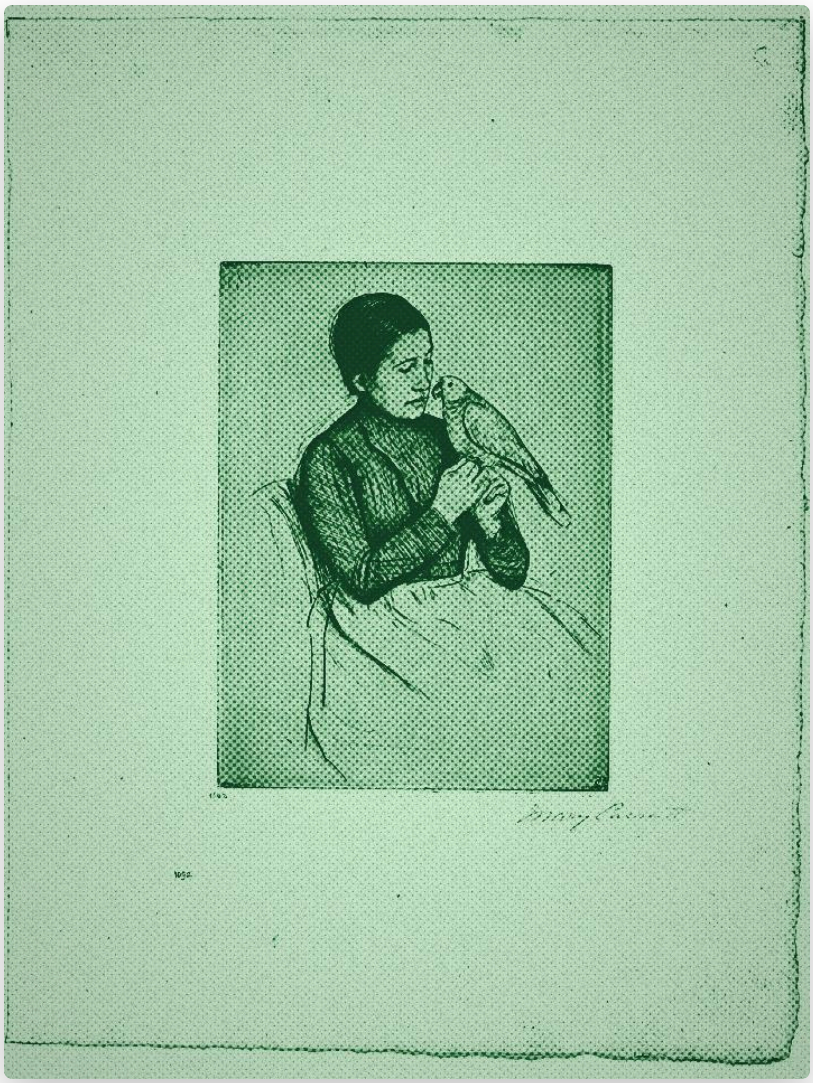
FORM S-1 · REGISTRATION STATEMENT

Speechworks International Inc

IPO priced 2000-08-01 · $20.00 a share · SPWX



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 19, 2000 REGISTRATION NO. 333- SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

SPEECHWORKS INTERNATIONAL, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	8731	04-3239151
(State or other jurisdiction of Incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

SPEECHWORKS INTERNATIONAL, INC. 695 ATLANTIC AVENUE BOSTON, MASSACHUSETTS 02111 (617) 428-4444 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) STUART R. PATTERSON CHIEF EXECUTIVE OFFICER SPEECHWORKS INTERNATIONAL, INC. 695 ATLANTIC AVENUE BOSTON, MASSACHUSETTS 02111 (617) 428-4444 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

Copies to:

Steven P. Rosenthal, Esq.	John A. Burgess, Esq.
Michael L. Fantozzi, Esq.	William S. Gehrke, Esq.
Mintz, Levin, Cohn, Ferris,	Hale and Dorr LLP
Glovsky and Popeo, P.C.	60 State Street
One Financial Center	Boston, MA 02109
Boston, MA 02111	(617) 526-6000
(617) 542-6000	

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE. IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE BEING OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX. [ ] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. [ ]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
COMMON STOCK, $0.001 PAR VALUE PER SHARE	$86,250,000	$22,770

(1) ESTIMATED SOLELY FOR THE PURPOSE OF CALCULATING THE REGISTRATION FEE IN ACCORDANCE WITH RULE 457(O) UNDER THE SECURITIES ACT.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

+++
+The information in this prospectus is not complete and may be changed. We may +
+not sell these securities until the registration statement filed with the   +
+Securities and Exchange Commission is effective. This prospectus is not an   +
+offer to sell these securities and we are not soliciting an offer to buy   +
+these securities in any state where the offer or sale is not permitted.   +
+++

SUBJECT TO COMPLETION DATED , 2000

PROSPECTUS

SHARES

[SPEECHWORKS LOGO]

COMMON STOCK

This is an initial public offering of common stock by SpeechWorks International, Inc. SpeechWorks is selling shares of common stock. The estimated initial public offering price will be between $ and $ per share.

PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR OUR COMMON STOCK. WE HAVE APPLIED TO HAVE OUR COMMON STOCK APPROVED FOR QUOTATION ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL SPWX.

	PER SHARE	TOTAL
Initial public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to SpeechWorks, before expenses	$	$

SPEECHWORKS HAS GRANTED THE UNDERWRITERS AN OPTION FOR A PERIOD OF 30 DAYS TO PURCHASE UP TO ADDITIONAL SHARES OF COMMON STOCK.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 5.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CHASE H&Q J.P. MORGAN & CO.

U.S. BANCORP PIPER JAFFRAY , 2000 THERE WILL BE A CENTER GRAPHIC, WHICH IS A MONTAGE OF IMAGES OF PEOPLE SPEAKING ON TELEPHONES. THE TAGLINE ABOVE THE IMAGE STATES: YOUR CUSTOMERS WILL THANK YOU.

EXTENDING OUT FROM THE GRAPHIC--ABOVE AND TO THE SIDES--ARE EIGHT STRAIGHT LINES, EACH OF WHICH POINT TO TEXT ABOUT OUR CORPORATE CAPABILITIES. THE TEXT ITEMS READ:

. INTERNATIONAL CENTERS OF EXCELLENCE . USER INTERFACE DESIGN AND HUMAN FACTORS TEAMS . SADL--PROVEN PROCESS FOR APPLICATION DEVELOPMENT . SPEECHSITE PACKAGE . SPEECHWORKS SOLUTION FOR CUSTOM APPLICATIONS . SMARTRECOGNIZER ENGINE FOR CONTINUING ACCURACY IMPROVEMENTS . EASY-TO-USE DIALOGMODULES AND APPLICATION TUNING TOOLS . SPEECHWORKS HERE FOR PARTNERS AND CUSTOMERS EXTENDING OUT FROM THE GRAPHIC--BELOW--ARE THREE LINES THAT POINT TO TEXT ABOUT THE TYPE OF APPLICATIONS WE PROVIDE. UNDERNEATH THAT TEXT ARE SAMPLE DIALOGUES FROM APPLICATIONS ENABLED BY SPEECHWORKS TECHNOLOGY. THE TEXT IS AS FOLLOWS:

TO COMMUNICATE APPLICATION: "SAY THE NAME OF THE PERSON OR DEPARTMENT YOU WANT TO REACH, OR SAY "COMPANY INFORMATION.' " CALLER: "SALES."

TO INFORM APPLICATION: "WOULD YOU LIKE ARRIVAL OR DEPARTURE INFORMATION FOR THAT FLIGHT?" CALLER: "ARRIVAL." APPLICATION: "FLIGHT 207 IS SCHEDULED TO ARRIVE ON TIME AT 4:05 P.M. IN SAN DIEGO."

TO TRANSACT APPLICATION: "CITIGROUP, SYMBOL C, AS OF 10AM, BID 62 1/2..." [BARGE-IN] CALLER: "ORDER THIS." APPLICATION: "FOR CITIGROUP, SYMBOL C, WOULD YOU LIKE TO BUY OR SELL?" CALLER: "BUY 200 SHARES AT A LIMIT OF 62 AND 7/8, GOOD 'TIL CANCELLED." APPLICATION: "TO CONFIRM, IN YOUR ACCOUNT NUMBER 123456789, YOU REQUESTED AN ORDER TO BUY 200 SHARES OF CITIGROUP AT A LIMIT PRICE OF 62 AND 7/8, THIS IS A CASH TRANSACTION AND IT IS GOOD 'TIL CANCELLED." CALLER: "YES."

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SpeechWorks is a registered trademark, and SpeechSite, SpeechWorks Here, DialogModules, SMARTRecognizer, SpeechCare, SpeechSpot and the SpeechWorks logo are trademarks of SpeechWorks International, Inc. This prospectus also contains other trademarks, tradenames and service marks of other companies, which are the property of their respective owners.

Prospectus Summary

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all the information you should consider before investing in our common stock. You should read the entire prospectus carefully, including "Risk Factors" beginning on page 5 and our consolidated financial statements and related notes beginning on page F-1, before making an investment decision.

SpeechWorks

SpeechWorks is a leading provider of software products and professional services that enable enterprises and communications carriers to offer automated, speech-activated services over any telephone. With our speech recognition solutions, consumers can direct their own calls, obtain information and conduct transactions automatically, simply by speaking naturally over any telephone,

anytime. Our e-business solutions are designed to help businesses build sustainable customer relationships over the telephone, provide improved and cost-effective customer service systems, increase the returns on their internet-related investments and capitalize on a variety of new business opportunities.

We currently offer two speech recognition solutions for over-the-telephone applications, the SpeechWorks 6 platform and our recently introduced SpeechSite package. SpeechWorks 6 is a comprehensive set of software tools and core speech recognition technologies that can be used to build state-of-the-art, speech- activated services. With our SpeechWorks 6 platform, companies can quickly design and deploy speech-activated applications, in multiple languages, that enable their customers to buy travel tickets, trade mutual funds, get health care referrals, update account records, send messages and conduct a myriad of other transactions that extend web-based e-business to any telephone.

SpeechSite, which is based on the SpeechWorks 6 platform, is a packaged application that brings the web model of self-service to the telephone. SpeechSite answers and directs telephone calls, delivers company information and provides fax back services. Like a website, SpeechSite can link to other services and deliver various types of information services to callers. However, SpeechSite uses a spoken interface rather than a visual browser.

We complement our products with a professional services organization that offers a range of services including application development and project management. We have designed these services to shorten time-to-market, reduce project implementation risk and improve our clients' competitive position. We believe that our ability to successfully deliver an integrated solution to our clients that includes both software and professional services provides us with a significant competitive advantage.

Enterprises are building speech-activated services with our products that will automate and enhance customer service by making it easier for customers to retrieve information and conduct transactions without waiting on hold or speaking to an agent. Examples of phrases that can be understood by applications enabled by our software are: "What is my checking account balance?" and "Buy 100 shares of General Electric at the market price." These services can improve the caller's experience and save expensive customer service representative providers.

Communication carriers and their partners are building speech-activated services with our products that we believe have the potential to change the way people use the telephone for network services. Applications have been built, and enabled by our software, that can understand phrases such as "Call Mike Phillips at home," and "Forward this message to Bill O'Farrell." In addition, a new class of service providers, known as voice or speech portals, is using our software to build applications that can understand phrases such as: "What is the weather in Paris?" and "What was the score of the Red Sox game today?" These services can differentiate one carrier's service offering from another and increase the ability of carriers to attract and retain users.

Since shipping our first products in 1996, we have received numerous awards for our product capabilities and our industry leadership, including Industry Week's Technology of the Year Award and Frost & Sullivan's Market Strategy Leadership Award. To date, we have licensed SpeechWorks software to more than 150 clients worldwide in a variety of industries including retail, financial services,

pharmaceuticals, telecommunications, technology, distribution and travel. Our clients include Amtrak, Apple Computer, BellSouth IntelliVentures, CellularOne, Continental Airlines, DLJ Direct, E*TRADE, MapQuest.com, MCI WorldCom, McKessonHBOC, NetByTel.com, Nortel Networks, Quack.com, SingTel Mobile, United Airlines and Universal Electronics.

Our goal is to become the leading global provider of speech-activated solutions for e-business. The key elements of our strategy are to:

.maintain our leadership position in the market for speech-enabled e- business solutions, .extend our technology lead, . leverage our professional services capabilities to accelerate acceptance of our speech-activated solutions, .expand our international presence, .expand our sales channels to drive market penetration, and .build awareness of our brand.

Our principal executive offices are located at 695 Atlantic Avenue, Boston, Massachusetts 02111. Our telephone number is 617-428-4444. Our primary web site is located at www.speechworks.com. The information contained on this web site is not a part of this prospectus. We were incorporated in Massachusetts in May 1994 and reincorporated in Delaware in August 1995.

The Offering

Common stock offered by SpeechWorks..... shares Common stock to be outstanding after this offering..... shares Use of proceeds..... Primarily for general corporate purposes, including working capital, marketing, capital expenditures and potential strategic acquisitions or investments. See "Use of Proceeds." Proposed Nasdaq National Market symbol..... SPWX The share amounts in this table are based on shares outstanding as of April 14, 2000. This table excludes:

. 9,798,633 shares of common stock reserved for issuance under our stock option plans of which 4,699,315 shares are issuable upon exercise of stock options outstanding as of April 14, 2000 with a weighted average exercise price of $1.76 per share, . 807,237 shares of common stock reserved for issuance upon the exercise of warrants outstanding as of April 14, 2000 with a weighted average exercise price of $2.02 per share, and . shares of common stock reserved for issuance under our employee stock purchase plan.

Unless otherwise indicated, all information in this prospectus:

. reflects the automatic conversion of all of our outstanding convertible preferred stock into 16,415,158 shares of common stock upon the closing of this offering, .reflects a three-for-two stock split of shares of our common stock effected on January 5, 2000, . assumes the filing of our restated certificate of incorporation and the adoption of our amended and restated bylaws, each as contemplated to be in effect as of the closing of this offering, and .assumes no exercise of the underwriters' over-allotment option.

Summary Consolidated Financial Data The table below sets forth summary financial data for the periods indicated. It is important that you read this information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated

financial statements and related notes for the years ended December 31, 1997, 1998 and 1999 beginning on page F-1. The pro forma basic and diluted net loss per common share reflects the assumed conversion of all outstanding convertible preferred stock into common stock upon completion of this offering as if such conversion occurred on January 1, 1999 or, if later, the date of original issue.

Year Ended December 31, 1997 1998 1999 (in thousands, except per share data) Consolidated Statement of Operations Data: Total revenue..... $2,042 $5,850 $14,011 Gross profit..... 1,220 2,926 5,880 Loss from operations..... (2,880) (5,979) (15,739) Net loss..... (2,520) (5,760) (15,463) Net loss attributable to common stockholders..... (3,053) (6,549) (17,367) Basic and diluted net loss per common share..... $(0.83) $(1.44) $ (3.28) Shares used in computing basic and diluted net loss per common share..... 3,696 4,537 5,298 Pro forma basic and diluted net loss per common share..... $ (0.87) Shares used in computing pro forma basic and net loss per common share..... 17,686 The pro forma balance sheet data give effect to the issuance of 2,544,681 shares of series E convertible preferred stock on April 11, 2000 for net proceeds of $19.9 million and the conversion upon the completion of this offering of all of our outstanding convertible preferred stock into a total of 16,415,158 shares of common stock. The pro forma as adjusted balance sheet data further adjust the pro forma data to give effect to the sale by us in this offering of shares of common stock at an assumed initial offering price of $ per share (the mid-point of the range set forth on the cover page of this prospectus) which, after deducting the underwriting discounts and commissions and estimated offering expenses, results in net proceeds to us of $ million.

	December 31, 1999		
	Actual	Pro Forma	Pro Forma As Adjusted
	(in thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents.....	$11,474	$31,404	$
Working capital.....	12,133	32,063	
Total assets.....	20,566	40,496	
Long-term debt, less current portion.....	833	833	833
Redeemable convertible preferred stock.....	43,507	--	--
Total stockholders' equity (deficit).....	(28,248)	35,189	

Risk Factors

You should consider carefully the risks described below and all other information contained in this prospectus before making an investment decision. If any of the following risks, as well as other risks and uncertainties that are not yet identified or that we currently think are immaterial, actually occur, our business could be adversely affected. In that event, the trading price of our common stock could decline, and you may lose part or all of your investment.

Risks Related To Our Business We have a history of losses and anticipate future losses.

We have accumulated losses of $29.3 million since our inception in May 1994 through December 31, 1999 and we expect to incur net losses for the foreseeable future. Net losses were $5.8 million for the year ended December 31, 1998 and $15.5 million for the year ended December 31, 1999. We anticipate continuing to incur significant sales and marketing, research and development and general and administrative expenses and, as a result, we will need to generate higher revenues to achieve and sustain profitability. We cannot be certain we will realize sufficient revenues to achieve profitability. Moreover, if we were to achieve profitability, we may not be able to sustain or increase our profitability on a quarterly or annual basis. In addition, any additional financing that we may require in the future may not be available at all or, if available, may be on terms unfavorable to us. Any additional financing may dilute your ownership interest in SpeechWorks.

We expect our quarterly revenues and operating results to fluctuate. If our quarterly operating results fail to meet the expectations of financial analysts and investors, the trading price of our common stock may decline.

Our revenues and operating results are likely to vary significantly from quarter to quarter. A number of factors are likely to cause these variations, including:

. the timing of sales of our products and services, particularly in light of our dependence on a relatively small number of large orders, . the timing of product implementations, particularly large client design projects, . unexpected delays in introducing new products and services, . increased expenses, whether related to sales and marketing, product development or administration, . deferral of recognition of our revenue in accordance with applicable accounting principles due to the time required to complete projects, . the mix of product license and services revenue, . the mix of domestic and international sales, and . costs related to possible acquisitions of technology or businesses.

For example, in 1999 our quarterly revenues and operating results were affected by delays in several large orders and services projects and the timing of orders for resold hardware and facilities management services, which are provided only on an as-requested basis, and accordingly are relatively difficult to predict.

Therefore, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. Investors should not rely on the results of any one quarter as an indication of our future performance. Because of the volatility of our quarterly results and the difficulty in predicting our future performance, our operating results may fall below the expectations of analysts or investors.

We plan to increase our operating expenses to expand our sales and marketing operations, develop new distribution channels, fund greater levels of research and development, broaden professional services and support and improve operational and financial systems. If our revenues do not increase along with these expenses, our business could be adversely affected and net losses in a given quarter would be greater than expected.

Our business is dependent on the continued use and growth of speech-activated solutions for e-business.

Our business would be adversely affected if use of speech-activated, e- business solutions does not continue to develop, or develops more slowly than we expect. Our market is relatively new and rapidly evolving. Our future success depends on the acceptance by current and future clients and their customers of speech-activated services as an integral part of their businesses. The size of our market will depend in part on consumer acceptance of automated speech systems and the actual and perceived quality of these systems. The adoption of speech-activated services could be hindered by the perceived costs of this new technology, as well as the reluctance of enterprises that have invested substantial resources in existing call centers, touch-tone-based systems or internet-based e-business infrastructures to replace or enhance their current systems with this new technology. Accordingly, in order to achieve commercial acceptance, we will have to educate prospective clients, including large, established telecommunications companies, about the uses and benefits of speech-activated services in general and our products in particular. If these efforts fail, or if speech-activated software platforms do not achieve commercial acceptance, our business could be harmed. In addition, the continued development of new and evolving wireless technologies using a visual web browser interface could adversely affect the demand for speech- activated services.

We currently rely on a limited number of large orders for substantially all of our revenues. The loss of one or more potential clients could adversely affect our business.

Due to the nature of our business, in any quarter we are dependent upon a limited number of orders that are relatively large in relation to our overall revenues. Our products and services require significant expenditures by our clients and typically involve lengthy sales cycles. We may spend significant time and incur substantial expenses educating and providing information to prospective clients. Any failure to complete a sale to a prospective client during a quarter could result in revenues and operating results for the quarter that are lower than expected.

In addition, as a result of the significant time required to deliver or perform a client order, we may be unable to recognize revenue related to a client order until well after we receive the order. Our dependence on large client orders and the delay in recognizing revenue relating to these orders make it difficult to forecast quarterly operating results. This could cause our stock price to be volatile or to decline.

We must respond to rapid technological advances.

Our success will depend, in part, on our ability to keep pace with:

. rapidly changing technology, . evolving industry standards and practices, . frequent new service and product introductions and enhancements, and . changing client requirements and preferences.

Any delay or failure on our part in responding quickly, cost-effectively and sufficiently to these developments could render our existing products and services obsolete and have an adverse effect on our business. We may have to incur substantial expenditures to modify or adapt our products and services to respond to technological changes. We must stay abreast of cutting-edge technological developments and evolving service offerings to remain competitive, increase the utility of our services

and attract and retain qualified employees. We must be able to incorporate new technologies into the speech-activated e-business solutions we design and develop to address the increasingly complex and varied needs of our client base.

We have potential liability to clients who are dissatisfied with our services.

We design, develop and implement complex speech-activated e-business solutions that are crucial to the operation of our clients' businesses. Defects in the solutions we develop could result in delayed or lost revenue, adverse client reaction and negative publicity about us or our products and services or require expensive corrections, any of which could have an adverse effect on our business. Also, due to the developing nature of speech recognition technology, speech-recognition products are not currently and may never be accurate in every instance. In addition, third party technology that is included in our products could contain errors or defects. Clients who are not satisfied with our products or services, could bring claims against us for substantial damages, which, even if unsuccessful, would likely be time consuming and could result in costly litigation and payment of damages.

Our current and potential competitors, some of whom have greater resources and experience than we do, may offer products and services 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 and services that compete with our products and services. Competitors in the speech-activated, e-business solutions market include IBM, Lernout and Hauspie Speech Products, Locus Dialogue, Lucent Technologies, Nuance Communications, Philips Electronics and Phonetic Systems. We expect additional competition from other companies such as Microsoft, which recently acquired a voice interface technology company. Furthermore, our competitors may combine with each other, and other companies may enter our markets by acquiring or entering into strategic relationships with our competitors. Current and potential competitors 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 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 or larger client bases than we do. Our present or future competitors may be able to develop products and services comparable or superior to those we offer, adapt more quickly than we do to new technologies, evolving industry trends and standards or client requirements, or devote greater resources to the development, promotion and sale of their products and services than we do. Accordingly, we may not be able to compete effectively in our markets, competition may intensify and future competition may harm our business.

If the standards we have selected to support are not adopted as the standards for speech-activated software, businesses might not use our speech-activated software platform for delivery of applications and services.

The market for speech-activated services software is new and emerging and industry standards have not yet been established. We may not be competitive unless our products support changing industry standards. 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 clients and potential clients may not purchase our products. Multiple standards in the marketplace could also make it difficult for us to design our products to support all applicable standards, which could in turn result in decreased sales of our products.

Our international operations and expansion involve financial and operational risk.

Our international sales represented 2.6% of our revenue in 1999. We have recently expanded our direct and indirect international sales force and expect international revenues to increase. We are subject to a variety of risks associated with conducting business internationally, any of which could harm our business. These risks include:

. difficulties and costs of staffing and managing foreign operations, . difficulties in establishing and maintaining an effective international reseller network, . the burden of complying with a wide variety of foreign laws, particularly with respect to intellectual property and license requirements, . 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 foreign countries, . potential adverse tax consequences, including higher marginal rates, . unfavorable fluctuations in currency exchange rates, and . limited ability to enforce agreements, intellectual property rights and other rights in some foreign countries.

We have limited experience in international operations and international product and service sales, and there can be no assurance we will be successful in growing our international business.

In order to increase our international sales, we must develop localized versions of our products. If we are unable to do so, we may be unable to grow our revenue and execute our business strategy.

