

RHETORICAL SYSTEMS LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2005

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RHETORICAL SYSTEMS LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2005

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RHETORICAL SYSTEMS LIMITED
OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS ·	Peter Hauser Jan Anthierens
SECRETARY:	Jan Anthierens
REGISTERED OFFICE	Saltire Court 20 Castle Terrace Edinburgh EH1 2ET
AUDITORS:	BDO Stoy Hayward LLP Connaught House Alexandra Terrace Guildford Surrey GU1 3DA
BANKERS ·	Bank of Scotland The Mound Edinburgh EH1 1YZ
SOLICITORS .	Shepherd & Wedderburn WS Saltire Court 20 Castle Terrace Edinburgh EH1 2ET
COMPANY NUMBER	SC 205735

RHETORICAL SYSTEMS LIMITED

DIRECTORS' REPORT

YEAR ENDED 30 SEPTEMBER 2005

The directors present their report and the audited financial statements for the nine month financial period ended 30 September 2005

1 ACTIVITIES

The principal activities of the company are the research, development and sale of text to speech software and the provision of related consultancy services. In October 2005 the parent undertaking decided to terminate the activities of the company and consequently for the company to cease trading. Rhetorical Systems Ltd has assigned all customer agreements by a formal deed of assignment to Nuance Communications International BVBA for a consideration value of £321,723. No decision has been made as to the future of the company post cessation of trade.

2 RESULTS, DIVIDENDS AND FUTURE PROSPECTS

The results for the period are disclosed on page 5. No dividend is proposed and the loss for the period of £ 2,065,000 (2004 loss of £999,000) has been transferred to reserves. On 6 December 2004, the Company's parent, Rhetorical Group Plc was purchased by Nuance Communications Inc (formerly Scansoft Inc), a US public software company located in Burlington, USA. Further details are contained in the accounts of Rhetorical Group Plc.

3 DIRECTORS

The present membership of the board is set out on page 1. The interest of the directors who served during the period in the shares of the company were as follows:

	Ordinary Shares Of £0.01 each 30 September 2005	Ordinary Shares Of £0.01 each 30 September 2004
MFJ Moens (Resigned 31 July 2005)	-	-
Peter Hauser (Appointed August 2005)	-	-
Anthierens Jan (Appointed 9 December 2004)	-	-
Seyen Kns (Appointed 9 December 2004, resigned 31 January 2005)	-	-
AL Robison (Resigned 6 December 2004)	-	-

The company is a wholly owned subsidiary of Rhetorical Group Plc. The interests of the directors in the shares of Rhetorical Group plc are disclosed in the accounts of that company. J Anthierens and K Seyen were appointed as directors on 9 December 2004. K Seyen resigned as director on 31 January 2005 and has been replaced by Peter Hauser.


4 AUDITORS

At the request of the Company LWC Audit Limited resigned as auditors of the group on 9 December 2004.

BDO Stoy Hayward LLP were appointed as auditors of the group on 7 January 2005 and are the current auditors of the Company's ultimate parent Nuance Communications Inc.

By Order of the Board

J Anthierens
Secretary



24 January 2007

RHETORICAL SYSTEMS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period/year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently, and
- make judgement and estimates that are reasonable and prudent, and
- prepare the final financial statements due to discontinued business operations at the date of the financial statements, and
- state whether applicable accounting standards have been followed

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To the shareholders of Rhetorical Systems Limited

We have audited the financial statements of Rhetorical Systems Limited for the year ended 30 September 2005 on pages 6 to 15 which have been prepared under the accounting policies set out on pages 8 and 9

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Rhetorical Systems Limited

Independent auditor's report (Continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

Chartered Accountants

and Registered Auditors

Guildford

Date *31 January 2007*

RHETORICAL SYSTEMS LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 30 SEPTEMBER 2005

		Year ended 30 9.2005	Period ended 30.9 2004
	Note	£ '000	£ '000
TURNOVER	3	316	580
Cost of sales		5	49
GROSS PROFIT		<u>311</u>	<u>531</u>
Administrative expenses		2,528	1,686
Other operating costs/(income)		226	(129)
OPERATING LOSS	4	<u>(2,443)</u>	<u>(1,026)</u>
Interest receivable and similar income		56	27
Exceptional item	5	322	
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(2,065)</u>	<u>(999)</u>
Taxation	7		
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	14	<u>(2,065)</u>	<u>(999)</u>

Turnover and operating loss for the period derive wholly from discontinued operations

