ScanSoft agreed to amend its preferred share rights agreement. The effect of the amendment to the rights agreement is to generally permit Warburg Pincus and its affiliates and associates to enter into agreements with ScanSoft and make certain acquisitions of ScanSoft's securities directly from ScanSoft, including pursuant to the Securities Purchase Agreement, the Stock Purchase Agreement and in connection with the Commitment Letter, without becoming an Acquiring Person under the rights agreement. In addition, the amendment to the rights agreement also permits Warburg Pincus to make additional limited acquisitions of ScanSoft common stock and other securities convertible into or exercisable for ScanSoft common stock that are included in the Permitted Amount (as such term is defined in the Amended and Restated Stockholders Agreement, a copy of which is attached hereto as Annex G) without becoming an Acquiring Person under the rights agreement.

***Timing of Closing***

The closing of the Warburg Pincus financing will occur simultaneously with the closing of the merger assuming the satisfaction or waiver of the conditions set forth in the Stock Purchase Agreement.

***Conditions to the Completion of the Warburg Pincus Financing***

The obligations of ScanSoft and Warburg Pincus to complete the Warburg Pincus financing are subject to the satisfaction or, to the extent legally permissible, waiver of the following conditions:

there shall be no injunction which prohibits the consummation of any of the transactions contemplated by the Warburg Pincus financing;

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the merger shall have closed or shall close simultaneously with the closing of the Warburg Pincus financing;

all applicable waiting periods under the HSR Act and under any applicable material foreign or other antitrust laws shall have expired or been terminated;

approval of the Warburg Pincus financing by the ScanSoft stockholders;

the Warburg Pincus financing transaction documents (other than the warrants, which will be delivered to Warburg Pincus within two (2) business days following the closing of the Warburg Pincus financing), including but not limited to the Amended and Restated Stockholders Agreement (which was entered into as of May 5, 2005), shall have been duly executed and delivered by ScanSoft to Warburg Pincus and by Warburg Pincus to ScanSoft, as the case may be, at or prior to the closing of the Warburg Pincus financing; and

ScanSoft shall have entered into an amendment to its rights agreement prior to the Closing, which amendment was entered into as of May 5, 2005, such that the acquisition by Warburg Pincus of the shares of ScanSoft and warrants to purchase shares of ScanSoft common stock does not constitute or otherwise trigger a Triggering Event, Distribution Date or Shares Acquisition Date as such terms are defined in the rights agreement, as amended.

***Certain Covenants***

Each of ScanSoft and Warburg Pincus has undertaken certain covenants in the Stock Purchase Agreement. The following summarizes the more significant of these covenants.

*Additional Listing Application.* ScanSoft has agreed, to the extent required by the rules of the Nasdaq Stock Market, to file a notification form for the listing of additional shares in connection with the Warburg Pincus financing.

*Fees and Expenses.* ScanSoft has agreed to promptly pay the fees and reasonable out-of-pocket expenses of Warburg Pincus advisors and legal counsel incurred in connection with the negotiation, preparation, execution, delivery and performance of the Stock Purchase Agreement, including fees and reasonable out-of-pocket expenses relating to any filings under the HSR Act.

*Legal Opinion.* ScanSoft has agreed to cause its legal counsel to deliver an opinion regarding the Stock Purchase Agreement to Warburg Pincus at the closing of the Warburg Pincus financing.

***Representations and Warranties***

The Stock Purchase Agreement contains representations and warranties made by ScanSoft to Warburg Pincus. The most significant of these relate to:

due organization and good standing of ScanSoft;

absence of violation by ScanSoft and certain of its subsidiaries with their respective charter documents;

ownership of its subsidiaries by ScanSoft;

ScanSoft's outstanding capital stock, options and voting debt;

corporate authorization by ScanSoft to enter into the Stock Purchase Agreement and to consummate the Warburg Pincus financing;

absence of any breach of organizational documents, material legal requirement or certain material agreements by ScanSoft as a result of the Warburg Pincus financing;

third party consents required to be obtained by ScanSoft in connection with the Warburg Pincus financing;

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filing of reports by ScanSoft with the SEC;

financial statements of ScanSoft included in its SEC reports;

absence of certain material changes since December 31, 2004; and

no violation of Section 203 of the Delaware General Corporation Law in connection with the Warburg Pincus financing.

In addition, ScanSoft permitted Warburg Pincus to rely on the representations and warranties it provided Nuance in the merger agreement.

Warburg Pincus represents and warrants to ScanSoft as to certain other matters, including:  
due organization and good standing of Warburg Pincus;

authorization of Warburg Pincus to enter into the Stock Purchase Agreement and to consummate the Warburg Pincus financing;

investment intent of Warburg Pincus;

accredited investor status;

experience and sophistication in business and financial matters;

ScanSoft equity securities beneficially owned by Warburg Pincus;

absence of general solicitation for the sale of securities issued in the Warburg Pincus financing; and

registration requirements for the securities issued in the Warburg Pincus financing.

***Amendments and Waivers***

Any provision of the Stock Purchase Agreement may be amended or waived if the amendment or waiver is in writing and signed by the party against whom the waiver or amendment is to be effective.

***Termination***

The Stock Purchase Agreement may be terminated prior to the closing, as follows:  
by the mutual consent of ScanSoft and Warburg Pincus;

upon termination of the merger agreement; or

by either ScanSoft or Warburg Pincus if the closing does not occur by February 1, 2006 (provided that the right to terminate shall not be available if the merger agreement is still in effect).

***The Amended and Restated Stockholders Agreement***

*Appointment of Warburg Pincus Nominee(s) to the ScanSoft Board.* Pursuant to the Amended and Restated Stockholders Agreement, ScanSoft agreed, beginning on the closing date of the Stock Purchase Agreement and ending on the later of (i) the date that Warburg Pincus and their affiliates fail to beneficially own at least 25,000,000 shares of ScanSoft common stock or (ii) the date that the Warburg Pincus percentage of beneficial ownership of the ScanSoft common stock is less than the quotient of (x) two (2) divided by (y) the then authorized number of directors of ScanSoft, to take such action as is necessary to nominate and elect a second member to the ScanSoft board to be designated by Warburg Pincus Private Equity VIII, L.P. and approved by a majority of the board of directors of ScanSoft. Warburg Pincus Private Equity VIII, L.P. will only have the ability to designate the second member of the ScanSoft board of directors upon the closing of the Warburg Pincus financing. Mr. Janeway is Warburg Pincus designee pursuant to the Original Stockholders Agreement and has served on the ScanSoft board since April 2004.





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*Management Rights.* If Warburg Pincus is not represented on the ScanSoft board, then they will be entitled to consult with and advise ScanSoft management on significant business issues, examine the books and records of ScanSoft and receive copies of all notices, minutes, consents and other written material ScanSoft provides to its directors, subject to certain limitations.

*Standstill Period.* Warburg Pincus has made certain covenants in connection with the Amended and Restated Stockholders Agreement during a standstill period which is the four year period ending on May 9, 2009, whereby Warburg Pincus has agreed to not take certain actions without the prior written consent of ScanSoft or the ScanSoft board, including but not limited to the following:

acquire, offer, seek or propose to acquire, or agree to acquire, directly or indirectly, by purchase or otherwise, any shares of voting stock of ScanSoft except for an amount equal to the Permitted Amount (as such term is defined in the Amended and Restated Stockholders Agreement, a copy of which is attached hereto as Annex G);

make or in any way participate, directly or indirectly, in any solicitation of proxies (as such terms are used in the rules of the SEC) to vote or seek to advise or influence any person or entity with respect to the voting of ScanSoft's voting stock (other than in the capacity as a member of the ScanSoft board in a manner consistent with his or her fiduciary duties);

make any public announcement or submit a proposal to offer any extraordinary transaction involving ScanSoft or any of its securities or assets;

form, join or in any way participate in a Section 13(d) group (as defined in the Exchange Act) in connection with any of the foregoing;

otherwise seek to control or influence the management or ScanSoft board of directors or policies of ScanSoft; or direct or instruct their representatives, associates or affiliates to do any of the foregoing.

*Transfer Restrictions and ScanSoft's Right of First Refusal.* Pursuant to the Amended and Restated Stockholders Agreement, Warburg Pincus has agreed to certain restrictions on transfer, including:

restrictions relating to transferring their voting stock in connection with a proxy solicitation that is opposed to the recommendation of the ScanSoft board;

restrictions on transferring more than five percent (5%) of their voting stock in connection with a third party tender offer or an exchange offer which the ScanSoft board has not recommended; or

transferring more than five percent (5%) of their voting stock to a competitor of ScanSoft that has not been approved by the ScanSoft board unless Warburg Pincus complies with certain rights of first refusal which Warburg Pincus has granted to ScanSoft.

*Demand Registration Rights.* Warburg Pincus has been granted demand registration rights under the Amended and Restated Stockholders Agreement which would allow them to request ScanSoft to effect a registration on Form S-3 of the registerable securities owned by them, and all such expenses of registration shall be borne by ScanSoft. Warburg Pincus cannot transfer such registration rights without ScanSoft's prior written consent.

*Indemnification.* Further, ScanSoft has agreed to indemnify Warburg Pincus and their officers, directors and partners, legal counsel and accountants and each person controlling Warburg Pincus for certain specified statements or omissions made in connection with the registration of the registerable securities.

*Amendment and Waiver.* Any provision of Amended and Restated Stockholders Agreement may be amended or waived if the amendment or waiver is in writing and signed by the party against whom the waiver or amendment is to be effective.



**Table of Contents*****Vote Required***

The affirmative vote of the holders of a majority of the votes cast on this proposal is required to approve the Stock Purchase Agreement and the issuance of the shares of ScanSoft common stock and warrants to issue ScanSoft common stock pursuant to the Stock Purchase Agreement.

Rule 4350(i)(1)(B) of the Nasdaq Marketplace Rules requires that listed companies obtain stockholder approval in certain circumstances. The circumstances include: (i) when an issuance or potential issuance of securities would result in a change of control of the issuer, (ii) when an equity compensation arrangement is made, pursuant to which stock may be acquired by directors, and (iii) in connection with the acquisition of the stock or assets of another company, where due to the issuance of common stock or securities convertible into common stock, the securities to be issued represent or will represent 20% or more of the voting power or number of shares of common stock outstanding before the issuance. ScanSoft stockholders are being asked to approve the Stock Purchase Agreement and the issuance of the shares of ScanSoft common stock and warrants to acquire ScanSoft common stock pursuant to the Stock Purchase Agreement because the acquisition of such securities by Warburg Pincus implicates each of these events.

Approval of this proposal is a condition to the effectiveness of the merger. In addition, the issuance of ScanSoft common stock and warrants to acquire ScanSoft common stock to Warburg Pincus under the Stock Purchase Agreement and the transactions contemplated thereby under this Proposal No. 2 are conditioned upon the approval of the merger and related matters by the stockholders of ScanSoft and Nuance contained in Proposal Nos. 1 for each and the closing of the merger. Therefore, if the merger is not approved by the stockholders of either Nuance or ScanSoft or if the merger is not consummated, then neither ScanSoft nor Warburg Pincus will be obligated to complete the Warburg Pincus financing.

