INTERVOICE INC
Form 10-Q/A
June 10, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(AMENDMENT No.1)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED
NOVEMBER 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ______ TO ______

COMMISSION FILE NUMBER: 1-15045

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

TEXAS	75-1927578
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

17811 WATERVIEW PARKWAY, DALLAS, TX 75252
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, WITH ZIP CODE)

972-454-8000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES [X] NO [ ]

THE REGISTRANT HAD 34,111,101 SHARES OF COMMON STOCK, NO PAR VALUE PER SHARE, OUTSTANDING AS OF JANUARY 9, 2003.

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EXPLANATORY NOTE

Intervoice, Inc. (the "Company") is amending its Quarterly Report on Form 10-Q for the quarter ended November 30, 2002 to reflect what the Company believes are immaterial adjustments to its systems backlog, which does not include the contracted value of future maintenance and managed services to be recognized by the Company, for each of the first three quarters of its fiscal year ended February 28, 2003. As a result of the adjustments, the Company's backlog for the quarters ended May 31, 2002, August 31, 2002 and November 30, 2002, was approximately $33.2 million, $33.5 million and $29.5 million, respectively, rather than approximately $32.0 million, $31.1 million and $30.1 million, respectively. The Company has also filed a separate Form 10-K/A to amend its Annual Report on Form 10-K for the year ended February 28, 2003 to reflect that its backlog at February 28, 2003 was approximately $33.5 million rather than approximately $37 million.

The Company's published quarterly and annual financial statements for the fiscal year ended February 28, 2003 do not include the reported amounts of backlog. Accordingly, the adjustments to backlog referred to in this note do not affect the Company's published quarterly or annual financial statements. Although the discussion in Item 2 of Form 10-Q is amended in its entirety, the only change is to reflect the correct amounts of backlog at the end of each of its first three fiscal quarters in the discussion under "Sales".

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

This report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Form 10-Q, including, without limitation, statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements" located elsewhere herein regarding the Company's financial position, business strategy, plans and objectives of management of the Company for future operations, and industry conditions, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. In addition to important factors described elsewhere in this report, the following significant factors, among others, sometimes have affected, and in the future could affect, the Company's actual results and could cause such results during fiscal 2003, and beyond, to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company:

- The Company has experienced recent operating losses and may not operate profitably in the future. The Company incurred net losses of approximately $44.7 million in fiscal 2002, $2.3 million in fiscal 2001 and $14.8 million in fiscal 2000. For the first nine months of fiscal 2003, the Company incurred a net loss of $48.6 million. The Company may continue to incur losses, which could hinder the Company's ability to operate its current business. The Company may not be able to generate sufficient revenues from its operations to achieve or sustain profitability in the future.

- The Company is obligated to make periodic payments of principal and interest under its financing agreements. The Company has material indebtedness outstanding under a mortgage loan secured by the Company's office facilities in Dallas, Texas and under a senior secured term loan facility. The Company is required to make periodic payments of interest under each of these financial agreements and, in the case of the term loan, periodic payments of principal. The Company may, from time to time, have additional indebtedness outstanding under its new revolving credit facility. The Company is not in default under any of the financing agreements and believes it will have the resources to make all required principal and interest payments. If, however, the Company at any time does default on any of its payment obligations or other obligations under any financing agreement, the creditors under the applicable agreement will have all rights available under the agreement, including acceleration, termination and enforcement of security interests. The financing agreements also have certain qualified cross-default provisions, particularly for acceleration of indebtedness under one of the other agreements. Under such circumstances, the Company's cash position and liquidity would be severely impacted, and it is possible the Company would not be able to pay its debts as they come due.

- The Company's financing agreements include significant financial and operating covenants and default provisions. In addition to the payment obligations, the Company's senior secured term loan and revolving credit facility and its mortgage loan facility contain significant financial covenants, operating covenants and default provisions. If the Company does not comply with any of these covenants and default provisions, the Company's secured lenders can accelerate all indebtedness outstanding under the facilities and foreclose on substantially all of the Company's assets. In order for the Company to comply with the escalating minimum EBITDA requirements in its senior secured credit facility, the Company will have to continue to increase revenues and/or lower expenses in future quarters. The Company has recognized approximately $17.6 million in special charges for the nine months ended November 30, 2002, including $4.9 million in its third fiscal quarter. While certain special charges may be excluded from the Company's calculation of minimum EBITDA under its credit facility, the effect on net income and stockholders' equity of such charges, including any future impairment charges associated with capitalized intangible assets that could be subjected to impairment reviews in future quarters, is not similarly excluded for purposes

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of calculating compliance with the minimum net equity provisions of the Company's mortgage loan. If the Company incurs significant special charges in future quarters, it may be unable to meet the minimum equity financial covenant under its mortgage loan. See the discussion of the Company's financing facilities set forth in "Liquidity and Capital Resources" in this Item 2.

