

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

OUTSOURCING AGREEMENT

BETWEEN:

MODUS MEDIA INTERNATIONAL
LANDDROSTLAAN 51
7327 GM APELDOORN
THE NETHERLANDS
(HEREINAFTER "MMI")

AND

DRAGON SYSTEMS, INC.
320 NEVADA STREET
NEWTON, MA 02160
U.S.A.
(HEREAFTER "DRAGON SYSTEMS")

EFFECTIVE AS OF (EFFECTIVE DATE)

1. PURPOSE OF AGREEMENT

Formalize the agreements made regarding services and products between Dragon Systems and MMI.

2. SERVICES

MMI will produce products for Dragon Systems on a Turnkey basis. Initially, services will cover 3 products, as per the attached price sheets. However, this may be extended.

Specific services will be:

- - Receipt and Management of master materials
- - Supply base management
- - Production (both components & finished goods)
- - Delivery
- - Inventory Management
- - Financial Services

Quality and Services Level Agreements will be based on mutual agreement.

3. DELIVERY

MMI shall deliver the Services in line with the agreed service levels to Dragon Systems.

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

4. ACCEPTANCE OF SERVICES

Dragon Systems may reject the Services if they do not comply with the specification set out by Dragon \s\ JB. The Services are deemed to be accepted if MMI does not receive a notification within 60 days after delivery to Dragon Systems or its customers.

5. PAYMENT AND PRICING

Dragon Systems will compensate MMI for all Services rendered in accordance with the rates specified in the Annex "Prices." Unless otherwise agreed, prices shall exclude transport, insurance, VAT and Import duties (outside EC countries) to Dragon Systems' designated delivery address.

For all materials in stock, older than 90 days, MMI will charge Dragon Systems with an Inventory Carriage Charge of [**] of its value per month.

MMI will invoice Dragon Systems based on actual shipments that have been performed.

Payments will be due in US dollars within 30 days after delivery, or when agreed after delivery of installments or the receipt of invoice by Dragon Systems, which ever is later. MMI shall invoice Dragon Systems indicating the performed services in US\$ with reference to this Agreement.

Dragon Systems shall be entitled to deduct from or set off against any sums which Dragon Systems may be liable to pay to MMI any amounts owed by MMI, its affiliated entities, subsidiaries or successors in interest.

6. WARRANTY

MMI warrants providing the Services with due diligence and care in accordance

DRAGON SYSTEMS, INC.

\s\ Janet M. Baker, President

12 Jan. 1998

5

-4-

NaturallySpeaking

Part Number	Description	1,000 units	2,500 units	5,000 units	10,000 units	25,000 units	50,000 units
-----	-----	-----	-----	-----	-----	-----	-----
	[**]						

6

-5-

Dictate Power

Part Number	Description	1,000 units	2,500 units	5,000 units	10,000 units	25,000 units	50,000 units
-----	-----	-----	-----	-----	-----	-----	-----
	[**]						

7

-6-

Dictate Classic

Part Number	Description	1,000 units	2,500 units	5,000 units	10,000 units	25,000 units	50,000 units
-----	-----	-----	-----	-----	-----	-----	-----
	[**]						

-7-