**THE SCANSOFT BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE STOCK PURCHASE AGREEMENT AND THE ISSUANCE OF SHARES OF SCANSOFT COMMON STOCK AND WARRANTS TO ACQUIRE SCANSOFT COMMON STOCK TO WARBURG PINCUS PURSUANT TO THE STOCK PURCHASE AGREEMENT.**

**Proposal Three Option Assumption**

Proposal No. 3 asks you to approve the assumption of outstanding stock options to purchase Nuance common stock pursuant to the terms of the merger agreement. Stockholder approval is needed to satisfy a condition of ScanSoft's bylaws, as described below. If stockholders approve this proposal, stock options outstanding (i) under the Nuance 2001 Nonstatutory Stock Option Plan, the Nuance 2000 Stock Plan and the 1998 Stock Plan with an exercise price of \$10.00 or less and (ii) all stock options outstanding under the Nuance 1994 Flexible Stock Incentive Plan, will become options to purchase ScanSoft common stock, with the number of shares subject to the option and the exercise price adjusted by the option exchange ratio as set forth in the merger agreement.

***The Assumption***

The terms of the merger agreement provide that, if approved by ScanSoft stockholders, all options to purchase Nuance common stock outstanding under the Nuance 2001 Nonstatutory Stock Option Plan, the Nuance 2000 Stock Plan and the Nuance 1998 Stock Plan with an exercise price of \$10.00 or less and all options outstanding under the Nuance 1994 Flexible Stock Incentive Plan, regardless of exercise price, will be assumed by ScanSoft, and become options to purchase ScanSoft common stock on the same terms and conditions as were applicable to the assumed options prior to the closing of the merger, except each such option will be exercisable for such whole number of shares of ScanSoft common stock (rounded down to the nearest share) equal to the product obtained by multiplying the number of shares of Nuance common stock issuable upon the exercise of such option, by the option exchange ratio, and the exercise price per

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share for the ScanSoft common stock shall be equal to the quotient (rounded up to the nearest cent) of the exercise price per share for such option, divided by the option exchange ratio. The option exchange ratio is defined as 0.77 (the stock consideration to be received by Nuance stockholders in the merger for each share of Nuance stock), plus (a) \$2.20 (the cash consideration to be received by Nuance stockholders in the merger for each share of Nuance stock), divided by (b) the average of the closing trading prices of the ScanSoft common stock during the five trading days immediately preceding the closing date, subject to potential adjustment for tax purposes. Regardless of the outcome of the ScanSoft stockholder vote regarding the assumption, all Nuance options with an exercise price of more than \$10.00, and not already fully vested, will accelerate and become fully vested prior to the effective time of the merger and shall terminate as of the effective time of the merger if not exercised prior to the effective time of the first step merger.

***Need for Stockholder Approval***

The approval of ScanSoft's stockholders is being sought for the Option Assumption because of the provision in ScanSoft's bylaws stating that stockholder approval is required to sell securities exercisable into common stock with an exercise price that is fixed after the date of the agreement. Since the option exchange ratio, and therefore the option exercise price, will not be determined until the closing date rather than the date the merger agreement was executed, stockholder approval is required under this provision of ScanSoft's bylaws.

In the event that the approval of the stockholders of ScanSoft is not obtained for the treatment of the Nuance options as described above, each Nuance option outstanding prior to the closing subject to the vote will be assumed by ScanSoft, but on different terms. Each such option will become an option to acquire ScanSoft common stock and cash, except each such assumed option will be exercisable for that number of shares of ScanSoft common stock equal to the number of shares of Nuance common stock issuable upon exercise of such option immediately prior to the closing multiplied by 0.77, and an amount of cash equal to the number of shares of Nuance common stock issuance upon exercise of such option immediately prior to the closing multiplied by \$2.20, and the exercise price per share for the ScanSoft common stock and cash shall be equal to the quotient of the exercise price per share for such option immediately prior to the closing, divided by 0.77.

***Vote Required***

The affirmative vote of a majority of the shares present and entitled to vote at the ScanSoft special meeting is required to approve the assumption of certain options to purchase Nuance common stock pursuant to Proposal No. 3.

**THE SCANSOFT BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ASSUMPTION OF CERTAIN OPTIONS TO PURCHASE NUANCE COMMON STOCK PURSUANT TO THE TERMS OF THE MERGER AGREEMENT.**

**Table of Contents****SELECTED FINANCIAL DATA OF SCANSOFT**

The following selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements of ScanSoft and related notes thereto included in ScanSoft annual reports, quarterly reports and other information on file with the SEC. The financial data for the interim periods presented is derived from unaudited financial statements and is not necessarily indicative of the results to be expected for any other interim period or for the fiscal year as a whole. See "Where You Can Find More Information" on page 147.

	<b>Six Months Ended March 31,</b>		<b>Nine Months Ended</b>	<b>Year Ended December 31,</b>			
	<b>2005</b>	<b>2004</b>	<b>Sep. 30, 2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>(In thousands, except per share data)</b>							
<b>Revenues:</b>							
Product licenses	\$ 84,763	\$ 67,320	\$ 95,765	\$ 128,681	\$ 101,524	\$ 55,509	\$ 41,977
Professional services(2)	28,928	18,010	33,187				
Related parties		4,316	1,955	6,718	5,095	7,208	5,984
<b>Total revenue</b>	<b>113,691</b>	<b>89,646</b>	<b>130,907</b>	<b>135,399</b>	<b>106,619</b>	<b>62,717</b>	<b>47,961</b>
<b>Costs and Expenses:</b>							
<b>Cost of revenue:</b>							
Cost of product licenses(1)	9,983	8,045	10,348	26,123	16,419	12,849	12,692
Cost of professional services(1)	19,270	12,637	22,949				
Cost of revenue from amortization of intangible assets	5,508	5,851	8,431	10,516	9,470	14,192	11,569
<b>Total cost of revenue</b>	<b>34,761</b>	<b>26,533</b>	<b>41,728</b>	<b>36,639</b>	<b>25,889</b>	<b>27,041</b>	<b>24,261</b>
<b>Gross margin</b>	<b>78,930</b>	<b>63,113</b>	<b>89,179</b>	<b>98,760</b>	<b>80,730</b>	<b>35,676</b>	<b>23,700</b>
<b>Operating expenses:</b>							
Research and development(1)	19,236	18,087	26,162	33,938	27,633	13,968	14,967
Sales and marketing(1)	38,126	34,351	49,134	48,706	32,990	18,562	18,287
General and administrative(1)	13,259	9,625	17,807	16,258	10,678	6,749	8,824
Amortization of other intangible assets	1,648	1,519	1,967	2,297	1,682	13,328	11,017
Stock-based compensation expense	1,354	494	1,301	330	103		

Restructuring and other charges, net	659	1,428	801	3,693	1,041		4,811
Acquired in-process research and development							18,291
Total operating expenses	74,282	65,504	97,172	105,222	74,127	52,607	76,197
Income (loss) from operations	4,648	(2,391)	(7,993)	(6,462)	6,603	(16,931)	(52,497)
Other income (expense):							
Interest income	307	233	429	465	354	209	112
Interest expense	(566)	(486)	(340)	(793)	(369)	(166)	(620)
Other (expense) income, net	(307)	718	(141)	1,003	(1)	(306)	226

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	Six Months Ended March 31,		Nine Months Ended Sep. 30, 2004	Year Ended December 31,			
	2005	2004		2003	2002	2001	2000
(In thousands, except per share data)							
Income (loss) before income taxes	4,082	(1,926)	(8,045)	(5,787)	6,587	(17,194)	(52,779)
Provision for (benefit from) income taxes	1,943	(443)	1,333	(269)	254	(317)	472
Net income (loss)	\$ 2,139	\$ (1,483)	\$ (9,378)	\$ (5,518)	\$ 6,333	\$ (16,877)	\$ (53,251)
Net income (loss) per share, basic and diluted	\$ 0.02	\$ (0.01)	\$ (0.09)	\$ (0.07)	\$ 0.09	\$ (0.34)	\$ (1.26)
Weighted average common shares outstanding, basic	105,264	101,213	103,780	78,398	67,010	49,693	42,107
Weighted average common shares outstanding, diluted	112,812	101,213	103,780	78,398	72,796	49,693	42,107

(1) Excludes stock-based compensation expense as follows:

Cost of product licenses	\$ 5	\$	\$	\$ 11	\$	\$	\$
Cost of professional services	55	20	66				
Research and development	164	43	228	15			
Sales and marketing	361	101	420	116			
General and administrative	769	330	587	188	103		
	\$ 1,354	\$ 494	\$ 1,301	\$ 330	\$ 103	\$	\$

(2) As a result of the Speechworks acquisition in August 2003, professional services became a material component of ScanSoft's business. As a result of the acquisition, and ScanSoft's implementation of Oracle in January 2004, ScanSoft began to separately track and disclose professional services revenues and cost of revenue. Prior to 2004,



it did not separately disclose professional services revenue and cost of revenue as they were immaterial and it is not practical to reclassify these revenues and associated costs, retrospectively.

	<b>As of</b>			<b>As of</b>		
	<b>Mar. 31,</b>	<b>Sep. 30,</b>	<b>Dec. 31,</b>	<b>Dec. 31,</b>	<b>Dec. 31,</b>	<b>Dec. 31,</b>
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>(In thousands)</b>						
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 25,882	\$ 22,963	\$ 42,584	\$ 18,853	\$ 14,324	\$ 2,571
Marketable securities	3,858	24,728				62
Working capital	(29,269)	27,940	44,305	16,842	9,318	(6,484)
Total assets	452,690	392,653	401,940	143,690	142,070	109,480
Long-term liabilities	33,632	45,360	48,340	725	6,143	2,172
Total stockholders equity	309,009	301,745	303,226	119,378	114,534	87,461

**Table of Contents****SELECTED FINANCIAL DATA OF NUANCE**

The following selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements of Nuance and related notes thereto included in Nuance annual reports, quarterly reports and other information on file with the SEC. The financial data for the interim periods presented is derived from unaudited financial statements and is not necessarily indicative of the results to be expected for any other interim period or for the fiscal year as a whole. See Where You Can Find More Information on page 147.