- General business activity has declined. The Company's sales are largely dependent on the strength of the domestic and international economies and, in particular, on demand for telecommunications equipment, computers, software and other technology products. The market for telecommunications equipment has declined sharply, and the markets for computers, software and other technology products also have declined. In addition, there is concern that demand for the types of products offered by the Company will remain soft for some period of time as a result of

domestic and global economic and political conditions.

- In recent quarters, the Company has become increasingly prone to quarterly sales fluctuations. Many of the Company's transactions are completed in the same fiscal quarter as ordered. The size and timing of some transactions have historically caused sales fluctuations from quarter to quarter. While in the past the impact of these fluctuations was mitigated to some extent by the geographic and vertical market diversification of the Company's existing and prospective customers, the Company has become increasingly prone to quarterly sales fluctuations because of its sales to the telecommunications market. The quantity and size of large sales (sales valued at approximately $2.0 million or more) during any quarter can cause wide variations in the Company's quarterly sales and earnings, as such sales are unevenly distributed throughout the fiscal year. The Company's accuracy in estimating future sales is largely dependent on its ability to successfully qualify, estimate and close system sales during a quarter. Based on these difficulties, the Company has not disclosed forecasts of revenues or earnings for any future reporting period. See the discussion entitled "Sales" in this Item 2 for a discussion of the Company's "pipeline" of system sales opportunities.

- The Company is subject to potential and pending lawsuits and other claims. The Company is subject to certain potential and pending lawsuits and other claims discussed in Item 1 "Legal Proceedings" in Part II, and in the Company's other SEC filings. The Company believes that each of the pending lawsuits to which it is subject is without merit and intends to defend each matter vigorously. The Company may not prevail in any or all of the litigation or other matters. An adverse judgment in any of these matters, as well as the Company's expenses relating to its defense of a given matter, could have consequences materially adverse to the Company.

- The Company faces intense competition based on product capabilities and experiences ever increasing demands from its actual and prospective customers for its products to be compatible with a variety of rapidly proliferating computing, telephony and computer networking technologies and standards. The ultimate success of the Company's products is dependent, to a large degree, on the Company allocating its resources to developing and improving products compatible with those technologies, standards and functionalities that ultimately become widely accepted by the Company's actual and prospective customers. The Company's success is also dependent, to a large degree, on the Company's ability to implement arrangements with other vendors with complementary product offerings to provide actual and prospective customers greater functionality and to ensure that the Company's products are compatible with the increased variety of technologies and standards. The principal competitors for the Company's systems include AVAYA, IBM, Nortel Networks, Comverse Technology, Ericsson, Lucent Technologies and UNISYS. Many of the Company's competitors have greater financial, technological and marketing resources than the Company has. Although the Company has committed substantial resources to enhance its existing products and to develop and market new products, it may not be successful.

- The Company may not be able to retain its customer base and, in particular, its more significant customers, such as MMO2. The Company's success depends substantially on retaining its significant customers. The loss of one of the Company's significant customers could negatively impact the Company's results of operations. The Company's installed base of customers generally

is not contractually obligated to place further systems orders with the Company or to extend their services contracts with the Company at the expiration of their current contracts.

Sales to MMO2, formerly BT Cellnet, which purchases both systems and managed services from the Company, accounted for approximately 10% and 14% of the Company's total sales during the three month periods ended November 30, 2002 and 2001, respectively. Under the terms of its managed services contract with MMO2 and at current exchange rates, the Company will recognize revenues of approximately $0.9 million per month through July 2003, when, unless renewed, the contract will terminate. The amounts received under the agreement may vary based on future changes in the exchange rate between the dollar and the British pound.

o The Company's reliance on significant vendor relationships could result in significant expense or an inability to serve its customers if it loses these relationships. Although the Company generally uses standard parts and components for its products, some of its components, including semi-conductors and, in particular, digital signal processors manufactured by Texas Instruments and AT&T Corp., are available only from a small number of vendors. Likewise, the Company licenses speech recognition technology from a small number of vendors. To date, the Company has been able to obtain adequate supplies of needed components and licenses in a timely manner. If the Company's significant vendors are unable or cease to supply components or licenses at current levels, the Company may not be able to obtain these items from another source. Consequently, the Company would be unable to provide products and to service its customers, which would negatively impact its business and operating results.

o If third parties assert claims that the Company's products or services infringe on their technology and related intellectual property rights, whether the claims are made directly against the Company or against the Company's customers, the Company could incur substantial costs to defend these claims. If any of these claims is ultimately successful, a third party could require the Company to pay substantial damages, discontinue the use and sale of infringing products, expend significant resources to acquire non-infringing alternatives, and/or obtain licenses to use the infringed intellectual property rights. Moreover, where the claims are asserted with respect to the Company's customers, additional expenses may be involved in indemnifying the customer and/or designing and providing non-infringing products.

o The Company is exposed to risks related to its international operations that could increase its costs and hurt its business. The Company's products are currently sold in more than 75 countries. The Company's international sales, as a percentage of total Company sales, were 44% and 47% in the three months ended November 30, 2002 and 2001, respectively. International sales are subject to certain risks, including:

o fluctuations in currency exchange rates;

o the difficulty and expense of maintaining foreign offices and distribution channels;

o tariffs and other barriers to trade;

o greater difficulty in protecting and enforcing intellectual

property rights;

- general economic and political conditions in each country;
- loss of revenue, property and equipment from expropriation;
- import and export licensing requirements; and
- additional expenses and risks inherent in conducting operations in geographically distant locations, including risks arising from customers speaking different languages and having different cultural approaches to the conduct of business.