We intend to expand our international sales, which requires us to invest significant resources to create and refine different recognition models for each particular language or dialect. These recognition models are required to create versions of our products that allow end users to speak the local language or dialect and be understood. If we fail to develop localized versions of our products, our ability to address international market opportunities and to grow our business will be limited. In addition, we are required to invest resources to develop these versions of our products in advance of the receipt of revenues. We may be unable to recognize revenues sufficient to render these products profitable.

We may have difficulties successfully managing our growth, which may reduce our chances of achieving profitability.

From December 31, 1998 to April 14, 2000, our number of employees increased from 86 to 216. We intend to continue to expand our business operations significantly in the future. We will need to expand our management, operational, financial and human resources, as well as management

information systems and controls, to support our anticipated future growth. If we are not able to manage our growth successfully, we will not grow as planned and our business could be adversely affected.

Our inability to guarantee protection of our intellectual property rights or maintain our rights to use licensed intellectual property could adversely affect our business.

We believe our success depends, in part, on protecting our internally developed technologies and other intellectual property which we seek to protect through a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality, assignment of rights to inventions, and/or license agreements with our employees, consultants and corporate or strategic partners. These legal protections afford only limited protection and may be time- consuming and expensive to obtain and maintain. Further, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property. The inability to guarantee protection of our intellectual property in a meaningful manner could have an adverse effect on our business.

Our products may infringe the intellectual property rights of others, and resulting claims against us could be costly and require us to enter into disadvantageous license or royalty arrangements.

Currently, in the software industry there are frequent assertions of patent infringement by owners of patents, and assertions of other violations of intellectual property rights such as trademarks, copyrights, and trade secrets. In addition, there are a large number of patents in the speech recognition area. Despite our efforts to avoid patent infringement or other violations of the intellectual property rights of others, we may be subjected to allegations of patent infringement or other violations of intellectual property rights, including trademarks, copyrights, and trade secrets. These allegations can be costly to defend, even if lacking in merit and even if successfully defended, in both money and human resources. Such allegations may also result in costly damage awards or injunctions inhibiting or preventing us from selling our products or services.

We are dependent upon technology we license from others. Any inability to maintain these licenses could have a material adverse effect on our business.

Some of the technology included in or operating in conjunction with our products is licensed by us from others. If for any reason these license agreements terminate, we may be required to seek alternative vendors and may be unable to obtain similar technology on favorable terms or at all. If we are unable to obtain alternative license agreements, we could be required to modify some features of our products. Any of these occurrences could have an adverse effect on our business.

We rely on resellers and original equipment manufacturers for a portion of our sales. The loss of one or more significant resellers or original equipment manufacturers could limit our ability to sustain and grow our revenues.

In 1999, 14.3% of our sales were attributable to our resellers and original equipment manufacturers, or OEMs, especially InterVoice-BRITE which accounted for 10.9% of our sales in 1999. We intend to increase our sales through resellers in the future. As a result, we are in part dependent upon the

continued success and viability of our resellers and OEMs, as well as their continued interest in selling our products. The loss of a key reseller or OEM or our failure to develop and sustain new reseller and OEM relationships could limit our ability to sustain and grow our revenues.

Our contracts with our resellers and OEMs generally do not require them to purchase our products. Our resellers and OEMs are independent companies over which we have limited control. Our resellers and OEMs could cease to market our products or devote significant resources to the sale of our products. Any failure of our resellers or OEMs to successfully market and sell our products could result in revenues that are lower than anticipated. In addition, our resellers and OEMs possess confidential information concerning our products and operations. Although we have nondisclosure agreements with our resellers and OEMs, a reseller or OEM could use our confidential information in competition with us, which could adversely affect our competitive position and revenues.

We may not be able to hire and retain the personnel we need to sustain our business.

We rely upon the continued service and performance of a relatively small number of senior management and key technical personnel. Our future success depends on our retention of these key employees, such as Stuart R. Patterson, our President and Chief Executive Officer, and Michael S. Phillips, our Chief Technology Officer and our co-founder. We do not have key person life insurance policies covering any of our employees. The loss of services of any of our executive officers or key personnel could have an adverse effect on our business.

We need to attract and retain managerial and highly-skilled technical personnel for whom there is intense competition. If we are unable to attract and retain managerial and qualified technical personnel, our results of operations could suffer and we may never achieve profitability.

Our financial success depends to a large degree on the ability of our direct sales force to increase sales. Therefore, our ability to increase revenue in the future depends considerably upon our success in recruiting, training and retaining additional direct sales personnel and the success of the direct sales force. Also, it may take a new salesperson a number of months before he or she becomes a productive member of our direct sales force. Our business will be harmed if we fail to hire or retain qualified sales personnel, or if newly hired salespeople fail to develop the necessary sales skills or develop these skills more slowly than we anticipate.

Risks Related To This Offering Our share price is likely to be highly volatile and could drop unexpectedly.

Following this offering, the price for our common stock could be highly volatile and subject to wide fluctuations in response to the following factors:

. quarterly variations in our operating results due to prolonged sales cycles, project delays and deviations between actual and expected sales, . announcements of technical innovations, new products or services by us or our competitors, . changes in investor perception of us or the market for our products and services, . changes in financial estimates by securities analysts, and . changes in general economic and market conditions.

The stocks of many technology companies have experienced significant fluctuations in trading price and volume. Often these fluctuations have been unrelated to operating performance. Declines in the market price of our common stock could also adversely affect employee morale and retention, our access to capital and other aspects of our business.

If our share price is volatile, we may become subject to securities litigation, which is expensive and could divert our resources.

In the past, following periods of market volatility in the price of a company's securities, security holders have instituted class action litigation. Many companies in the software industry have been subject to this type of litigation. If the market value of our common stock experiences adverse fluctuations, and we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs and our management's attention could be diverted, causing our business to suffer.

No public market has existed for our common stock and an active trading market may not develop or be sustained.

Before this offering, there has been no public market for our common stock. We cannot assure you that an active trading market will develop or be sustained after this offering. You may not be able to resell your shares at or above the initial public offering price. The initial public offering price will be determined through negotiations between the underwriters and us and may not be indicative of the market price for our common stock after this offering.

The sale of a substantial number of shares of our common stock after this offering may affect our share price.

The market price of our common stock could decline as a result of sales of substantial amounts of common stock in the public market after the closing of this offering or the perception that substantial sales could occur. These sales also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

After this offering, we will have shares of common stock outstanding. Of these shares:

. shares will be eligible for immediate sale in the public market, . shares will be eligible for sale upon the expiration of lock-up agreements beginning 180 days after the date of this offering, and . shares, and shares subject to outstanding options and warrants, will be eligible for sale in the public market at various time upon the satisfaction of applicable vesting provisions or Rule 144 holding period requirements.

Investors will incur immediate dilution and may experience further dilution.

If you purchase shares of common stock in this offering, you will experience immediate and substantial dilution of $ in pro forma net tangible book value per share based on our book value as of December 31, 1999 and an assumed initial public offering price of $ per share. We also have a large number of stock options and warrants to purchase common stock outstanding with exercise prices significantly

below the initial public offering price of the common stock. To the extent these options and warrants are exercised, there will be further dilution. We intend to continue to grant stock options to our employees as part of our general compensation practices.

Our executive officers, directors and principal stockholders control us and may make decisions that you do not consider to be in your best interest.

Immediately after this offering, our executive officers, directors and principal stockholders will, in the aggregate, hold approximately % of our outstanding common stock. Accordingly, these stockholders will be able to control us through their ability to determine the outcome of the election of our directors, amend our certificate of incorporation and bylaws and take other actions requiring the vote or consent of stockholders, including mergers, going private transactions and other extraordinary transactions and the terms of any of these transactions. The ownership position of these stockholders may have the effect of delaying, deterring or preventing a change in control or a change in the composition of our board of directors.

Our charter and bylaws and Delaware law contain provisions that may delay or prevent a change of control.

Provisions of our charter and bylaws may make it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of the Company. 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, . prohibitions on our stockholders from 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 10,000,000 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 our stockholders. The issuance of preferred stock, while providing flexibility in connection with possible financings or acquisitions or for 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.

Upon completion of this offering, we will be subject to the antitakeover 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 intend to opt out of the provisions of Section 203.

We may use the proceeds from this offering in ways with which you may not agree.

We have significant flexibility in applying the proceeds we receive in this offering. We are not required to allocate the proceeds we receive in this offering to any specific investment or transaction. Therefore, you must rely on our management's judgment with only limited information about its specific

intentions regarding the use of proceeds.

We do not intend to pay dividends on our common stock.

We currently intend to retain any future earnings for funding growth and do not anticipate paying any dividends in the foreseeable future. Therefore, you will need to sell shares in order to realize a return on your investment, if any. The payment of dividends may be limited by financing agreements that we may enter into in the future.

Forward-looking Statements

This prospectus contains forward-looking statements. These forward-looking statements are not historical facts but rather are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and variations of these words and similar expressions, are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ significantly from those expressed, implied or forecasted in the forward-looking statements. These risks and uncertainties include, among others, those described in "Risk Factors" and elsewhere in this prospectus. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this prospectus. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Use of Proceeds

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    We estimate that we will receive net proceeds of $   million from the sale
of the shares of common stock in this offering, assuming an initial public
offering price of $   per share (the mid-point of the range set forth on the
cover page of this prospectus) and after deducting estimated underwriting
discounts and commissions and estimated offering expenses. If the underwriters
exercise their over-allotment option in full, we estimate that our net proceeds
will be $   million.
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We expect to use the net proceeds for general corporate purposes, including working capital, marketing, advertising and capital expenditures. A portion of the net proceeds may also be used to acquire or invest in businesses or technologies that are complementary to our business. However, we have not targeted any particular technology or business for acquisition. We have no current agreements or commitments nor are we negotiating with any other party with respect to any acquisitions or investments. Our management will have broad discretion concerning the use of the net proceeds of the offering. Pending these uses, we intend to invest the net proceeds of this offering in investment-grade, interest-bearing securities.

Dividend Policy

We have not paid any cash dividends in the past and do not intend to pay cash dividends on our common stock for the foreseeable future. Instead, we intend to retain all earnings for use in the operation and expansion of our business. The payment of dividends may be limited by financing agreements that we may enter into in the future.

Capitalization

The following table sets forth our capitalization as of December 31, 1999:

. on an actual basis, . on a pro forma basis to give effect to the issuance of 2,544,681 shares of our series E convertible preferred stock on April 11, 2000 for net proceeds of $19.9 million, the automatic conversion of all of our outstanding convertible preferred stock into a total of 16,415,158 shares of common stock upon the completion of this offering, and the filing of our restated certificate of incorporation in connection with the effectiveness of this offering increasing our authorized shares of common stock to 100,000,000 and preferred stock to 10,000,000 shares, and . on a pro forma as adjusted basis to further adjust the pro forma information to give effect to the sale by us in this offering of shares of common stock at an assumed initial public offering price of $ per share (the mid-point of the range set forth on the cover page of this prospectus), after deducting the underwriting discounts and commissions and estimated offering expenses, and the application of the net proceeds from this offering.

This information should be read in conjunction with our consolidated financial statements and the related notes to those statements included in this prospectus.

December 31, 1999 Pro Forma Actual Pro Forma As Adjusted (in thousands, except share amounts) Cash and cash equivalents..... $ 11,474 $ 31,404 $ Current portion of notes payable and capital lease obligations..... $ 683 $ 683 $ 683 Notes payable, net of current portion..... $ 833 $ 833 $ 833 Redeemable convertible preferred stock, $0.001 par value: Series E; no shares authorized, issued and outstanding--actual, pro forma and pro forma as adjusted..... -- -- -- Series D; 2,800,000 shares authorized, 2,671,389 shares issued and outstanding--actual; no shares authorized, issued and outstanding--pro forma and pro forma as adjusted..... 24,761 -- -- Series C; 1,626,092 shares authorized, issued and outstanding--actual; no shares authorized, issued and outstanding--pro forma and pro forma as adjusted..... 7,560 -- -- Series B; 2,474,500 shares authorized, issued and outstanding--actual; no shares authorized, issued and outstanding--pro forma and pro forma as adjusted..... 8,073 -- -- Series A; 2,475,000 shares authorized, issued and outstanding--actual; no shares authorized, issued and outstanding--pro forma and pro forma as adjusted..... 3,113 -- -- Total redeemable convertible preferred stock..... 43,507 -- -- Stockholders equity (deficit): Preferred stock, $0.001 par value; no shares authorized, issued or outstanding--actual; 10,000,000 shares authorized, no shares issued and outstanding--pro forma and pro forma as adjusted..... -- -- -- Common stock, $0.001 par value; 22,000,000, 100,000,000 and 100,000,000 shares authorized--actual, pro forma and pro forma as adjusted, respectively; 5,584,775, 21,999,933 and shares issued and

outstanding--actual, pro forma and pro forma as adjusted, respectively;..... 6 19 Additional paid-in capital..... 5,978 69,402 Deferred stock compensation..... (4,905) (4,905) (4,905) Accumulated deficit..... (29,327) (29,327) (29,327) Total stockholders' equity (deficit)..... (28,248) 35,189 Total capitalization..... $ 16,092 $ 36,022 $ The preceding capitalization table excludes:

. 9,798,633 shares of common stock reserved for issuance under our stock option plans of which 4,836,202 shares are issuable upon exercise of stock options outstanding as of December 31, 1999 with a weighted average exercise price of $1.51 per share, . 248,799 shares of common stock, net of cancellations, subject to stock options granted after December 31, 1999 with a weighted average exercise price of $3.52, . 807,237 shares of common stock reserved for issuance upon the exercise of warrants outstanding as of December 31, 1999 with a weighted average exercise price of $2.02 per share, and . shares of common stock reserved for issuance under our employee stock purchase plan.

Dilution

Our pro forma net tangible book value as of December 31, 1999 was $35.2 million, or $1.60 per share of common stock. Pro forma net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by the number of outstanding shares of common stock, after giving effect to the sale of our series E convertible preferred stock in April 2000 and the automatic conversion of all of our convertible preferred stock into common stock upon completion of this offering. Assuming the sale by us of shares of common stock in this offering at an assumed public offering price of $ per share, after deducting the estimated underwriting discounts and commissions and the estimated expenses relating to this offering, our pro forma net tangible book value as of December 31, 1999 would have been $, or $ per share of common stock. This represents an immediate increase in pro forma net tangible book value of $ per share to our existing stockholders and an immediate dilution in pro forma net tangible book value of $ per share to new investors purchasing shares in this offering. The following table illustrates the per share dilution:

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share as of December 31, 1999..... $1.60 Increase attributable to new investors..... Pro forma net tangible book value per share after this offering Dilution per share to new investors..... $ If the underwriters exercise their option to purchase additional shares in the offering the pro forma net tangible book value per share offer the offering would be $ per share, the increase in pro forma net tangible book value per share to existing stockholders would be $ per share and the dilution to new investors purchasing shares in this offering would be $ per share.

The following table summarizes as of December 31, 1999, on the pro forma basis described above the total number of shares of common stock purchased from us, the total consideration paid to us and the average consideration paid per share by existing stockholders and by new investors purchasing shares in this offering before deducting estimated underwriting discounts and commissions and related offering expenses:

Shares Purchased Total Consideration Average ---------- ---------- Price Per Number Percent Amount Percent Share

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    Existing stockholders... 21,999,933      %  $60,591,000      %    $2.75
    New investors...........
      Total.................              100%  $             100%
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The share amounts in the tables above are based on shares outstanding as of December 31, 1999. The tables exclude:

. 9,798,633 shares of common stock reserved for issuance under our stock option plans, of which 4,836,202 shares were subject to outstanding options at December 31, 1999 with a weighted average exercise price of $1.51 per share, . 248,799 shares of common stock, net of cancellations, subject to stock options granted after December 31, 1999 with a weighted average exercise price of $3.52, . 807,237 shares of common stock issuable upon exercise of outstanding warrants with a weighted average exercise price of $2.02 per share, and . shares of common stock reserved for issuance under our employee stock purchase plan.

Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this prospectus. The consolidated statement of operations data for the years ended December 31, 1997, 1998 and 1999 and the consolidated balance sheet data as of December 31, 1998 and 1999 have been derived from our audited consolidated financial statements appearing elsewhere in this prospectus. The consolidated statement of operations data for the years ended December 31, 1995 and 1996 and the consolidated balance sheet data as of December 31, 1995, 1996 and 1997 are derived from our audited consolidated financial statements not included in this prospectus. There is no difference between historical basic and diluted net loss per common share since potential shares of common stock from the conversion of preferred stock and the exercise of options and warrants are anti-dilutive for all periods presented. The pro forma basic and diluted net loss into per common share reflects the automatic conversion of all our outstanding convertible preferred stock into common stock upon completion of this offering as if converted on January 1, 1999 or, if later, the date of original issue.

Year Ended December 31, 1995 1996 1997 1998 1999 (in thousands, except per share data)