	Six Months Ended March 31,		Year Ended December 31,				
	2005(2)	2004(3)	2004	2003	2002	2001	2000
<b>(In thousands, except per share data)</b>							
<b>Revenue:</b>							
License	\$ 11,570	\$ 14,301	\$ 26,409	\$ 28,207	\$ 26,783	\$ 20,759	\$ 37,551
Service	8,188	7,746	15,806	14,266	8,191	10,861	9,324
Maintenance	8,356	7,383	15,662	12,565	9,111	7,680	4,943
<b>Total revenue</b>	<b>28,114</b>	<b>29,430</b>	<b>57,877</b>	<b>55,038</b>	<b>44,085</b>	<b>39,300</b>	<b>51,818</b>
<b>Cost of Revenue:</b>							
License	167	176	396	370	641	275	53
Service(1)	5,920	4,888	10,460	9,982	7,680	11,970	8,608
Maintenance	1,263	1,594	2,634	2,548	3,374	4,022	2,091
<b>Total cost of revenue</b>	<b>7,350</b>	<b>6,658</b>	<b>13,490</b>	<b>12,900</b>	<b>11,695</b>	<b>16,267</b>	<b>10,752</b>
<b>Gross profit</b>	<b>20,764</b>	<b>22,772</b>	<b>44,387</b>	<b>42,138</b>	<b>32,390</b>	<b>23,033</b>	<b>41,066</b>
<b>Operating expenses:</b>							
Sales and marketing(1)	13,909	13,432	26,727	28,179	39,712	39,125	34,072
Research and development(1)	6,353	7,915	14,504	15,310	14,153	18,779	20,160
General and administrative(1)	6,562	4,570	11,037	11,533	13,393	13,487	9,978
Acquired in-process research and development							1,500
Amortization of goodwill and workforce						1,911	319
Non-cash compensation expense		82	73	28	928	5,321	4,862
Restructuring charges and asset	(70)	(41)	19,737	9,375	37,275	62,191	

impairments							
Total operating expenses	26,754	25,958	72,078	64,425	105,461	140,814	70,891
Loss from operations	(5,990)	(3,186)	(27,691)	(22,287)	(73,071)	(117,781)	(29,825)
Interest and other income, net	922	370	1,097	1,180	2,687	7,990	6,701
Loss before provision of income taxes	(5,068)	(2,816)	(26,594)	(21,107)	(70,384)	(109,791)	(23,124)
Provision for (benefit from) income taxes	(110)	(22)	(415)	(1,806)	800	574	350
Net loss	\$ (4,958)	\$ (2,794)	\$ (26,179)	\$ (19,301)	\$ (71,184)	\$ (110,365)	\$ (23,474)
Net loss per share, basic and diluted	\$ (0.14)	\$ (0.08)	\$ (0.74)	\$ (0.56)	\$ (2.11)	\$ (3.40)	\$ (1.03)
Weighted average common shares outstanding, basic and diluted	36,025	34,947	35,487	34,471	33,666	32,480	22,717

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(1) Excludes stock-based compensation expense as follows:

	<b>Six Months Ended March 31,</b>		<b>Year Ended December 31,</b>				
	<b>2005</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>(In thousands)</b>						
Cost of professional services	\$	\$ 1	\$	\$ 1	\$ 58	\$ 192	\$
Research and development		78	73	6	423	2,436	2,293
Sales and marketing		2		2	264	1,973	1,171
General and administrative		1		19	183	720	1,398
	\$	\$ 82	\$ 73	\$ 28	\$ 928	\$ 5,321	\$ 4,862

(2) Six month results for the period ended March 31, 2005 were derived from Nuance's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the SEC, Nuance's consolidated financial statements for the nine months ended September 30, 2004 included in its Quarterly Report on Form 10-Q for the three months ended September 30, 2004, as filed with the SEC, and Nuance's consolidated financial statements for the three months ended March 31, 2005 included in its Quarterly Report on Form 10-Q for the three months ended March 31, 2005, as filed with the SEC.

(3) Six month results for the period ended March 31, 2004 were derived from Nuance's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the SEC, Nuance's consolidated financial statements for the nine months ended September 30, 2003 included in its Quarterly Report on Form 10-Q for the three months ended September 30, 2003, as filed with the SEC, and Nuance's consolidated financial statements for the three months ended March 31, 2004 included in its Quarterly Report on Form 10-Q for the three months ended March 31, 2004, as filed with the SEC.

	<b>As of March 31,</b>		<b>As of December 31,</b>			
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>(In thousands)</b>					
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 69,547	\$ 53,583	\$ 40,206	\$ 43,771	\$ 132,618	\$ 219,047
Marketable securities	18,029	37,493	66,599	83,737	41,977	8,728
Working capital	74,469	81,113	99,661	110,034	128,672	226,366
Total assets	122,490	130,257	141,497	161,670	208,231	279,338
Long-term liabilities	50,772	53,286	43,612	43,122	21,911	2,552
Total stockholders' equity	44,675	49,216	72,561	89,273	154,825	251,991

**Table of Contents****SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL DATA**

The selected unaudited pro forma combined financial data should be read in conjunction with the unaudited pro forma combined financial statements and related notes thereto, the historical consolidated financial statements of ScanSoft, incorporated by reference in this joint proxy statement/prospectus, and the historical consolidated financial statements of Nuance, incorporated by reference in this joint proxy statement/prospectus or as filed by ScanSoft, or Nuance, respectively, with the SEC. Please see Notes to Unaudited Pro Forma Combined Financial Statements beginning on page F-9, and [Where You Can Find More Information](#) on page 147.

	<b>Six Months Ended Mar. 31, 2005</b>	<b>Nine Months Ended Sep. 30, 2004</b>
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(In thousands, except per share data)

Product licenses	\$ 99,585	\$ 121,121
Professional services	32,735	39,918
Maintenance	13,727	18,420
Revenue, related parties		1,955
<b>Total revenue</b>	<b>146,047</b>	<b>181,414</b>
Costs and expenses:		
Cost of revenue:		
Cost of product licenses	10,741	11,504
Cost of professional services and maintenance	26,561	32,630
Cost of revenue from amortization of intangible assets	8,097	12,552
<b>Total cost of revenue</b>	<b>45,399</b>	<b>56,686</b>
<b>Gross margin</b>	<b>100,648</b>	<b>124,728</b>
Operating expenses:		
Research and development	29,403	44,490
Selling, general and administrative	78,186	106,078
Amortization of other intangible assets	6,040	6,358
Stock-based compensation expense	2,113	2,560
Restructuring and other charges, net	589	20,557
<b>Total operating expenses</b>	<b>116,331</b>	<b>180,043</b>
Loss from operations	(15,683)	(55,315)
Interest income	860	673
Interest expense	(2,521)	(3,716)
Other income (expense), net	(315)	(326)
Loss before income taxes	(17,659)	(58,684)
Provision for income taxes	1,865	977
<b>Net loss</b>	<b>\$ (19,524)</b>	<b>\$ (59,661)</b>
Net loss per common share:		

Basic and diluted	\$	(0.13)	\$	(0.41)
Weighted average common shares:				
Basic and diluted		147,434		146,235

**As of March 31,  
2005**

**Pro Forma Combined Balance Sheet Data:**

Cash and cash equivalents	\$	69,844
Marketable securities		20,720
Working capital		14,133
Total assets		714,925
Long-term liabilities		75,456
Total stockholders' equity		496,895

**Table of Contents****OTHER INFORMATION OF NUANCE****Information Regarding Directors of Nuance**

Nuance's board of directors is currently comprised of nine 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. 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 Nuance's directors. Nuance's directors may be removed for cause by the affirmative vote of the holders of a majority of the outstanding shares of Nuance's common stock. Irwin Federman, a director of Nuance since 1995, has informed Nuance that he will retire from the board of directors effective the date of the meeting.

The following table sets forth the name, age and current employment, as of April 15, 2005, of each of the nominees and each other director of Nuance whose term of office continues after the meeting. Information as to the stock ownership of each director and all current directors and executive officers of Nuance as a group is set forth below under Other Information Security Ownership of Certain Beneficial Owners and Management.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>
<i>Class I Directors</i>			
Ronald Croen	50	Chairman of the board of directors of Nuance	1995
David Nagel	59	Consultant	2004
<i>Class II Directors</i>			
Curtis Carlson	59	President and CEO of SRI International	1998
Alan Herzig	71	Consultant	1994
Philip Quigley	62	Chairman and CEO (Retired), Pacific Telesis Group	2000
<i>Class III Directors</i>			
Charles Berger	51	President and CEO of Nuance	2003
Sandra Bergeron	46	Executive Vice President of McAfee, Inc.	2005
Gary Morgenthaler	56	General Partner of Morgenthaler Ventures	1997

**Class II Directors of Nuance Whose Terms Expire in 2005**

*Curtis Carlson* has served as one of Nuance'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 Nuance'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 Nuance'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. From 1982 to 1986, he served as President and Chief Executive Officer of PacTel Cellular 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.

**Class III Directors of Nuance Whose Terms Expire In 2006**

*Charles Berger* joined Nuance as President and Chief Executive Officer in March 2003. He became a director of Nuance 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, which provides technology solutions to state and local governments, and Sonicwall, Inc., a provider of Internet security solutions. 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.

*Sandra Bergeron* became a Director of Nuance in March 2005. Ms. Bergeron has served as the Executive Vice President of Corporate Development and Strategic Research of McAfee, Incorporated (formerly Network Associates, Inc.) since November 2001. She has been employed with McAfee, which offers computer security solutions, and a predecessor company, in various management capacities since 1995. Prior to joining the predecessor of McAfee, she was employed by Dun & Bradstreet Corporation and A.C. Nielsen, a division of D&B, from 1990 to 1995. Ms. Bergeron holds a B.B.A. in Information Systems from Georgia State University and an M.B.A. from Xavier University.

*Gary Morgenthaler* has served as one of Nuance'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.

**Class I Directors of Nuance Whose Terms Expire in 2007**

*Ronald Croen*, a co-founder of Nuance, served as Nuance's President and Chief Executive Officer from 1994 to March 2003. He has served as one of Nuance's directors since 1995, and currently serves as Chairman of the board of directors. 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. He holds a J.D. from the University of Pennsylvania Law School and a B.A. from Tufts University.



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*David Nagel*, became a Director of Nuance in December 2004. He presently acts as a consultant and independent director. Mr. Nagel served as the President, Chief Executive Officer and a Director of PalmSource, Inc., a provider of operating system software platforms for smart mobile devices, from December 2001 to May 2005. From September 2001 to December 2001, he was Chief Executive Officer of the Platform Solutions Group at Palm, Inc. (now palmOne Inc.), which sells smart mobile devices. Prior to joining Palm, from April 1996 to September 2001, Mr. Nagel was chief technology officer of AT&T Corp., a communications service provider, President of AT&T Labs, a corporate research and development unit of AT&T, and Chief Technology Officer of Concert, a partnership between AT&T and British Telecom. Prior to his tenure with AT&T, from 1988 to 1996, he held various positions at Apple Computer, a manufacturer of personal computing devices, the last of which was Senior Vice President, Research and Development. Mr. Nagel's earlier positions at Apple Computer included General Manager and Vice President, Apple Soft, and Vice President, Advanced Technology. Before joining Apple, he was head of human factors research at Ames Research Center. He serves as a director of Tessera Inc., a provider of chip packaging technology. Mr. Nagel has a B.S. and an M.S. in engineering and a Ph.D. in experimental psychology from the University of California, Los Angeles.

There are no family relationships among any of Nuance's directors or officers.