- The Company's inability to properly estimate costs under fixed price contracts could negatively impact its profitability. Some of the Company's contracts to develop application software and customized systems provide for the customer to pay a fixed price for its products and services regardless of whether the Company's costs to perform under the contract exceed the amount of the fixed price. If the Company is unable to estimate accurately the amount of future costs under these fixed price contracts, or if unforeseen additional costs must be incurred to perform under these contracts, the Company's ability to operate profitably under these contracts will be adversely affected. The Company has realized significant losses under certain customer contracts in the past and may experience similar significant losses in the future.

- The Company's inability to meet contracted performance targets could subject it to significant penalties. Many of the Company's contracts, particularly for managed services, foreign contracts and contracts with telecommunication companies, include provisions for the assessment of liquidated damages for delayed project completion and/or for the Company's failure to achieve certain minimum service levels. The Company has had to pay liquidated damages in the past and may have to pay additional liquidated damages in the future. Any such future liquidated damages could be significant.

- Increasing consolidation in the telecommunications and financial industries could affect the Company's revenues and profitability. The majority of the Company's significant customers are in the telecommunications and financial industries, which are undergoing increasing consolidation as a result of merger and acquisition activity. This activity involving the Company's significant customers could decrease the number of customers purchasing the Company's products and/or delay purchases of the Company's products by customers that are in the process of reviewing their strategic alternatives in light of a pending merger or acquisition. If the Company has fewer customers or its customers delay purchases of the Company's products as a result of merger and acquisition activity, the Company's revenues and profitability could decline.

- Government action and, in particular, action with respect to the Telecommunications Act of 1996 regulating the telecommunications industry could have a negative impact on the Company's business. Future growth in the markets for the Company's products will depend in part on privatization and deregulation of certain telecommunication markets worldwide. Any reversal or slowdown in the pace of this privatization or deregulation could negatively impact the markets for the Company's products. Moreover, the consequences of deregulation are subject to many

uncertainties, including judicial and administrative proceedings that affect the pace at which the changes contemplated by deregulation occur, and other regulatory, economic and political factors. Any invalidation, repeal or modification of the requirements imposed by the Telecommunications Act of 1996 could negatively impact the Company's business, financial condition and results of operations. Furthermore, the uncertainties associated with deregulation could cause the Company's customers to delay purchasing decisions pending the resolution of such uncertainties.

- Any failure by the Company to satisfy its registration, listing and other obligations with respect to the common stock underlying certain warrants could result in adverse consequences. Subject to certain exceptions, the Company is required to maintain the effectiveness of the registration statement that became effective June 27, 2002 covering the common stock underlying certain warrants to purchase up to 621,304 shares of the Company's common stock at a price of $4.0238 per share until the earlier of the date the underlying common stock may be resold pursuant to rule 144(k) under the Securities Act of 1933 or the date on which the sale of all the underlying common stock is completed. The Company is subject to various penalties for failure to meet its registration obligations and the related stock exchange listing for the underlying common stock, including cash penalties. The warrants are also subject to anti-dilution adjustments.

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RESULTS OF OPERATIONS

SALES. Beginning with the second quarter of fiscal 2003, the Company reorganized into a single, integrated business unit. This action was taken as part of the Company's efforts to reduce its operating costs and to focus its activities and resources on a streamlined product line. The Company continues to sell systems into its two major markets, the Enterprise and Network markets, and to sell related services. As a complement to its systems sales, the Company also provides and manages applications on a managed service provider (MSP) basis for customers preferring an outsourced solution.

The Company's total sales for the third quarter and first nine months of fiscal 2003 were $43.9 million and $118.0 million, respectively, a decrease of $14.1 million (24%) and $66.1 million (36%), respectively, as compared to the same periods of fiscal 2002. The Company's enterprise systems, networks systems and services sales totaled $13.1 million, $10.6 million and $20.2 million, respectively, for the third quarter of fiscal 2003, down 36%, 35% and 5%, respectively, from the third quarter of fiscal 2002. Services sales during the quarter included $2.9 million relating to services performed in prior periods for an international managed services customer for which the Company recognizes revenue on a cash basis. Quarterly revenue under this contract, if calculated on a straight accrual basis, would total approximately $1.1 million. Total systems sales increased $5.8 million (32%) from the second quarter of fiscal 2003, while services sales increased $2.6 million (14%). The decline in system sales from fiscal 2002 levels reflects the previously reported sharp decline in the Company's primary markets, particularly the decline in the market for telecommunications equipment, which the Company has experienced over the last year. The Company believes the market for telecommunications equipment will remain soft through fiscal 2004.

