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

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 10, 2003

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

FORM 10-K/A

(AMENDMENT NO. 1)

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

FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2003

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 (State of Incorporation)	75-1927578 (I.R.S. Employer Identification Number)
17811 WATERVIEW PARKWAY DALLAS, TEXAS (Address of principal executive offices)	75252 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(972) 454-8000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF EACH CLASS
Common Stock, No Par Value
Preferred Share Purchase Rights

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 [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate Market Value of Common Stock held by Nonaffiliates as of May 13, 2003: $88,006,641

Number of Shares of Common Stock Outstanding as of May 13, 2003: 34,111,101

DOCUMENTS INCORPORATED BY REFERENCE

Listed below are documents parts of which are incorporated herein by reference and the part of this Report into which the document is incorporated:

(1) Proxy Statement for the 2003 Annual Meeting of Shareholders -- Part III.

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EXPLANATORY NOTE

Intervoice, Inc. (the "Company") is amending its Annual Report on Form 10-K for the year ended February 28, 2003 to reflect that systems backlog, which does not include the contracted value of future maintenance and managed services to be recognized by the Company, at February 28, 2003 was approximately $33.5 million rather than approximately $37.0 million. The adjustment resulted primarily from the inadvertent inclusion of certain orders in backlog that were actually included in fourth quarter sales. The Company will also file a separate Form 10-Q/A to amend 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 backlog at the end of each of its first three quarters for the same fiscal year.

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 discussions in Item 1 and Item 7 of Form 10-K are each amended in their entirety, the only change is to reflect the correct amount of backlog at February 28, 2003 in the discussions under "Backlog" in Item 1 and under "Sales" in Item 7.

PART I

ITEM 1. BUSINESS

OVERVIEW

Intervoice, Inc. is a world leader in providing converged voice and data solutions for the telecommunication carrier (network) and enterprise markets. Intervoice offers enterprises and network carriers a flexible, scalable integration platform, a powerful application development environment and comprehensive services. Founded in 1983, the Company is celebrating 20 years of innovation this year. Over the years, Intervoice has introduced a series of product advancements that have helped application developers, enterprises and carriers worldwide connect people and information.

With the experience gained from the deployment of more than 22,000 systems around the globe and through continuously applying current technologies, Intervoice has created compelling business solutions that promote customer profitability and satisfaction with demonstrable return on investment. Intervoice is headquartered in Dallas with offices in Europe, the Middle East, South America, and Asia Pacific. For the fiscal year ended February 28, 2003, the Company reported revenues of approximately $156.2 million, with systems and services sales representing approximately 54% and 46% of revenues, respectively.

Omvia(TM), the Company's open, standards-based product suite, offers speech-enabled Interactive Voice Response ("IVR") applications, multimedia and network-grade portals and enhanced telecommunications applications such as unified messaging, short messaging services (SMS), voicemail, prepaid services and interactive alerts. Services provided include maintenance, implementation, and business and technical consulting services. When capital funding is scarce, the Company's managed services provide an important alternative for its customers to realize the strategic deployment of services that will promote profitability and improve market differentiation and competitive advantage while avoiding the up front costs of capital investment.

For enterprises, Intervoice offers Omvia(TM) software, tools and infrastructure supporting speech-activated and Web-based self-service applications, wireless Internet services and multimedia portals. Representative customers across multiple industries include: AdvancePCS, Ameritrade, Amtrak, Bank of America, CIBC, Citigroup, Continental Airlines, E*Trade, FedEx, Fidelity, Fleet/FirstBoston, Ford Motor Company, General Motors, HCA Healthcare, Idaho Power, J.P. Morgan Chase, Merck-Medco, Michigan Department of Treasury, Nissan, Pitney Bowes, Sears, Travelocity, United Airlines, Washington Mutual and Wells Fargo.

Revenues from the enterprise market are primarily attributable to domestic activities, with approximately 89% coming from North America customers. Products and services for the enterprise sector accounted for

approximately 57% of the Company's total revenue in fiscal 2003. Of the Company's total revenue within the enterprise market, approximately 59% was derived from systems sales and approximately 41% was derived from the sale of services.