**Nuance Director Independence**

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

**Nuance Board of Directors Meetings and Attendance at Meetings of Stockholders**

The Nuance board of directors held a total of seven meetings during 2004. In addition, the Nuance board of directors approved certain matters by unanimous written consent. During 2004, no present director attended fewer than 75% of the aggregate number of meetings held by the board of directors or of the aggregate number of meetings of each committee of the board of directors upon which such director served. Only Dr. Vinton Cerf, a former director, was unable, due to pre-existing conflicts, to attend 75% of the Nuance board of directors meetings.

The Nuance board of directors' policy with respect to director attendance at each annual meeting of stockholders is that all directors who do not have pre-existing conflicts are required to attend. All of the members of the board of directors, other than Dr. Cerf, attended Nuance's 2004 meeting of stockholders.

**Nuance Committees and Related Governance Matters**

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

The Nuance Audit Committee consists of Messrs. Herzig, Federman and Quigley. Mr. Federman is the Chairman of the committee. 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 Nuance's independent auditors, reviews the scope and results of annual audits and other accounting-related services, evaluates Nuance's internal control functions and approves the fees to be paid to the accounting firms that provide services to Nuance, whether audit, audit related, tax or other services. The Audit Committee held a total of six meetings during 2004. If the merger

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is not approved by Nuance or ScanSoft stockholders, Nuance expects to appoint David Nagel, a director and audit committee financial expert, to the Audit Committee upon the retirement of Irwin Federman.

The Nuance Compensation Committee consists of Messrs. Quigley and Herzig. Mr. Herzig is the Chairman of the committee. The Compensation Committee makes recommendations concerning, and reviews and approves, new equity-based compensation plans of Nuance and any amendments to such plans in effect. It also approves all matters concerning executive officer compensation. The Compensation Committee held a total of two meetings during 2004. If the merger is not approved by Nuance or ScanSoft stockholders, it is expected that Ms. Bergeron will join the Compensation Committee after the meeting.

The Nuance Corporate Governance and Nominating Committee, which was established in 2004, consists of Messrs. Carlson and Herzig. This committee makes recommendations, and approves matters, relating to Nuance's corporate governance obligations and actions, reviews and approves, as appropriate, each of Nuance's related party transactions, and considers and approves nominations for directors of Nuance, whether made by management, a stockholder of Nuance or the committee itself. If the merger is not approved by Nuance or ScanSoft stockholders, it is expected that Ms. Bergeron will join this committee after the meeting.

**Nuance Director Candidates**

The Nuance Corporate Governance and Nominating Committee will consider candidates properly submitted by stockholders of Nuance in accordance with the rules and regulations of the SEC, the procedures set forth in Nuance's Certificate of Incorporation, and any policy adopted by this committee with respect to any person recommended for nomination by a stockholder, as well as candidates recommended by directors and management, for nomination to the board of directors. To date, Nuance has not received any such recommendations from stockholders. Stockholders may recommend candidates for nomination to the board of directors by writing to Nuance Communications, Inc., 1380 Willow Street, Menlo Park, California 94025, Attn: General Counsel.

the full name and address of the candidate;

the number of shares of Nuance's 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 of directors 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 Information Regarding Directors of Nuance, above.

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 of directors 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 of directors generally, as well as the candidate's integrity, business acumen, diversity, availability, independence of thought, and overall ability to represent the interests of Nuance'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.

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In October 2004, Nuance retained the services of a director search firm to assist it in identifying potential candidates for openings on its board of directors. This firm identified Sandra Bergeron, who joined the board of directors in March 2005.

### **Stockholder Communication with the Board of Directors of Nuance**

Nuance stockholders may communicate with the Nuance board of directors 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 of directors as a whole, or to individual directors. The General Counsel will review all such correspondence and provide regular summaries to the board of directors 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 of directors or individual directors upon request. Any correspondence relating to accounting, internal controls or auditing matters will be handled in accordance with Nuance's policy regarding accounting complaints and concerns.

### **Code of Ethics/Code of Conduct of Nuance**

Nuance has adopted a Code of Business Conduct and Ethics that applies to all of Nuance'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 Nuance's website at [www.nuance.com](http://www.nuance.com), and may be found by first highlighting Company Info, clicking on Investor Relations, and then clicking on Corporate Governance. Nuance intends to satisfy the disclosure requirement under Form 8-K regarding any amendment to, or waiver from, a provision of this Code by posting such information on Nuance's website, at the address and location specified above.

### **Nuance Director Compensation**

Non-employee directors of Nuance ( Outside Directors ) receive an annual retainer fee of \$15,000, paid quarterly. Board of directors members also receive a board of directors meeting attendance fee and a committee meeting attendance fee of \$1,000, which is paid for each board of directors and committee meeting attended. Nuance also pays the Chairman of the Audit Committee and of the Compensation Committee an additional annual retainer fee of \$7,500. Nuance reimburses each director for the reasonable expenses the director incurs in attending any board of directors or committee meeting.

Options are granted to Outside Directors under Nuance's 2000 Stock Plan (the Stock Plan ), which was approved by Nuance's stockholders in 2000. New Outside Directors are granted an option to purchase 50,000 shares of Nuance's common stock when they are first elected to the board of directors. Nuance grants all Outside Directors options to purchase 20,000 shares of Nuance's common stock on an annual basis. Any newly elected Outside Director will receive such annual grant, when made, beginning one year after he or she joins the board of directors.

Each option granted to directors under the Stock Plan contain the following provisions: the exercise price per share of Nuance's common stock is 100% of the fair market value of the Nuance's 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 Nuance; upon a proposed liquidation or dissolution of Nuance, the option will terminate immediately prior to such action; and, in the event of a merger or sale of substantially all of Nuance's assets, the option may be assumed or an equivalent option substituted by the successor corporation. The board of directors may at any time amend, alter, suspend or discontinue the Stock Plan, subject to any required stockholder approval.

**Table of Contents****Nuance Compensation Committee Interlocks and Insider Participation**

The members of the Compensation Committee of Nuance 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 Nuance, an officer or employee of Nuance. During 2004, no executive officer of Nuance (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 Nuance's Compensation Committee, (ii) served as a director of another entity, one of whose executive officers served on Nuance'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 Nuance.

**Executive Officers of Nuance**

Nuance's executive officers, and their ages and positions with Nuance, as of April 15, 2005, are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Charles Berger	51	President and Chief Executive Officer
Karen Blasing	49	Vice President and Chief Financial Officer
Glenn Cross	48	Senior Vice President of Global Sales and Services
Eng Yew Lee	44	Vice President, Technical Services
Douglas Clark Neilsson	57	Vice President, Secretary and General Counsel
Douglas Sharp	45	Vice President, Engineering
Lynda Kate Smith	43	Vice President and Chief Marketing Officer
Donna Allen Taylor	60	Vice President, Human Resources and Chief People Officer

*Charles Berger* joined Nuance as President and Chief Executive Officer in March 2003. He became a director of Nuance 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, which provides technology solutions to state and local governments, and Sonicwall, Inc., a provider of Internet security solutions. 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.

*Karen Blasing* has served as Vice President and Chief Financial Officer of Nuance 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.

*Glenn Cross* has served as Senior Vice President of Global Sales and Services of Nuance since July 2004. Prior to joining Nuance, Mr. Cross held the position of Senior Vice President - Global Sales and

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Customer Service at Activcard, Inc., an enterprise software and security firm, from September 2003 to February 2004. From August 2001 to May 2003, he served as Senior Vice President, Sales and Service and Business Development, for Palm, Inc. (now PalmOne, Inc.), a seller of smart mobile devices. Before joining Palm, he was with Sun Microsystems, Inc. from 1996 to August 2001, serving as Vice President, Sales for its iPlanet and Sun Software and Technology divisions from January 1999 to August 2001. Mr. Cross also managed sales activities at Lotus/IBM, Adobe and other technology companies. He holds a B.A. in Economics from Florida Southern College.

*Eng Yew Lee* has served as Vice President, Technical Services of Nuance since February 2000. From 1998 to February 2000, he served as Nuance'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 a M.S. in Business Systems Analysis and Design from the City University of London, England, and a B.S. from London University.

*Douglas Clark Neilsson* has served as Vice President, Secretary and General Counsel of Nuance 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 Ware 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 of Nuance since May 2003. Previously, he was Nuance's Vice President of Software Engineering from 1999 to May 2003. Prior to joining Nuance in 1998, 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 of Nuance 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 of Nuance 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 1993 to 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.

**Table of Contents****Executive Officer Compensation of Nuance****Summary Compensation**

The following table shows information concerning compensation paid for services to Nuance during 2002, 2003 and 2004 as to the Chief Executive Officer of Nuance and as to each of the five other most highly compensated executive officers of Nuance whose salary plus bonus exceed \$100,000, one of whom was not serving as such as of the end of 2004 (each a Named Executive Officer, and together the Named Executive Officers).

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Options (#)(5)	All Other Compensation (\$)(6)
		Salary (\$)	Bonus (\$)		
Charles Berger(1) President and Executive Officer	2004	284,131	140,239		11,056
	2003	207,291	140,239	1,200,000	7,571
	2002				
Rodwin Hamlin(2) Senior Vice President of Global Sales and Services	2004	227,491	109,111		5,924
	2003	225,000	161,075		9,931
	2002	225,000	150,000	240,000	3,095
Karen Blasing(3) Vice President and Chief Financial Officer	2004	220,000	68,376	75,000	10,924
	2003	220,000	92,246	30,000	9,922
	2002	165,000	77,000	150,000	5,824
Lynda K. Smith Vice President, Marketing	2004	210,000	61,460	75,000	6,346
	2003	200,000	84,560	100,000	5,843
	2002	200,000	60,000		4,700
Donna Allen Taylor Vice President, Human Resources	2004	200,000	61,460	40,000	7,740
	2003	200,000	84,560	45,000	3,499
	2002	196,250	60,568	60,000	2,959
Douglas Clark Neilsson(4) Vice President and General Counsel	2004	210,000	30,870	130,000	7,764
	2003				
	2002				

- (1) Mr. Berger became an executive officer of Nuance in April 2003.
- (2) Mr. Hamlin served as an executive officer of Nuance from August 2002 to July 2004. His compensation for 2004 includes his severance payments in 2004.
- (3) Ms. Blasing became an executive officer of Nuance in April 2002.
- (4) Mr. Neilsson became an executive officer of Nuance in January 2004.
- (5) Number of shares of common stock of Nuance underlying options.
- (6) Consists of premiums paid by Nuance for medical, dental, vision and life insurance.

**Table of Contents*****Nuance Stock Option Grants and Exercises***

The following table shows, as to each Named Executive Officer, information concerning stock options granted during 2004. The exercise price of each option is equal to the fair market value of Nuance's common stock on the date of grant. Except as otherwise specified in the section titled "Other Information - Nuance Employment Contracts, Termination of Employment and Change-in-Control Arrangements," and subject to acceleration of vesting as specified in that section, each option vests as to 25% of the shares subject to the option after one year from the vesting commencement date and vests as to 1/48th of the shares subject to the option monthly over the succeeding three years. The options have a maximum term of ten years from the option grant date, subject to earlier termination in the event of the optionee's cessation of service with Nuance. The percentage of total options granted is based on an aggregate of approximately 1,996,000 option shares granted to Nuance's employees during 2004.