The net decline in services sales compared to fiscal 2002 levels is comprised of decreases in the Company's managed service revenues partially offset by increases in its warranty and related customer service revenue. The decline in

managed services revenues is attributable to a decrease in the volume of activity processed under certain of the Company's MSP contracts, including, particularly, its contract with MMO2 (formerly BT Cellnet). Managed service revenues under the MMO2 contract totaled approximately $0.9 million per month for the nine months ended November 30, 2002, down significantly from the same period of fiscal 2002 when such revenues totaled approximately $2.4 million per month. The lower fee will continue through July 2003 when, unless renewed, the contract expires. Total systems and services sales to MMO2 accounted for approximately 10% and 11% of the Company's total sales during the three and nine month periods ended November 30, 2002, and 14% for corresponding periods in fiscal 2002.

International sales comprised 44% of the Company's total sales during the third quarter and 43% for the first nine months of fiscal 2003, down slightly from approximately 47% of sales during similar periods for fiscal 2002. The decline is primarily attributable to lower sales volumes in Latin American and the Pacific Rim in fiscal 2003 as compared to fiscal 2002.

The Company uses a system combining estimated sales from its service and support contracts, "pipeline" of systems sales opportunities, and backlog of committed systems orders to estimate sales and trends in its business. Sales from service and support contracts, including contracts for MSP managed services, comprised approximately 46% of the Company's sales for the third quarter of fiscal 2003, down from 50% in the second quarter of 2003. The pipeline of opportunities for systems sales and backlog of systems sales comprised approximately 22% and 32% of sales, respectively, during the third quarter of fiscal 2003 and 18% and 32% of sales, respectively, during the second quarter of fiscal 2003. Each comprised approximately 30% of sales during fiscal 2002.

The Company's service and support contracts generally range in duration from one month to three years, with many longer duration contracts allowing customer cancellation privileges. It is easier for the Company to estimate service and support sales than to estimate systems sales for the next quarter because service and support contracts generally span multiple quarters and revenues recognized under each contract are generally similar from one quarter to the next. As described above, however, a significant portion of the Company's services revenue is derived from its contract with MM02. As a result of the significant reduction to quarterly revenues under the managed services contract with MMO2, the

Company will have to increase its sales under other service and support contracts with new or existing customers to maintain or increase service and support revenues in future quarters.

The Company's backlog is made up of customer orders for systems for which it has received complete purchase orders and which the Company expects to ship within twelve months. Backlog at November 30, 2002 was down slightly from August 2002 but up significantly over the backlog at November 30, 2001. Backlog (in millions) as of the end of the Company's fiscal quarters during fiscal 2003 and 2002 is as follows:

Backlog as of	Fiscal 2003	Fiscal 2002
May 31	33.2	31.0

August 31	33.5	25.4
November 30	29.5	21.0
February 28		26.0

The Company's pipeline of opportunities for systems sales is the aggregation of its sales opportunities, with each opportunity evaluated for the date the potential customer will make a purchase decision, competitive risks, and the potential amount of any resulting sale. No matter how promising a pipeline opportunity may appear, there is no assurance it will ever result in a sale. While this pipeline may provide the Company some sales guidelines in its business planning and budgeting, pipeline estimates are necessarily speculative and may not consistently correlate to revenues in a particular quarter or over a longer period of time. While the Company knows the amount of systems backlog available at the beginning of a quarter, it must speculate on its pipeline of systems opportunities for the quarter. The Company's accuracy in estimating total systems sales for the next fiscal quarter is, therefore, highly dependent upon its ability to successfully estimate which pipeline opportunities will close during the quarter.

SPECIAL CHARGES. During the first three quarters of fiscal 2003, the Company continued to implement actions designed to lower costs and improve operational efficiency. During the quarter ended May 31, 2002, the Company incurred special charges of approximately $2.8 million, including $2.4 million for severance payments and related benefits associated with a workforce reduction affecting 103 employees, and $0.4 million for the closure of its leased facility in Chicago, Illinois. At November 30, 2002, approximately $0.3 million of the special charges incurred in the first quarter of fiscal 2003 remained unpaid. The Company expects to pay the majority of the remaining severance and related costs in the fourth quarter of fiscal 2003. The remaining facility costs are expected to be paid out over the next three fiscal quarters.

During the quarter ended August 31, 2002, the Company incurred special charges of approximately $10.1 million, including $2.8 million for severance payments and related benefits associated with a workforce reduction affecting approximately 120 employees, $0.4 million associated with the closing of a portion of its leased facilities in Manchester, United Kingdom, $2.2 million for the write down of excess inventories and $4.7 million associated with two loss contracts. The severance and related costs were associated with the Company's consolidation of its separate Enterprise and Networks divisions into a single, unified organizational structure. The downsizing of the leased space in Manchester followed from the Company's decision to consolidate virtually all of its manufacturing operations into its Dallas, Texas facilities. The inventory adjustments reflected the Company's continuing assessment of its inventory levels in light of short term sales projections, the decision to eliminate the UK manufacturing operation and the consolidation of the business units discussed above. The charges for loss contracts reflected the costs incurred during the second quarter on two contracts which are expected to result in net losses to the Company upon completion. The charges included costs actually incurred during the quarter as well as an accrual of the amounts by which total contract costs were expected to exceed total contract revenue. At November 30, 2002, approximately $1.4 million of the special charges incurred in the second quarter of fiscal 2003 remained unpaid. The Company expects to pay the majority of the remaining costs during the balance of fiscal 2003.

