

ScanSoft, Inc.  
Condensed Consolidated Balance Sheet  
(Unaudited, in thousands)

Assets	September 30, 2004	December 31, 2003
Current assets:		
Cash and cash equivalents	\$ 22,930	\$ 42,584
Marketable Securities	7,373	-
Accounts receivable, net	36,850	40,271
Receivable from related party	-	2,133
Prepaid expenses and other current assets	6,673	9,691
Total current assets	73,826	94,679
Goodwill, net	246,424	243,266
Long term marketable securities	17,355	-
Other intangible assets, net	43,898	54,286
Property and equipment, net	7,985	6,977
Other assets	4,330	2,732
Total assets	\$ 393,818	\$ 401,940
Liabilities and stockholders' equity		
Current liabilities:		
Short term note payable	\$ 457	\$ 904
Accounts payable and accrued expenses	28,816	28,596
Deferred revenue	10,842	13,672
Other current liabilities	6,427	7,202
Total current liabilities	46,542	50,374
Long term portion of deferred revenue	147	490
Long term note payable	27,700	27,859
Other long term liabilities	17,478	19,991
Total liabilities	91,867	98,714
Stockholders' equity:	301,951	303,226
Total liabilities and stockholders' equity	\$ 393,818	\$ 401,940

**Final**

ScanSoft, Inc.  
Reconciliation of Supplemental Financial Information  
(in 000's, except per share amounts)  
Unaudited

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
<b>Non-GAAP Financial Measures:</b>				
<b>GAAP Operating Margin Percentages</b>	-12.6%	-12.7%	-5.9%	-7.8%
Plus:				
Cost of revenue from amortization of intangible assets	6.6%	8.4%	6.4%	8.5%
Amortization of other intangible assets	1.6%	2.0%	1.5%	1.6%
Restructuring and other charges	0.0%	5.2%	0.6%	3.5%
Stock based compensation	1.1%	0.3%	1.0%	0.2%
Costs associated with SpeechWorks restatement	3.1%	0.0%	1.0%	0.0%
Redundant costs associated with change in Independent Accountants	0.9%	0.0%	0.3%	0.0%
<b>Non-GAAP operating margin</b>	<u>0.7%</u>	<u>3.1%</u>	<u>4.9%</u>	<u>5.8%</u>
<b>GAAP Selling, general and administrative Expenses</b>				
Selling, general and administrative	\$ 23,558	\$ 15,624	\$ 66,857	\$ 42,702
Less:				
Costs associated with SpeechWorks restatement	(1,321)	-	(1,321)	-
Redundant costs associated with change in Independent Accountants	(400)	-	(400)	-
<b>Non-GAAP selling, general and administrative expenses</b>	<u>\$ 21,837</u>	<u>\$ 15,624</u>	<u>\$ 65,136</u>	<u>\$ 42,702</u>

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	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<b>Non-GAAP Financial Measures:</b>				
<b>GAAP Gross Margin Percentages</b>				
Cost of revenue from amortization of intangible assets	65.7%	71.1%	68.1%	73.9%
<b>Non-GAAP gross margin</b>	<u>6.6%</u>	<u>8.4%</u>	<u>6.4%</u>	<u>8.5%</u>
	<u>72.3%</u>	<u>79.5%</u>	<u>74.5%</u>	<u>82.4%</u>
<b>GAAP Gross Margin</b>				
Product revenue	\$ 30,322	\$ 29,167	\$ 98,117	\$ 84,246
Service revenue	11,997	3,783	33,104	4,283
Total revenue	<u>\$ 42,319</u>	<u>\$ 32,950</u>	<u>\$ 131,221</u>	<u>\$ 88,529</u>
Less:				
Cost of product licenses	3,615	3,387	10,633	9,573
Cost of professional services	8,078	3,381	22,743	6,070
Cost of revenue from amortization of intangible assets	<u>2,810</u>	<u>2,752</u>	<u>8,431</u>	<u>7,481</u>
GAAP gross margin	27,816	23,430	89,414	65,405
Less:				
Cost of revenue from amortization of intangible assets	2,810	2,752	8,431	7,481
<b>Non-GAAP gross margin</b>	<u>\$ 30,626</u>	<u>\$ 26,182</u>	<u>\$ 97,845</u>	<u>\$ 72,886</u>
<b>GAAP net loss</b>				
	\$ (5,948)	\$ (3,731)	\$ (9,172)	\$ (6,848)
Cost of revenue from amortization of intangible assets	2,810	2,752	8,431	7,481
Amortization of other intangible assets	664	662	1,967	1,446
Restructuring and other charges	-	1,719	801	3,065
Stock based compensation	451	104	1,301	155
Costs associated with SpeechWorks restatement	1,321	-	1,321	-
Redundant costs associated with change in Independent Accountants	400	-	400	-
<b>Non-GAAP net income (loss)</b>	<u>\$ (302)</u>	<u>\$ 1,506</u>	<u>\$ 5,049</u>	<u>\$ 5,299</u>
Non-GAAP net income (loss) basic:	<u>\$ (0.00)</u>	<u>\$ 0.02</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>
Non-GAAP net income (loss) diluted:	<u>\$ (0.00)</u>	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.06</u>
Shares used in computing non-gaap net income (loss) per share:				
Weighted average common shares: basic	<u>104,604</u>	<u>87,256</u>	<u>105,161</u>	<u>74,848</u>
Weighted average common and common equivalent shares: diluted	<u>104,604</u>	<u>98,050</u>	<u>114,406</u>	<u>85,570</u>