The table sets forth hypothetical gains or option spreads that would exist for the options at the end of their respective 10-year terms based on assumed annualized rates of compound stock price appreciation of 5% and 10% from the dates the options were granted to the end of the option terms. These assumed rates are mandated by the rules of the SEC, and do not represent Nuance's prediction of its stock price performance. Actual gains, if any, on option exercises are dependent on the future performance of the common stock of Nuance.

***Option Grants During Last Fiscal Year***

Name	Number of Securities Underlying Options Granted	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
		% of Total Options Granted in Last Fiscal Year	Per Share Exercise Price (\$/Share)	Expiration Date	5% (\$)	10% (\$)
Charles Berger President and Chief Executive Officer			\$		\$	\$
Rodwin Hamlin Senior Vice President of Global Sales and Services	50,000	2.50%	\$ 8.10	1/26/2014	\$ 254,702	\$ 645,401
Karen Blasing Vice President, Chief Financial Officer	75,000	3.76%	\$ 8.10	1/26/2014	\$ 382,053	\$ 968,199
Lynda Kate Smith Vice President, Marketing	75,000	3.76%	\$ 8.10	1/26/2014	\$ 382,053	\$ 968,199
Donna Allen Taylor Vice President, Human Resources	40,000	2.00%	\$ 8.10	1/26/2014	\$ 203,762	\$ 516,373

Douglas Clark Neilsson Vice President and General Counsel	130,000	6.51%	\$ 7.87	1/06/2014	\$ 643,222	\$ 1,630,558
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***Option Grants in Fiscal Year 2005***

In January 2005, Nuance made its regular annual grant of options to executive officers who had been with the company for more than one year. The 2005 annual grants were made to Charles Berger (300,000 shares), Karen Blasing (75,000 shares), Eng Yew Lee (30,000 shares), Douglas Clark Neilsson (75,000 shares), Douglas Sharp (75,000 shares), Lynda Kate Smith (50,000 shares) and Donna Allen Taylor (25,000 shares).



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The following table shows, as to each Named Executive Officer, information concerning stock options exercised during 2004 and year-end option values. The values shown represent the difference between the aggregate fair market value of a share of Nuance's common stock, based on the closing price of the common stock on December 31, 2004, of \$4.14 per share, and the exercise price per share, multiplied by the number of shares issuable upon exercise of the option. These values have not been, and may never be, realized.

***Nuance Aggregate Option Exercises In 2004 and Year-End Option Values***

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2004		Value of Unexercised In-the-Money Options at December 31, 2004	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Charles Berger President and Chief Executive Officer		\$	525,000	675,000	\$ 1,029,000	\$ 1,323,000
Rodwin Hamlin Senior Vice President of Global Sales and Services	95,000	\$ 169,124			\$	\$
Karen Blasing Vice President, Chief Financial Officer		\$	93,750	141,250	\$ 23,513	\$ 27,788
Lynda Kate Smith Vice President, Marketing		\$	139,583	160,417	\$ 78,374	\$ 92,626
Donna Allen Taylor Vice President, Human Resources		\$	200,000	91,250	\$ 35,269	\$ 41,681
Douglas Clark Neilsson Vice President and General Counsel		\$	32,500	97,500	\$	\$

**Nuance Employment Contracts, Termination of Employment and Change-in-Control Arrangements*****Employment Agreements of Nuance***

Nuance entered into an Executive Employee Agreement with Charles Berger, Nuance's President and CEO, in March 2003. The agreement provides that Mr. Berger will serve as President and Chief Executive Officer of Nuance for a one-year term, with such term to be extended automatically from year-to-year unless the agreement is terminated by Nuance or 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 Nuance's common stock, which option vests as to 25% of the shares on his one-year anniversary with Nuance, and vests monthly

thereafter over three years. The agreement also provides for an additional option to purchase up to 300,000 shares of Nuance's common stock, which option vests as to 112,500 shares 18 months after the commencement of Mr. Berger's employment with Nuance and monthly thereafter over 30 months, subject to acceleration should Nuance meet certain financial 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 was 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 Nuance (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

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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 Nuance, termination of Mr. Berger by Nuance 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 Nuance'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 1/48th of the shares subject to such 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.

No changes were made to Mr. Berger's agreement during 2004. In May 2005, Nuance modified the Agreement as follows with respect to 2005: (1) the target variable compensation opportunity was raised to \$178,750, 65% of Mr. Berger's base salary of \$275,000; and (2) the variable compensation amount is based on (a) Mr. Berger's achievement of specified management objectives, as determined by Nuance's Compensation Committee (20% of target); (b) Nuance achieving specified quarterly revenue goals (40% of target); (c) Nuance achieving specified quarterly expense goals (20% of target); and (d) the merger with ScanSoft being consummated and Mr. Berger being deemed, by the Compensation Committee, as having made a positive contribution to the transition process (20% of target). Mr. Berger was also granted an option to acquire 300,000 shares of Nuance's common stock in January 2005.

***Change in Control Arrangements of Nuance***

Nuance has entered into stock option agreements with all of its executive officers which provide that, in the event the executive officer is constructively terminated or terminated without cause within one year following a Change of Control (as defined in the agreements), the officer will receive accelerated vesting of 50% of all of the officer's then unvested options, provided that the officer has also been employed with Nuance for at least one year prior to any change of control. The stock option agreements entered into with Douglas Clark Neilsson, Nuance's Vice President, Secretary and General Counsel, also provide that, if such termination occurs after 36 months of employment, 100% of his unvested options will vest immediately.

Pursuant to Mr. Berger's Employment Agreement (as more fully described above), he is entitled to certain benefits in the event of a Change in Control of Nuance. If Mr. Berger is terminated by a successor corporation Without Cause, or if Mr. Berger resigns for Good Reason within twelve months following a Change in Control, 50% of his unvested options will vest immediately. If such termination occurs after 36 months of employment, 100% of his unvested options will vest immediately.

Nuance has entered into a Change of Control and Retention Agreement (the "Retention Agreement") with each of its officers, other than its Chief Executive Officer, who are subject to the reporting requirements of Section 16 of the Exchange Act and three other officers (the "Other Officers"). Under the terms of the Retention Agreement, in the event of a Change of Control (as defined in the Retention Agreements) of Nuance, each such officer will be entitled, if terminated without Cause (as defined in the Retention Agreements) or constructively terminated with Good Reason (as defined in the Retention Agreements) within 18 months after the Change of Control, (a) to receive a cash severance payment equal to her or his annual salary and annual bonus (six months of salary and annual bonus, in the case of the Other Officers), and (b) to have accelerated the vesting of 50% of his or her unvested options. In December 2004, the board of directors of Nuance approved the company entering into the Retention Agreements, all of which were ultimately entered into in March 2005.

**Table of Contents****Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth information known to Nuance with respect to the beneficial ownership of Nuance's common stock, as of April 15, 2005 (except as specifically noted otherwise), by (i) each person or entity owning beneficially more than 5% of the outstanding shares of Nuance's common stock, (ii) each of the Named Executive Officers, (iii) each of Nuance's directors, and (iv) all of Nuance'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 Nuance's knowledge, the persons named below have sole voting and investment power with respect to all shares of Nuance's common stock held by them. For the purposes of calculating the percentage ownership, as of April 15, 2005, 36,158,576 shares of Nuance's common stock were issued and outstanding. Shares of Nuance's common stock subject to options or warrants that were exercisable as of April 15, 2005, or within 60 days of April 15, 2005, 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.

Name and Address of Beneficial Owner	Shares of Nuance Common Stock Beneficially Owned	
	Number	Percent
<i>5% Stockholders:</i>		
Chilton Investment Co, Inc.(1) 1266 East Main Street 7th floor Stamford, Connecticut 06902	2,536,928	7.0%
SRI International(2) 333 Ravenswood Avenue Menlo Park, California 94025	2,335,580	6.5%
Cisco Systems, Inc.(3) 170 West Tasman Drive San Jose, California 95134	1,919,000	5.3%
<b>Name of Beneficial Owner</b>		
<i>Directors and Named Executive Officers:</i>		
Sandra Bergeron(4)	8,333	*
Ronald Croen(5)	1,300,323	3.5%
Curtis Carlson(6)	80,000	*
Irwin Federman(7)	120,000	*
Alan Herzig(8)	181,333	*
Gary Morgenthaler(9)	166,419	*
David Nagel(10)	25,000	*
Philip Quigley(11)	157,000	*
Charles Berger(12)	665,445	1.8%
Karen Blasing(13)	138,125	*
Rod Hamlin(14)		*
Lynda Kate Smith(15)	194,099	*
Donna Allen Taylor (16)	243,667	*
Douglas Clark Neilsson (17)	46,834	*
All directors and executive officers as a group (17 persons) (18)	3,657,209	9.35%

\* Less than 1%

(1) This ownership information is as of December 31, 2004, and was obtained from a Schedule 13G filed with the SEC by Chilton Investments on February 14, 2005.

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- (2) Consists of shares held by Technology Venture Management, a wholly-owned subsidiary of SRI. The board of directors of SRI has voting and dispositive authority with respect to the shares held by Technology Venture Management. From time to time, the board of directors of SRI delegates such voting and dispositive authority to Samuel Armacost, Curtis Carlson, one of Nuance's directors, and Alan Herzig, one of Nuance's directors. Each of these individuals disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.
- (3) This ownership information is as of December 31, 2004, and was obtained from a Schedule 13G filed with the SEC by Cisco Systems on February 14, 2005.
- (4) All shares subject to options exercisable within 60 days of April 15, 2005.
- (5) Includes 330,333 shares held by Mr. Croen and 969,990 shares subject to options exercisable within 60 days of April 15, 2005.
- (6) All shares subject to options exercisable within 60 days of April 15, 2005.
- (7) Includes 40,000 shares held by Mr. Federman and 80,000 shares subject to options exercisable within 60 days of April 15, 2005.
- (8) Includes 72,333 shares held by Mr. Herzig, 4,000 shares held by the Herzig Family Foundation and 105,000 shares subject to options exercisable within 60 days of April 15, 2005.
- (9) Includes 42,385 shares held by Mr. Morgenthaler, 44,034 shares held by the Morgenthaler Family Partnership and 80,000 shares subject to options exercisable within 60 days of April 15, 2005.
- (10) All shares subject to options exercisable within 60 days of April 15, 2005.
- (11) Includes 7,000 shares held by Philip J & Teresa Quigley Family Trust and 150,000 shares subject to options exercisable within 60 days of April 15, 2005.
- (12) Includes 4,000 shares held by Mr. Berger and 661,455 shares subject to options exercisable within 60 days of April 15, 2005.
- (13) All shares subject to options exercisable within 60 days of April 15, 2004.
- (14) Mr. Hamlin resigned his position with Nuance in July 2004.
- (15) Includes 4,000 shares held by Ms. Smith and 190,099 shares subject to options exercisable within 60 days of April 15, 2005.
- (16) Includes 14,085 shares held by Ms. Taylor and 229,582 shares subject to options exercisable within 60 days of April 15, 2004.
- (17) Includes 793 shares held by Mr. Neilsson and 46,041 shares subject to options exercisable within 60 days of April 15, 2004.
- (18) Includes 3,053,871 shares subject to options exercisable within 60 days of April 15, 2004.