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During the quarter ended November 30, 2002, the Company incurred special charges of approximately $4.9 million, including $1.2 million for severance payments and related benefits associated with a workforce reduction affecting approximately

50 employees, $1.8 million for the write down of excess inventories and $1.9 million of charges incurred upon the early extinguishment of the Company's convertible notes. The inventory adjustments reflect the Company's continuing assessment of its inventory levels in light of short term sales projections. The loss on early extinguishment of debt includes $1.4 million in non-cash charges to write-off unamortized debt discount and unamortized debt issue costs and $0.5 million in prepayment premiums. At November 30, 2002, approximately $0.6 million of the special charges incurred in the third quarter of fiscal 2003 remained unpaid. The Company expects to pay the majority of such costs during the balance of fiscal 2003.

The following table summarizes the effect on reported operating results by financial statement category of all special charges activities for the quarter and nine months ended November 30, 2002 (in thousands).

	Cost of Goods Sold	Research and Development	Selling, General and Administrative	Othe Expen
Quarter ended November 30, 2002				
Severance payments and related benefits	$ 363	$ 25	$ 792	$
Write down of excess inventories	1,840	--	--	
Loss on early extinguishment of debt	--	--	--	1,8
Total	$ 2,203	$ 25	$ 792	$ 1,8
Nine months ended November 30, 2002				
Severance payments and related benefits	$ 2,305	$ 826	$ 3,083	$
Facility closures	244	125	388	
Write down of excess inventories	4,080	--	--	
Costs associated with loss contracts	4,672	--	--	
Loss on early extinguishment of debt	--	--	--	1,8
Total	$11,301	$ 951	$ 3,471	$ 1,8

As a result, in part, of the Company's workforce reductions and consolidation of facilities reflected in these special charges, SG&A expenses, net of such charges for the quarter ended November 30, 2002 are down approximately $3.8 million from similarly adjusted fiscal 2002 third quarter levels.

COST OF GOODS SOLD. Cost of goods sold for the third quarter and first nine months of fiscal 2003 was approximately $22.2 million (50.5% of total sales) and $69.7 million (59.1% of sales) as compared to $27.5 million (47.4% of sales) and $86.7 million (47.1% of sales) for the third quarter and first nine months of fiscal 2002. Net of the cost of goods sold "Special Charges," summarized in the preceding section, cost of goods sold for the third quarter and first nine months of fiscal 2003 was $20.0 million (45.6% of sales) and $58.4 million (49.6% of sales). Systems cost averaged 65.4% of sales for the quarter, up from 51.0% in the third quarter of fiscal 2002. The higher percentage results, in part, from the special charges incurred during fiscal 2003 and, in part, from the nature of the Company's cost structure. A significant portion of the Company's cost of goods sold is comprised of labor costs that are fixed over the near term as opposed to direct material and license/royalty costs that vary

directly with sales volume. Services cost of sales was 33.2% of sales for the current quarter, down from 41.2% in the third quarter of fiscal 2002. Services cost of sales was 38.7% when calculated as a percentage of service revenues adjusted to exclude the $2.9 million of third quarter revenue recognized on a cash basis.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses during the third quarter and first nine months of fiscal 2003 were approximately $5.0 million (11.4% of the Company's total sales) and $17.5 million (14.9% of sales), respectively. During comparable periods of the previous fiscal year, research and development expenses were $6.9 million (12.0% of sales) and $21.6 million (11.7% of sales), respectively. Expenses were down from fiscal 2002 in dollars as a result of the Company's prior quarters' cost reduction initiatives. Expenses were higher as a percent of sales in fiscal 2003 because of

the significantly lower sales levels in fiscal 2003. Research and development expenses include the design of new products and the enhancement of existing products. A primary focus of the Company's current research and development efforts is enhancing speech recognition and text to speech capabilities, including enhancing the Company's natural language speech capabilities and incorporating VoiceXML and Microsoft's Salt standards for speech based applications into the Company's products. Research and development efforts are also focused on enhancing speech portal capabilities, system management and integration technologies, and customer application development and management tools.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses during the third quarter and first nine months of fiscal 2003 were approximately $15.8 million (35.9% of the Company's total sales) and $51.9 million (44.0% of sales), respectively. Net of the severance and related expenses discussed in "Special Charges," above, SG&A for the same periods totaled $15.0 million (34.1% of sales) and $48.4 million (41.0% of sales). SG&A expenses during the comparable periods of fiscal 2002 were $19.0 million (32.7% of sales) and $57.5 million (31.2% of sales). SG&A expenses in the third quarter of fiscal 2003 also benefited from a reduction in the Company's bad debt reserve of approximately $1.1 million which resulted from the collection of previously reserved accounts receivable. SG&A expenses in the third quarter of fiscal 2002 were reduced by $0.9 million as the result of the favorable settlement of certain fiscal 2001 restructuring charges. As with the research and development expenses discussed above, SG&A expenses have declined in absolute dollars over the same periods last year as a result of cost control initiatives implemented by the Company and as a result of lower commissions and incentive bonuses being earned on lower sales volumes. SG&A expenses have increased as a percent of the Company's total sales because of the decline in sales.