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Consolidated Statement of
 Operations Data:
Revenue:
   Product license.............    $  325  $   542  $   949  $  1,567  $   3,680
   Professional services......        65      172      982     2,873      5,944
   Other revenue..............        13      137      111     1,410      4,387
     Total revenue............       403      851    2,042     5,850     14,011
Cost of revenue:
   Cost of product licenses...       212      166       54        52        153
   Cost of professional
   services...................        65      218      678     1,982      4,991
   Cost of other revenue......        13       65       90       890      2,987
```

Total cost of revenue....	290	449	822	2,924	8,131
Gross profit.....	113	402	1,220	2,926	5,880
Operating expenses:					
Selling and marketing.....	72	387	1,074	3,867	9,254
Research and development...	275	942	1,969	1,881	5,164
General and administrative.....	263	507	1,057	3,157	6,693
Stock compensation.....	--	--	--	--	508
Total operating expenses.....	610	1,836	4,100	8,905	21,619
Loss from operations.....	(497)	(1,434)	(2,880)	(5,979)	(15,739)
Interest and other income (expense), net.....	37	99	360	219	276
Net loss.....	(460)	(1,335)	(2,520)	(5,760)	(15,463)
Accretion on redeemable convertible preferred stockholders.....	(203)	(532)	(533)	(789)	(1,904)
Net loss attributable to common stock holders.....	$ (663)	$(1,867)	$(3,053)	$ (6,549)	$ (17,367)
Basic and diluted net loss per common share.....	$(0.18)	$ (0.51)	$ (0.83)	$ (1.44)	$ (3.28)
Shares used in computing basic and diluted net loss per common share.....	3,612	3,695	3,696	4,537	5,298
Pro forma basic and diluted net loss per common share (unaudited).....					$ (0.87)
Shares used in computing pro forma basic and diluted net loss per common share (unaudited).....					17,686

December 31, 1995 1996 1997 1998 1999 (in thousands)

Consolidated Balance Sheet Data:					
Cash and cash equivalents.....	$ 717	$ 1,008	$ 426	$ 4,486	$ 11,474
Working capital.....	1,702	4,897	4,764	5,156	12,133
Total assets.....	2,000	5,786	6,437	9,162	20,566
Long-term debt, net of current portion.....	--	199	414	161	833
Redeemable convertible preferred stock.....	2,173	6,942	9,974	17,749	43,507
Total stockholders' equity (deficit).....	(315)	(1,881)	(4,948)	(11,457)	(28,248)

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with our consolidated financial statements and the related notes that are included in this prospectus.

Overview

SpeechWorks is a leading provider of software products and professional services that enable enterprises and communications carriers to offer automated, speech-activated services over any telephone. We currently offer two speech recognition solutions for over-the-telephone applications,

SpeechWorks 6 and our recently introduced SpeechSite. We complement our products with a professional services organization that offers a range of services including application development and project management.

Revenue. We derive our revenue from three sources. We sell product licenses, either directly to clients or through third-party distribution channels. To support the sale, installation and operation of our products, we also provide professional services, consisting of developing custom software applications, user interface design consulting, training and maintenance and technical support. We resell hardware products made by third parties, including products such as voice-processing equipment that run our software, as well as facilities management services that are provided by third-party call-centers. We expect the resale component of our total revenues to decrease as a percentage of our total revenues over time. We only resell hardware or facilities management services when clients expressly request that we do so and therefore, such revenue is considered other revenue.

We recognize revenue from the licensing of software in three ways, provided that no significant obligations remain, evidence of the arrangement exists, the fees are fixed or determinable, and collectibility is probable:

. When we license our software and do not provide any professional services, we recognize the license revenue when we ship the software to the client provided that no significant obligations remain.

. When original equipment manufacturers, or OEM's, license our software, we receive a royalty. We recognize the revenue from these royalties upon delivery to the third party when such information is available, or when we are notified by the OEM of the sale.

. When we license software in connection with custom software applications developed by us, we recognize the revenue over the life of the development project, concurrent with the related services fees as described below.

We recognize the revenue from professional services in three ways, provided that evidence of the arrangement exists, the fees are fixed or determinable and collectibility is probable. When we provide professional services for a fixed fee, we recognize revenue from the fees for such services and any related software licenses as we complete the project using the percentage of completion method. We determine the percentage of the project that we have completed by comparing the labor hours we have incurred to date to our estimate of the total labor hours required to complete the project. When we provide services on a time and materials basis, we recognize revenue as we perform the services. When we provide support and maintenance services, we recognize the revenue ratably over the term of the related contracts, typically one year.

When we resell hardware, we recognize the revenue when we deliver the hardware. We recognize the revenue from resold facilities management services in the period that the services are provided.

We market our products and services primarily in North America, Europe, and AsiaPacific. We sell our products and professional services to our clients through our direct sales force, value-added resellers and OEMs. We currently have relationships with 36 value-added resellers and OEMs. We are aggressively expanding both our direct sales force and our reseller and OEM relationships. Sales to our

resellers and OEMs accounted for 9.7% of our total revenue for 1998 and 14.3% of our total revenue for 1999. We expect that revenue derived from sales to resellers and OEMs will continue to increase as a percentage of our total revenue for the foreseeable future as we focus on and expand our distribution channels.

In 1999, United Airlines represented 33.7% of our total revenue and InterVoice-BRITE represented 10.9% of our total revenue.

We began selling our products and services to clients outside the United States in 1999, and these sales accounted for 2.6% of our total revenue for 1999. We expect the portion of our total revenue derived from sales to clients outside the United States to increase as we expand our international sales efforts and distribution channels.

Cost of revenue. Our cost of revenue consists of the cost of our product licenses, cost of professional services and cost of resold hardware and services. Cost of product licenses consists of a royalty that we pay to Massachusetts Institute of Technology, or MIT, that is equal to a percentage of our product license revenue. This percentage was 3.3% in 1998 and 4.2% in 1999. Our license with MIT provides that the royalty decreases to 1% of our product license revenue once our cumulative product license revenue exceeds $6 million. Cost of professional services revenue consists of our direct labor and related benefits costs, taxes and project-specific travel expenses. Cost of resold hardware and facilities management services consists of the cost of third-party hardware which we resell and payments to the third-party providers of outsourced facilities management services.

Operating expenses. Our selling and marketing expenses consist primarily of compensation and related expenses, sales commissions and travel expenses, along with other marketing expenses, including advertising, trade shows, public relations, direct mail campaigns, seminars and other promotional expenses. Our research and development expenses consist primarily of compensation and related expenses for our personnel and, to a lesser extent, independent contractors, who work on new products, enhancements to existing products and the implementation of our products in new languages. Our general and administrative expenses consist primarily of compensation for our administrative, financial and information technology personnel, occupancy and overhead expense, and company-wide professional fees, including recruiting, legal and accounting fees, as well as bad debts. Our stock compensation expenses result from noncash charges for options issued with exercise prices that are less than the fair market value of our common stock on the date of grant.

Interest and other income (expense), net. We receive interest income by investing the proceeds that we raised in our prior equity financings. Interest expense is generated primarily from amounts we owe under our line of credit and capital lease lines of credit.

Income taxes. Due to our operating losses, we have recorded no provision or benefit for income taxes for any period since our inception. As of December 31, 1999, we had $23.4 million of net operating loss carryforwards for federal income tax purposes, which expire beginning in 2011. Our use of these net operating losses may be limited in future periods.

Results Of Operations The following table sets forth consolidated financial data for the periods indicated as a percentage of our total revenue.

Year Ended December 31, 1997 1998 1999

Revenue:			
Product licenses	47%	27%	27%
Professional services	48	49	42
Other revenue	5	24	31
Total revenue	100%	100%	100%
Cost of revenue:			
Cost of product licenses	3%	1%	1%
Cost of professional services	33	34	36
Cost of other revenue	4	15	21
Total cost of revenue	40	50	58
Gross profit	60	50	42
Operating expenses:			
Selling and marketing	53	66	66
Research and development	96	32	37
General and administrative	52	54	48
Stock compensation	0	0	3
Total operating expenses	201	152	154
Loss from operations	(141)	(102)	(112)
Interest and other income (expense), net	18	4	2
Net loss	(123)%	(98)%	(110)%

Comparison of Years Ended December 31, 1997, 1998 and 1999 Total revenue. Our total revenue increased by 186.5% from $2.0 million in 1997 to $5.9 million in 1998 and increased 139.5% to $14.0 million in 1999. Revenue from international sales commenced in 1999 with total revenue of $362,000. We had no revenue from international sales prior to 1999.

Revenue from product licenses. Revenue from the sale of software licenses increased 65.1% from $949,000 in 1997 to $1.57 million in 1998 and increased 134.8% to $3.7 million in 1999. This growth in software revenue from 1997 to 1999 resulted from increased sales volume reflecting growing market acceptance of our solutions, our expanded sales and marketing efforts and the improved productivity of our distribution channels, primarily OEMs. We expect that revenue from product licenses will represent more than 50% of our total revenue by 2002.

Revenue from professional services. Revenue from fees we receive for professional services increased 192.6% from $982,000 in 1997 to $2.9 million in 1998 and increased 106.9% to $5.9 million in 1999. The growth in revenue from professional services resulted primarily from the increased demand for custom speech applications from existing and new clients over these years.

Other revenue. Other revenue accounted for 5.4% of total revenue in 1997, 24.1% of total revenue in 1998 and 31.3% of total revenue in 1999. The increase in other revenue resulted primarily from several clients which requested that we also provide the hardware to host our software products sold to them. We anticipate that resold hardware and facilities management revenue will decline significantly as a percentage of total revenue in the future.

Cost of product licenses revenue. Cost of product licenses revenue decreased 3.7% from $54,000 in 1997 to $52,000 in 1998 and increased 194.2% to $153,000 in 1999. This cost represented 5.7% of product license revenue in 1997, 3.3% in 1998 and 4.2% in 1999. The decrease in amount from 1997

to 1998 resulted from a reduction in the MIT royalty percentage based on achieving the first milestone of cumulative product license sales. The increase from 1998 to 1999 resulted from increased product license sales. Also, in 1999, cost of product licenses revenue included a $60,000 payment to a client as a royalty for our resale of an application originally developed for that client.

Cost of professional services revenue. Cost of professional services revenue increased 192.3% from $678,000 in 1997 to $2.0 million in 1998 and increased 151.8% to $5.0 million in 1999. The increases from 1997 to 1999 are due primarily to the hiring of additional project managers, developers, user interface designers, speech scientists and technical support staff to expand our professional services organization. This cost represented 69.0% of professional services revenue in 1997, 69.0% in 1998 and 84.0% in 1999. The higher cost of professional services as a percent of related revenue in 1999 reflects costs associated with significant hiring in anticipation of revenue growth in late 1999 and 2000 and client delays on several large fixed-fee projects.

Cost of other revenue. Cost of resold hardware and resold facilities management services increased 888.9% from $90,000 in 1997 to $890,000 in 1998 and increased 235.6% to $3.0 million in 1999. The cost of other revenue as a percent of other revenue decreased from 81.1% in 1997 to 63.1% in 1998, reflecting our increased reseller's discount at higher volume levels, and increased to 68.1% in 1999, reflecting the weighted average impact of lower margin on resold facilities management services being sold to one client under a special arrangement.

Total operating expenses. Our total operating expenses increased 117.2% from $4.1 million in 1997 to $8.9 million in 1998 and increased 142.8% to $21.6 million in 1999. These increases occurred in all categories of operating expense over the three-year period as we grew our organization. These investments included the addition of 50 employees in 1998 and 112 employees in 1999. As a percentage of total revenue, our operating expenses were 200.8% in 1997, 152.2% in 1998 and 154.3% in 1999.

Selling and marketing expenses. Selling and marketing expenses increased 260.1% from $1.1 million in 1997 to $3.9 million in 1998 and increased 139.3% to $9.3 million in 1999. The increases in selling and marketing expenses from 1997 to 1999 resulted primarily from our investment in sales and marketing personnel. This investment included additional North American field sales offices in 1997, 1998 and 1999. During this period, the number of sales representatives in North America increased from two to 16. In addition, the costs associated with time spent by engineers on technical sales support is reflected as a selling expense, and such time has increased steadily with increased sales. The increase in selling and marketing expenses also reflects increased marketing activities, including advertisements, tradeshows, public relations activities and educational seminars during these years.

Research and development expenses. Research and development expenses decreased by 4.5% from $2.0 million in 1997 to $1.9 million in 1998 and increased 174.5% to $5.2 million in 1999. The modest decrease in research and development expenses from 1997 to 1998 reflected the temporary movement of engineering resources into professional services to deliver client projects. The increase from 1998 to 1999 was driven by the increased hiring of software developers, quality assurance and testing personnel and speech scientists to develop and enhance our products.

General and administrative expenses. General and administrative expenses increased 198.7% from $1.1 million in 1997 to $3.2 million in 1998 and increased 112.0% to $6.7 million in 1999. The increases from 1997 to 1999 were primarily due to additional infrastructure necessary to support our growing operations in the United States and internationally, as well as the addition of senior level management to lead our growth and increased recruiting costs.

Stock compensation. In connection with the grant of stock options during the year ended December 31, 1999, we recorded deferred stock compensation charges of $5.4 million. Stock compensation charges represent the difference between the deemed fair value for financial reporting purposes of our common stock on the date of grant and the exercise price of options granted to employees to acquire our common stock during this period, multiplied by the number of option shares. We expect to record additional deferred stock compensation charges of approximately $ million during 2000. Deferred stock compensation is amortized to expense ratably over the vesting period of the options granted, which is typically four years. During 1999, we recorded amortization of deferred stock compensation of $508,000. No deferred stock compensation was recorded during the years ended December 31, 1997 and 1998. We will continue to amortize the deferred stock compensation over the next four years as options granted at below the deemed fair value of our common stock continue to vest. We expect the amortization of deferred stock compensation to be approximately $ million per year through 2002 and decreasing thereafter through 2004.

Interest and other income (expense), net. Interest income was $349,000 in 1997, $299,000 in 1998 and $549,000 in 1999. Interest expense was $49,000 in 1997, $72,000 in 1998 and $113,000 in 1999. The decrease in interest income from 1997 to 1998 was the result of decreasing cash balances due to cash being used to fund operations. The increase in interest income from 1998 to 1999 is a result of net increasing cash balances, due to the preferred stock financing raised in early 1999, partially offset by cash being used to fund operations. The increase in interest expense is primarily due to increases in debt payable under our line of credit and capital equipment leases. Other expenses include other non-operating costs.

Quarterly Results of Operations The following table sets forth unaudited quarterly consolidated statement of operations data for each of the eight quarters in the period ended December 31, 1999. In the opinion of management, the unaudited interim financial results include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of our results of operations for those periods. The quarterly data should be read in conjunction with the consolidated financial statements and related notes thereto appearing elsewhere in this prospectus. The results of operations for any quarter are not necessarily indicative of the results of operations for any future period.

Three Months Ended Mar. 31, June 30, Sept. 30, Dec. 31, Mar. 31, June 30, Sept. 30, Dec. 31, 1998 1998 1998 1998 1999 1999 1999 1999 (in thousands)

Revenue:								
Product licenses.....	$ 132	$ 678	$ 407	$ 350	$ 341	$ 1,053	$ 733	$ 1,553
Professional services.....	434	692	626	1,121	1,099	1,637	1,303	1,905
Other revenue.....	24	7	9	1,370	1,850	1,114	522	

901								
Total revenue.....	590	1,377	1,042	2,841	3,290	3,804	2,558	4,359
Cost of revenue:								
Cost of product licenses....	6	26	20	--	9	32	19	93
Cost of professional services.....	382	406	555	639	974	1,265	1,312	1,440
Cost of other revenue.....	(2)	3	2	887	1,239	814	215	719
Total cost of revenue.....	386	435	577	1,526	2,222	2,111	1,546	2,252
Gross profit.....	204	942	465	1,315	1,068	1,693	1,012	2,107
Operating expenses:								
Selling and marketing.....	549	675	1,088	1,555	1,547	2,135	1,913	3,659
Research and development....	408	422	520	531	898	965	1,447	1,854
General and administrative..	431	544	942	1,240	1,086	1,338	1,504	2,765
Stock compensation.....	--	--	--	--	12	42	129	325
Total operating expenses.....	1,388	1,641	2,550	3,326	3,543	4,480	4,993	8,603
Loss from operations.....	(1,184)	(699)	(2,085)	(2,011)	(2,475)	(2,787)	(3,981)	(6,496)
Interest and other income (expense), net.....	37	60	79	43	15	107	193	(39)
Net loss.....	$(1,147)	$(639)	$(2,006)	$(1,968)	$(2,460)	$(2,680)	$(3,788)	$(6,535)

Three Months Ended Mar. 31, June 30, Sept. 30, Dec. 31, Mar. 31, June 30, Sept. 30, Dec. 31, 1998 1998 1998 1998 1999 1999 1999 1999 (as a percentage of total revenue)

Revenue:								
Product licenses.....	22%	49%	39%	12%	10%	28%	29%	36%
Professional services.....	74	50	60	40	34	43	51	44
Other revenue.....	4	1	1	48	56	29	20	20
Total revenue.....	100%	100%	100%	100%	100%	100%	100%	100%
Cost of revenue:								
Cost of product licenses.....	1%	2%	2%	--%	--%	1%	1%	2%
Cost of professional services.....	64	30	53	23	30	33	51	33
Cost of other revenue.....	--	--	--	31	38	21	8	17
Total cost of revenue...	65	32	55	54	68	55	60	52
Gross profit.....	35	68	45	46	32	45	40	48
Operating expenses:								
Selling and marketing.....	93	49	105	55	47	56	75	84
Research and development.....	69	31	50	19	28	26	57	43
General and administrative.....	73	39	90	44	33	35	59	63
Stock compensation....	--	--	--	--	--	1	5	7
Total operating expenses.....	235	119	245	118	108	118	196	197
Loss from operations....	(200)	(51)	(200)	(72)	(76)	(73)	(156)	(149)

Interest and other income (expense, net)	6	4	8	2	--	3	8	(1)
Net loss	(194)%	(47)%	(192)%	(70)%	(76)%	(70)%	(148)%	(150)%

Our revenue and operating results are difficult to forecast and will fluctuate. We believe that period-to-period results will not necessarily be meaningful. As a result, you should not rely on them as an indication of our future performance.

Product license revenue. Our revenue from product licenses has fluctuated from quarter to quarter. The variability in product license revenue in the past has been driven primarily by large orders from resellers, OEM's, or follow-on orders from existing clients which are unpredictable. We expect this variability to continue for the foreseeable future.

Professional services revenue. Our professional services revenue has fluctuated from quarter to quarter primarily as a result of the uneven nature of project-oriented work.

Other Revenue. Our other revenue has fluctuated from quarter to quarter. Since reselling hardware and facilities management services is only done at the request of customers, it is difficult to predict when such orders will be received.

Cost of Product Licenses. Cost of product license revenue has fluctuated from quarter to quarter with product license revenues. In addition to changes due solely to the amount of product license revenue, the percentage of product license revenue due to MIT in the form of royalties has decreased over time. Our license with MIT provides that the royalty decreases to 1% of our product license revenues once our cumulative product license revenues exceed $6 million. We expect to reach this cumulative milestone in 2000.

Cost of professional services. Cost of professional services revenue has generally increased steadily quarter to quarter during the last eight quarters, mainly due to the addition of new employees devoted to professional services. We expect professional services revenue to continue to fluctuate for the foreseeable future.

Cost of other revenue. Cost of other revenue has fluctuated from quarter to quarter with other revenue. As the percentage of our business represented by resales decreases in the future, this source of variability should be reduced.

Operating expenses. Our total operating expenses have increased in each of the last eight quarters. We have increased our spending in every functional area of the organization as we have steadily added employees in our services organization, research and development, sales, marketing, and administration. We anticipate that our operating expenses will increase for the foreseeable future as we continue to invest in our sales and marketing efforts to build market and brand awareness, enlarge our North American and international client base, invest in research and development critical to maintaining our technological leadership, and expand our administrative infrastructure to support our growth. Our investments in these activities could significantly precede any revenue generated by the increased spending. If we do not experience significantly increased revenue from these efforts, our business could be adversely affected.

Liquidity and Capital Resources Since 1995, we have funded our operations primarily through the private placement of convertible preferred stock totaling $40.0 million through December 31, 1999, and to a lesser extent, through bank borrowings and capital equipment lease financing. As of December 31, 1999, we had cash and cash equivalents of $11.5 million and $1.3 million available under our revolving line of credit. Our operating activities resulted in net cash outflows of $2.3 million in 1997, $6.4 million in 1998 and $14.6 million in 1999. The operating cash outflows for these periods resulted primarily from our significant investment in research and development, sales and marketing and infrastructure.

To date, our investing activities have consisted primarily of purchases and maturities of short-term investments and capital expenditures for property and equipment, including $479,000 of capital expenditures in 1997, $926,000 in 1998 and $3.1 million in 1999. The significant increase in our capital expenditures in 1999 was the result of building our infrastructure and expanding operations into new locations in the United States, Canada, Singapore, the United Kingdom and Mexico. These capital expenditures have consisted primarily of computer hardware, software and furniture and fixtures for our growing employee base. We anticipate that investment in capital equipment will continue, though not at the rate of increase seen between 1998 and 1999. Total investing activities used cash of $1.1 million in 1997, generated net cash of $3.7 million in 1998, and used cash of $3.5 million in 1999.

At December 31, 1999, we had $1.3 million available under our revolving line of credit. The revolving line of credit terminated on March 31, 2000. We are currently negotiating to extend the term of our revolving line of credit to March 31, 2001 and to increase the amount available under the line to $2 million.

We had an equipment line of credit which we converted into a term loan in the amount of $1.5 million. The term loan bears interest at an annual rate of prime plus 0.75% (8.50% at December 31, 1999), and principal and interest under the term loan are payable in 36 monthly installments through September 2002.

Our financing activities generated cash of $2.9 million, $6.7 million, and $25.0 million in 1997, 1998 and 1999, respectively. Of these financing activities, the issuance of convertible preferred stock and common stock generated net proceeds of $2.5 million, $6.9 million, and $23.8 million in the same respective years. We had proceeds from bank borrowing of $0, $0, and $1.5 million during the same respective years. Repayment of bank borrowings and capital leases during the same periods was $126,000, $222,000 and $398,000, respectively.

On April 11, 2000, we closed an additional round of private financing in which we raised net proceeds of $19.9 million through the issuance of our series E convertible preferred stock. Unless otherwise indicated, the cash and equity impact of this transaction is not reflected in this prospectus since the closing occurred after March 31, 2000. Because the deemed fair market value of our common stock for financial reporting purposes was greater than the issuance price of the series E convertible preferred stock, we will record a beneficial conversion feature of $5.2 million on the series E convertible preferred stock, which will be treated as a preferred stock dividend as of the date of issue.

We believe that the net proceeds of this offering, together with existing cash and cash equivalents, will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. See "Use of Proceeds" for more information regarding our use of proceeds.

We may need to raise additional funds in order to fund more rapid expansion, including significant increases in personnel and office facilities, to develop new or enhance existing products or respond to competitive pressures. We cannot assure you that additional financing will be available at all or that, if available, will be on terms favorable to us or that any additional financing will not dilute your ownership interest in SpeechWorks.

Recent Accounting Pronouncements In December 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position No 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition, with Respect to Certain Transactions" ("SOP 98-9"). SOP 98-9 amends SOP 97-2 to require recognition of revenue using the "residual method" in circumstances outlined in SOP 98-9. Under the residual method, revenue is recognized as follows: (1) the total fair value of undelivered elements, as indicated by vendor specific objective evidence, is deferred and subsequently recognized in accordance with the relevant sections of SOP 97-2 and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. SOP 98-9 is effective for transactions entered into during years beginning after March 15, 1999 (year 2000 for us), however, early adoption is permitted. We have adopted SOP 98-9.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133, as recently amended by SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," is effective for fiscal years beginning after June 15, 2000. Because we do not currently hold any derivative instruments and do not currently engage in hedging activities, the adoption of SFAS No. 133 will not have a material impact on our financial position or operating results.

Quantitative and Qualitative Disclosures about Market Risk A portion of our business is conducted outside the United States through our foreign subsidiaries and branches. We have foreign currency exposure related to our operations in international markets where we transact business in foreign currencies and accordingly are subject to exposure from adverse movements in foreign currency exchange rates. Our foreign subsidiaries maintain their accounting records in their local currencies. Consequently, changes in currency exchange rates may impact the translation of foreign statements of operations into U.S. dollars, which may in turn affect our consolidated statements of operations. Our functional currency is the U.S. dollar for all of our foreign subsidiaries and branches, and therefore, translation gains and losses are included as a component of net income or loss. Substantially all of our revenues are invoiced and collected in U.S. dollars.

Business

Overview

SpeechWorks is a leading provider of software products and professional services that enable enterprises and communications carriers to offer automated, speech-activated services over any telephone. With our speech recognition solutions, consumers can direct their own calls, obtain information and conduct transactions automatically, simply by speaking naturally over any telephone, anytime. Our e-business solutions are designed to help businesses build sustainable customer relationships over the telephone, provide improved and cost-effective customer service systems, increase the returns on their internet-related investments and capitalize on a variety of new business opportunities.

We currently offer two speech recognition solutions for over-the-telephone applications, the SpeechWorks 6 platform and our recently introduced SpeechSite package. We complement our products with a professional services organization that offers a range of services including application development and project management. We have designed these services to shorten time-to-market, reduce project implementation risk and improve our clients' competitive position. We believe that our ability to successfully deliver an integrated solution to our clients provides us with a significant competitive advantage.

Since shipping our first products in 1996, we have received numerous awards for our product capabilities and our industry leadership, including Industry Week's Technology of the Year Award and Frost & Sullivan's Market Strategy Leadership Award. To date, we have licensed SpeechWorks software to more than 150 clients worldwide in a variety of industries including retail, financial services, pharmaceuticals, telecommunications, technology, distribution and travel. Our clients include Amtrak, Apple Computer, BellSouth IntelliVentures, CellularOne, Continental Airlines, DLJ Direct E*TRADE, MapQuest.com, MCI WorldCom, McKessonHBOC, NetByTel.com, Nortel Networks, Quack.com, SingTel Mobile, United Airlines and Universal Electronics.

Industry Background

Businesses and consumers today share a common vision of e-business as a means of communicating information and completing transactions anywhere, anytime, through any communications device. This vision has been fueled by the growth of the internet and the recent rapid growth in wireless communications technologies and services. In order to take advantage of these communications channels and to reach the widest population possible, businesses have made significant investments in their e-business infrastructures. Businesses are now seeking to maximize the return on their e-business investments, improve their customer service responsiveness, and capitalize on the substantial growth of the wireless telephone network as a new distribution channel.

The Internet and e-Business In the past decade, the internet has emerged as a global communications network and channel for business and has fundamentally changed the way consumers and businesses obtain information, communicate, purchase goods and transact business. Many businesses now define their strategy and assess their ability to compete based on the quality and diversity of the information,

products or services they offer online. Increasingly, consumers are retrieving information from online databases and buying goods and services - a ticket, stock, a book - without going to a business in person or even speaking with a customer service representative over the telephone. International Data Corporation, or IDC, estimates that the internet will continue to grow as a medium for commerce, with over $1.3 trillion in sales being initiated over the internet by the end of 2003.

The Telephone and e-Business Despite the internet's growing acceptance, the telephone network is a more widely and readily accessible. Telephones are simple to operate and use the most natural form of communication, the human voice. IDC estimates that in 1999 there were over 931 million telephone lines installed worldwide as compared to approximately 196 million internet users worldwide in 1999. IDC also estimates that in the same year there were over 426 million wireless telephone subscribers worldwide and projects this number will grow to over one billion subscribers worldwide by 2003.

To manage the growth in telephone-based interactions, businesses have made significant investments in customer service infrastructures such as call centers staffed with customer service representatives. IDC estimates that worldwide spending on customer relationship management services, which includes expenditures on call centers, exceeded $40 billion in 1999. The Purdue University Research Foundation estimates that in the same year approximately 56% of call center budgets were allocated to human resources.

In addition, new technologies are being used, primarily by communications service providers, to provide internet information services such as e-mail, news, stock quotes, weather and sports information to wireless subscribers. With these technologies, businesses are looking to extend access to their e- business infrastructure to cellular telephones and other wireless handheld devices such as personal digital assistants.

Need for Enhanced Access to e-Business The growth of the internet as a global medium for communications and commerce has been driven, in part, by the increased availability of personal computers and easy to use, visual web browser interfaces. Access to the internet over a personal computer is limited because consumers must have access to a computer and a working internet connection. Further, using a web browser on a personal computer can be difficult and slow. Wireless access to the internet over cellular telephones and other handheld devices has the potential to resolve the mobility and internet connectivity issues presented by internet access over a personal computer. However, while the number of these devices has increased in recent years, display screens on these devices are small and the ability to input information using portable keyboards is constrained, limiting the usability and convenience of this solution. Therefore, the goal of anytime, anywhere access to a wide variety of information services has not yet been fully realized.

Access to businesses and information over the telephone is somewhat easier than access over the internet because of the greater availability of landline and wireless telephones. Although businesses have made significant investments in staffed call centers, consumers are frequently required to wait on hold for extended periods due to the lack of call center capacity or are unable to speak to a customer service representative due to the high cost of having customer service representatives available around the clock. Businesses have attempted to alleviate this problem by automating call center services using

touch-tone technologies. However, the range of services that can be automated using touch- tone is limited, and the interface itself can be frustrating for users. Touch- tone menus can be difficult to follow and callers often choose to dial "0" to wait for a human operator or hang up rather than use such a system.

Speech-Activated Solutions for e-Business To conduct e-business in a truly mobile, device-independent fashion, the ability to communicate and conduct transactions in a hands-free manner is essential. Speech recognition technology allows businesses to leverage their investment in their e-business infrastructure to offer their customers quick and easy access to information and services over the most readily available communications device, the telephone. For example, businesses can offer their customers the ability to obtain information and complete transactions using words and natural sentences such as:

"I'd like to transfer $5,000 from my checking account to my savings account."

"Is the 5 o'clock flight from New York to Boston on time?"

"When will my shipment be delivered?"

Speech recognition technology allows callers who would otherwise have to wait for a live call center agent to be serviced automatically and those who might otherwise be frustrated by having to choose from many touch-tone options to speak directly to the e-business application. Speech recognition technology also provides a key differentiator for companies seeking to provide a convenient, flexible and robust interface for customers to conduct internet transactions through a medium other than a personal computer or personal digital assistant.

Although basic speech recognition technology has existed for decades, it has not been widely used in telephone applications due to a number of technical and commercial limitations. In order to provide high-quality speech- activated services to callers, businesses require a solution that:

.recognizes a large vocabulary with low error rates, .allows users to speak in natural phrases or sentences and to interrupt when they are ready, .provides high-level development and operations tools that are integrated in accepted platforms, .includes professional services to assist in one or more phases of the deployment lifecycle, and .is sufficiently cost-effective and scalable that it promises an attractive return on investment.

The SpeechWorks Solution SpeechWorks is a leading provider of software products and professional services that enable enterprises and communications carriers to offer automated, speech-activated services. Complementing the self-service model of e-business, our speech recognition solutions, including the packaged solution known as SpeechSite, let consumers direct their own calls, obtain information and complete transactions automatically, simply by speaking naturally over any telephone, anytime. Our speech recognition technology enables our clients to extend the reach of their e-business solutions beyond the web and beyond screen-based interfaces to anyone with access to a wireless or landline telephone.

Enterprises are building speech-activated services with our products that will automate and enhance customer service by making it easier for customers to retrieve information and conduct transactions without waiting on hold or speaking to an agent. Examples of phrases that can be understood by applications enabled by our software are: "What is my checking account balance?" and "Buy 100 shares of General Electric at the market price." These services can improve the caller's experience and save expensive customer service representative time.

Communication carriers and their partners are building speech-activated services with our products that we believe have the potential to change the way people use the telephone for network services. Applications have been built, and enabled by our software, that can understand phrases such as "Call Mike Phillips at home," and "Forward this message to Bill O'Farrell." In addition, a new class of service providers known as voice or speech portals, is using our software to build applications that can understand phrases such as: "What is the weather in Paris?" and "What was the score of the Red Sox game today?" These services can differentiate one carrier's service offering from another and increase the ability of carriers to attract and retain users.

Examples of Speech-Activated Services Enabled by SpeechWorks

	Customer Services Provided by an Enterprise	Network Services Provided by a Communications Carrier
Information Retrieval	Price quotes	Weather
	Order/account status/update	Traffic
	Product information	Horoscopes
	Directions	News and sports
Communications Management	Automated attendant/operator	Speech-activated dialing
	Internal call routing	Network call routing
	Voice/unified messaging	Voice portals
Transaction Processing	Flight booking	Call completion
	Restaurant reservations	Cellular bill payment
	Product purchase or sale	Hosted services

We complement our products with a professional services organization that offers a range of services including application development and project management. We have designed these services to shorten time-to-market, reduce project implementation risk and improve our clients' competitive position. We are focused on developing and extending our products and services to provide our clients with a comprehensive means for building, managing and delivering sophisticated e-business applications and services that can be accessed over the telephone.

Our solutions are designed to provide the following benefits to our clients:

Increased revenues. Companies that implement speech recognition solutions can use the additional, ubiquitous access to their online services to differentiate their e-business offering from their competition and thereby increase customer loyalty and reduce customer turnover. Many e-business applications that were difficult to use with touch-tone technology, such as stock trading and flight booking, can be more readily provided over the telephone with our speech solutions. Online brokerages, for example, have used our products to extend their automated services to new users who are not online and to enable existing online subscribers to conduct trades when they are unable to

access the web with an internet browser. Increased automation of incoming calls can free up call center agents to take on cross-selling and other revenue-generating activities. Using our products, communications carriers can offer new, revenue-generating services to wireless or landline telephone users, such as speech-activated dialing and voice access to instant messaging and information or voice portals.

Increased customer satisfaction and retention. Our speech-activated services provide our clients' customers with a variety of services that are accessible from any telephone, 24 hours-a-day, seven days-a-week. A caller is generally not required to wait on hold or navigate complex touch-tone menus. Our clients can personalize an application's dialog to match their callers' needs, for example "Would you like to ticket your regular trip to Chicago, Mrs. Jones?" Our speech-activated solutions also include barge-in technology that enables callers to interrupt an application with responses or new queries, thereby completing the transaction more efficiently. Customers that are becoming accustomed to accessing account or other information on the web can now benefit from easy telephone access to the same information or services. Customers are ultimately given more control if they can choose how - web browser, mobile device, or telephone - and when to retrieve information or conduct transactions.

Lower operational costs. Our clients can decrease their telephone expense by shortening the average customer call length and by answering common customer questions with a speech application rather than requiring callers to hold for a live agent or employee. Speech-enabled call routing, such as that provided by our recently launched SpeechSite product, can increase customer service efficiency by classifying call types and collecting pertinent information prior to transferring calls to an appropriate representative. This means that the same number of customer service representatives are able to answer a higher volume of calls. We believe that off-loading repetitive calls to a speech application and routing the more challenging transactions to highly trained customer service representatives can also increase employee job satisfaction and decrease staff turnover. Our solutions can support multiple languages on a single system, thereby reducing the number of platforms and telephone numbers required. We believe our efficient speech recognition engine and our single system architecture obviate the need for dedicated recognition servers which results in a lower total cost of ownership than many other alternative architectures.

Superior technology and architecture. Our recognition technology allows our clients' applications to recognize spoken words and phrases based in part on a self-learning feedback loop that can be configured to automatically adapt the system to user characteristics such as accents and pronunciations. Natural language processing capabilities allow callers to speak in complete phrases and sentences and can be configured to provide hints that alert novice or first- time users to these capabilities. Taking advantage of dramatic increases in host processing power, SpeechWorks offers speech recognition solutions that operate in one integrated system and do not require a separate and potentially costly server in order to function. These elements of our technology, integration and architecture enable our clients to develop and deploy speech- activated applications reliably and cost-effectively.