**Certain Relationships and Related Transactions**

The following is a description of transactions since the beginning of 2004, or any currently proposed transaction, to which Nuance has been or will be a party, in which the amount involved in the transaction exceeds \$60,000 and in which any director, executive officer, or holder of more than 5% of Nuance's capital stock had or will have a direct or indirect material interest.

Nuance has entered into indemnification agreements with all of its existing executive officers and directors and plans to enter into an indemnification agreement with each of its new executive officers and directors. Nuance also maintains directors' and officers' liability insurance under which directors and officers are insured against expenses incurred and losses suffered by them as a result of claims brought against them for acts in such capacities.

Nuance has entered into certain agreements with its executive officers, providing for the acceleration of vesting, in certain circumstances, of the officers' options upon a change of control of Nuance. See Other Information Nuance Employment Contracts, Termination of Employment and Change-in-Control Arrangements above.

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Nuance entered into an employment agreement, in 2003, with Charles Berger, Nuance's President and Chief Executive Officer. This Agreement was renewed, with certain modifications, in 2004 and 2005. See Other Information Nuance Employment Contracts, Termination of Employment and Change-in-Control Arrangements above.

**Nuance Equity Compensation Plan Information**

The following table provides information, as of December 31, 2004, about Nuance's common stock that may be issued upon the exercise of options granted to employees, consultants or members of the board of directors under all of Nuance's existing equity compensation plans, including the 1994 Flexible Stock Incentive Plan, 1998 Stock Plan, 2000 Employee Stock Purchase Plan ( ESPP ), 2000 Stock Plan, and 2001 Nonstatutory Stock Option Plan:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options (#)(a)	Per Share Weighted Average Exercise Price of Outstanding Options (\$)(b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a))
			(#)(c)
Equity compensation plans approved by stockholders	1994 plan	79,376	\$ 1.18
	1998 plan	1,768,824	\$ 9.85
	2000 plan	6,400,049	\$ 5.81
	ESPP	2,523,977	\$ 3.78
Equity compensation plans not approved by stockholders	2001 plan	1,227,228	\$ 3.48
Total	All plans	11,999,454	\$ 5.71
			1,583,761
			466,805
			110,513
			2,161,079

Nuance's 2000 Stock Plan provides that the number of shares of Nuance's common stock reserved under the plan will automatically be increased on the first day of each year, beginning in 2001, in an amount equal to the lesser of (a) 4,000,000 shares, (b) 6% of the number of shares of Nuance's common stock outstanding on the last day of the preceding year, or (c) any lesser amount determined by the board of directors. The ESPP provides that the number of shares of Nuance's common stock reserved under the plan will automatically be increased on the first day of each year, beginning in 2001, in an amount equal to the lesser of (a) 1,500,000 shares, (b) 2% of the number of shares of Nuance's common stock outstanding on the last day of the preceding year, or (c) any lesser amount determined by the board of directors.

A description of Nuance's 2001 Nonstatutory Stock Option Plan is set forth on Page F-23 of the footnotes to Nuance's Consolidated Financials Statements for its Last Fiscal Year, which are a part of Nuance's Annual Report on Form 10-K for that year.

*Notwithstanding anything to the contrary set forth in any of Nuance's previous or future filings under the Securities Act or the Exchange Act that might incorporate this joint proxy statement/prospectus or future filings made by the Nuance under those statutes, the Report of the Compensation Committee, Report of the Audit Committee and Performance Graph set forth below shall not be deemed filed with the SEC and shall not be deemed incorporated by reference into any of those prior filings or into any future filings made by Nuance with the SEC*



*under those statutes.*

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**Report of the Compensation Committee of the Board of Directors of Nuance**

The Compensation Committee of the board of directors of Nuance establishes the general compensation policies and programs of Nuance, as well as the compensation plans and specific compensation levels for all of Nuance's executive officers, including Nuance's Chief Executive Officer, whose compensation is also subject to the additional approval of Nuance's board of directors. It also administers Nuance's employee stock benefit plans for all of Nuance's executive officers, including the Chief Executive Officer, and with respect to each grant of options or securities to any employee in excess of 50,000 shares. The Compensation Committee is currently composed of independent, non-employee directors who have no interlocking relationships, each as defined by the Securities and Exchange Commission and NASDAQ.

The Compensation Committee believes that the compensation of the executive officers, including that of the Chief Executive Officer (collectively, the Executive Officers), should be influenced by Nuance's performance. The Compensation Committee establishes the salaries and variable compensation of all of the Executive Officers by considering (i) Nuance's financial performance for the past year, (ii) the achievement of certain objectives related to the particular Executive Officer's area of responsibility, (iii) the achievement of Nuance's financial objectives for the upcoming year, particularly revenue, in the case of variable compensation, and (iv) the salaries and variable compensation of executive officers in similar positions at similarly-sized technology companies. The Compensation Committee believes that the salaries and variable compensation opportunities of the Executive Officers in 2004 were comparable to those of similarly-sized technology businesses.

In addition to salary and variable compensation, the Compensation Committee, from time to time, grants options to purchase Nuance's common stock to Executive Officers. The Compensation Committee thus views option grants as an important component of its long-term, performance-based compensation philosophy. Since the value of an option bears a direct relationship to Nuance's stock price, the Compensation Committee believes that options motivate Executive Officers to manage Nuance in a manner which will also benefit stockholders. As such, options are granted at the current market price of Nuance's common stock on the date of grant. One of the principal factors considered in granting options to an Executive Officer is the Executive Officer's ability to influence Nuance's long-term growth and profitability.

Nuance's Chief Executive Officer, Charles Berger, joined Nuance in March 2003. His initial compensation arrangements were weighted toward equity incentives, in the form of stock options, rather than toward salary and variable compensation, to more closely align his compensation with the performance of Nuance's common stock. Consistent with this goal, his salary for 2005 remains at \$275,000 and his variable compensation for 2005 is based, in part, on Nuance achieving certain revenue and expense objectives for the year. Under his variable compensation arrangement, which sets target variable compensation at 65% of this base salary, or \$178,750, if Nuance, in 2005, achieves specified quarterly revenue and expense goals for each quarter, he will be entitled to variable compensation payments aggregating \$107,250. Mr. Berger may earn up to an additional \$71,500 in variable compensation based on (1) his performance, as determined by the Compensation Committee, against specified management objectives and (2) the merger with ScanSoft being consummated and Mr. Berger being deemed, by the Compensation Committee, as having made a positive contribution to the transition process. Consistent with the Committee's view of using stock options as a motivator for Nuance's Executive Officers, Mr. Berger was granted options, in early 2005, when Nuance made its annual grants to selected Executive Officers, for 300,000 shares of Nuance's common stock.

Compensation Committee of the Board of Directors of Nuance

Alan Herzig  
Philip Quigley

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**Report of the Audit Committee of the Board of Directors of Nuance**

The Audit Committee of Nuance's board of directors is responsible for providing an independent, objective review of Nuance's accounting functions and internal controls. The Audit Committee is governed by a written charter first adopted and approved by the board of directors of Nuance in January 2000, and was last amended in November 2002. Each of the members of the Audit Committee is independent, as defined by Rule 4200(a)(15) of NASDAQ's listing standards.

The responsibilities of the Audit Committee include appointing, compensating and overseeing the work of Nuance's independent accountants. The Audit Committee also, as appropriate, engages in the following activities, and, in that process, consults with Nuance's management and its independent auditors concerning such activities:

Reviewing, on a continuing basis, the adequacy of Nuance's system of internal controls;

Pre-approving audit and non-audit services by the independent auditors;

Reviewing Nuance's external audit and the annual audited financial statements and quarterly unaudited financial statements;

Reviewing, approving and monitoring Nuance's code of business conduct and ethics and standards of business conduct; and

Reviewing legal matters, compliance with employee benefit plans, and related party transactions.

The Audit Committee is responsible for recommending to the board of directors of Nuance that Nuance's financial statements be included in Nuance's annual report. The Audit Committee took a number of steps in making this recommendation for 2004. First, the Audit Committee discussed throughout 2004 with Deloitte & Touche LLP, Nuance's independent auditors for 2004, those matters Deloitte & Touche LLP communicated to the Audit Committee pursuant to Statement on Auditing Standards board of directors Standard No. 61, as amended (Communications with Audit Committees), including information concerning the audit. These communications and discussions are intended to assist the Audit Committee in overseeing the financial reporting and disclosure process. Second, the Audit Committee discussed Deloitte & Touche LLP's independence with Deloitte & Touche LLP and received a letter from Deloitte & Touche LLP regarding independence as required by the Independence Standards board of directors Standard No. 1 (Independence Discussions with Audit Committees). This discussion and disclosure informed the Audit Committee of Deloitte & Touche LLP's independence, and assisted the Audit Committee in evaluating such independence. Finally, the Audit Committee reviewed and discussed, with Company's management and Deloitte & Touche LLP, as appropriate, Nuance's audited consolidated balance sheets at December 31, 2004 and 2003, and consolidated statements of operations, cash flows and stockholders' equity for the three years ended December 31, 2004. Based on the discussions with Deloitte & Touche LLP concerning the audit, the independence discussions, and the financial statement review, and additional matters deemed relevant and appropriate by the Audit Committee, the Audit Committee recommended to the board of directors of Nuance that Nuance's Annual Report on Form 10-K include such financial statements.

Audit Committee of Nuance

Irwin Federman

Alan Herzig

Phil Quigley

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**Table of Contents****Performance Graph**

The following graph compares the cumulative total return to stockholders on Nuance's common stock with the cumulative total return of the NASDAQ Stock Market Index (NASDAQ Index) and the SIC Code Index for the Prepackaged Software Industry (the SIC Code Index). The graph assumes that \$100 was invested on April 13, 2000, the date of Nuance's initial public offering, in Nuance's common stock, the NASDAQ Index and the SIC Code Index, including reinvestment of dividends. No dividends have been declared or paid on Nuance's common stock. Historical stock price performance is not necessarily indicative of future stock price performance.