**DRAFT NOT FOR RELEASE**

ScanSoft, Inc.  
 Supplemental Condensed Consolidated Statements of Operations  
 (in 000's, except per share amounts)  
 Unaudited

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Product licenses	\$ 30,322	\$ 29,167	\$ 98,117	\$ 84,246
Professional services	11,997	3,783	33,104	4,283
Total revenue	<u>42,319</u>	<u>32,950</u>	<u>131,221</u>	<u>88,529</u>
Costs and expenses:				
Cost of product licenses	3,615	3,387	10,633	9,573
Cost of professional services	8,078	3,381	22,743	6,070
Research and development	8,491	9,543	26,321	25,070
Selling, general and administrative	21,837	15,624	65,136	42,702
Total costs and expenses	<u>42,021</u>	<u>31,935</u>	<u>124,833</u>	<u>83,415</u>
Income from operations	298	1,015	6,388	5,114
Other income (expense), net	<u>(251)</u>	<u>248</u>	<u>(6)</u>	<u>658</u>
Income before income taxes	47	1,263	6,382	5,772
Provision for income taxes	<u>349</u>	<u>(243)</u>	<u>1,333</u>	<u>473</u>
Net income (loss)	<u>\$ (302)</u>	<u>\$ 1,506</u>	<u>\$ 5,049</u>	<u>\$ 5,299</u>
Net income (loss) per share: basic	<u>\$ (0.00)</u>	<u>\$ 0.02</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>
Net income (loss) per share: diluted	<u>\$ (0.00)</u>	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.06</u>
Weighted average common shares: basic	<u>104,604</u>	<u>87,256</u>	<u>105,161</u>	<u>74,848</u>
Weighted average common and common equivalent shares: diluted	<u>104,604</u>	<u>98,050</u>	<u>114,406</u>	<u>85,570</u>

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	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Product licenses	\$ 30,322	\$ 29,167	\$ 98,117	\$ 84,246
Professional services	11,997	3,783	33,104	4,283
Total revenue	<u>42,319</u>	<u>32,950</u>	<u>131,221</u>	<u>88,529</u>
Costs and expenses:				
Cost of product licenses	3,615	3,387	10,633	9,573
Cost of professional services	8,078	3,381	22,743	6,070
Cost of revenue from amortization of intangible assets	2,810	2,752	8,431	7,481
Research and development	8,491	9,543	26,321	25,070
Selling, general and administrative	23,558	15,624	66,857	42,702
Stock based compensation	451	104	1,301	155
Amortization of other intangible assets	664	662	1,967	1,446
Restructuring and other charges	-	1,719	801	3,065
Total costs and expenses	<u>47,667</u>	<u>37,172</u>	<u>139,054</u>	<u>95,562</u>
Income (loss) from operations	(5,348)	(4,222)	(7,833)	(7,033)
Other income (expense), net	<u>(251)</u>	<u>248</u>	<u>(6)</u>	<u>658</u>
Income (loss) before income taxes	(5,599)	(3,974)	(7,839)	(6,375)
Provision for income taxes	<u>349</u>	<u>(243)</u>	<u>1,333</u>	<u>473</u>
Net loss	<u>\$ (5,948)</u>	<u>\$ (3,731)</u>	<u>\$ (9,172)</u>	<u>\$ (6,848)</u>
Net loss per share: basic	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>
Net loss per share: diluted	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>
Weighted average common shares: basic	<u>104,604</u>	<u>83,694</u>	<u>101,599</u>	<u>71,286</u>
Weighted average common shares: diluted	<u>104,604</u>	<u>83,694</u>	<u>101,599</u>	<u>71,286</u>

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**GAAP: First Quarter 2005**  
**Net Income Per Share Guidance**

	Three months ended December 31, 2004	
	Low	High
<b>Total revenue</b>	\$ 53,000	\$ 56,000
<b>GAAP net income (loss), per share</b>	\$ -	\$ 0.02
Cost of revenue from amortization of intangible assets, per share	\$ 0.02	\$ 0.02
Amortization of intangible assets, per share	\$ 0.01	\$ 0.01
Stock based compensation	\$ 0.01	\$ 0.01
Restructuring and other charges, per share	\$ 0.01	\$ 0.01
 Non-GAAP net income (loss)	<u>\$ 0.05</u>	<u>\$ 0.07</u>
 Shares used in computing non-gaap net income (los) per share:		
 Weighted average common shares: basic	<u>120,600</u>	<u>120,600</u>
 Weighted average common and common equivalent shares: diluted	<u>120,600</u>	<u>120,600</u>