High level tools for rapid time to market. We offer high-level building blocks, known as DialogModules, that make it easy for developers to build speech applications with proven and consistent call flows and user interfaces. The availability of DialogModules tailored for specific situations gives our clients the ability to more easily create and maintain applications and achieve significant reductions in development cycle time and cost per deployed application. DialogModules have been tightly integrated into well-known toolkits from leading vendors such as InterVoice-BRITE, Aspect Communications, Comverse Technology, Lucent Technologies and Intel so that developers can become effective quickly. SpeechWorks also offers operations and tuning tools that enable our clients to evaluate and improve deployed applications, based on actual caller experiences, quickly and easily.

High quality professional services. We complement our products with a high quality professional services organization that offers a wide range of services. Our professional services organization supports our partners and our clients with business and systems consulting, project management and application development assistance. We have designed these professional services to shorten time-to-market, reduce project implementation risk and improve our clients' competitive position. We believe that our ability to successfully deliver an integrated solution to our clients provides us with a significant competitive advantage in the market for speech-activated solutions for e-business.

The SpeechWorks Strategy Our goal is to become the leading global provider of speech-activated solutions for e-business. The key elements of our strategy are to:

Maintain market leadership. Our industry-leading solutions for speech- enabled applications allow enterprises to build and rapidly deploy speech- activated services. The SpeechWorks platform allows businesses to develop applications quickly and efficiently while maintaining a consistent user interface design, thereby increasing caller satisfaction rates and strengthening customer loyalty. The SpeechSite package includes easily deployed, enterprise applications that enable businesses of any size to transform the way that they respond to incoming telephone calls. We intend to maintain our leadership position by enhancing our existing products and developing a variety of new products and services that make it easy for businesses to use speech recognition technology to improve customer satisfaction, generate new revenue opportunities and reduce operational costs.

Extend technology lead. We have focused our research and development efforts on tightly integrated e-business solutions that are reliable, scalable and flexible. We currently have three U.S. patents, 13 U.S. patents pending and 12 international patents pending. By investing in advanced research and development, we continually improve recognition accuracy, cost-effectiveness and ease of use. We continue to devote significant resources to technical innovation and plan to improve the usability of our tools and technologies and to customize our applications to meet specific client needs. Concurrently, we evaluate emerging technologies and industry standards and update our technology in response to changes in the market. We believe that these efforts will allow us to anticipate and accommodate changing client needs.

Leverage professional services capabilities. We have established successful relationships with our clients and partners by advising and assisting them in the development and deployment of speech-activated applications. We offer our clients and partners ongoing training in our speech application

development lifecycle and access to the resources in our rapid prototyping center. We intend to continue our focus on shortening development lifecycles and making it easy for new clients and partners to become educated and effective users of our speech-activated solutions. In addition, we offer high-quality professional services capabilities through third-party alliances. By offering our clients a full range of professional services, we believe we can accelerate acceptance of our speech-activated solutions for e-business and create opportunities to sell new or enhanced products to clients.

Expand international presence. We currently have more than 40 non-U.S. based clients and partners in Europe, Asia, and Latin America. Our SpeechWorks platform currently supports the following languages and dialects: Australian English, Brazilian Portuguese, Canadian French, Cantonese, European French, German, Japanese, Korean, Latin American Spanish, Mandarin, Singapore English, U.K. English and U.S. English. We have opened sales and development offices in England, Singapore, Mexico and Canada and we have sales representatives in France, Germany and Australia. We intend to continue our expansion in those regions where businesses and other institutional clients value the addition of speech access to their e-business services.

Expand sales channels to drive market penetration. We currently have 26 sales representatives and have established 47 partner relationships in 12 countries. We are working to increase client adoption of our solutions by expanding our direct sales force and our indirect sales channels through additional relationships and strategic alliances with key systems integrators, value-added resellers and original equipment manufacturers. We believe that by establishing and strengthening relationships with our key partners around the world, we can target a broader client base and accelerate adoption of our solutions.

Build brand awareness. We plan to expand awareness of SpeechWorks as a leading provider of speech-enabled e-business solutions. We have implemented several "SpeechWorks Here" programs to brand our solution as the enabler behind our clients' speech-activated, e-business efforts. We use a variety of strategic marketing programs including advertising, trade shows and web seminars. We intend to continue to expand our traditional and online marketing activities to build awareness of our brand.

Products

We offer two speech recognition products for over-the-telephone applications:

. SpeechWorks 6, a comprehensive set of software tools and core speech recognition technology that can be used to build state-of-the-art, speech-activated services and . SpeechSite, a packaged application that answers and directs telephone calls, delivers company information and provides fax back services.

[Chart Appears Here]

SpeechWorks 6. SpeechWorks 6 is the current release of our software platform for developing and deploying customized speech applications in a variety of languages. SpeechWorks 6 runs on Windows NT- and UNIX-based operating systems and supports multiple telephony interfaces.

SpeechWorks 6 includes our:

. SMARTRecognizer core recognition engine, . DialogModule building blocks, . natural language tools for building and maintaining grammars, vocabularies and pronunciations, and . operations and tuning tools for monitoring and improving deployed applications.

SMARTRecognizer. The SMARTRecognizer provides advanced technology for speech recognition over the telephone. It can recognize more than 65,000 different words or phrase at a time, including customized vocabularies. It can also recognize complete phrases and sentences such as, "I'd like to transfer $500 from checking to savings today." The SMARTRecognizer can understand different speakers without user training and it supports continuous speech, allowing callers to speak at a normal rate without pausing between words.

DialogModules. DialogModules are pre-packaged software building blocks that enable our clients to build speech applications quickly and easily. Each DialogModule performs a particular task within an application, ranging from simple tasks such as capturing a yes/no response or a telephone number from a caller, to more complex tasks such as selecting an item from a large vocabulary list. DialogModules include pre-built grammars, user interface design, call flow and error recovery routines to provide developers with easily configurable functionality. To further aid the development of speech applications, SpeechWorks DialogModules have been integrated as graphical icons in a number of application development toolkits provided by our distribution partners.

Natural language tools. Natural language tools include a vocabulary editor that enables developers to generate and maintain large vocabulary lists of words that are recognized at specific times during a call. Developers can add new words by typing them in or pointing to a text database. SpeechWorks 6 generates the pronunciations automatically using either its built-in dictionary of 250,000 words or by following standard phonetic rules. The vocabulary editor also allows the developer to specify synonyms and alternative pronunciations for each of the vocabulary items. A grammar editor enables developers to build and test complex natural language grammars. Another SpeechWorks tool, the pronunciation editor, allows the developer to edit pronunciations of each vocabulary item.

Operations and tuning tools. Operations and tuning tools enable developers to review application performance data in an easily understood graphical form. These tuning tools provide detailed reports regarding recognition performance and user interface effectiveness, peak usage times and call duration, execution results for DialogModules and potential problem areas.

SpeechWorks 6 includes patented barge-in technology that enables callers to interrupt an application with responses or new queries.

We expect to release SpeechWorks 6.5 in the second half of 2000. SpeechWorks 6.5 will offer improvements in recognition accuracy and performance and additional features, including plug-n-play DialogModules and languages, an Address DialogModule, a Verification DialogModule and natural language enhancements. Plug-n-play DialogModules and languages provide additional flexibility for adding new DialogModules and languages. The Address DialogModule encapsulates mechanisms for interacting with a caller to solicit and recognize U.S. residential, post office box and rural route addresses. The Verification DialogModule supports integration with third-party speaker verification algorithms to perform authentication of callers by matching their voices to previously enrolled

"voiceprints" or templates. The natural language enhancements provide capabilities for handling more complex natural language grammars through improved modeling and more detailed confidence score interpretation.

SpeechSite. Our recently launched SpeechSite product is a packaged application solution that is built on our SpeechWorks 6 platform and is designed to bring the web model of self-service to the telephone. SpeechSite can provide callers with a wide variety of company information, direct calls, provide fax back services and support custom built transactions using spoken words.

We offer SpeechSite as a turnkey solution using content supplied by our client. Our pre-packaged SpeechSite applications are designed to be deployed and fully functional in less than two weeks. Our SpeechSite solution includes all required hardware, software and professional services, including configuration of the system, professional recordings of corporate information, and implementation and training at the client's facility.

The hardware platform for a SpeechSite currently consists of a Dell PC running Windows NT utilizing Intel's Dialogic cards. SpeechSite software consists of two major components: a SpeechSite engine and a SpeechSite administration function. The SpeechSite engine is responsible for executing the speech interface and connecting with the telephony system, while the SpeechSite administration component is responsible for all configurations, reporting and monitoring interfaces. In addition, SpeechSite uses Artsoft's Visual Voice Pro as well as other complementary applications to provide enhanced features and functionality. These complementary applications include text-to-speech software from Lucent and WinFax Pro and pcAnywhere from Symantec.

SpeechSpot. SpeechSpot is a speech-based advertising placement program which is designed to develop a revenue stream comparable to the banner advertisement revenue available to internet sites. We are currently conducting SpeechSpot research and concept testing and are designing and developing support for SpeechSpot placements in three client applications. We intend to create a SpeechSpot DialogModule to facilitate the delivery of SpeechSpot placements in future client applications.

Solutions and Support Services We recognize that many clients want more than a software-only solution. Consequently, we offer our clients a range of consulting and implementation services through our solution services group as well as a rapid prototyping center to help clients get started. These solution services are provided by staff located in Boston, New York and San Francisco as well as in our international centers of excellence in Canada, Mexico, the United Kingdom and Singapore. We provide dedicated teams of professionals who follow our speech application development lifecycle to help our clients and partners get their speech applications working as quickly as possible and achieve maximum caller satisfaction.

Rapid prototyping center. We offer a rapid prototyping center that allows potential clients to explore quickly and cost effectively the capabilities of over-the-telephone, speech-activated applications. In our rapid prototyping center, clients can experiment with speech recognition technology, user interfaces

and the tools required to build speech-activated services. An application prototype helps potential clients experience real-world caller interactions and can serve as the foundation for a full-scale production system.

Speech application development lifecycle. We have created a proprietary speech application development lifecycle, or SADL, which is a disciplined project management process to ensure successful implementation of our solutions. Our lifecycle approach is based on three primary phases: specification, development and deployment. In the specification phase, we assess the functional, design and integration requirements of the system and prepare a preliminary user interface specification. During the development and deployment phases, developers are trained to pay particular attention to the iterative testing and tuning of the application's user interface. In addition, this approach supports parallel development of database and telephony system integration requirements ensuring efficient and timely deployments. We believe that our speech application development lifecycle has been an important reason for our success with major client deployments to date.

User interface design. We employ a team of user interface engineers and human factors experts who study how people interact with computers to design the most effective interface for a client's specific application. This team follows a three-phase process: research, design and testing. In the research phase, our engineers seek to understand the needs and desires of our clients and their callers. In order to help make a callers' experience effective and enjoyable, in the design phase, our engineers consider the implications that our interface design may have on callers taking into account call flow, functionality, and the application's personality. Then our interface engineers conduct usability tests and periodically monitor and improve call flow, prompts, and recognition accuracy.

Training. We offer training programs that provide clients with a review of our products and services and an introduction to the process of building speech applications. Our lectures and interactive workshops provide instruction on embedding our software in a production-quality, runtime environment and developing state-of-the-art natural language recognition capabilities.

Maintenance and support. We also offer our clients and partners a range of maintenance and support programs. These support programs include telephone and e-mail support, web access to knowledge databases, technical support, software patches and upgrades, and varying service level options. Application consulting, user interface design and tuning services are also available to our clients and partners.

SpeechCare. We provide our SpeechSite clients with a technical support and services package, SpeechCare, which consists of three services: voice prompt recording and management, operations and technical support and software maintenance, patches and updates.

Technology

We have developed and/or enhanced and extended distinguishing technologies in our products. These include:

. Segment-based statistical models. Our recognition system is based on work on segmental systems performed for many years at MIT and other research groups. The segmental approach, unlike the frame-based, Hidden Markov Model approach, is able to take into account the entire phonetic segment. This allows our product to better account for the static and dynamic properties of individual speech sounds which increases accuracy and reduces the overall amount of computation needed for a given recognition task.

. Barge-in. Barge-in technology allows callers to interrupt the outgoing prompts by speaking over them and allows our recognizer to understand what the user said when interrupting. We have developed patented technologies to provide state-of-the-art barge-in performance. We believe that clients using our technology were the first to support barge-in functionality in large scale, production applications.

. Dynamic vocabularies. Many traditional speech recognition engines require that the recognition vocabulary be defined and compiled at application development time. However, there are many applications where the necessary vocabulary must be generated while the application is running. We have therefore engineered our speech recognition engine to allow rapid, dynamic updates of recognition vocabularies.

. Automatic adaptation. We have incorporated a process to support automatic adaptation of the recognition models of our engine. The result is that, through a fully automated process, the SpeechWorks engine is able to reduce error rates by 30-60% over time as it is used for some applications.

Platform integration. A key factor in the success of our products has been the tight integration of these products on many of the leading interactive voice response, or IVR, platforms. These platforms consist of a combination of hardware and software, and provide robust scalable environments for building speech applications. On some platforms, our DialogModules are used to write applications directly in code, such as C, Java and Visual Basic. On platforms with existing application development environments, the DialogModules are integrated into the development environments to allow seamless development of speech applications within the framework of the existing platform environment.

Software architecture. Our products are built using well-defined layers of functionality with module interfaces. These layers are built using a combination of C and C++. DialogModules can be utilized through a number of standard interface technologies, such as Microsoft's Component Object Module. Platform integration is accomplished through a number of well-defined application programming interfaces, or APIs, along with software that can be replaced to match the needed functionality of a particular platform.

Standards. We have been helping to drive evolving standards in a number of areas in the telephone-based speech recognition industry. This includes participation in the Enterprise Computer Telephony Forum, or ECTF, to define the S.100 and S.300 APIs for speech recognition along with driving development of standards for Dialog Application Components in the ECTF architecture. We have also been an active participant in the World Wide Web Consortium, or W3C, Voice Browser working group, which is developing standards for speech applications and interfaces using web-based programming methods.

Clients

Our clients comprise a diverse international group of organizations in a variety of fields. The following is a representative list of our clients who have purchased over $50,000 of our software and/or services either directly from us or through our resellers.

Communications

Travel

BellSouth IntelliVentures	
CellularOne	Amtrak
MCI WorldCom	Continental Airlines
	United Airlines

NEXTLINK Interactive SingTel Mobile Pharmaceuticals McKessonHBOC Technology/Manufacturing Apple Computer Speech Portals Nortel Networks AudioPoint, Inc. Universal Electronics HeyAnita.com Quack.com Finance/Brokerage

Bidwell & Company	Speech Application Service
DLJ Direct	Providers
DMG & Partners Securities	
E*TRADE	everypath.com
Singapore Stock Exchange	NetByTel.com
IT Solutions	Price Interactive
Lim & Tan Securities	!hey Software

StockTrade Insurance

The Guardian Life Insurance of America Dot.coms Anyday.com foodline.com MapQuest.com Synapse.com XYPOINT Corporation Finance/Banking CIBC We intend to expand our client base by, among other things, adding new distribution and development partners and leveraging their capabilities to sell and deploy our products, increasing our co-marketing activities with our partners, increasing the size of our direct sales force and increasing our market and brand awareness.

Case Studies

United Airlines Flight Information 1.800.824.6200 Company Description: United Airlines is the largest air carrier in the world and the largest majority employee-owned company, offering nearly 2,400 flights a day to 138 destinations in 26 countries and two U.S. territories. United is also an industry innovator with breakthroughs such as E-Ticket Service, United Connection, Airport Gate Reader, United Shuttle, and now its two speech-activated systems.

The Challenge: As a leader in travel technology, United Airlines wanted to upgrade its Flight Information System with a self-service system to better serve its customers.

The Solution: Within five months of the project start date, United replaced its automated touch-tone system with a new speech recognition application that provides callers with fast access to valuable flight information, such as departure and arrival times, through its toll-free flight information telephone number. The system allows people to call United anytime and speak naturally into a telephone to check the status and gate information of any of United's nearly 2,400 daily flights. The

system receives more than 80,000 calls on a typical high-traffic day. After a brief introduction, the automated attendant will say, "Please say the United flight number," and if the caller responds, "I don't know it," the automated operator will break down the inquiry into smaller pieces the caller can answer such as arrival and departure cities. The system seeks out and works with the information the caller has.

MapQuest.com

Company Description: MapQuest.com is a leader in online, voice and wireless destination information solutions and digital mapping services. MapQuest.com provides mapping, proximity searching, real-time traffic reporting and directions to the end user anytime, anywhere. MapQuest.com licenses its technology to more than 1,100 business partners. Through these licensing agreements, MapQuest.com helps businesses integrate maps and driving directions into their internet, intranet, call centers, voice and wireless applications for improved marketing and customer service functions.

The Challenge: MapQuest.com wanted to expand its market reach beyond the desktop by offering access to its internet-based destination information and services to consumers by the telephone.

The Solution: The 1-800-MapQuest application will use SpeechWorks' platform to provide callers with access to MapQuest driving directions by dialing a toll-free number and talking over the telephone. The service will prompt callers to provide their locations and destinations by saying, "Where are you coming from?" and "Where are you going?" The system will transmit the callers' spoken answers to the on-line MapQuest.com engine and provide an audio response. The user will be able to control the output with voice commands such as "repeat" and "next." Other MapQuest services to be extended through the toll-free number will include Real-time Traffic Reports and a Biz Locator. Using SpeechWorks, MapQuest.com will leverage its online web engine through another channel of access - the telephone.

BellSouth IntelliVentures 1.404.633.TALK Company Description: BellSouth is a $25 billion communications services company that provides telecommunications, wireless communications, cable and digital TV, directory advertising and publishing, and internet and data services to more than 37 million customers in 19 countries worldwide. BellSouth IntelliVentures produces new, multimedia products for BellSouth, including The Real Yellow Pages ONLINE, The Real White Pages ONLINE, BellSouth AdReach Service and BellSouth Info by Voice.

The Challenge: In an effort to expand its leadership position in the highly competitive telecommunications market, BellSouth wanted to enhance its local information service offerings by providing callers with a variety of automated information, 24 hours-a-day, seven days-a-week, over the telephone but without relying on touch-tone input.

The Solution: BellSouth worked with SpeechWorks to create a public information service known as Info By Voice, or IBV, in Atlanta. IBV is the first local speech portal implemented by a major U.S. telecommunications carrier and, was based in part on experience gained in BellSouth's first voice-activated link system which was just deployed, using SpeechWorks' technology, as a trial in Florida in 1997. Callers can speak naturally over the telephone in complete phrases and sentences to request a

variety of information such as news, sports, weather, stock quotes, horoscopes, and various yellow page restaurant listings. For example, a caller can say: "What's the weather in Atlanta?" and the system will respond with the up-to-date weather report.

*E*trade 1.800.Stocks1*

Company Description: E*TRADE, a leading provider of online investing services, allows independent investors to trade stocks, options and mutual funds at low commission rates. E*TRADE also provides portfolio tracking, news and real-time market commentary.

The Challenge: E*TRADE wanted to expand its market by extending its internet-based transaction services to any user of a telephone.

The Solution: Based in part on SpeechWorks technology, E*TRADE deployed the first, fully speech-enabled telephone investing service, TELE*MASTER, in 1997. TELE*MASTER allows E*TRADE customers to obtain information and make transactions from a telephone. The system supports quotes and trading for stocks, options and mutual funds and understands statements such as, "Buy 100 shares at a limit price of $100, good for the day." TELE*MASTER offers advanced speech access to a wide range of E*TRADE services, providing many of the same functions and offers much of the same information as is found on E*TRADE's web site.

foodline.com 1.212.222.MENU Company Description: foodline.com is an internet and telephone service devoted exclusively to restaurant information, reviews and reservations in New York City and Boston. At foodline.com, people can make reservations online in real-time after they have searched for restaurants by name, cuisine, location, price range or special features such as HotSpots. foodline.com also offers the first and only speech-activated telephone restaurant guide to more than 2,000 New York City restaurants.

The Challenge: foodline.com wanted to complement its web service by expanding its market reach to all users of a telephone.

The Solution: foodline.com engaged SpeechWorks to develop a speech- activated restaurant service. Initially launched in New York City on 212-222- MENU, foodline.com helps callers search for restaurants 24 hours-a-day, seven days-a-week over the telephone using such criteria as location, cuisine or price range. In addition, callers may ask to hear reviews, obtain addresses and be transferred directly to a restaurant to make reservations. "Do you know the name of the restaurant?" is the first question the automated attendant will ask the caller. If the caller responds "no," the automated attendant will offer categories of restaurants from which the caller may choose to hear critiques and other information.

Sales and Marketing

Sales

We sell our products and services both directly through a sales force and indirectly through third-party value added resellers and system integrators.

Direct Sales Force. We have a direct sales force in the United States which consists of three vice presidents, four regional sales directors, six sales engineers, and 18 sales representatives located in nine states. This sales force represents our products and services to enterprises, channel partners and communications carriers in North America. We support the sales efforts of our value added resellers and system integrators around the world with an international direct sales force which consists of one vice president and three general managers located in Europe, Mexico and Asia Pacific. We also have sales representatives in the United Kingdom, Germany, France, Mexico, Singapore and Australia. The Canadian market is currently supported from our headquarters in Boston.

Resellers. We have a network of 36 resellers located in the United States, Canada, South Africa, United Kingdom, France, Germany, South Korea, Australia and Singapore that distribute and implement our solutions around the globe. Our value added resellers and system integrators have experience in interactive voice response platforms, system integration of communication applications or hosting expertise for interactive voice response applications. Our resellers increase our coverage of global markets and fulfill the diverse application and service opportunities for our software and services.

Marketing

Our marketing strategy is focused on building brand awareness of SpeechWorks as a leading provider of software products and professional services that enable enterprises and communications carriers to offer automated, speech-activated services. In March 2000, our marketing efforts were formally recognized with a Marketing Leadership Award and designation as U.S. market share leader in the telephony-based speech technology industry by the Frost & Sullivan research firm. The Marketing Leadership Award acknowledges leadership in marketing campaigns, educational programs and customer programs like the SpeechWorks Here Guarantee, which we believe is the industry's first results assurance program for customers.

Our strategic advertising campaigns use both traditional and online media. Our print advertising focuses on targeted trade and business publications, including e-business, telecommunications and other categories. We conduct both live seminars and web seminars and participate in a number of trade shows and other industry events. We also provide speakers from our company to represent us at a number of industry forums.

Our marketing strategy also includes aggressive public relations efforts designed to convey our message to appropriate audiences. We reinforce this through our ongoing communications with a number of key industry analysts and press representatives.

Competition

A number of companies have developed, or are expected to develop, products that compete with our products. Competitors in the speech recognition software market include IBM, Lernout and Hauspie Speech Products, Locus Dialogue, Lucent Technologies, Nuance Communications, Philips Electronics and Phonetic Systems. We expect additional competition from other companies such as Microsoft,

which has recently made investments in and acquired a speech recognition technology company. Furthermore, our competitors may combine with each other, and other companies may enter our markets by acquiring or entering into strategic relationships with our competitors. Current and potential competitors 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 to address the needs of our prospective clients.

We believe that the principal competitive factors affecting our market include the breadth and depth of solutions, product quality and performance, core technology, product scalability and reliability, product features, client service, the ability to implement solutions, the value of a given solution, the creation of a base of referenceable clients and the strength and breadth of reseller and developer relationships. Although we believe that our solutions currently compete favorably with respect to these factors, particularly with respect to product quality and performance, our market is relatively new and is evolving rapidly.

Research and Development We have made substantial investments in research and development through both internal development and technology licenses. The majority of our research and development activity has been directed towards feature extensions to our family of products. This development consists primarily of adding new competitive product features and additional tools and products as we expand into new markets.

Our research and development expenditures for 1997, 1998 and 1999 were $2.0 million, $1.9 million, and $5.2 million, respectively. We expect that we will continue to commit significant resources to research and development in the future. All research and development expenses have been expensed as incurred.

The market for our products and services is characterized by rapid technological change, frequent new product introductions and enhancements, evolving industry standards, and rapidly changing client requirements. The introduction of products incorporating new technologies and the emergence of new industry standards could render existing products obsolete and unmarketable. Our future success will depend in part on our ability to anticipate changes, enhance our current products, develop and introduce new products that keep pace with technological advancements and address the increasingly sophisticated needs of our clients.

Intellectual Property and Other Proprietary Rights We regard our patents, copyrights, service marks, trademarks, trade secrets and other intellectual property as important to our success. We rely on a combination of patent, trademark and copyright law, trade secret protection and confidentiality and/or license agreements with our employees, consultants, clients, partners and others to protect our proprietary rights. All of our employees have executed confidentiality and assignment of invention agreements. Prior to disclosing confidential information to third parties, we generally require them to sign confidentiality or other agreements restricting the use and disclosure of our confidential information.

To date we have obtained three issued U.S. patents, and have 13 pending U.S. patent applications, three pending patent applications under the Patent Cooperation Treaty, two pending patent applications in each of the European Patent Office and Canada, and one pending patent application in each of China, Taiwan, Australia, Singapore, and Hong Kong. Additionally, we pursue registration of our key trademarks and service marks in the U.S. and, in many cases, internationally. However, effective trademark, service mark, copyright and trade secret protection may not be available or sought by us in every country in which our products and services are sold.

We license software technology from MIT under a nonexclusive license agreement. This license agreement will terminate upon the expiration of MIT's copyrights related to such technology. We do not anticipate that this will restrict our ability to use or license the software technology or any derivative works in any way. We also currently own a number of internet domain names, including speechworks.com.

Employees

As of April 14, 2000, we had 216 employees worldwide, including 58 in research and development, 78 in service and support, 52 in sales and marketing and 28 in finance and administration. We have not experienced any work stoppages and consider our relations with our employees to be good.

Facilities

Our principal offices are located at 695 Atlantic Avenue, in Boston, Massachusetts, where we lease approximately 53,600 square feet under leases that expires in September 2004. We also maintain regional sales and development offices in New York, San Francisco, Montreal, Puebla (Mexico), Singapore and Staines (England), as well as regional sales offices in Chicago, Atlanta, and Dallas. The leases for the regional offices are short-term. We believe that our existing facilities are adequate for our current needs.

Legal Proceedings

We are not engaged in any legal proceeding that we expect to have a material adverse effect on our business.

Management

Executive Officers and Directors The following table sets forth certain information concerning our directors and executive officers:

Name Age Position

Stuart R. Patterson ..... 43 President, Chief Executive Officer and Director Richard J. Westelman..... 42 Chief Financial Officer Mark A. Holthouse..... 45 Senior Vice President of Operations Michael S. Phillips..... 38 Chief Technology Officer and Director William Ledingham..... 38 Vice President of Product Development Joseph Murphy..... 44 Vice President of Sales Stephen Adams..... 50 Vice President of International Steven Chambers..... 37 Vice President of Worldwide Marketing

Rick Olin..... 42 Vice President and General Counsel William J. O'Farrell ..... 37 Chairman of the Board Axel Bichara ..... 36 Director Richard Burnes ..... 59 Director Robert Finch..... 42 Director John C. Freker, Jr..... 42 Director Stuart R. Patterson has served as our President since September 1997, our Chief Executive Officer since May 1998 and as a director since May 1998. Prior to joining us, from May 1997 to September 1997, he served on the board of BBG New Media, Inc., a developer of high-end web sites, which was bought by Think New Ideas, Inc., now AnswerThink Consulting Group, in September 1997. From May 1996 to March 1997, he served as Vice President and Line of Business Manager at Voxware, Inc., a developer of digital speech and audio technologies and solutions. Previously, from August 1994 to May 1996, he served on the Advisory Board of Voxware. From September 1987 to April 1996, he co-founded and served as the chief executive officer of Vicorp Interactive Systems, Inc., a developer of large-scale voice and data applications based on open systems tools and platforms.

Richard J. Westelman has served as our Chief Financial Officer since August 1998. Prior to joining us, from June 1996 to August 1998, he served as Chief Financial Officer and Director of Dove Associates, a strategy consulting firm. From January 1994 to June 1996, he served as Chief Financial Officer of Vicorp Interactive Systems, Inc.

Mark A. Holthouse has served as our Senior Vice President of Operations since March 1996. In 1987, he co-founded Vicorp Interactive Systems, Inc., a developer of large-scale voice and data applications based on open systems tools and platforms. He served as Managing Director of Technology and Operations of Vicorp from April 1987 to March 1996.

Michael S. Phillips co-founded SpeechWorks and has served as our Chief Technology Officer since September 1994 and as a director since May 1994. From May 1987 to August 1994, he served as a research scientist in the Spoken Language Systems Group at the Massachusetts Institute of Technology, a non- profit think-tank dedicated to the development of a conversational interface between computers and human spoken words.

William Ledingham has served as our Vice President of Product Development since July 1995. From 1989 to 1994, he held a number of marketing management positions at Stratus Computer.

Joseph Murphy has served as our Vice President of Sales since August 1999. From July 1998 to August 1999, he was Vice President of Sales at Rubric, Inc., a web-based marketing vendor. From August 1996 to June 1998, he was Director of Sales at Genesys Telecommunications, Inc., a computer telephony integration and enterprise interaction management software company. From January 1995 to April 1996, he served as Vice President of Worldwide Sales for GeoTel Communications, a software company.

Stephen Adams has served as our Vice President of International since October 1998. From August 1997 to October 1998, he served as Vice President of Worldwide Sales at Gradient Technologies, Inc., a provider of security services for network computing. From March 1996 to August 1997, he served as Vice President of International Sales at Segue Software, Inc., a company specializing in the

development of management and testing of electronic business applications software. From April 1993 to March 1996, he served as Director of International Sales at Rational Software Corporation, a software development company.

Steven Chambers has served as our Vice President of Worldwide Marketing since September 1999. From October 1998 to July 1999, he served as Vice President of Marketing at Arbortext, Inc., an XML-based information solutions company. From October 1997 to October 1998, he was the Vice President of Marketing for VDOnet, a company specializing in streaming media over the internet. From November 1991 to October 1997, he served as Vice President of Worldwide Marketing at PictureTel Corporation, a visual communications company.

Rick Olin joined us in March 1999 and has served as our General Counsel since January 2000. From October 1996 until February 1999, he was Deputy Legal Counsel at Open Market, Inc., an internet commerce software company. From May 1995 until September 1996, he was Vice President and General Counsel of Long Term Care Services, Inc., a regional health care company. Prior to that he was an attorney at Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

William J. O'Farrell co-founded SpeechWorks and has served as our Chairman of the Board since May 1994. Mr. O'Farrell also served as our Chief Executive Officer from May 1994 to May 1998. Since March 1999, Mr. O'Farrell has served as Chairman of the Board and Chief Executive Officer of OpenAir.com (formerly TimeBills.com), an online time and expense tracking and invoicing service company.

Axel Bichara has served as director of SpeechWorks since August 1995. Mr. Bichara joined Atlas Venture, a venture capital firm, in 1993 and is currently a Senior Principal.

Richard Burnes has served as director of SpeechWorks since October 1997. Since November 1970, Mr. Burnes has served as General Partner of Charles River Ventures of which he is a co-founder.

Robert Finch has served as a director of SpeechWorks since April 2000. Since February 2000, Mr. Finch has served as Vice President, Operations for BroadBand Office, Inc., a provider of technology and communications solutions to businesses. From 1988 through February 2000, he served in a variety of vice president-level engineering, operations and corporate development roles for MCI WorldCom and predecessor companies including LDDS WorldCom and Advanced Telecommunications Corporation. Most recently, Mr. Finch served as Vice President, Strategic Development from January 1998 to February 2000.

John C. Freker, Jr. has served as a director of SpeechWorks since April 2000. Since November 1997 Mr. Freker has served as President of the Custom Solutions Group of Convergys Corporation, a customer service and marketing company. From December 1994 to November 1997, he served as President of MATRIXX Marketing, Inc., a customer service and marketing company.

Classified Board of Directors

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     Our board of directors is divided into three classes as nearly equal in
number as possible. Each year the stockholders elect the members of one of the
three classes to a three-year term of office.    and    serve in the class
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whose term expires in 2001;    and    serve in the class whose term expires in
2002;    and    , and    serve in the class whose term expires in 2003.
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Committees of the Board of Directors Our board of directors has a compensation committee, which reviews, approves and makes recommendations concerning salaries and incentive compensation for our employees and consultants, establishes and approves salaries and incentive compensation for our executive officers, and administers our stock plans. The compensation committee also administers and reviews general policies relating to compensation and employee benefits. The members of the compensation committee are and . Our board of directors also has an audit committee, which oversees the engagement of our independent public accountants and reviews the results and scope of annual audits and other services provided by our independent public accountants. The members of the audit committee are and .

Compensation of Directors Our directors do not receive an annual retainer or any fees for attending regular meetings of the board of directors. Non-employee directors are reimbursed for travel costs and other reasonable out-of-pocket expenses incurred in connection with attending meetings of the board of directors or any committee thereof. In addition, non-employee directors are eligible to receive grants of non-qualified stock options under our stock option plan, and we have granted to each of Messrs. Freker and Finch options to purchase 30,000 shares of our common stock in exchange for each of them agreeing to join our board of directors. In the future, we may grant additional such options to non-employee directors as an incentive to join or remain on our board of directors.

Compensation Committee Interlocks and Insider Participation None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Executive Compensation Summary Compensation. The following table sets forth the total compensation paid or accrued during the year ended December 31, 1999 to our chief executive officer and our four other most highly compensated executive officers who earned more than $100,000 during the year ended December 31, 1999, who we refer to as our named executive officers.

Summary Compensation Table Long-Term Compensation Annual Compensation Awards Securities Underlying Options Name and Principal Position Salary Bonus (#)