**COMPARISON OF 56 MONTH CUMULATIVE TOTAL RETURN\***  
**AMONG NUANCE COMMUNICATIONS, INC., THE NASDAQ STOCK MARKET (U.S.) INDEX**  
**AND A PEER GROUP**

	<b>04/13/00</b>	<b>12/31/00</b>	<b>12/31/01</b>	<b>12/31/02</b>	<b>12/31/03</b>	<b>12/31/04</b>
Nuance Communications, Inc.	100.00	127.07	26.81	7.31	22.51	12.20
SIC Code Index	100.00	71.11	62.33	43.86	53.77	59.88
NASDAQ Market Index	100.00	67.14	53.26	36.82	55.06	57.03

\* \$100 invested on 4/13/00 in stock or index including reinvestment of dividends. Fiscal year ending December 31.  
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**Table of Contents****COMPARISON OF RIGHTS OF HOLDERS OF SCANSOFT  
COMMON STOCK AND NUANCE COMMON STOCK**

The following is a description of the material differences between the rights of holders of ScanSoft common stock and the rights of holders of Nuance common stock. While we believe that this description covers the material differences between the two, this summary may not contain all of the information that is important to you. This summary is not intended to be a complete discussion of the certificates of incorporation and bylaws of ScanSoft and Nuance and it is qualified in its entirety by applicable Delaware law as well as by ScanSoft's and Nuance's respective certificates of incorporation and bylaws. You should carefully read this entire joint proxy statement/prospectus and the other documents we refer to for a more complete understanding of the differences between being a stockholder of ScanSoft and being a stockholder of Nuance. ScanSoft and Nuance have filed with the SEC their respective certificates of incorporation and bylaws and will send copies of these documents to you upon your request. See the section entitled "Where You Can Find More Information" on page 147.

ScanSoft and Nuance are both Delaware corporations. The rights of each company's stockholders are generally governed by the law of the State of Delaware and each company's certificate of incorporation and bylaws. Upon completion of the merger, stockholders of Nuance will be entitled to become stockholders of ScanSoft, and the ScanSoft certificate of incorporation and bylaws will govern the rights of former Nuance stockholders. No changes to the ScanSoft certificate of incorporation or bylaws will be adopted in connection with the merger.

The following is only a summary comparison of the material rights of a Nuance stockholder to the material rights of a ScanSoft stockholder arising from the governing organizational instruments of these companies. The following summary is not intended to be a complete discussion of the respective certificates of incorporation and bylaws of ScanSoft and Nuance. We encourage you to read carefully the certificates of incorporation and bylaws of ScanSoft and Nuance. The identification of specific differences is not meant to indicate that other equally or more significant differences do not exist. For information on how to obtain these documents, see the section entitled "Where You Can Find More Information." You are encouraged to obtain and read these documents along with this entire joint proxy/prospectus, as this summary may not contain all of the information important to you.

If your shares are held by a broker or other financial intermediary in street name rather than directly by you as a person whose name is entered on the share register of either ScanSoft or Nuance, you must rely on procedures established by that broker or financial intermediary in order to assert your rights as a stockholder against either ScanSoft or Nuance, as applicable.

**Authorized Capital Stock**

ScanSoft's amended and restated certificate of incorporation, as amended, authorizes the issuance of 320,000,000 shares of capital stock, consisting of:

280,000,000 shares of common stock, par value \$0.001 per share; and

40,000,000 shares of preferred stock, par value \$0.001 per share, 100,000 shares of which have been designated as Series A Participating Preferred Stock. The rights, preferences and privileges of the Series A Participating Preferred Stock are described further in "ScanSoft Rights Plan" below.

Nuance's restated certificate of incorporation authorizes the issuance of 255,000,000 shares of capital stock consisting of:

250,000,000 shares of common stock, par value \$0.001 per share; and

5,000,000 shares of preferred stock, par value \$0.001 per share, 250,000 shares of which have been designated as Series A Preferred Stock. The rights, preferences and privileges of the Series A Preferred Stock are described further in "Nuance Rights Plan" below.

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**Board of Directors**

ScanSoft's certificate of incorporation provides that the number of directors comprising the ScanSoft board of directors shall be fixed, and may be changed from time to time, by an amendment to ScanSoft's bylaws that has been duly adopted by the ScanSoft board of directors or by the ScanSoft stockholders. ScanSoft's bylaws provide that the number of directors comprising the ScanSoft board of directors shall be determined by resolution of the ScanSoft board of directors or the ScanSoft stockholders. The ScanSoft board of directors currently has eight members.

Nuance's certificate of incorporation provides that the number of directors comprising the Nuance board of directors shall be fixed exclusively by one or more resolutions adopted from time to time by Nuance's board of directors. Nuance's board of directors is divided into three classes, each with overlapping three year terms. Nuance's bylaws provide that the authorized number of directors will be eight, and this number may be changed by an amendment to the certificate of incorporation or by an amendment to the bylaws adopted by the Nuance board of directors or the Nuance stockholders. The Nuance board of directors currently has eight members.

**Removal of Directors**

ScanSoft's bylaws provide that any director, or the entire ScanSoft board of directors, may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

Nuance's bylaws provided that any director, or the entire Nuance board of directors, may be removed, with cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

**Filling Vacancies on the Board of Directors**

ScanSoft's bylaws provide that vacancies on the ScanSoft board of directors and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by the sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and qualified or until their earlier resignation or removal.

Nuance's bylaws provide that vacancies on the Nuance board of directors and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by the sole remaining director.

**Stockholder Action by Written Consent**

ScanSoft's certificate of incorporation provides that no action required to be taken or that may be taken at any annual or special meeting of the ScanSoft stockholders may be taken without a meeting, and that the power of the ScanSoft stockholders to consent in writing without a meeting to the taking of action is specifically denied.

Nuance's certificate of incorporation and bylaws provide that stockholders of Nuance may not take any action by written consent without a duly called annual or special meeting of stockholders.

ScanSoft's bylaws provide that special meetings of the ScanSoft board of directors may be called at any time by the chairman of the board, the chief executive officer or a majority of the members of the board of directors then in office. ScanSoft's bylaws provide that special meetings of the ScanSoft stockholders may only be called by the board of directors, the chairman of the board, the chief executive officer or the secretary, acting at the request in writing of a majority of the ScanSoft board of directors.

Nuance's bylaws provide that special meetings of the Nuance board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors. Nuance's bylaws provide that the annual meeting of Nuance's stockholders will be held each year on a date and at a time designated by the board of directors. Nuance's bylaw

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provides a special meeting of the Nuance stockholders may be called at any time by the board of directors, or by the chairman of the board, or by the president, or so long as the corporation is subject to the provisions of Section 2115 of the California General Corporation Law, by one or more stockholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes at that meeting.

**Advance Notice Provisions for Stockholder Nominations and Proposals**

ScanSoft's bylaws provide that for nominations or other proposals to be properly brought by a stockholder before any stockholder meeting the stockholder must have given timely notice thereof in writing to ScanSoft's Secretary. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of ScanSoft (a) not later than the close of business on the 90th calendar day, nor earlier than the close of business on the one hundred and 120th calendar day, prior to the first anniversary of the preceding year's annual meeting, or (b) not later than the close of business on the 45th calendar day, nor earlier than the close of business on the seventy-fifth 75th calendar day, prior to the first anniversary of the date on which the corporation first mailed its proxy materials for the preceding year's annual meeting, whichever period described in clause (a) or (b) of this sentence occurs first; provided, however, that if the date of the annual meeting is advanced more than 30 calendar days prior to, or delayed by more than 60 calendar days after, the anniversary of the preceding year's annual meeting, and in respect of nominations to be brought before a special meeting, where permitted, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th calendar day prior to such meeting and not later than the close of business on the later of (i) the 90th calendar day prior to such meeting, and (ii) the 10th calendar day following the day on which public announcement of the date of such meeting is first made. If the Chairman of the meeting determines that business was not properly brought before the meeting, such person shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Nuance's bylaws provide that for nominations or other business to be properly brought before a stockholders meeting by a stockholder, the stockholder must have given timely notice thereof in writing to Nuance's Secretary. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of Nuance not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the meeting; provided, however, that in the event that less than 95 days notice of the meeting is given to stockholders, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the seventh day following the day on which the notice of meeting was mailed. In no event shall the public announcement of an adjournment of a stockholders meeting commence a new time period for the giving of a stockholder's notice as described above.

**Amendment of Certificate of Incorporation**

ScanSoft's certificate of incorporation may be amended as provided by Delaware law; provided, however, that ScanSoft's certificate of incorporation may not be amended in any manner which would materially alter or change the powers, preferences or special rights of ScanSoft's Series A Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of ScanSoft's Series A Participating Preferred Stock, voting separately as a class.

Nuance's certificate of incorporation may be amended as provided by Delaware law; provided, however, that ScanSoft's certificate of incorporation may not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series A Preferred Stock, voting together as a single class.

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**Amendment of Bylaws**

ScanSoft's certificate of incorporation provides that the ScanSoft board of directors is expressly authorized to make, repeal, alter, amend and rescind any or all of ScanSoft's bylaws. ScanSoft's bylaws provide that, except for Section 7 of Article VII (Prohibitions on Toxics), ScanSoft's bylaws may be altered, amended or repealed or new bylaws adopted by ScanSoft stockholders and the ScanSoft board of directors.

Nuance's certificate of incorporation provides that the Nuance board of directors is expressly authorized to make, alter, amend or repeal Nuance's bylaws. Nuance's bylaws provide that Nuance's bylaws may be adopted, amended or repealed by the Nuance stockholders and the Nuance board of directors.

**Indemnification of Officers and Directors**

Section 145 of the General Corporation Law of the State of Delaware provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation) by reason of the fact that such person is or was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe that such person's conduct was unlawful.

Section 145 further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against any liability asserted against such person and incurred by such person in any such capacity, arising out of such person's status as such, whether or not the corporation would otherwise have the power to indemnify such person against liability under Section 145.

Each of ScanSoft and Nuance's certificates of incorporation contains a provision eliminating the personal liability of its directors to the company or its stockholders for monetary damages for breach of fiduciary duty as a director. ScanSoft's certificate of incorporation further provides that ScanSoft is authorized to provide, to the fullest extent permitted by applicable law, indemnification for its agents through bylaw provisions, agreements with such agents, vote of stockholders or disinterested directors or otherwise, with respect to actions for breach of duty to ScanSoft, its stockholders and others. Nuance's certificate of incorporation provides that Nuance may indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was a director, officer, employee or agent of Nuance or any predecessor of Nuance or serves or served at any other enterprise as a director, officer, employee or agent at the request of Nuance or any predecessor to Nuance. The bylaws of ScanSoft generally provide for the mandatory indemnification of, and payment of expenses incurred by, its directors and officers to the fullest extent permitted by applicable law unless the proceedings were initiated by the director or officer that was not authorized by the board of directors. The bylaws of Nuance generally provide for the indemnification of, and payment of expenses incurred by its directors, officers, employees and agents to fullest extent permitted by applicable law. ScanSoft and Nuance have also entered into indemnification agreements with their respective directors and officers.

In addition, in accordance with the terms of the merger agreement and upon completion of the merger, ScanSoft has agreed, as permitted by law, to fulfill and honor the obligations of Nuance pursuant to any indemnification agreements between Nuance and its directors, officers, employees and agents. Subject to the limitations contained in the merger agreement, ScanSoft has also agreed for a period of six



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years after the effective time of the merger, to maintain directors and officers liability insurance covering those persons who were covered by Nuance directors and officers liability insurance policy as of May 9, 2005, on comparable terms to those applicable as of May 9, 2005 to Nuance directors and officers and covering all periods prior to the effective time of the merger.