AMORTIZATION OF GOODWILL AND ACQUIRED INTANGIBLE ASSETS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING Principle. Effective March 1, 2002, the Company adopted Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (the "Statements"). Statement No. 141 refines the definition of what assets may be considered as separately identified intangible assets apart from goodwill. Statement No. 142 provides that goodwill and intangible assets deemed to have indefinite lives will no longer be amortized, but will be subject to impairment tests on at least an annual basis.

In adopting the Statements, the Company first reclassified $2.7 million of intangible assets associated with its assembled workforce (net of related deferred taxes of $1.4 million) to goodwill because such assets did not meet the new criteria for separate identification. The Company then allocated its

adjusted goodwill balance of $19.2 million to its then existing ESD and NSD divisions and completed the transitional impairment tests required by Statement No. 142. The fair values of the reporting units were estimated using a combination of the expected present values of future cash flows and an assessment of comparable market values. As a result of these tests, the Company determined that the goodwill associated with its NSD division was fully impaired, and, accordingly, it recognized a non-cash, goodwill impairment charge of $15.8 million as the cumulative effect on prior years of this change in accounting principle. This impairment resulted primarily from the significant decline in NSD's sales and profitability during the fourth quarter of fiscal 2002 and related reduced forecasts for the division's sales and profitability. As previously noted, effective August 1, 2002, the Company combined its divisions into a single unified organizational structure in order to address changing market demands and global customer requirements. The Company will conduct its annual test of goodwill impairment during its fourth fiscal quarter.

The Company's intangible assets other than goodwill will continue to be amortized over lives that primarily range from 5 to 10 years. Amortization of these assets totaled $1.8 million for each of the first three quarters of fiscal 2003. Amortization in each of the first three quarters of fiscal 2002 totaled $3.4 million and but would have totaled $2.3 million had the new rules been effective during those periods. The estimated amortization expense for the balance of fiscal 2003 and for each of the next four years is as follows (in thousands):

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Balance of fiscal year ending February 28, 2003	$	1,834
Fiscal 2004	$	7,307
Fiscal 2005	$	4,420
Fiscal 2006	$	3,431
Fiscal 2007	$	3,363

INTEREST EXPENSE. Interest expense was approximately $0.8 million and $3.8 million during the third quarter and first nine months of fiscal 2003, versus $1.4 million and $3.9 million for the same periods of fiscal 2002. Average debt outstanding for the three months ended November 30, 2002 was $22.7 million, down from $38.4 million for the same period in fiscal 2002. Fiscal 2003 third quarter interest included $0.6 million in interest accrued under the Company's various debt agreements and $0.2 million in non-cash amortization of debt issue costs. Interest for the nine months ended November 30, 2002 included $1.8 million in interest accrued under the Company's various debt agreements, $1.7 million in non-cash amortization of debt issue costs and $0.3 million relating to the final amortization under certain interest rate swap arrangements terminated by the Company during fiscal 2002.

INCOME (LOSS) FROM OPERATIONS AND NET INCOME (LOSS). The Company generated an operating loss of $0.8 million, a loss before the cumulative effect of a change in accounting principle of $7.8 million and a net loss of $7.8 million during the third quarter of fiscal 2003. For the nine months ended November 30, 2002, the Company generated an operating loss of $26.5 million, a loss before the cumulative effect of a change in accounting principle of $32.8 million and a net loss of $48.6 million. As described in Note B to the consolidated financial statements in Item 1, the Company recorded a $15.8 million charge in the first quarter of fiscal 2003 as the cumulative effect on prior years of a change in accounting principle in connection with its adoption of Statements of Financial Accounting Standards No. 141 and No. 142. During the third quarter and first

nine months of fiscal 2002, the Company generated operating income of $1.3 million and $8.1 million, respectively, and net income of $0.0 million and $3.1 million, respectively. The decline in operating income is primarily attributable to the significant decline in sales from fiscal 2002 to fiscal 2003 as discussed in Sales above.

LIQUIDITY AND CAPITAL RESOURCES. The Company had approximately $16.5 million in cash and cash equivalents at November 30, 2002, while borrowings under the Company's restructured long-term debt facilities totaled $21.9 million. The Company's cash reserves decreased $3.7 million during the three months ended November 30, 2002, with operating activities using $0.4 million of cash, net investing activities using $0.4 million of cash and net financing activities using $3.0 million of cash.