```
Stuart R. Patterson..................... $  172,500 $  42,000   75,000
 President and Chief Executive Officer
Richard J. Westelman.....................    157,500    12,750   45,000
 Chief Financial Officer
Mark A. Holthouse........................    156,250    30,000   45,000
 Senior Vice President of Operations
Michael S. Phillips......................    143,750    20,000   45,000
 Chief Technology Officer.................
William Ledingham........................    126,500    20,000   30,000
 Vice President, Product Development
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Option Grants in 1999 The following table contains information as to stock options granted during the year ended December 31, 1999 to each of the named executive officers. Each of the option grants listed below vests equally over 36 months from the date of grant. In accordance with the rules of the Securities and Exchange Commission, or SEC, also shown below are hypothetical gains that could be

achieved for the respective options if exercised immediately prior to the end of the option term, assuming that the stock price on the date of grant appreciates at the specified annual rates of appreciation, compounded annually over the term of the options. The assumed annual rates of compounded stock price appreciation are mandated by the rules of the SEC and do not represent an estimate or projection of our future common stock prices. Actual gains, if any, on stock option exercises will depend on the future performance of our common stock.

Name	Number of Shares Underlying Options Granted	Percent of Total Options Granted to Employees	Exercise or Base Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term 5%	10%
Stuart R. Patterson.....	75,000	2.7%	$4.13	4/1/09	$	$
Richard J. Westelman....	45,000	1.6	4.13	4/1/09		
Mark A. Holthouse.....	45,000	1.6	4.13	4/1/09		
Michael S. Phillips.....	45,000	1.6	4.13	4/1/09		
William Ledingham.....	30,000	1.1	4.13	4/1/09		

The potential realizable value is calculated based on the ten-year term of the option at the time of grant. The potential realizable values at 5% and 10% appreciation are calculated by:

. multiplying the number of shares of common stock under the option by the assumed initial public offering price of $ per share, . assuming that the aggregate stock value derived from that calculation compounds at the annual 5% or 10% rate shown in the table until the expiration of the options, and . subtracting from that result the aggregate option exercise price.

Percentages shown under "Percent of Total Options Granted to Employees" are based on an aggregate of 2,795,000 options granted to our employees under our stock option plans during 1999.

For information relating to the acceleration of options granted to the named executive officers, see "Change of Control Agreements."

Aggregate Option Exercises in 1999 and Year-End Option Values The following table sets forth certain information with respect to option exercises and the total value of options held by each named executive officer as of December 31, 1999. Because there was no public trading market for the common stock as of December 31, 1999, the value realized upon the exercise of options and the value of the unexercised in-the-money options at year-end have been calculated on the basis of the assumed initial public offering price of $ per share minus the applicable per share exercise price.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Year-End Exercisable	Number of Securities Underlying Unexercised Options at Year-End Unexercisable	Value of Unexercised In-the-Money Options at Year-End Exercisable	Value of Unexercised In-the-Money Options at Year-End Unexercisable
Stuart R. Patterson.....	--	$	417,447	370,053	$	$
Richard J. Westelman....	--		73,750	151,250		
Mark A. Holthouse.....	137,813		10,000	35,000		
Michael S. Phillips.....	--		10,000	35,000		
William Ledingham.....	139,515		6,666	23,334		

Employment Agreement

On September 2, 1997, we entered into an employment agreement with Mr. Patterson, our President and Chief Executive Officer. The employment agreement provides for an initial term of three years. Under the terms of the agreement, Mr. Patterson is entitled to receive an annual base salary of $150,000, which has been adjusted to $172,500, and is eligible to receive an annual performance bonus of up to $50,000. Additionally, we granted Mr. Patterson options to purchase up to 712,500 shares of our common stock at an exercise price of $0.33 per share. 25% of these options vest after one year and the remainder vest equally over the following 36 months. These options are subject to vesting upon change of control as described below. Also under the agreement, we must pay for up to $1,000,000 in life insurance and long-term disability insurance for Mr. Patterson. If Mr. Patterson is terminated without cause or if we fail to enter into a new employment agreement with Mr. Patterson by September 2, 2000, we must pay Mr. Patterson a $75,000 severance payment. Mr. Patterson's employment agreement also contains one year post termination non-compete and non- solicitation provisions.

Change of Control Agreements We have entered into an agreement with each of the named executive officers, pursuant to which 50% of his unvested options to purchase our common stock will vest and become immediately exercisable upon the effective date of an acquisition or merger involving SpeechWorks in which we are not the surviving company.

Stock Plans

Amended and Restated 1995 Stock Option Plan. Our Amended and Restated 1995 Stock Option Plan was approved by our board of directors and our stockholders in December 1997. Under this plan we may grant incentive stock options, nonqualified stock options and restricted and unrestricted stock awards. As of April 14, 2000, options to purchase a total of 4,699,315 shares of common stock are outstanding under this plan, 2,276,794 shares have been issued pursuant to options granted under this plan, and 1,099,318 shares are available for future grant.

2000 Employee, Director and Consultant Stock Option Plan. Our 2000 Employee, Director and Consultant Stock Option Plan was approved by our board of directors in April 2000 and we anticipate that it will be approved by our stockholders in May 2000. Under this plan we may grant incentive stock options and nonqualified stock options. As of April 14, 2000, a total of 4,000,000 shares of common stock have been reserved for issuance under this plan. No shares have been issued pursuant to options granted under this plan, no shares are subject to outstanding options and 4,000,000 shares are available for future grant.

The compensation committee will determine the terms of options granted pursuant to the 2000 Employee, Director and Consultant Stock Option Plan, including:

. the determination of which employees, directors and consultant will be granted options, . the exercise price and the number of shares subject to each option, . the vesting schedule for options, and . the termination or cancellation provisions applicable to options.

Upon completion of this offering, each of these stock option plans will continue to be administered by our compensation committee. The maximum term of options granted under our plans is ten years. If we are acquired, the compensation committee will provide that outstanding options under our plans shall be:

. assumed by the successor or acquiring company, . exercised within a specified number of days or the options will terminate, or . terminated in exchange for a cash payment equal to the value of the option at the time we are acquired.

If we are acquired, the compensation committee may also provide that all outstanding options fully vest.

2000 Employee Stock Purchase Plan. In 2000 our board of directors adopted the 2000 Employee Stock Purchase Plan which authorizes the issuance, to participating employees through the grant of nontransferable options, of a maximum of shares of common stock. We anticipate that the 2000 Employee Stock Purchase Plan will be approved by our stockholders in 2000.

The 2000 Employee Stock Purchase Plan is administered by our board's compensation committee. All employees working hours or more per week, who have been continuously employed by SpeechWorks for at least months as of the offering date are eligible to participate. Any employee who would own more than 5% of our stock, immediately after the grant, under the plan may not participate in the 2000 Employee Stock Purchase Plan. To participate, an employee authorizes a deduction from his or her pay, not to exceed $25,000 per year, beginning on the first day of a designated three-month offering period. On the last day of each offering period, each outstanding option granted under the plan is automatically exercised using funds withheld from each employee's compensation as of that date. A participating employee may withdraw from the 2000 Employee Stock Purchase Plan at any time prior to the exercise date of the offering period.

Limitation of Directors' Liability and Indemnification The Delaware General Corporation Law authorizes corporations to limit or eliminate, subject to certain conditions, the personal liability of directors to corporations and their stockholders for monetary damages for breach of their fiduciary duties. Our certificate of incorporation limits the liability of our directors to the fullest extent permitted by Delaware law.

Our certificate of incorporation and bylaws also provide that we will indemnify any of our directors and officers who, by reason of the fact that he or she is one of our officers or directors, is involved in a legal proceeding of any nature. We will repay certain expenses incurred by a director or officer in connection with any civil or criminal action or proceeding, specifically including actions by us or in our name. Such indemnifiable expenses include, to the maximum extent permitted by law, attorney's fees, judgments, civil or criminal fines, settlement amounts and other expenses customarily incurred in connection with legal proceedings. A director or officer will not receive indemnification if he or she is found not to have acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interest. In addition, we intend to obtain directors' and officers' insurance providing indemnification for our directors and officers for certain liabilities, including liabilities under the Securities Act of 1933.

Such limitation of liability and indemnification does not affect the availability of equitable remedies. In addition, we have been advised that in the opinion of the SEC, indemnification for liabilities arising under the Securities Act is against public policy as expressed in the Securities Act and is therefore unenforceable.

There is no pending litigation or proceeding involving any of our directors, officers, employees or agents in which indemnification will be required or permitted. We are not aware of any threatened litigation or proceeding that may result in a claim for such indemnification.

Principal Stockholders

The following table sets forth information with respect to the beneficial ownership of our outstanding shares of common stock as of April 14, 2000 by:

. the named executive officers, . each of our directors, . all of our current directors and executive officers as a group, and . each stockholder known by us to own beneficially more than 5% of our common stock. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities.

Shares of common stock that may be acquired by an individual or group within 60 days of April 14, 2000, pursuant to the exercise of options or warrants are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. Except as indicated in footnotes to this table, we believe that the stockholders named in this table have sole voting and investment power with respect to all shares of common stock shown to be beneficially owned by them based on information provided to us by such stockholders. Percentage of ownership is based on 22,385,625 shares of common stock outstanding on April 14, 2000 and shares of common stock outstanding after the completion of this offering. The address for each stockholder who beneficially owns more than 5% of our common stock, other than a director or executive officer, as listed below. The address for any director or executive officer who beneficially owns more than 5% of our common stock is: c/o SpeechWorks International, Inc., 695 Atlantic Avenue, Boston, Massachusetts 02111.