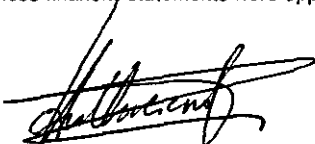
RHETORICAL SYSTEMS LIMITED

BALANCE SHEET

AT 30 SEPTEMBER 2005

	Note	30.9 2005 £ '000	30.9.2005 £ '000	30.09 2004 £ '000
FIXED ASSETS				
Intangible assets	8		4	19
Tangible assets	9		18	172
			<u>22</u>	<u>191</u>
CURRENT ASSETS				
Debtors	11	1,239		1,349
Cash at bank and in hand		41		274
		<u>1,280</u>		<u>1,623</u>
CREDITORS Amounts falling due within one year	12	7,635		6,082
NET CURRENT LIABILITIES			(6,333)	(4,459)
			<u>(6,333)</u>	<u>(4,268)</u>
CAPITAL AND RESERVES				
Called up share capital	13		1	1
Share premium account	14		199	199
Profit and loss account	13		(6,533)	(4,468)
EQUITY SHAREHOLDERS' FUNDS	15		<u>(6,333)</u>	<u>(4,268)</u>
			<u>= =</u>	<u>= -</u>

These financial statements were approved by the Directors on 24 January 2007 and signed on their behalf by


 Anthierens Jan
 Director

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2005

1 ACCOUNTING POLICIES

a) Accounting Convention

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention

b) Turnover

Turnover derives from the principal activities of the company and is stated net of Value Added Tax

Perpetual software licenses supplied are included in turnover when software has been delivered against a binding obligation on the customer. All associated support revenues are recognised over the contract period

In respect of funded development projects, turnover is recognised over the life of the project. Profit is recognised from the point at which the directors are satisfied as to the overall profitability of the project with reference to the achievement of applicable milestones included within the contract

c) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost over the estimated lives of the assets

The rates of depreciation are as follows

Leasehold Property	10% per annum straight line
Office Equipment	25% per annum straight line
Computer Equipment	33.3% per annum straight line

d) Deferred Taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2005

1 ACCOUNTING POLICIES – Continued

e) Research & Development

Research and development costs are written off in the year in which they are incurred

f) Intangible Assets

Intangible assets are capitalised and amortised in equal instalments over the directors' estimate of their useful economic life

The database licence is amortised over five years

g) Hire Purchase and Finance Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding

Operating lease rentals are charged to income in equal annual amounts over the lease term

h) Pension Costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions are charged to the profit and loss accounts as they become payable in accordance with the rule of the scheme

i) Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date

All differences are taken to the profit and loss account

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2005

2 GOING CONCERN

The accounts have been prepared on a going concern basis which assumes that continued financial support will be made available by the parent company, Rhetorical Group plc

At the date of approval of these accounts, the directors of Rhetorical Group plc have confirmed that continued support will be made available.

3 TURNOVER

Turnover is stated net of value added tax and arises wholly from the principal activities of the company within the United Kingdom

4 OPERATING LOSS

	Year ended 30 09 05 £ '000	Period ended 30.09 04 £ '000
Operating Loss is stated after charging (crediting):		
Depreciation on owned assets	155	89
Amortisation of intangible assets	15	11
Auditors' remuneration	9	16
Payments under operating leases – rent	217	116
Research and development	492	785
	-----	-----

5 EXCEPTIONAL ITEM

The exceptional item results from the sale of customer relationships in the business to Nuance Communications International BVBA

6 STAFF COSTS

The average number of persons employed by the company, including directors, during the period was as follows

	Year ended 30 09 05 No	Period ended 30 09.04 No.
Management and administration	3	6
Production	13	19
Sales	3	10
	-----	-----
	19	35
	-----	-----

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2005

6 STAFF COSTS (Continued)

The aggregate payroll costs of these persons were as follows

	Year ended 30.09.05 £ '000	Period ended 30 09 04 £ '000
Wages and salaries	945	950
Social Security	92	105
Other pension costs		
	<u>1,037</u>	<u>1,055</u>
	=	=
Directors' emoluments	£ '000	£ '000
Fees		
Other emoluments	266	180
Pension contributions		
	<u>266</u>	<u>180</u>
	=	=

The emoluments of the highest paid director (excluding pension contributions) were £231,433 (2004 £64,289)

7 TAX ON LOSS ON ORDINARY ACTIVITIES

	Year ended 30 09 05 £ '000	Period ended 30 09 04 £ '000
Tax Charge	=	=
	=	=
The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%) The differences are explained below		
Loss on ordinary activities before tax	(2,065)	(999)
Corporation Tax Standard Rate	30 0%	30 0%
Profit on ordinary activities taxed at the standard rate of corporation tax in the UK	(619)	(300)
Effects of		
Expenses not deductible for tax purposes	269	18
Depreciation in excess of capital allowances	50	26
Group relief	(42)	
Losses carried forward	342	256
Current tax charge for the year	<u>342</u>	<u>256</u>

The Company has a deferred tax asset at 30 September 2005 and 30 September 2004 as a consequence of accumulated tax losses carried forward of £4,400,000 (2004 £3,200,000) This has not been recognised at the balance sheet dates

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2005

8 INTANGIBLE FIXED ASSETS

	Database Licence £ '000
Cost	
At 1 October 2005	75
	=====
Amortisation	
At 1 January 2005	57
Charge for the period	14