Insofar as indemnification for liabilities under the Securities Act may be permitted to directors, officers and controlling persons of ScanSoft pursuant to the provisions described above, or otherwise, ScanSoft has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

**Stockholder Rights Plan**

Under General Corporation Law of the State of Delaware, every corporation may create and issue rights entitling the holders of such rights to purchase from the corporation shares of its capital stock of any class or classes, subject to any provisions in its certificate of incorporation. The price and terms of such shares must be stated in the certificate of incorporation or in a resolution adopted by the board of directors for the creation and issuance of such rights.

***ScanSoft Rights Plan***

On October 23, 1996, the ScanSoft board of directors adopted a resolution creating a series of preferred stock designated as Series A Participating Preferred Stock and declaring a dividend of one preferred share purchase right for each outstanding share of ScanSoft common stock with each right entitling the registering holder to purchase one one-thousandth of a share of ScanSoft's Series A Participating Preferred Stock at an exercise price of \$27.50, subject to adjustment. Each share of ScanSoft common stock issued in connection with the merger will have one right attached.

The rights under ScanSoft's rights agreement currently are attached to and trade only together with outstanding certificates representing ScanSoft common stock. The rights will separate from ScanSoft common stock and be represented by separate and distinct certificates approximately 10 days after someone acquires or commences a tender offer for 20% or more of the outstanding ScanSoft common stock. After the rights separate from ScanSoft's common stock, certificates representing the rights will be mailed to record holders of ScanSoft common stock. Once distributed, the rights certificates alone will represent the rights.

The rights will expire upon the earlier of October 23, 2006, unless earlier redeemed or exchanged by ScanSoft.

If an acquiror (which could be a person or group) obtains 20% or more of ScanSoft common stock, then each right will entitle the holder to purchase a number of shares of ScanSoft common stock having a then current market value equal to two times the exercise price.

Each right will entitle the holder to purchase a number of shares of common stock of the acquiring entity having a then current market value of twice the purchase price if an acquiror obtains, or commences a tender or exchange offer to obtain, 20% or more of ScanSoft common stock and any of the following occurs:

ScanSoft merges into another entity;

an acquiring entity merges into ScanSoft; or

ScanSoft sells more than 50% in the aggregate of its assets or earning power.

Under ScanSoft's rights agreement, any rights that are or were owned by an acquiror or its affiliates of more than 20% of ScanSoft's outstanding common stock will be null and void.

ScanSoft's rights agreement provides that after an acquiror obtains 20% or more of ScanSoft's outstanding common stock, but less than 50% of ScanSoft's outstanding common stock, the ScanSoft board of directors may, at its option, exchange all or part of the then outstanding and exercisable rights

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(other than rights owned by the acquiror or its affiliates) for ScanSoft common stock. In such an event, the exchange ratio will be one common share per right, adjusted to reflect any stock split, stock dividend or similar transaction.

At its option, the ScanSoft board of directors may redeem all of the outstanding rights under the ScanSoft rights agreement at any time on or prior to the close of business on the earlier of (1) the fifth day (or such later date as may be determined by the ScanSoft's board of directors) after public announcement that an entity has acquired beneficial ownership of 20% or more of ScanSoft's common stock or (2) October 23, 2006. The redemption price under ScanSoft's rights agreement is \$0.001 per right. The right to exercise the rights will terminate upon the action of the ScanSoft board of directors ordering the redemption of the rights and the only right of the holders of the rights will be to receive the redemption price.

Holders of rights will have no rights as stockholders of ScanSoft, including without limitation the right to vote or receive dividends, simply by virtue of holding the rights.

The provisions of ScanSoft's rights agreement may be amended by the board of directors prior to the date 10 days after any person acquires 20% or more of ScanSoft's common stock without approval of the holders of the rights. However, after the date any person acquires 20% or more of ScanSoft's common stock, the rights agreement may not be amended in any manner that would adversely affect the interests of the holders of the rights, excluding any interests of the acquiror.

The rights issued under ScanSoft's rights agreement are designed to protect and maximize the value of the outstanding equity interests in ScanSoft in the event of an unsolicited attempt by an acquiror to take over ScanSoft in a manner or on terms that are not approved by the ScanSoft board of directors. The rights are designed to deter unfair tactics, including a gradual accumulation of shares in the open market of a 20% or greater position, followed by a merger or a partial or two-tier tender offer that does not treat all ScanSoft stockholders equally.

Subject to the restrictions described above, the rights may be redeemed by ScanSoft at \$0.001 per right at any time prior to the time when the rights separate from the common stock. Accordingly, the rights should not interfere with any merger or business combination approved by the ScanSoft board of directors, including the merger. The rights are not intended to prevent a takeover of ScanSoft. However, the rights may have the effect of rendering more difficult or discouraging an acquisition of ScanSoft deemed undesirable by the ScanSoft board of directors. The rights will cause substantial dilution to a person or group that attempts to acquire ScanSoft on terms or in a manner not approved by the ScanSoft board of directors, except pursuant to an offer conditioned upon redemption of the rights.

***Nuance Rights Plan***

On December 10, 2002, the Nuance board of directors adopted a resolution creating a series of preferred stock designated as Series A Preferred Stock and declaring a dividend of one right for each share of Nuance common stock outstanding on January 3, 2003, with each right representing the right to purchase one one-thousandth of a share of Nuance's Series A Preferred Stock at an exercise price of \$22.00, subject to adjustment.

The rights under Nuance's rights agreement currently are attached to and trade only together with outstanding certificates representing Nuance common stock. The rights will separate from Nuance common stock and be represented by separate and distinct certificates approximately 10 days after someone acquires or commences a tender offer for 15% or more of the outstanding Nuance common stock. After the rights separate from Nuance's common stock, certificates representing the rights will be mailed to record holders of Nuance common stock. Once distributed, the rights certificates alone will represent the rights.

The rights will expire upon the earlier of December 9, 2012, unless earlier redeemed or exchanged by Nuance.

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If an acquiror (which could be a person or group) obtains 15% or more of Nuance common stock, then each right will entitle the holder to purchase a number of shares of Nuance common stock having a then current market value equal to two times the exercise price.

Each right will entitle the holder to purchase a number of shares of common stock of the acquiring entity having a then current market value of twice the purchase price if an acquiror obtains, or commences a tender or exchange offer to obtain, 15% or more of Nuance common stock and any of the following occurs:

Nuance merges into another entity;

an acquiring entity merges into Nuance;

Nuance sells more than 50% in the aggregate of its assets or earning power.

Under Nuance's rights agreement, any rights that are or were owned by an acquiror or its affiliates of more than 15% of Nuance's outstanding common stock will be null and void.

Nuance's rights agreement provides that after an acquiror obtains 15% or more of Nuance's outstanding common stock, but less than 50% of Nuance's outstanding common stock, the Nuance board of directors may, at its option, exchange all or part of the then outstanding and exercisable rights (other than rights owned by the acquiror or its affiliates which have become null and void) for Nuance common stock. In such an event, the exchange ratio will be one common share per right, adjusted to reflect any stock split, stock dividend or similar transaction. In such an event, the exchange ratio is one share common stock or one one-thousandth of a preferred share per right, subject to adjustment.

At its option, the Nuance board of directors may redeem all of the outstanding rights under the Nuance rights agreement at any time on or prior to (i) the time that an acquiror obtains 15% or more of Nuance's outstanding common stock or the occurrence of certain self-dealing transactions between an acquiror and Nuance, or (2) the close of business on December 9, 2012. The redemption price under Nuance's rights agreement is \$0.001 per right. The right to exercise the rights will terminate upon the action of the Nuance board of directors ordering the redemption of the rights and the only right of the holders of the rights will be to receive the redemption price.

Until a right is exercised, holders of rights will have no rights as stockholders of Nuance, including without limitation the right to vote or receive dividends, simply by virtue of holding the rights.

The provisions of Nuance's rights agreement provide that until the rights become non-redeemable, Nuance may, except with respect to the redemption price, amend the rights agreement in any manner.

The merger between Nuance and ScanSoft will not cause the rights to become exercisable.

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**LEGAL MATTERS**

The validity of the shares of ScanSoft common stock offered by this joint proxy statement/prospectus and certain federal income tax consequences of the merger will be passed upon for ScanSoft by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California.

Fenwick & West LLP, Mountain View, California will pass upon certain federal income tax consequences of the merger for Nuance.

**EXPERTS**

The financial statements of ScanSoft, Inc. as of September 30, 2004 and for the nine months then ended, incorporated by reference into this joint proxy statement/prospectus have been so incorporated in reliance on the report of BDO Seidman, LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The financial statements of ScanSoft, Inc. as of December 31, 2003 and for the two year period ended December 31, 2003 incorporated into this joint proxy statement/prospectus by reference to the Annual Report on Form 10-K/T for the year ended September 30, 2004 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The audited historical financial statements of SpeechWorks International, Inc. filed on Form 8-K/A dated August 27, 2004 have been so incorporated in reliance on the report, which contains an explanatory paragraph relating to ScanSoft's restatement of SpeechWorks International, Inc.'s financial statements as described in Note 16 to the financial statements, of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The combined balance sheets of Philips Speech Processing Telephony and Voice Control (a division of Royal Philips Electronics N.V.) as of December 31, 2001 and September 29, 2002 and the related combined statements of operations and comprehensive loss, changes in the net investment of the Philips Group and cash flows for the year ended December 31, 2001 and the nine-month period ended September 29, 2002 filed on Form 8-K/A dated March 24, 2003 have been incorporated into this joint proxy statement/prospectus in reliance on the report of KPMG Accountants N.V., an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The audited consolidated financial statements of Rhetorical Group PLC as of and for the nine months ended September 30, 2004 and as of and for the year ended December 31, 2003 filed on Form 8-K/A dated February 18, 2005 have been incorporated into this joint proxy statement/prospectus in reliance on the report of BDO Stoy Hayward LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The audited historical financial statements of ART Advanced Recognition Technologies Inc. as of December 31, 2004 and 2003, and for each of the two years in the period ended December 31, 2004 filed on Form 8-K/A dated April 8, 2005 have been incorporated into this joint proxy statement/prospectus in reliance on the report of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The audited historical financial statements of Phonetic Systems Ltd. and its subsidiaries as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004 filed on Form 8-K/A dated April 18, 2005 have been incorporated into this joint proxy statement/prospectus in reliance on the report of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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The consolidated financial statements, the related financial statement schedules, and management's report on the effectiveness of internal control over financial reporting incorporated in this joint proxy statement/prospectus by reference from Nuance's Annual Report on Form 10-K for the year ended December 31, 2004 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

**DOCUMENTS INCORPORATED BY REFERENCE**

This joint proxy statement/prospectus incorporates documents by reference that are not included in or delivered with this document. The SEC allows ScanSoft and Nuance to incorporate by reference the information that it files with it, which means that ScanSoft and Nuance can disclose important information to you by referring you to those documents. Documents that are incorporated by reference contain important information about ScanSoft and Nuance and their finances.

All documents filed by ScanSoft and Nuance under section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date hereof and before the date of the ScanSoft special meeting of stockholders and the Nuance special meeting of stockholders are incorporated by reference into and are a part of this joint proxy statement/prospectus from the date of filing of