The following table assumes the conversion of all outstanding shares of our convertible preferred stock.

		Percentage Beneficially Owned	
Beneficial Owner	Number of Shares Beneficially Owned	Prior to Offering	After Offering

Five Percent Stockholders: Atlas Venture Fund II, L.P..... 2,723,031 12.2% 222 Berkeley Street Boston, MA 02116 Charles River Partnership VII..... 2,723,031 12.2 1000 Winter Street, Suite 3300 Waltham, MA 02154 Bank of America Ventures(1)..... 2,510,472 11.2 950 Tower Lane, Suite 700 Foster City, CA 94404 QuestMark Partners, L.P..... 2,364,216 10.6 One South Street, Suite 800 Baltimore, MD 21202

Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned Prior to Offering	Percentage Beneficially Owned After Offering
Directors and Executive Officers:			
Stuart R. Patterson(2).....	519,010	2.3%	
William J. O'Farrell(3).....	1,203,217	5.4	
Michael S. Phillips(4).....	1,623,681	7.3	
Axel Bichara(5).....	2,723,031	12.2	
Richard Burnes(6).....	2,723,031	12.2	
Robert Finch(7).....	4,500	*	
John Freker(8).....	4,500	*	
Richard J. Westelman(9).....	100,000	*	
Mark A. Holthouse(10).....	983,211	4.4	
William Ledingham(11).....	687,582	3.1	
All Executive Officers and Directors as a Group (14 persons)(12).....	10,672,023	46.2	

* Represents beneficial ownership of less than 1% of the shares of common stock. (1) Includes 251,045 shares of common stock owned by BA Venture Partners III, a fund affiliated with Bank of America Ventures. (2) Includes 494,010 shares of common stock subject to options held by Mr. Patterson that are exercisable within 60 days of April 14, 2000. Does not include an additional 268,490 shares of common stock subject to options held by Mr. Patterson that are not exercisable within 60 days of April 14, 2000. (3) Includes 7,500 shares of common stock held by Mr. O'Farrell's wife. Excludes 180,000 shares of common stock owned by trusts for the benefit of Mr. O'Farrell's children. (4) Includes 17,500 shares of common stock subject to options held by Mr. Phillips that are exercisable within 60 days of April 14, 2000. Does not include an additional 27,500 shares of common stock subject to options held by Mr. Phillips that are not exercisable within 60 days of April 14, 2000. (5) Consists of 2,723,031 shares of common stock owned by Atlas Venture Fund II, L.P. The general partner of Atlas Venture Fund II, L.P. is Atlas Venture Associates II, L.P which has sole voting and investment power with respect to these shares. Mr. Bichara is a limited partner of Atlas Venture Associates II, L.P. and expressly disclaims ownership of these shares, except to the extent of his pecuniary interest therein. (6) Consists of 2,723,031 shares of common stock owned by Charles River Partnership VII. Charles River VII GP Limited Partnership is the general partner of Charles River Partnership VII and has sole voting and investment power with request to these shares. Mr. Burnes is a general partner of Charles River VII GP Limited Partnership and expressly disclaims ownership of these shares, except to the extent of his pecuniary interest therein. (7) Consists of 4,500 shares of common stock subject to options held by Mr. Finch that are exercisable within 60 days of April 14, 2000. Does not include an additional 25,500 shares of common stock subject to options held by Mr. Finch that are not exercisable within 60 days of April 14, 2000. (8) Consists of 4,500 shares of common stock subject to options held by Mr. Freker that are exercisable within 60 days of April 14, 2000. Does not include an additional 25,500 shares of common stock subject to options held by Mr. Freker that are not exercisable within 60 days of April 14, 2000. (9) Consists of 100,000 shares of common stock subject to options held by Mr. Westelman that are exercisable within 60 days of April 14, 2000. Does not include an additional 125,000 shares of common stock subject to options held by Mr. Westelman that are not exercisable within 60 days of April 14, 2000. (10) Includes 17,500 shares of common stock subject to options held by Mr. Holthouse

that are exercisable within 60 days of April 14, 2000. Does not include an additional 27,500 shares of common stock subject to options held by Mr. Holthouse that are not exercisable within 60 days of April 14, 2000. (11) Includes 1,667 shares of common stock subject to options held by Mr. Ledingham that are exercisable within 60 days of April 14, 2000. Does not include an additional 18,333 shares of common stock subject to options held by Mr. Ledingham that are not exercisable within 60 days of April 14, 2000. (12) Includes 40,417 shares of common stock subject to options held by Mr. Adams that are exercisable within 60 days of April 14, 2000, and 22,343 shares of common stock subject to options held by Mr. Olin that are exercisable within 60 days of April 14, 2000. See also footnotes (2) through (11) above.

Certain Transactions

Preferred Stock Investments During the last three years and through April 14, 2000, we have issued convertible preferred shares in private placement transactions as follows:

. 2,474,500 shares of series B convertible preferred stock at $2.75 per share on September 30, 1996, February 14, 1997 and April 22, 1998, for an aggregate purchase price of $6,804,875, . 1,626,092 shares of series C convertible preferred stock at $4.25 per share on May 8, 1998 and January 9, 1999, for an aggregate purchase price of $6,910,891, . 2,671,389 shares of series D convertible preferred stock at $8.92 per share on April 29, June 21 and June 29, 1999, for an aggregate purchase price of $23,828,790, and . 2,544,681 shares of series E convertible preferred stock at $7.86 per share on April 11, 2000, for an aggregate purchase price of $20,001,193.

Each share of our series B, series C and series D convertible preferred stock will automatically convert into 1.5 shares of our common stock upon the closing of this offering. Each share of our series E convertible preferred stock will automatically convert into one share of our common stock upon the closing of this offering.

The following table summarizes the shares of convertible preferred stock purchased in private placement transactions during the last three years and through April 14, 2000 by our stockholders who beneficially own more than 5% of our common stock:

Shares of Shares of Shares of Shares of Series B Series C Series D Series E Preferred Preferred Preferred Preferred Investor Stock Stock Stock Stock

Atlas Venture Fund II, L.P.....	363,636	141,176	162,334	203,562
Charles River Partnership VII.....	363,636	141,176	162,334	203,562
Bank of America Ventures (1).....	909,091	352,941	378,112	50,255
QuestMark Partners, L.P.....	--	--	1,457,399	178,177

(1) Includes 251,045 shares purchased by BA Venture Partners III, a fund affiliated with Bank of America Ventures.

MIT License Agreement We have entered into a nonexclusive software license agreement with MIT, pursuant to which we pay royalties to MIT. Under MIT's policies, 8.3% of the royalties paid by us to MIT are paid to Michael S. Phillips, one of our founders and our chief technology officer, due to his

affiliation with the Spoken Language Systems Group at MIT at the time that the license agreement was entered into. Royalties paid by MIT to Mr. Phillips pursuant to this agreement for the years ending December 31, 1997, 1998 and 1999 were $3,726, $3,903 and $7,056, respectively.

Directors

Our director Richard Burnes, is a General Partner of Charles River Ventures. Axel Bichara, another of our directors, is a Senior Principal of Atlas Venture. Each of Messrs. Burnes and Bichara was elected to our board of directors pursuant to our stockholders agreement. The stockholders agreement will terminate upon the closing of this offering.

Registration Rights

We have granted registration right to some of our warrantholders and holders of our convertible preferred stock. See "Description of Capital Stock- Registration Rights."

Description of Capital Stock

We are authorized to issue 100,000,000 shares of common stock, $0.001 par value per share, and 10,000,000 shares of preferred stock, $0.001 par value per share. Upon completion of this offering, there will be shares of common stock and no shares of preferred stock outstanding. As of April 14, 2000, we had 22,385,625 shares of common stock outstanding held of record by 125 stockholders. In addition, as of April 14, 2000 there were outstanding options and warrants to purchase 807,237 shares of common stock.

Common Stock

Holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders, and do not have cumulative voting rights. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by our board of directors out of funds legally available for dividend payments. All outstanding shares of common stock are fully paid and nonassessable, and the holders of common stock have no preferences or rights of conversion, exchange or pre-emption. In the event of any liquidation, dissolution or winding-up of our affairs, holders of common stock will be entitled to share ratably in our assets that are remaining after payment or provision for payment of all of our debts and obligations and after liquidation payments to holders of outstanding shares of preferred stock, if any.

Preferred Stock

Our board of directors has the authority, without further stockholder authorization, to issue from time to time shares of preferred stock in one or more series and to fix the terms, limitations, relative rights and preferences and variations of each series. Although we have no present plans to issue any shares of preferred stock, the issuance of shares of preferred stock, or the issuance of rights to purchase such shares, could decrease the amount of earnings and assets available for distribution to the holders of

common stock, could adversely affect the rights and powers, including voting rights, of the common stock, and could have the effect of delaying, deterring or preventing a change in control of SpeechWorks or an unsolicited acquisition proposal. The preferred stock, if issued, could have priority over the common stock with respect to dividends and other distributions, including the distribution of assets upon liquidation.

Registration Rights

The following registration rights are subject to certain conditions and limitations, including the right of the underwriters of an offering to limit the number of shares included in any offering under certain circumstances. We are obligated to pay the costs associated with all registrations.

Demand Rights. At any time at least six months after completion of this offering, our stockholders that previously held our convertible preferred stock prior to this offering and some of our warrantholders are entitled to demand that we register up to 19,266,600 of their shares. These demand rights may be exercised on two occasions upon initiation by holders of at least 37.5% of these shares of common stock. If these stockholders request us to register less than all of their shares of common stock held at that time, then we are only required to register their shares if the anticipated aggregate offering price exceeds $5,000,000.

Beginning one year after the date of this prospectus, stockholders with registration rights may require us to file additional registration statements on Form S-3, subject to conditions and limitations. We may be required to effect two such registrations in any twelve month period.

Piggyback Rights. Our stockholders that previously held our convertible preferred stock prior to this offering and two of our warrantholders also have piggyback registration rights for an aggregate of 22,007,837 shares covering future offerings by us. These piggyback rights mean that the holders may include any shares of common stock that they hold in registration statements that we file. These stockholders and warrantholders have waived their piggyback registration rights with respect to this offering or such rights do not apply to this offering.

Delaware Law and Certain Charter and By-law Provisions The provisions of Delaware law and of our certificate of incorporation and bylaws discussed below could discourage or make it more difficult to accomplish a proxy contest or other change in our management or the acquisition of control by a holder of a substantial amount of our voting stock. It is possible that these provisions could make it more difficult to accomplish, or could deter, transactions that stockholders may otherwise consider to be in their best interests or the best interests of SpeechWorks.

Delaware Statutory Business Combinations Provision. We are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporations Law. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is, or the transaction in which the person became an interested stockholder was, approved in a prescribed manner or another prescribed exception applies. For purposes of Section 203, a "business combination" is defined broadly to include a merger, asset sale

or other transaction resulting in a financial benefit to the interested stockholder, and, subject to certain exceptions, an "interested stockholder" is a person who, together with his or her affiliates and associates, owns (or within three years prior, did own) 15% or more of the corporation's voting stock.

Advance Notice Provisions for Stockholder Proposals and Stockholder Nominations of Directors. Our bylaws provide that, for nominations to the board of directors or for other business to be properly brought by a stockholder before a meeting of stockholders, the stockholder must first have given timely notice of the proposal in writing to our Secretary. For an annual meeting, a stockholder's notice generally must be delivered not less than 45 days nor more than 75 days prior to the anniversary of the mailing date of the proxy statement for the previous year's annual meeting. For a special meeting, the notice must generally be delivered by the later of 90 days prior to the special meeting or ten days following the day on which public announcement of the meeting is first made. Detailed requirements as to the form of the notice and information required in the notice are specified in the bylaws. If it is determined that business was not properly brought before a meeting in accordance with our by-law provisions, such business will not be conducted at the meeting.

Special Meetings of Stockholders. Special meetings of the stockholders may be called only by our board of directors pursuant to a resolution adopted by a majority of the total number of directors.

No Stockholder Action by Written Consent. Our certificate of incorporation does not permit our stockholders to act by written consent. As a result, any action to be effected by our stockholders must be effected at a duly called annual or special meeting of the stockholders.

Super-Majority Stockholder Vote required for Certain Actions. The Delaware General Corporation Law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless the corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Our certificate of incorporation requires the affirmative vote of the holders of at least two-thirds of our outstanding voting stock to amend or repeal any of the provisions discussed in this section of this prospectus entitled "Delaware Law and Certain Charter and By-law Provisions" or to reduce the number of authorized shares of common stock or preferred stock. This two- thirds stockholder vote would be in addition to any separate class vote that might in the future be required pursuant to the terms of any preferred stock that might then be outstanding. A two-thirds vote is also required for any amendment to, or repeal of, our bylaws by the stockholders. Our bylaws may be amended or repealed by a simple majority vote of the board of directors.

Transfer Agent and Registrar The transfer agent and registrar for the common stock will be American Stock Transfer & Trust Company.

Shares Eligible for Future Sale

Prior to this offering, there has not been any public market for our common stock, and no prediction can be made as to the effect, if any, that sales of shares of common stock or the availability of shares of common stock for sale will have on the market price of the common stock prevailing from time to time.

Nevertheless, sales of substantial amounts of common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock and could impair our future ability to raise capital through the sale of our equity securities.

Summary of Shares Eligible for Future Sale. Upon the completion of this offering, we will have a total of shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of options or warrants outstanding at April 14, 2000. Of the outstanding shares, the shares sold in this offering will be freely tradable, except that any shares purchased by our "affiliates" (as that term is defined in Rule 144 promulgated under the Securities Act) may be sold only in compliance with the limitations described below. The remaining shares of common stock will be deemed "restricted securities" as defined under Rule 144 and may not be sold publicly unless they are registered under the Securities Act or are sold pursuant to Rule 144 or another exemption from registration. Our directors, executive officers and substantially all of our other stockholders, holding total shares, have agreed that they will not sell, directly or indirectly, any shares of common stock without the prior written consent of Chase Securities Inc. for a period of 180 days from the date of this prospectus. However, Chase Securities Inc. may, in its sole discretion, and at any time or from time to time, without notice, release all or any portion of the securities subject to the lock-up agreements.

The shares of common stock outstanding upon the completion of this offering will be available for sale in the public market as follows:

pproximateA Number of Shares Description After the date of this prospectus, freely tradable shares sold in this offering, and shares freely saleable under Rule 144(k) that are not subject to the 180-day lock-up. Upon the filing of a registration statement to register shares of common stock issued upon the exercise of stock options, shares that are not subject to the lock-up. After 180 days from the date of this prospectus, the 180-day lock-up is released and these shares are saleable under Rule 144 (subject, in some cases, to volume limitations), Rule 144(k), or pursuant to a registration statement to register shares of common stock issued upon the exercise of stock options. At various times after 180 days from the date of this prospectus, restricted shares that will become saleable under Rule 144 upon being held for one year.

Rule 144. In general, under Rule 144, as currently in effect, commencing 90 days after the date of this prospectus, a person, including an affiliate of ours, who has beneficially owned shares for at least one year is entitled to sell, within any three-month period , a number of shares that does not exceed the greater of (a) 1% of the then outstanding shares of common stock (approximately shares immediately after this offering) or (b) the average weekly trading volume in the common stock during the four calendar weeks preceding the date on which notice of such sale is filed. In addition, a person who is not deemed to have been an affiliate of ours at any time during the 90 days preceding the sale and who has beneficially owned the shares proposed to be sold for at least two years would be entitled to sell those shares freely under Rule 144(k) without regard to the volume limitation described above.

Registration of Option Shares. As of April 14, 2000, options to purchase a total of 4,699,315 shares of common stock were outstanding, of which 1,343,734 were exercisable. Upon the completion of this offering, we intend to file a registration statement to register the 9,798,633 shares of common stock

reserved for issuance under our stock plans. That registration statement will become effective immediately upon filing. Accordingly, shares covered by that registration statement, other than shares held by our affiliates, will be available for immediate resale in the open market. Holders of options to purchase shares of common stock have entered into 180-day lock-up agreements.

Issuance of Additional Shares. We have agreed not to sell or otherwise dispose of any shares of common stock during the 180-day period following the date of the prospectus, except we may issue, and grant options to purchase, shares of common stock under our stock plans.

Underwriting

Chase Securities Inc., J.P. Morgan Securities Inc., and U.S. Bancorp Piper Jaffray Inc. are the representatives of the underwriters. Subject to the terms and conditions of the underwriting agreement, the underwriters named below, through their representatives, have severally agreed to purchase from us the following respective numbers of shares of common stock:

Number Name of Shares Chase Securities Inc. ..... J.P. Morgan Securities Inc. ..... U.S. Bancorp Piper Jaffray Inc. .....

Total.....

The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us, our counsel and the independent auditors. The underwriters are committed to purchase all of the common shares offered by us if they purchase any shares.

The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters. Such amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase additional shares.

Underwriting Discounts and Commissions

	Without Over-Allotment Exercise	With Over-Allotment Exercise
Per Share	$	$
Total.....	$	$

We estimate that the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately $.

The underwriters propose to offer the shares of common stock directly to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of $ per share. The underwriters may allow and such dealers may re-allow a concession not in excess of $ per share to certain other dealers. After the initial public offering

of the shares, the offering price and other selling terms may be changed by the underwriters. The representatives have advised us that the underwriters do not intend to confirm discretionary sales in excess of 5% of the shares of common stock offered in this offering.

We have granted to the underwriters a 30-day option to purchase up to additional shares of common stock at the initial public offering price, less the underwriting discount set forth on the cover page of this prospectus. To the extent that the underwriters exercise this option, each of the underwriters will have a firm commitment to purchase approximately the same percentage thereof which the number of shares of common stock to be purchased by it shown in the above table bears to the total number of shares of common stock offered hereby. We will be obligated, pursuant to this option, to sell shares to the underwriters to the extent the options are exercised. The underwriters may exercise these options only to cover over-allotments made in connection with the sale of shares of common stock offered by us.

The offering of the shares is made for delivery when, as and if accepted by the underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offering without notice. The underwriters reserve the right to reject an order for the purchase of shares in whole or in part.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of these liabilities.

Substantially all of our security holders and all of our executive officers and directors have agreed or will agree prior to completion of this offering, that they will not, without the prior written consent of Chase Securities Inc., offer, sell or otherwise dispose of any shares of capital stock, options or warrants to acquire shares of capital stock or securities exchangeable for or convertible into shares of capital stock owned by them for a period of 180 days following the date of this prospectus. We have agreed that we will not, without the prior written consent of Chase Securities Inc., offer, sell or otherwise dispose of any shares of capital stock, options or warrants to acquire shares of capital stock or securities exchangeable for or convertible into shares of capital stock for a period of 180 days following the date of this prospectus, except that we may issue shares upon the exercise of options and warrants granted prior to the date hereof. We may also grant additional options or other awards under our stock option plans. Without the prior written consent of Chase Securities Inc., any additional options granted shall not be exercisable during this 180-day period.

The representatives of the underwriters participating in this offering may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the common shares at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids, effecting syndicate covering transactions or imposing penalty bids. A stabilizing bid means the placing of any bid or effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of the shares of common stock. A syndicate covering transaction means the placing of any bid on behalf of the underwriting syndicate or the effecting of any purchase to reduce a short position created in connection with the offering. A penalty bid means an arrangement that permits the underwriters to reclaim a selling concession from a syndicate member in connection with the offering when common

shares sold by the syndicate member are purchased in syndicate covering transactions. Such transactions may be effected on the Nasdaq National Market, in the over-the- counter market, or otherwise. Such stabilizing, if commenced, may be discontinued at any time.

Prior to this offering, there has been no public market for our common shares. The initial public offering price for the common shares will be determined by negotiations among us and the representatives. Among the factors to be considered in determining the initial public offering price will be prevailing market and economic conditions, our revenue and earnings, market valuations of other companies engaged in activities similar to our business operations and our management. The estimated initial public offering price range set forth on the cover of this preliminary prospectus is subject to change as a result of market conditions or other factors.

In addition, at our request, the underwriters have reserved up to shares of common stock for sale at the initial public offering price to our directors, business associates and related persons. The number of common shares available for sale to the general public will be reduced if such persons purchase the reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered hereby.

In connection with this offering, certain underwriters and selling group members, if any, who are qualified market makers on the Nasdaq National Market may engage in passive market making transactions in our common shares on the Nasdaq National Market in accordance with Rule 103 of Regulation M under the Securities Exchange Act of 1934, as amended. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid of such security; if all independent bids are lowered below the passive market maker's bid, however, such bid must then be lowered when certain purchase limits are exceeded.

We have applied for listing of our shares of common stock on the Nasdaq National Market under the symbol SPWX.

Legal Matters

The validity of the shares of common stock offered hereby will be passed upon for SpeechWorks by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Attorneys of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. collectively own 12,784 shares of our common stock and Mintz Levin Investments LLC owns 19,175 shares of our common stock. Certain matters will be passed upon for the underwriters by Hale and Dorr LLP, Boston, Massachusetts.

Experts

The consolidated financial statements as of December 31, 1998 and 1999 and for each of the three years in the period ended December 31, 1999 included in this Prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

Where You Can Find More Information

We have filed with the SEC a registration statement on Form S-1 under the Securities Act, with respect to the common stock offered by this prospectus. This prospectus, which is part of the registration statement, omits certain information, exhibits, schedules and undertakings set forth in the registration statement. For further information pertaining to us and our common stock, reference is made to such registration statement and the exhibits and schedules to the registration statement. Statements contained in this prospectus as to the contents or provisions of any documents referred to in this prospectus are not necessarily complete, and in each instance where a copy of the document has been filed as an exhibit to the registration statement, reference is made to the exhibit for a more complete description of the matters involved.

You may read and copy all or any portion of the registration statement without charge at the office of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the registration statement may be obtained from the SEC at prescribed rates from the Public Reference Room of the SEC at such address, and at the SEC's regional offices located at 7 World Trade Center, 13th Floor, New York, New York 10048, and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. In addition, registration statements and certain other filings made with the SEC electronically are publicly available through the SEC's web site at www.sec.gov. The registration statement, including all exhibits and amendments to the registration statement, has been filed electronically with the SEC.

Speechworks International, Inc.

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Report of Independent Accountants

To the Board of Directors and Stockholders of SpeechWorks International, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in redeemable convertible preferred stock and stockholders' equity (deficit), and of cash flows present fairly, in all material respects, the financial position of SpeechWorks

International, Inc. and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS LLP Boston, Massachusetts February 4, 2000, except for Note 13 for which the date is April 14, 2000

Speechworks International, Inc.

Consolidated Balance Sheet

	December 31,		Pro Forma December 31, 1999 (Note 2)
	1998	1999	(unaudited)
	(in thousands, except share data)		

ASSETS Current assets: Cash and cash equivalents..... $ 4,486 $ 11,474 $ 11,474 Short-term investments..... 200 -- -- Accounts receivable, net of allowance for doubtful accounts of $75 and $60 at December 31, 1998 and 1999, respectively..... 3,002 4,097 4,097 Prepaid expenses and other current assets..... 177 463 463 Restricted investments..... -- 573 573 Total current assets..... 7,865 16,607 16,607 Fixed assets, net..... 1,093 3,408 3,408 Other assets..... 204 551 551 Total assets..... $ 9,162 $ 20,566 $ 20,566 LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT) Current liabilities: Accounts payable..... $ 1,402 $ 845 $ 845 Accrued expenses..... 810 2,092 2,092 Deferred revenue..... 244 854 854 Current portion of capital lease obligations..... 253 183 183 Current portion of notes payable..... -- 500 500 Total current liabilities..... 2,709 4,474 4,474 Capital lease obligations, net of current portion..... 161 -- -- Notes payable, net of current portion.. -- 833 833 Total liabilities..... 2,870 5,307 5,307 Commitments (Note 8) Redeemable convertible preferred stock: Redeemable convertible preferred stock, $0.001 par value; 7,049,500, 9,375,592 and 0 shares authorized; 6,569,710, 9,246,989 and 0 shares issued and outstanding, at December 31, 1998, 1999 and pro forma December 31, 1999 (unaudited), respectively... 17,749 43,507 -- Stockholders' equity (deficit): Common stock, $0.001 par value; 16,000,000, 22,000,000 and 100,000,000 shares authorized; 4,784,280, 5,584,775 and 19,455,252 shares issued and outstanding, at December 31,

1998, 1999 and pro forma December 31, 1999 (unaudited), respectively..... 5 6 19 Additional paid-in capital..... 486 5,978 49,472 Deferred stock compensation..... -- (4,905) (4,905) Notes receivable from stockholders..... (12) -- -- Accumulated deficit..... (11,936) (29,327) (29,327) Total stockholders' equity (deficit)..... (11,457) (28,248) 15,259 Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)..... $ 9,162 $ 20,566 $ 20,566 The accompanying notes are an integral part of these consolidated financial statements.