At 30 September 2005	71
	=====
Net Book Value	
At 30 September 2005	4

At 30 September 2004	18

9 TANGIBLE FIXED ASSETS

	Leasehold Property £ '000	Computer Equipment £ '000	Office Equipment £ '000	Total £ '000
Cost				
At 30 September 2004	139	416	118	673
Additions		1		1
	-----	-----	-----	-----
At 30 September 2005	139	417	118	674
	=====	=====	-----	-----
Depreciation				
At 30 September 2004	41	371	89	501
Charge for the period	98	30	27	155
	-----	-----	-----	-----
At 30 September 2005	139	401	116	656
	=====	=====	-----	-----
Net Book Value				
At 30 September 2005	0	16	2	18
	=====	-----	-----	-----
At 30 September 2004	98	45	29	172
	-----	-----	-----	-----

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2005

10 INVESTMENTS

Rhetorical Systems Limited holds the entire issued share capital of Rhetorical Trustees Limited and Rhetorical Inc. Rhetorical Trustees Limited holds shares in Rhetorical Group plc in trust for the benefit of the employees of Rhetorical Systems Limited. The investment of £1 in Rhetorical Trustees Limited, a company registered in Scotland, is held at no value in the accounts. Rhetorical Inc markets and sells Rhetorical products and services throughout North America. The investment of \$10 in Rhetorical Inc, a company registered in the United States, is held at no value in the accounts.

11 DEBTORS

	30.09.2005 £ '000	30.09.2004 £ '000
Trade debtors	9	111
Sundry debtors	248	196
Amounts due by related parties	981	999
Prepayments and accrued income	1	43
	-----	-----
	1,239	1,349
	= -	= = =

12 CREDITORS Amounts falling due within one year

	30.09.2005 £ '000	30.09.2004 £ '000
Trade creditors	15	122
Accruals and deferred income	762	120
Other taxes and social security costs	8	33
Amounts due to related parties	6,850	5,802
Other creditors	-	5
	-----	-----
	7,635	6,082
	- = -	- = - = -

13 CALLED UP SHARE CAPITAL

	30.09.2005 £ '000	30.09.2004 £ '000
Authorised		
102,000 Ordinary shares of £0.01 each	1	1
	= -	= - = -
Allotted called up and fully paid		
102,000 Ordinary shares of £0.01 each	1	1
	-----	-----

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2005

14 RESERVES

	Share Premium Account £ '000	Profit & Loss Account £ '000	Total £ '000
At 30 September 2004	199	(4,468)	(4,269)
Movement in the period		(2,065)	(2,065)
At 30 September 2005	199	(6,533)	(6,334)
	= ==	= ==	= =

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	30.09.2005 £ '000	30.09.2004 £ '000
Loss for the financial period/year	(2,065)	(999)
Opening shareholders' funds	(4,268)	(3,269)
Closing shareholders' funds	(6,333)	(4,268)
	= -	= =

16 OPERATING LEASE COMMITMENTS

At 30 September 2005, the group was committed, under a non-cancellable operating lease expiring after more than five years, to lease property at a current annual rental of £165,000 (2004 £165,000). In February 2006, a renunciation agreement was agreed upon with the landlord. In order to cancel the operating lease a buy-out lump sum amounting to £590,000 has been paid and it has been accrued for at year end 30 September 2005 together with the rent paid over the remaining period after September 05 until February 2006.

17 RELATED PARTY TRANSACTIONS

In preparing these accounts, the company has taken advantage of exemption contained within Financial Reporting Standard 8 (Related Party Transactions) from the requirement to disclose transactions with other group companies.

18 CONTROLLING PARTY

The controlling party is Rhetorical Group plc, which holds 100% of the ordinary shares.

19 RHETORICAL GROUP EMPLOYEE BENEFIT TRUST

At 30 September 2005 the Rhetorical Group Employee Benefit Trust holds no more ordinary shares of Rhetorical Group plc. As at 30 September 2004 the Rhetorical Group Employee Benefit Trust was the holder of 1,114,802 ordinary shares of £0.05 in Rhetorical Group plc. On 6 December 2004 all of these shares were transferred to employees of Rhetorical Systems Limited and non-executive directors of Rhetorical Group plc, who exercised all their options at an exercise price of £0.05 to Rhetorical Group plc, and the employees subsequently sold all of the shares to ScanSoft Inc. at a value of £0.1979 per share.

20 SUBSEQUENT EVENT

After September 2005 the company employed no more employees and ceased trading.

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2005

21 IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The company is a wholly owned subsidiary of Rhetorical Group Plc, a company incorporated in Scotland, United Kingdom

The ultimate parent company undertaking is Nuance Communications, Inc (formerly Scansoft, Inc) a company incorporated in the United States of America

The group accounts of Nuance Communications, Inc can be obtained from Nuance Communications, Inc ,
1 Wayside Road, Burlington, MA 01803 ,USA