Operating cash flow for the third quarter of fiscal 2003 was negatively impacted by the Company's pretax loss of $3.6 million for the quarter and by approximately $1.9 million of cash payments made in settlement of severance and other special charges associated with the Company's cost control initiatives undertaken in previous quarters. Operating cash flow was favorably impacted by the Company's ongoing initiatives to reduce accounts receivable (which rose only $0.3 million for the quarter on a sales increase of $8.3 million from the second fiscal quarter) and inventories (down $6.5 million for the quarter). Days sales outstanding (DSO) of accounts receivable at November 30, 2002, was 67 days, down from 82 days at August 31, 2002 and 133 days at February 28, 2002.

For sales of certain of its more complex, customized systems (generally ones with a sales price of $500,000 or more), the Company recognizes revenue based on a percentage of completion methodology. Unbilled receivables accrued under the methodology totaled $7.8 million at November 30, 2002. The Company expects to bill and collect unbilled receivables as of November 30, 2002 within the next twelve months.

While the Company continues to focus on reducing the level of its investment in accounts receivable, it now generates a significant percentage of its sales, particularly sales of enhanced telecommunications services systems, outside the United States. Customers in certain countries are subject to significant economic and political challenges that affect their cash flow, and many customers outside the United States are generally accustomed to vendor financing in the form of extended payment terms. To remain

competitive in markets outside the United States, the Company may offer selected customers such payment terms. In all cases, however, the Company only recognizes revenue at such time as its system or service fee is fixed or determinable, collectibility is probable and all other criteria for revenue recognition have been met. In some limited cases, this policy may result in the Company recognizing revenue on a "cash basis", limiting revenue recognition on certain sales to the actual cash received to date from the customer, provided that all other revenue recognition criteria have been satisfied.

The Company's federal income tax returns for its fiscal years 2000 and 2001 are currently being audited by the Internal Revenue Service. The Company has received notices of proposed adjustment from the IRS challenging certain positions taken by the Company on those returns. Although resolution of the issues is still pending, it is possible the Company will lose the ability to carry back certain net operating losses generated in its fiscal years 2000 and 2001. If this occurs, the Company will be required to repay a portion of certain refunds previously received from the IRS. In recognition of this risk, the Company has recorded a tax charge of $2.7 million as part of its tax provision

for the quarter ended November 30, 2002. The IRS has not yet presented a final proposed settlement to the Company, and, accordingly, the exact amount, if any, that may be due the IRS and the timing of any associated payment to the IRS has not been determined. If the IRS prevails in this case, however, the payment of the claim could require the use of cash in fiscal 2004.

The Company's wholly owned subsidiary, Brite Voice Systems, Inc. ("Brite") has filed a petition in the United States Tax Court seeking a redetermination of a Notice of Deficiency issued by the IRS to Brite. The amount of the proposed deficiency is $2.4 million before interest or penalties and relates primarily to a disputed item in Brite's August 1999 federal income tax return. The case is scheduled for trial in February 2003. The Company has recorded a charge to its tax provision in prior periods related to this claim and does not expect the outcome of the case to have a material effect on its fiscal 2003 net income. If the IRS prevails in this case, however, the payment of the claim could require the use of cash in fiscal 2004.

Investing activities during the quarter were comprised of the purchase of computer and test equipment, a use of approximately $0.4 million of cash. Financing activities included the repayment of $1.5 million of mortgage loan principal, the borrowing of $10.0 million under a new term loan and revolving credit agreement as further discussed below, the payment of $10.0 million in principal plus a $0.5 million prepayment premium to retire all outstanding convertible notes, the repayment of $0.6 million of new term loan principal and the payment of $0.5 million in debt issue costs related to the new credit agreement.

New Term Loan and Revolving Credit Agreement

In August 2002, the Company entered into a new credit facility agreement with a lender which provides for an amortizing term loan of $10.0 million and a revolving credit commitment equal to the lesser of $25.0 million minus the principal outstanding under the term loan and the balance of any letters of credit ($15.0 million maximum at the loan's inception) or a defined borrowing base comprised primarily of eligible US and UK accounts receivable ($0.7 million maximum at November 30, 2002).

The term loan principal is due in 36 equal monthly installments of approximately $0.3 million each which began in October 2002. Interest on the term loan is also payable monthly and accrues at a rate equal to the then prevailing prime rate of interest plus 2.75% (7.0% as of November 30, 2002). Proceeds from the term loan were used to retire the Company's outstanding convertible notes and to provide additional working capital to the Company.

Advances under the revolver loan will accrue interest at a rate equal to the then prevailing prime rate of interest plus a margin of 0.5% to 1.5%, or at a rate equal to the then prevailing London Inter-bank Offering Rate plus a margin of 3% to 4%. The Company may request an advance under the revolver loan at any time during the term of the revolver agreement so long as the requested advance does not exceed the then available borrowing base. The Company's available funding based on its US accounts receivable at November 30, 2002 was approximately $0.7 million. The initial availability of funding based on UK accounts receivable is contingent on and will be determined in connection with the lender's completion of

a collateral audit of the Company's UK subsidiary. The Company has not requested an advance under the revolver as of the date of this filing. The term loan and the revolving credit agreement expire on August 29, 2005.