Speechworks International, Inc.

Consolidated Statement of Operations

Year Ended December 31, 1997 1998 1999 (in thousands, except per share data)

Revenue:			
Product licenses	$ 949	$ 1,567	$ 3,680
Professional services	982	2,873	5,944
Other revenue	111	1,410	4,387
Total revenue	2,042	5,850	14,011
Cost of revenue:			
Cost of product licenses	54	52	153
Cost of professional services (excluding in 1999 stock compensation of $139)	678	1,982	4,991
Cost of other revenue	90	890	2,987
Total cost of revenue	822	2,924	8,131
Gross profit	1,220	2,926	5,880
Operating expenses:			
Selling and marketing (excluding in 1999 stock compensation of $225)	1,074	3,867	9,254
Research and development (excluding in 1999 stock compensation of $97)	1,969	1,881	5,164
General and administrative (excluding in 1999 stock compensation of $47)	1,057	3,157	6,693
Stock compensation	--	--	508
Total operating expenses	4,100	8,905	21,619
Loss from operations	(2,880)	(5,979)	(15,739)
Interest income	349	299	549
Interest expense	(49)	(72)	(113)
Other income (expense), net	60	(8)	(160)
Net loss	(2,520)	(5,760)	(15,463)
Accretion on redeemable convertible preferred stock	(533)	(789)	(1,904)
Net loss attributable to common stockholders	$(3,053)	$(6,549)	$(17,367)
Basic and diluted net loss per common share	$ (0.83)	$ (1.44)	$ (3.28)
Shares used in computing basic and diluted net loss per common share	3,696	4,537	5,298
Pro forma basic and diluted net loss per common share (unaudited)			$ (0.87)
Shares used in computing pro forma basic and diluted net loss per common share (unaudited)			17,686

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

Speechworks International, Inc.

CONSOLIDATED STATEMENT OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

Series D Redeemable Convertible Preferred Stock		Series C Redeemable Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Series A Redeemable Convertible Preferred Stock	
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 1996.....	--	$ --	--	$ --	1,533	$4,274	2,475	$2,667
Issuance of preferred stock, including related issuance costs of $15....	909	2,500						
Accrual of cumulative dividends on redeemable convertible preferred stock.....	384	149						
Net loss.....								
Balance at December 31, 1997.....	--	--	--	--	2,442	7,158	2,475	2,816
Issuance of preferred stock.....	33	100						
Issuance of preferred stock, including related issuance costs of $85....	1,620	6,886						
Exercise of employee stock options.....								
Repayment of notes receivable from stockholders....								
Issuance of common stock in exchange for services.....								
Accrual of cumulative dividends on redeemable convertible preferred stock.....	234	407	148					
Net loss.....								
Balance at December 31, 1998.....	--	--	1,620	7,120	2,475	7,665	2,475	2,964
Issuance of preferred stock.....	6	25						
Issuance of preferred stock, including related issuance costs of $24....	2,671	23,829						
Exercise of employee stock options.....								
Repayment of notes receivable from stockholders....								
Accrual of cumulative dividends on redeemable convertible preferred stock.....	932	415	408	149				
Deferred compensation related to employee stock option grants...								
Amortization of deferred stock compensation....								
Net loss.....								
Balance at December 31, 1999.....	2,671	$24,761	1,626	$7,560	2,475	$8,073	2,475	$3,113

Total Redeemable Convertible Preferred Stock	Common Stock		Additional Paid-In Capital	Deferred Stock Compensation	Notes Receivable From Stockholders	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Par Value					
(in thousands)							
Balance at December 31, 1996.....	$ 6,941	3,696	$ 4	$ 350	$ --	$ --	$ (2,234)	$ (1,880)
Issuance of preferred stock, including related issuance costs of $15....	2,500			(15)			(15)	
Accrual of cumulative dividends on redeemable convertible preferred stock.....	533			(533)			(533)	
Net loss.....							(2,520)	(2,520)
Balance at December 31, 1997.....	9,974	3,696	4	350	--	--	(5,302)	(4,948)
Issuance of preferred stock.....	100		--					
Issuance of preferred stock, including related issuance costs of $85....	6,886			(85)			(85)	
Exercise of employee stock options.....	987	1	69	(28)			42	
Repayment of notes receivable from stockholders....					16		16	
Issuance of common stock in exchange for services.....	101	--	67				67	
Accrual of cumulative dividends on redeemable convertible preferred stock.....	789			(789)			(789)	
Net loss.....							(5,760)	(5,760)
Balance at December 31, 1998.....	17,749	4,784	5	486	--	(12)	(11,936)	(11,457)
Issuance of preferred stock.....	25		--					
Issuance of preferred stock, including related issuance costs of $24....	23,829			(24)			(24)	
Exercise of employee stock options.....	801	1	79				80	
Repayment of								

notes receivable from stockholders.... 12 12 Accrual of cumulative dividends on redeemable convertible preferred stock..... 1,904 (1,904) (1,904) Deferred compensation related to employee stock option grants... 5,413 (5,413) -- Amortization of deferred stock compensation.... 508 508 Net loss..... (15,463) (15,463) Balance at December 31, 1999..... $43,507 5,585 $ 6 $5,978 $(4,905) $ -- $(29,327) $(28,248) The accompanying notes are an integral part of these consolidated financial statements.

Speechworks International, Inc.

Consolidated Statement of Cash Flows

Year Ended December 31, 1997 1998 1999 (in thousands)

Cash flows from operating activities:			
Net loss	$(2,520)	$(5,760)	$(15,463)
Adjustment to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	243	466	785
Stock compensation expense	--	--	508
Common stock issued in exchange for services	--	67	--
Amortization of interest income	(24)	--	--
Provision for doubtful accounts	--	75	(15)
Gain on sale/leaseback transaction	(43)	--	--
Translation (gains) losses, net	--	--	4
Changes in operating assets and liabilities:			
Accounts receivable	(279)	(2,641)	(1,080)
Prepaid expenses and other current assets	6	(141)	(286)
Other assets	(35)	(161)	(347)
Accounts payable	68	1,137	(557)
Accrued expenses	209	499	1,282
Deferred revenue	35	44	610
Net cash used in operating activities	(2,340)	(6,415)	(14,559)
Cash flows from investing activities:			
Purchases of fixed assets	(479)	(926)	(3,100)
Purchases of restricted investments	--	--	(573)
Purchases of short-term investments	(6,549)	(1,378)	--
Maturities of short-term investments	5,928	6,042	200
Net cash (used in) provided by investing activities	(1,100)	3,738	(3,473)
Cash flows from financing activities:			
Proceeds from sale/leaseback transactions	500	--	--
Principal payments on capital lease obligations	(126)	(222)	(231)
Proceeds from notes payable	--	--	1,500
Principal payments on notes payable	--	--	(167)
Proceeds from issuance of preferred stock, net of issuance costs	2,485	6,901	23,830
Proceeds from issuance of common stock	--	42	80
Repayment of notes receivable from stockholders	--	16	12
Net cash provided by financing activities	2,859	6,737	25,024
Effects of changes in exchange rates on cash	--	--	(4)
Net increase in cash and cash equivalents	(581)	4,060	6,988
Cash and cash equivalents, beginning of year	1,007	426	4,486
Cash and cash equivalents, end of year	$ 426	$ 4,486	$ 11,474
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 41	$ 72	$ 113

Supplemental disclosure of non-cash investing and financing activities:

During 1997, the Company sold fixed assets with a net book value of $458,000 to a leasing company for cash proceeds of $500,000 and subsequently reacquired those assets under a capital lease.

During 1998, the Company issued 280,000 shares of its common stock to employees upon the exercise of stock options in exchange for notes receivable totaling $28,000.

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

Speechworks International, Inc.

Notes to Consolidated Financial Statements

1. Business

SpeechWorks International, Inc. (the "Company") was incorporated in May 1994 and began operations in September 1994 under the name Applied Language Technologies, Inc. In October 1998, the Company's stockholders voted to change its name to SpeechWorks International, Inc. The Company is engaged in the development and marketing of speech recognition software and interactive systems using speech understanding software, and related products and services. Principal markets include both domestic and international companies. The Company operates in one reportable segment.

2. Summary of Significant Accounting Policies Principles of Consolidation The consolidated financial statements reflect the operations of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are classified as available for sale. The Company invests excess cash primarily in U.S. Treasury securities and money market funds of major financial institutions. These investments are subject to minimal credit and market risk.

The Company's cash equivalents at December 31, 1997 include $414,400 in money market funds. At December 31, 1998, the Company's cash equivalents included $935,000 and $3,469,000 in money market funds and U.S. Treasury securities, respectively. At December 31, 1999, the Company's cash equivalents included $6,444,000 and $3,061,000 in money market funds and U.S. Treasury securities, respectively.

Short-Term Investments The Company's short-term investments at December 31, 1997 and 1998 were comprised of U.S. Treasury securities which matured within one year of the respective balance sheet date. These securities were classified as available- for-sale and were stated at cost plus accrued interest, which approximated fair market value. Gross unrealized gains and losses on such securities as of December 31, 1997 and 1998, and realized gains and losses on sales of such securities for the years ended December 31, 1997, 1998 and 1999 were not significant.

Concentration of Credit Risk and Major Customers Financial instruments which potentially expose the Company to concentrations of credit risk are primarily comprised of trade accounts receivable. Management believes its credit policies reflect normal industry terms and business risk. The Company does not anticipate nonperformance by the counterparties and, accordingly, does not require collateral.

At December 31, 1997, 30%, 25%, 11%, 11% and 10% of the Company's accounts receivable were due from five customers. At December 31, 1998, 59% and 14% of the Company's accounts receivable were due from two customers. At December 31, 1999, 21%, 17%, 11% and 10% of the Company's accounts receivable were due from four customers.

Revenue from three customers represented 27%, 26% and 15% of total revenue during the year ended December 31, 1997. Revenue from two customers represented 32% and 13% of total revenue during the year ended December 31, 1998. Revenue from two customers represented 34% and 11% of total revenue during the year ended December 31, 1999.

Fair Value of Financial Instruments Financial instruments, including cash, cash equivalents, accounts receivable, accounts payable and accrued expenses are carried in the consolidated financial statements at amounts that approximated their fair value as of December 31, 1997, 1998 and 1999.

Fixed Assets

Fixed assets are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Fixed assets held under capital leases are stated at the lower of the fair market value of the related asset or the present value of the minimum lease payments at the inception of the lease and are amortized on a straight-line basis over either the life of the related asset or the term of the lease.

Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-9. Revenue from the sale of licenses to use the Company's software products is recognized upon delivery, provided that no significant obligations remain, evidence of the arrangement exists, the fees are fixed or determinable, and collectibility is probable. Revenue from royalties on sales of the Company's products by resellers to third parties is recognized upon delivery to the third party when such information is available, or when notified by the reseller that such royalties are due as a result of a sale, provided that collectibility is probable.

Professional services revenue primarily consists of fees for custom development services, consulting services, and support and maintenance services. Revenue relating to the development of custom software applications and nonrecurring platform development work for third parties (including fees

for licenses to use the Company's software products in the related development effort and thereafter in conjunction with the delivered custom application), as well as revenue relating to consulting services, provided on a fixed-fee basis are recognized using the percentage-of-completion method of accounting, provided that collection of the related receivable is probable. In applying this method, the Company measures each project's percentage-of-completion by the ratio of labor hours incurred to date to estimated total labor hours to complete the project. This method is used because management considers expended labor hours to be the best available measure of progress on these projects. Adjustments to contract estimates are made in the periods in which the facts requiring such revisions become known. When the estimate indicates a loss, such loss is provided for in its entirety. When services are provided on a time and materials basis, revenue is recognized as the services are rendered. Revenue related to maintenance and support arrangements is recognized ratably over the contract period.

Other revenue primarily consists of hardware sales and other resold services. Resold hardware revenue is recognized upon delivery provided that collectibility is probable and no significant post-delivery obligations remain relating to the sale.

Research and Development and Capitalized Software Development Costs Costs incurred in the research and development of new software products and enhancements to existing products, other than certain software development costs that qualify for capitalization, are expensed as incurred. Software development costs incurred subsequent to the establishment of technological feasibility, but prior to general release of the product, are capitalized and amortized to cost of software license revenues over the estimated useful life of the related products. As of December 31, 1998 and 1999, costs eligible for capitalization were not material.

Accounting for Stock Compensation The Company accounts for stock-based awards to employees using the intrinsic value method as prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation expense is recorded for options issued to employees in fixed amounts to the extent that the fixed exercise prices are less than the fair market value of the Company's common stock at the date of grant. The Company follows the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" (Note 7). All stock-based awards to nonemployees are accounted for at their fair value in accordance with SFAS No. 123 and related interpretations.

Advertising Expense

The Company expenses advertising costs as incurred. During the years ended December 31, 1997, 1998 and 1999, advertising expense totaled $48,000, $407,000 and $1,334,000, respectively.

Income Taxes

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance against deferred tax assets is recorded if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company does not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries, which the Company considers to be permanent investments.

Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," requires the reporting of comprehensive income (loss) in addition to net income (loss). For the years ended December 31, 1997, 1998 and 1999, the Company had no other comprehensive income items which were material to its financial position or results of operations. Accordingly, the adoption of SFAS No. 130 had no impact on the Company's consolidated financial statements.

Foreign Currency Translation The Company's functional currency is the U.S. dollar for all of its subsidiaries. Substantially all of the Company's revenues are invoiced and collected in U.S. dollars. Assets and liabilities of foreign subsidiaries which are denominated in foreign currencies are remeasured into U.S. dollars at rates of exchange in effect at the end of the year. Revenue and expense amounts are remeasured using an average of exchange rates in effect during the period. Net realized and unrealized gains and losses resulting from foreign currency remeasurement are included in the consolidated statement of operations as other income or expense.

Net Loss Per Common Share--Historical The Company computes net loss per common share in accordance with SFAS 128 "Earnings per Share." Under the provisions of SFAS 128, basic net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding. There is no difference between basic and diluted net loss per share since potential common shares from the conversion of redeemable convertible preferred stock and the exercise of options and warrants were antidilutive for all periods presented. The calculation of diluted net loss per common share for the year ended December 31, 1997 does not include 3,296,356, 777,237 and 7,375,500 potential shares of common stock equivalents related to common stock options, common stock warrants and redeemable convertible preferred stock, respectively. The calculation of diluted net loss per common share for the year ended December 31,

1998 does not include 3,396,882, 807,237 and 9,854,565 potential shares of common stock equivalents related to common stock options, common stock warrants and redeemable convertible preferred stock, respectively. The calculation of diluted net loss per common share for the year ended December 31, 1999 does not include 4,836,202, 807,237 and 13,870,477 potential shares of common stock equivalents, related to common stock options, common stock warrants and redeemable convertible preferred stock, respectively.

Unaudited Pro Forma Net Loss Per Common Share The unaudited pro forma net loss per common share for the year ended December 31, 1999 is calculated assuming the automatic conversion of all preferred stock outstanding had occurred as of the beginning of the year or as of the date of issuance of the preferred stock, if later. Therefore, accretion on the redeemable convertible preferred stock is excluded from the calculation of pro forma net loss per common share. The redeemable convertible preferred stock automatically converts into one and one half shares of common stock upon the completion of the Company's initial public offering (Note 5).

Unaudited Pro Forma Balance Sheet Under the terms of the Company's redeemable convertible preferred stock (Note 5), all shares of such preferred stock will automatically convert into common stock upon completion of the Company's initial public offering of common stock. The unaudited pro forma balance sheet reflects the conversion of the outstanding shares of redeemable convertible preferred stock into 13,870,477 shares of common stock, as if the conversion had occurred on December 31, 1999. In addition, the unaudited pro forma balance sheet reflects the filing of an amended certificate of incorporation in connection with the effectiveness of the registration statement for the Company's initial public offering, wherein the total authorized shares of common stock will be increased to 100,000,000. The amended certificate of incorporation also will authorize 10,000,000 shares of undesignated preferred stock.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Components particularly subject to estimation include estimates of costs to complete custom software development arrangements and fair values of the Company's equity instruments. Actual results could differ from those estimates and would impact future results of operations and cash flows.

Recent Accounting Pronouncements In December 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position No 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition, with Respect to Certain Transactions" ("SOP 98-9"). SOP 98-9 amends SOP 97-2 to require recognition of revenue using the "residual method" in circumstances outlined in SOP 98-9. Under the residual method, revenue is recognized as follows: (1) the total fair value of undelivered elements, as indicated by vendor specific objective evidence, is deferred and subsequently recognized in accordance with the relevant sections of SOP 97-2 and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. SOP 98-9 is effective for transactions entered into during years beginning after March 15, 1999 (year 2000 for the Company), however, early adoption is permitted. The Company has adopted SOP 98-9.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133, as recently amended by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133," is effective for fiscal years beginning after June 15, 2000. Because the Company does not currently hold any derivative instruments and does not currently engage in hedging activities, it expects the adoption of SFAS No. 133 will not have a material impact on its financial position or operating results.

3. Fixed Assets

Fixed assets consist of the following:

	Estimated useful life (years)	December 31, 1998	December 31, 1999
		(in thousands)	
Computer and office equipment	3	$ 606	$3,157
Computer and office equipment under capital leases	3	765	765
Furniture and fixtures	5	410	959
Furniture and fixtures under capital leases	5	35	35
		1,816	4,916
Less--accumulated depreciation and amortization		723	1,508
		$1,093	$3,408

Depreciation and amortization expense for the years ended December 31, 1997, 1998 and 1999 was $243,000, $466,000 and $785,000, respectively, of which $156,000 related to fixed assets under capital leases in 1997, and $262,000 related to fixed assets under capital leases for 1998 and 1999.

Assets under capital leases collateralize the related lease obligations.

4. Accrued Expenses

Accrued expenses consist of the following:

December 31, 1998 1999 (in thousands) Accrued compensation..... $ 499 $1,104 Accrued other..... 311 988 $ 810 $2,092

Speechworks International, Inc.

Notes to Consolidated Financial Statements--(continued)

5. Redeemable Convertible Preferred Stock Redeemable convertible preferred stock, $0.001 par value, consists of the following:

December 31, 1998 1999 (in thousands) Series D; 0 and 2,800,000 shares authorized; 0 and 2,671,397 shares issued and outstanding at December 31, 1998 and 1999, respectively..... $ -- $24,761 Series C; 1,626,092 shares authorized; 1,620,210 and 1,626,092 shares issued and outstanding at December 31, 1998 and 1999, respectively..... 7,120 7,560 Series B; 2,474,500 shares authorized, issued and outstanding at December 31, 1998 and 1999, respectively..... 7,665 8,073 Series A; 2,475,000 shares authorized, issued and outstanding at December 31, 1998 and 1999, respectively..... 2,964 3,113 $17,749 $43,507 The Series D redeemable convertible preferred stock (the "'Series D preferred stock"), the Series C redeemable convertible preferred stock (the "Series C preferred stock"), the Series B redeemable convertible preferred stock (the "Series B preferred stock") and the Series A redeemable convertible preferred stock (the "Series A preferred stock") are hereinafter referred to collectively as the "redeemable preferred stock." At December 31, 1999, the redeemable preferred stock had the following characteristics:

Conversion Rights

Each share of redeemable preferred stock is convertible, at the option of the holder, into one and one-half shares of common stock of the Company, subject to certain anti-dilution adjustments. The redeemable preferred stock will automatically convert into common stock upon the closing of a qualified initial public offering under which net proceeds equal or exceed $30,000,000. Additionally, the Series D preferred stock carries a provision in which the stockholders' conversion rate can be adjusted. If the Company receives proceeds from an initial public offering or acquisition below a pre-determined amount, the Series D will convert at a rate higher than one and one-half shares of common stock for one share of Series D, subject to a formula.

Dividend Rights

The holders of the redeemable preferred stock are entitled to receive dividends at a rate of 6% per annum in preference to the common stockholders. These dividends are cumulative and accrue on a daily basis from the date of issuance whether or not declared. Cumulative unpaid dividends on the redeemable preferred stock of $932,000, $649,000, $1,257,000 and $638,000 have been charged to accumulated deficit and are included in the carrying value of the Series D, Series C, Series B and Series A preferred stock, respectively, at December 31, 1999.

Voting Rights

The holders of redeemable preferred stock generally vote together with the holders of common stock on all matters and are entitled to one vote for each share of common stock into which the redeemable preferred stock is convertible.

Liquidation Rights

In the event of liquidation, dissolution, merger, sale or winding up of the Company, the holders of the Series D preferred stock are entitled to receive, prior to and in preference to any distribution to the holders of the Series C preferred stock, Series B preferred stock, Series A preferred stock and common stock, $8.92 per share (subject to certain anti-dilution adjustments) plus any accrued but unpaid dividends.

Upon the payment of all required liquidating amounts to the Series D preferred stockholders, the holders of Series C preferred stock are entitled to receive, prior to and in preference to any distribution to the holders of the Series B preferred stock, Series A preferred stock and common stock, $4.25 per share (subject to certain anti-dilution adjustments) plus any accrued but unpaid dividends.

Upon the payment of all required liquidating amounts to the Series C preferred stockholders, the holders of the Series B preferred stock are entitled to receive, prior to and in preference to the holders of the Series A preferred stock and common stock, $2.75 per share (subject to certain anti- dilution adjustments) plus any accrued but unpaid dividends.

Upon the payment of all required liquidating amounts to the Series B preferred stockholders, the holders of the Series A preferred stock are entitled to receive, prior to and in preference to the holders of common stock, $1.00 per share (subject to certain anti-dilution adjustments) plus any accrued but unpaid dividends. Any net assets remaining after the payment of preferential amounts to the holders of the redeemable preferred stock shall be shared ratably by the Series A preferred stockholders and common stockholders.

Redemption Rights

At any time on or after March 31, 2002, subject to their majority vote as a single class, holders of outstanding shares of each series of redeemable preferred stock shall have the right to cause the Company to redeem such shares in one-third increments over a three-year period at the respective original issue price per share plus any accrued but unpaid dividends.

6. Common Stock

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are not entitled to receive dividends unless declared by the Board of Directors. Any such dividends would be subject to the preferential dividend rights of the preferred stockholders.

Stock Split

In January 2000, the Company effected a three-for-two stock split of all common stock. In accordance with the terms of the redeemable preferred stock agreements, conversion rights to all series of redeemable preferred stock were increased. After the stock split, each share of redeemable preferred stock is convertible into one and one half shares of common stock. All common stock share amounts in these consolidated financial statements have been restated to reflect this stock split.

Right of First Refusal At December 31, 1999, the Company's outstanding common stock is subject to certain restrictions as to sale or transfer. The Company and its stockholders are entitled to a right of first refusal to purchase shares offered for sale at the offer price.

Warrants

In connection with a leasing agreement entered in 1996, the Company issued a warrant to purchase 36,000 shares of its common stock at a price of $0.67 per share. The warrant is subject to certain anti-dilution adjustments and may be exercised, in whole or in part, on or before October 2002. The value ascribed to this warrant upon its issuance, utilizing the Black-Scholes valuation model, was not significant.

In January 1997, the Company issued to a customer a warrant to purchase 741,237 shares of the Company's common stock at a price of $2.05 per share, subject to certain anti-dilution adjustments. This warrant may be exercised at the option of the holder, in whole or in part, at any time on or before January 2002, subject to a maximum of three exercises. However, the Company retains the right to call this warrant in connection with an initial public offering, provided 45 days advance notice is given to the warrant holder, at a redemption price equal to 500% of the unexercised warrant shares multiplied by the exercise price upon the closing of the initial public offering. At any time, the Company may, at

its option, except as noted above, redeem the warrant at a redemption price equal to 200% of the market value of this warrant. The value ascribed to this warrant upon its issuance, utilizing the Black-Scholes valuation model, was not significant.

In November 1998, in connection with the acquisition of the name "SpeechWorks," the Company issued a warrant to an unrelated third party to purchase 30,000 shares of the Company's common stock at a price of $2.83 per share, subject to certain anti-dilution adjustments. This warrant may be exercised at the option of the holder, in whole or in part, at any time on or before November 2003. The value ascribed to this warrant upon its issuance, utilizing the Black-Scholes valuation model, was not significant.

Reserved Shares

At December 31, 1999, the Company had 19,834,932 shares of its common stock reserved for issuance upon exercise of options issued or issuable under the Company's stock option plans, upon conversion of authorized redeemable convertible preferred stock and upon exercise of common stock warrants.

7. Stock Option Plans During August 1995, the Company adopted the 1995 Stock Option Plan (the "1995 Plan"). The 1995 Plan provides for the grant of incentive stock options ("ISOs") as well as non-qualified options to employees, directors and other individuals providing services to the Company. The Board of Directors determines the term of each option, exercise price, number of shares for which each option is granted, whether restrictions will be imposed on the shares subject to options and the rate at which each option is exercisable. The exercise price for ISOs cannot be less than the fair market value per share of the underlying common stock on the date granted (110% of fair market value for ISOs granted to holders of more than 10% of the voting stock of the Company). The term of ISOs cannot exceed ten years (five years for ISOs granted to holders of more than 10% of the voting stock of the Company). A maximum of 5,157,218 shares of common stock have been reserved for issuance upon the exercise of options granted under the 1995 Plan.

A summary of the status of options granted under the Company's stock option plan as of December 31, 1997, 1998 and 1999 and changes during the years then ended is presented below:

	1997		1998		1999	
	Number of shares (in thousands)	Weighted-average exercise price	Number of shares (in thousands)	Weighted-average exercise price	Number of shares (in thousands)	Weighted-average exercise price
Outstanding at beginning of year	2,292	$0.07	3,296	$0.15	3,397	$0.35
Granted	1,005	0.35	1,150	0.69	2,795	2.51
Exercised	--	--	(987)	0.07	(801)	0.10
Canceled	(1)	0.07	(62)	0.19	(555)	1.47

Outstanding at end of year	3,296	$0.15	3,397	$0.36	4,836	$1.51
Options exercisable at end of year	1,406	$0.10	1,265	$0.17	1,423	$0.51
Weighted average fair value of options granted during the year		$0.11		$0.21		$0.65

The following table summarizes information about stock options outstanding at December 31, 1999:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding (in thousands)	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable (in thousands)	Weighted average exercise price
$0.067--0.33	1,369	6.73	$0.22	970	$0.19
0.43--0.83	1,407	8.68	0.73	381	0.65
1.50--2.17	1,160	9.61	2.01	2	2.17
4.00--4.00	630	9.80	4.00	10	4.00
4.13--4.13	270	9.25	4.13	60	4.13
$0.067--$4.13	4,836	8.53	$1.51	1,423	$0.51

Under APB Opinion No. 25, no compensation expense was recognized for the years ended December 31, 1997 and 1998, and compensation expense of $508,000 was recognized for option grants made during the year ended December 31, 1999. Had compensation expense for these awards been determined based on the fair value at the date of grant consistent with the method prescribed by SFAS No. 123, the Company's net loss attributable to common stockholders and net loss per common share for the years ended December 31, 1997, 1998 and 1999 would have increased to the pro forma amounts indicated below:

	1997		1998		1999	
	Net loss attributable to common stockholders	Net loss per common share	Net loss attributable to common stockholders	Net loss per common share	Net loss attributable to common stockholders	Net loss per common share
	(in thousands, excpet per share data)					
As reported	$(3,053)	$(0.83)	$(6,549)	$(1.44)	$ (17,367)	$(3.28)
Pro forma	(3,089)	(0.84)	(6,664)	(1.47)	(17,719)	(3.34)

For this purpose, the fair value of options at the date of grant was estimated using the minimum value method with the following weighted-average assumptions for 1997, 1998 and 1999: risk-free interest rates of 4.2% to 5.6%, 5.7% to 6.2% and 4.25% to 6.0%, respectively; no dividend yields or volatility factors; and weighted-average expected life of the options of 5 years, 5 years and 7.53 years, respectively. However, because the determination of the fair value of all options granted after the Company becomes a publicly-traded entity will include an expected volatility factor, because most

options vest over periods of up to four years and because additional option grants are expected to be made subsequent to December 31, 1999, the pro forma effects of applying the fair value method may be materially different in future years.

8. Commitments

Operating Leases

The Company leases its primary office space under noncancelable operating leases which expire through September 30, 2004. Under the terms of the lease relating to its main facility, the Company is required to maintain an irrevocable standby letter of credit stating the lessor as the beneficiary. The letter of credit must be in the amount of $160,000 through December 31, 1999, with such amount being reduced by $40,000 each succeeding year through the expiration of the lease.

During 1999, the Company leased additional office space under a noncancelable operating lease which expires in 2004. Under the terms of the lease, the Company is required to maintain an irrevocable letter of credit stating the lessor as beneficiary. The letter of credit must be in the amount of $413,500 through September 2001, with such amount reduced by $100,000 after September 2001 and an additional $100,000 after September 2002.

During 1999, the Company leased office space in Montreal, Canada under a noncancelable operating lease which expires in 2010. Under the terms of the lease, the Company is required to maintain an irrevocable letter of credit stating the lessor as beneficiary. The letter of credit must be in the amount of $240,000 through November 2009, with such amount reduced by $24,000 each succeeding year through expiration of the lease.

Rent expense under operating leases was $170,800, $488,000 and $1,050,000 for the years ended December 31, 1997, 1998 and 1999, respectively.

Capital Leases

In 1996 and 1997, the Company entered into equipment lease agreements with a leasing company. At December 31, 1998 and 1999, the Company had no remaining availability under either of these capital lease agreements.

Future minimum lease obligations under capital and operating leases as of December 31, 1999 are as follows:

Year	Capital leases (in thousands)	Operating leases
2000	$193	$ 1,605
2001	--	1,801
2002	--	2,207

2003	--	2,267
2004	--	1,657
Thereafter	--	583
Total minimum lease payments	193	$10,120
Less--amount representing interest	10	
Present value of minimum lease payments	$183	

Royalty Agreement

In August 1994, the Company entered into a license agreement last amended in July 1996 under which the Company obtained a nonexclusive right to use certain software technology through the term of the licensor's copyrights on such technology. In exchange, the Company is required to pay royalties on net sales of licensed product. These royalties begin at 5% of licensed product sales and decrease as a percentage of sales based on cumulative life to date sales. In addition, the Company is required to pay annual minimum royalties totaling $90,000 and $80,000 for the years ended December 31, 1999 and 2000, respectively, and $50,000 annually thereafter. These payments can be used to offset future royalties payable under the agreement. Under the amended agreement, the Company recorded royalty expense totaling $54,000, $52,000 and $93,000 during the years ended December 31, 1997, 1998 and 1999, respectively. Also, in 1999, cost of product license revenue included a $60,000 payment to a client as a royalty for our resale of an application originally developed for that client.

9. Notes Payable and Line of Credit In March 1999, the Company entered into an equipment financing agreement with a bank. Under this agreement, the Company entered into two lines of credit under which the Company obtained the right to draw down up to $1,500,000 to finance purchases of fixed assets. Borrowings under these lines are collateralized by the fixed assets purchased and bear interest at an annual rate of prime plus 0.75% (8.50% at December 31, 1999) which is payable monthly. Borrowings made between March 1999 and May 1999 and between June 1999 and November 1999 converted into term loans on May 31, 1999 and November 30, 1999, respectively, at which point monthly payments of principal plus interest are due over a period of 36 months. During 1999, the Company borrowed the entire $1,500,000 available under these lines. At December 31, 1999, $1,333,000 was outstanding under the resulting notes payable; maturing $500,000 in 2000, $500,000 in 2001 and $333,000 in 2002. Under the financing agreement, the Company is obligated to comply with certain financial covenants; the Company was in full compliance with these covenants at December 31, 1999.

Also in March 1999, the Company entered into a $750,000 revolving line of credit with the same bank. A loan modification in November 1999 increased the line of credit to $1,300,000. Amounts available for borrowing are based upon certain eligible accounts receivable. Borrowings under the revolving line of credit bear interest at the bank's prime rate plus 0.5% (8.50% at December 31, 1999), and all outstanding borrowings are due March 30, 2000. At December 31, 1999, no amounts were outstanding under the revolving line of credit and $1,060,000 was available for borrowing.

Notes to Consolidated Financial Statements--(continued)

10. Segment Reporting The Company operates in a single segment and has no organizational structure dictated by product lines, geography or customer type.

The following table presents total revenue and long-lived assets, excluding intangible assets, information by geographic area as of and for the years ended December 31, 1997, 1998 and 1999:

	Total Revenue			Long-Lived Assets		
	1997	1998	1999	1997	1998	1999
	(in thousands)					
Domestic	$2,042	$5,850	$13,649	$675	$1,268	$3,499
International	--	--	362	--	29	460
	$2,042	$5,850	$14,011	$675	$1,297	$3,959

International revenue is based on the country in which the sale originates.

11. Income Taxes

The Company is a cash basis taxpayer for federal and state income tax purposes. As a result of taxable losses generated, the Company has not recorded any provisions for income taxes for the years ended December 31, 1997, 1998 and 1999. The following is a reconciliation between the amount of the Company's income taxes utilizing the U.S. federal statutory rate and the Company's actual provision for income taxes for the years ended December 31, 1997, 1998 and 1999:

December 31,	1997	1998	1999
	(in thousands)		
At U.S. federal statutory rate	$ (857)	$(1,958)	$(5,328)
State taxes, net of federal effect	(156)	(386)	(1,045)
Effect of change in valuation allowance	1,060	2,431	6,416
Other	(47)	(87)	(43)
Provision for income taxes	$ --	$ --	$ --

The Company's net deferred tax assets consist of the following:

December 31,	1998	1999
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 4,080	$ 9,524
Tax credit carryforwards	250	638
Accrual to cash adjustment	--	364
Other	2	30
Gross deferred tax assets	4,332	10,556
Deferred tax asset valuation allowance	(4,140)	(10,556)
Net deferred tax asset	192	--
Deferred tax liabilities:		
Accrual to cash adjustment	(192)	--
Total net deferred tax asset	$ --	$ --

At December 31, 1999 and 1998, the Company provided a valuation allowance for the full amount of its net deferred tax assets since, based on the weight of available evidence, management cannot conclude that it is more likely than not that these future benefits will be realized.

At December 31, 1999, the Company has federal and state net operating loss carryforwards of $23,400,000 and $22,800,000, respectively, available to reduce future income, which expire beginning in 2011 and 2001, respectively. The Company also has federal and state research and development credit carryforwards of $352,000 and $365,000, respectively, available to reduce future income tax liabilities, which expire beginning in 2013.

The Company also has non-US loss carryforwards and tax credits of $2,200,000 and $45,000 that begin to expire in 2007 and 2010, respectively. Under the Internal Revenue Code, certain substantial changes in the Company's ownership could result in an annual limitation on the amount of net operating loss and tax credit carryforwards which can be utilized in future years to offset future taxable income and tax liabilities.

12. 401(k) Savings Plan The Company has established a retirement savings plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). The 401(k) Plan covers substantially all employees of the Company who meet minimum age and service requirements, and allows participants to defer a portion of their annual compensation on a pre-tax basis. Company contributions to the 401(k) Plan may be made at the discretion of the Board of Directors. The Company has not made any contributions to the 401(k) Plan through December 31, 1999.

13. Subsequent Events On April 11, 2000, the Company sold 2,544,681 shares of its Series E redeemable convertible preferred stock (the "Series E preferred stock") for net proceeds of $19,930,000. The rights and preferences of the Series E preferred stock are substantially the same as those of the Series A preferred stock, Series B preferred stock and Series C preferred stock as described in Note 5, except that the Series E preferred stock is convertible into common stock on a one for one basis. In the event of any liquidation, dissolution or winding-up of the Company, the holders of Series E preferred stock have a liquidation preference above the Series A preferred stock, Series B preferred stock, Series C preferred stock, Series D preferred stock and common stock, and are entitled to receive $7.86 per share. Because the deemed fair value of the Company's common stock for financial reporting purposes was greater than the issuance price of the Series E preferred stock, the Company will record a beneficial conversion feature of $5.2 million on the Series E preferred stock, which will be treated as a preferred stock dividend as of the date of issue, thus increasing the net loss attributable to common stockholders.

On April 14, 2000, the Board of Directors approved the 2000 Employee, Director and Consultant Stock Option Plan, subject to stockholder approval. A total of 4,000,000 shares of common stock have been reserved for issuance under this plan.

This page will include SpeechWorks' client and partner logos.

At the bottom of the page, centered text will read:

SpeechWorks The Market Share Leader in Telephony-Based Automatic Speech Recognition Frost & Sullivan Report: U.S. Telephony-Based Speech Technology Software Markets, April 2000 Shares

[Speechworks Logo]

Common Stock

Prospectus

Chase H&Q

J.P. Morgan & Co.

U.S. Bancorp Piper Jaffray , 2000 You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common shares or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

Until , 2000, all dealers that buy, sell or trade in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth an itemization of all estimated expenses, all of which we will pay, in connection with the issuance and distribution of the securities being registered:

SEC registration fee	$22,770
Nasdaq National Market listing fee	*
NASD filing fee	9,125
Printing and engraving fees	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue sky fees and expenses	10,000
Transfer agent and registrar fees	*
Director and officer insurance	*
Miscellaneous	*
Total	*

*To be furnished by amendment All of the above figures, except the SEC registration fee, NASD filing fee and Nasdaq National Market listing fee, are estimates.

Item 14. Indemnification of Directors and Officers.

Our certificate of incorporation provides that we shall indemnify to the fullest extent authorized by the Delaware General Corporation Law, each person who is involved in any litigation or other proceeding because such person is or was a director or officer of SpeechWorks or is or was serving as an officer or director of another entity at our request, against all expense, loss or liability reasonably incurred or suffered in connection therewith. Our certificate of incorporation provides that the right to indemnification includes the right to be paid expenses incurred in defending any proceeding in advance of its final disposition, provided, however, that such advance payment will only be made upon delivery to us of an undertaking, by or on behalf of the director or officer, to repay all amounts so advanced if it is ultimately determined that such director is not entitled to indemnification. If we do not pay a proper claim for indemnification in full within 60 days after we receive a written claim for such indemnification, the certificate of incorporation and our bylaws authorize the claimant to bring an action against us and prescribe what constitutes a defense to such action.

Section 145 of the Delaware General Corporation Law permits a corporation to indemnify any director or officer of the corporation against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any action, suit or proceeding brought by reason of the fact that such person is or was a director or officer of the corporation, if such person acted in good faith and in a manner that he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, if he or she had no reason to believe his or her conduct was unlawful. In a derivative action, (i.e., one brought by or on behalf of the corporation), indemnification may be provided only for expenses actually and reasonably incurred by any director or officer in connection with the defense or settlement of such an action or suit if such person acted in good faith and in a manner that he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification shall be provided if such person shall have been adjudged to be liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine that the defendant is fairly and reasonably entitled to indemnity for such expenses despite such adjudication of liability.

Pursuant to Section 102(b)(7) of the Delaware General Corporation Law, Article Tenth of our certificate of incorporation eliminates the liability of a director to us or our stockholders for monetary damages for such a breach of fiduciary duty as a director, except for liabilities arising:

. from any breach of the director's duty of loyalty to us or our stockholders, . from acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, . under Section 174 of the Delaware General Corporation Law, and . from any transaction from which the director derived an improper personal benefit.

We carry insurance policies insuring our directors and officers against certain liabilities that they may incur in their capacity as directors and officers.

Additionally, reference is made to the Underwriting Agreement filed as Exhibit 1.1 hereto, which provides for indemnification by the underwriters of SpeechWorks, our directors and officers who sign the Registration Statement and persons who control SpeechWorks, under certain circumstances.

Item 15. Recent Sales of Unregistered Securities.

In the three years preceding the filing of this Registration Statement, we have sold the following securities that were not registered under the Securities Act as summarized below. The share information provided below reflects the three-for-two split of the common stock effected on January 5, 2000. Upon completion of this offering our outstanding securities will automatically convert as follows:

. each share of series A Convertible Participating Preferred Stock will convert into 1.5 shares of common stock;

. each share of series B Convertible Preferred Stock will convert into 1.5 shares of common stock;

. each share of series C Convertible Preferred Stock will convert into 1.5 shares of common stock;

. each share of series D Convertible Preferred Stock will convert into 1.5 shares of common stock; and . each share of series E Convertible Preferred Stock will convert into one share of common stock.

(a)Issuances of Capital Stock and Warrants On September 30, 1996, February 14, 1997 and April 22, 1998 we issued and sold a total of 2,474,500 shares of series B convertible preferred stock to nine investors at a price per share of $2.75 in a private placement for total proceeds of $6,804,875.

On May 8 and July 28, 1998 and January 9, 1999, we issued and sold a total of 1,626,092 shares of series C convertible preferred stock to 12 investors at a price per share of $4.25 in a private placement for total proceeds of $6,910,891.

On November 8, 1998, we issued a warrant to purchase 30,000 shares of common stock to SoundWorks USA, Inc. in connection with our acquisition of the "speechworks.com" domain name.

On April 29, June 21 and June 29, 1999, we issued and sold a total of 2,671,389 shares of series D convertible preferred stock to 10 investors at a price per share of $8.92 in a private placement for total proceeds of $23,828,790.

On January 5, 2000, we effected a three-for two stock split of our outstanding common stock in which each two outstanding shares of common stock were split into three shares of common stock.

On April 11, 2000, we issued and sold a total of 2,544,681 shares of series E convertible preferred stock to 17 investors at a price per share of $7.86 in a private placement for total proceeds of $20,001,193.

(b)Certain Grants and Exercises of Stock Options As of April 14, 2000 we have issued options to purchase a total of 4,699,315 shares of common stock under our stock plans, 1,343,734 of which are currently exercisable, at a weighted average exercise price of $1.77 per share.

The sale and issuance of the above securities were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving a public offering or transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and instruments issued in such transactions. All recipients had adequate access to information about us.

Item 16. Exhibits and Financial Statement Schedules.

(a)Exhibits

Exhibit Number Description of Exhibit

*1.1	Form of Underwriting Agreement
3.1	Restated Certificate of Incorporation of SpeechWorks International, Inc.
*3.2	Restated Certificate of Incorporation of SpeechWorks International, Inc. to be filed prior to completion of the offering
3.3	Bylaws of SpeechWorks International, Inc.
*3.4	Amended and Restated Bylaws of SpeechWorks International, Inc. to be effective upon completion of the offering
*4.1	Form of Common Stock Certificate
*5.1	Opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. with respect to the legality of securities being registered
*+10.1	License Agreement, dated August 3, 1994, between the Registrant and Massachusetts Institute of Technology, as amended
10.2	Fourth Amended and Restated Registration Rights Agreement, dated as of April 11, 2000, among the Registrant and the investors party thereto
10.3	Lease Agreement, dated February 21, 1997, between the Registrant and Landman Omnibus V Limited Partnership
10.4	Sublease Agreement, dated April 1, 1998, between the Registrant and Exchange Applications, Inc.
10.5	Amended and Restated 1995 Stock Option Plan
*10.6	2000 Employee, Director and Consultant Stock Option Plan
*10.7	2000 Employee Stock Purchase Plan
10.8	Employment Agreement, dated September 2, 1997, between the Registrant and Stuart R. Patterson
10.9	Form of Incentive Stock Option Agreement
21.1	Subsidiaries
23.1	Consent of PricewaterhouseCoopers LLP
*23.2	Consent of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. (see Exhibit 5.1)

24.1	Powers of Attorney (See page II-5)	
27.1	Financial Data Schedule	

* To be filed by amendment.

+ Confidential treatment requested as to certain portions, which portions are omitted and filed separately with the commission.

(b)Financial Statement Schedules Financial Statement Schedules are omitted because the information required thereby is either not applicable or is included in our consolidated financial statements or notes to those consolidated financial statements.

Item 17. Undertakings The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 14 above, or otherwise, the registrant 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. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Boston, Massachusetts, on April 19, 2000.

Speechworks International, Inc.

By: /s/ Stuart R. Patterson Stuart R. Patterson Chief Executive Officer

Power of Attorney

We the undersigned officers and directors of SpeechWorks International, Inc., hereby severally constitute and appoint Stuart R. Patterson and Rick Olin, and each of them singly (with full power to each of them to act alone), our true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution in each of them for him and in his name, place and stead, and in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement (or any other Registration Statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as full to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys- in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities held on the dates indicated.

Signature Title Date

/s/ Stuart R. Patterson _____ Stuart R. Patterson	Chief Executive Officer, President and Director (principal executive officer)	April 19, 2000
/s/ Richard J. Westelman _____ Richard J. Westelman	Chief Financial Officer (principal financial and accounting officer)	April 19, 2000
/s/ Michael S. Phillips _____ Michael S. Phillips	Chief Technology Officer and Director	April 19, 2000

/s/ William J. O'Farrell Chairman of the Board April 19, 2000 William J. O'Farrell /s/ Axel Bichara Director April 19, 2000 Axel Bichara /s/ Richard Burnes Director April 19, 2000 Richard Burnes /s/ Robert Finch Director April 19, 2000 Robert Finch /s/ John C. Freker, Jr. Director April 19, 2000 John C. Freker, Jr.

Exhibit Index

Exhibit Number Description of Exhibit

*1.1	Form of Underwriting Agreement
3.1	Restated Certificate of Incorporation of SpeechWorks International, Inc.

*3.2	Restated Certificate of Incorporation of SpeechWorks International, Inc. to be filed prior to completion of the offering
3.3	Bylaws of SpeechWorks International, Inc.
*3.4	Amended and Restated Bylaws of SpeechWorks International, Inc. to be effective upon completion of the offering
*4.1	Form of Common Stock Certificate
*5.1	Opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. with respect to the legality of securities being registered
*+10.1	License Agreement, dated August 3, 1994, between the Registrant and Massachusetts Institute of Technology, as amended
10.2	Fourth Amended and Restated Registration Rights Agreement, dated as of April 11, 2000, among the Registrant and the investors party thereto
10.3	Lease Agreement, dated February 21, 1997, between the Registrant and Landman Omnibus V Limited Partnership
10.4	Sublease Agreement, dated April 1, 1998, between the Registrant and Exchange Applications, Inc.
10.5	Amended and Restated 1995 Stock Option Plan
*10.6	2000 Employee, Director and Consultant Stock Option Plan
*10.7	2000 Employee Stock Purchase Plan
10.8	Employment Agreement, dated September 2, 1997, between the Registrant and Stuart R. Patterson
10.9	Form of Incentive Stock Option Agreement
21.1	Subsidiaries
23.1	Consent of PricewaterhouseCoopers LLP
*23.2	Consent of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. (see Exhibit 5.1)
24.1	Powers of Attorney (See page II-5)
27.1	Financial Data Schedule

* To be filed by amendment.

+ Confidential treatment requested as to certain portions, which portions are omitted and filed separately with the commission. </TEXT>