The new credit facility contains terms, conditions and representations that are generally customary for asset-based credit facilities, including requirements that the Company comply with certain significant financial and operating covenants. In particular, the Company is initially required to have EBITDA in minimum cumulative amounts on a monthly basis through August 31, 2003. While lower amounts are allowed within each fiscal quarter, the Company must generate cumulative EBITDA of $0, $2.0 million, $5.0 million and $9.0 million, respectively, for the three month period ended November 30, 2002, and for the six, nine and twelve month periods ending February 28, 2003, May 31, 2003 and August 31, 2003. Thereafter, the Company is required to have minimum cumulative EBITDA of $15 million and $20 million for the 12-month periods ending November 30, 2003 and February 28, 2004, respectively, and $25 million for the 12-month periods ending each fiscal quarter thereafter. The Company is also required to maintain defined levels of actual and projected service revenues and is prohibited from incurring capital expenditures in excess of $1.6 million for the six months ending February 28, 2003 and in excess of $4.0 million for any fiscal year thereafter except in certain circumstances and with the lender's prior approval. Borrowings under the new credit facility are secured by first liens on virtually all of the Company's personal property and by a subordinated lien on the Company's Dallas headquarters. The new credit facility also contains cross-default provisions with respect to the Company's mortgage loan. As of November 30, 2002, the Company is in compliance with all financial and operating covenants.

Mortgage Loan

At November 30, 2002, the Company had $12.5 million in principal outstanding under its mortgage loan. Interest on this loan accrues at the greater of 10.5% or the prime rate plus 2.0% and is payable monthly. The loan is secured by a first lien on the Company's Dallas headquarters facility and contains cross-default provisions with respect to the Company's new term loan and revolving credit facility. In October 2002, the Company amended the mortgage loan to reduce a minimum net equity requirement contained in the loan agreement from $35.0 million to $25.0 million and to provide that compliance with the covenant would be measured on a quarterly basis. In connection with this amendment, the Company prepaid $1.5 million of the $14.0 million principal amount then outstanding under the loan. The remaining principal under this loan is due in May 2005.

Future Compliance with Covenants

The Company believes the liquidity provided by these financing transactions combined with cash generated from operations should be sufficient to sustain its operations for the next twelve months. In order to meet the EBITDA, minimum net equity and other terms of its credit agreements, however, the Company will have to continue to increase its revenues and/or lower its expenses as compared to the quarter completed on November 30, 2002. If it is not able to achieve these objectives and maintain compliance with its various debt covenants, the lenders have all remedies available to them under the terms of the various loan agreements, including, without limitation, the ability to declare all debt immediately due and payable. Under such circumstances, the Company's cash position and liquidity would be severely impacted, and it is possible the Company would not be able to continue its business.

Impact of Inflation

The Company does not expect any significant short-term impact of inflation on its financial condition.

Technological advances should continue to reduce costs in the computer and communications industries. Further, the Company presently is not bound by long

term fixed price sales contracts. The absence of such contracts reduces the Company's exposure to inflationary effects.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

4.1 Intervoice, Inc. Employee Stock Purchase Plan. (2)

99.1 Certification Pursuant to 18 U.S.C. Section 1350, signed by David W. Brandenburg.(1)

99.2 Certification Pursuant to 18 U.S.C. Section 1350, signed by Rob-Roy J. Graham.(1)

(b) Reports on Form 8-K

1. A report on Form 8-K was filed September 19, 2002 to announce the closing and funding of the new three-year credit facility previously announced in a Form 8-K filed August 29, 2002.

2. A report on Form 8-K was filed September 19, 2002 to announce the dismissal of the pending class action lawsuit.

3. A report on Form 8-K was filed September 26, 2002 to announce that the plaintiffs had reinstated the class action lawsuit by filing an amended complaint.

4. A report on Form 8-K was filed October 4, 2002 to announce the Company's second quarter earnings release.

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1. Filed herewith

2. Incorporated by reference to exhibits to the Company's Registration Statement on Form S-8 filed with the SEC on November 20, 2002, Registration Number 333-101328.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERVOICE, INC.

Date: June 10, 2003 By: /s/ MARK C. FALKENBERG

Mark C. Falkenberg
Chief Accounting Officer

CERTIFICATIONS

I, David W. Brandenburg, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Intervoice, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrants' disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves

management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 10, 2003

/s/ David W. Brandenburg

David W. Brandenburg
Chief Executive Officer and Chairman

CERTIFICATIONS

I, Rob-Roy J. Graham, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Intervoice, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrants' disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons

performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 10, 2003

/s/ Rob-Roy J. Graham

Rob-Roy J. Graham
Executive Vice President and Chief
Financial Officer

INDEX TO EXHIBITS

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