For network operators, Intervoice offers robust and scalable telco-grade platforms and an integrated suite of Omvia(TM) network applications enabling prepaid and post-paid services, network portals, voicemail and unified messaging services. International sales represented approximately 81% of total network-specific revenue in fiscal 2003. Intervoice products and services sold to network markets accounted for approximately 43% of the Company's total revenue in fiscal 2003. Of Intervoice's total network sector revenue, approximately 48% was derived from systems sales and approximately 52% was derived from the sale of services.

To date, Intervoice has deployed enhanced network systems and services in over 50 countries to over 200 service providers including British Telecom (including BT Cellnet, now O2), Deutsche Telecom (Germany), ETB (Colombia), VAR-Tec (U.S.), Fiji Telecom (Australia), MMO/Vodafone (Germany), Orange (India), Qwest (U.S.), Rogers AT&T (Canada), Safaricom (Kenya), SBC (U.S.), Smartcom (Chile), STC (Saudi Arabia), Stet Hellas (Greece), SwissCom (Switzerland), Turkcell (Turkey), and Verizon International (Mexico, Puerto Rico and Venezuela).

By incorporating the industry-leading features of the Intervoice enterprise platform, Omvia is becoming an open, highly scalable, universal architecture with flexible configuration options suitable for deployment in enterprises of all sizes and in the world's largest networks. A standards-based development environment is part of Intervoice's product strategy. Intervoice product roadmaps are designed to ensure an open, standards-based architecture that will be increasingly important for the voice and data solutions of the future. Intervoice supports standards including VoiceXML and SALT (Speech Application Language Tags) specifications for voice-enabled web applications, and J2EE and

..NET for enterprise software architectures. The Company is a member of the World-Wide Web Consortium and participates in the SALT Forum. Intervoice also participates in network-focused organizations such as the 3GPP and the GSM Association.

Omvia solutions are enabled by patented Intervoice technologies, as well as best-of-breed products and services supplied by industry-leading Omvia partners. Intervoice is a partner to companies that include providers of speech technologies, platform technologies, softswitches and operating systems. Intervoice has alliances with leading speech technology providers including Microsoft, Nuance, ScanSoft and SpeechWorks for speech recognition and text-to-speech solutions. Through a strategic alliance with Microsoft, Intervoice hopes to make it faster, easier and more economical to build and deliver open, standards-based enterprise telephony and multimodal speech solutions based on SALT standards.

Intervoice expects to see impressive growth in subscribers to wireless communication and Internet-based services. Wireless and Web technologies have created diverse, related markets that are still emerging and evolving. These developments have blurred the line that once clearly separated the enterprise from connecting network environments. Intervoice is enhancing its products to make the most of wireless and Web technology trends and emerging open standards. The Company continually refines its product and service solutions to keep its customers on the leading edge of performance while leveraging its existing voice and data infrastructures.

MARKETS

Intervoice operates in two broad market categories: the enterprise market and the telecommunications carrier, or network, market. In addition, the Company is beginning to see increasing opportunities in a third market that is more narrowly defined, yet crosses both the enterprise and carrier markets -- the developer market.

The enterprise market is characterized by a business environment that has goals to improve customer communication and personalization as well as reduce the costs of customer contact, a historically time-and-money intensive operation. Furthermore, consumers are increasingly taking charge of this important interaction between enterprise and consumer; deciding where, when and how they want this communication. To address this new business paradigm, enterprises are increasingly applying innovative wireless, speech and web

technologies to leverage existing customer service infrastructures in the creation of interactive, self-directed service applications. These new applications are designed to put the customer in control of the delivery of the information while allowing the enterprise control of the data. This serves to address the enterprise's objectives of improving the customer experience and reducing operating costs.

The network market is also characterized by the competing objectives of limiting capital expenditures while introducing innovative new services to enhance differentiation in an increasingly competitive and commoditized business landscape. Already battered by declining growth, risk-averse carriers are looking for proven services and a clear, near-term return on investment ("ROI") to shore up declining subscriber growth and maintain their existing subscriber base. Enhanced services such as voicemail, text messaging, multimedia messaging, information portals and personal alerts are seen by carriers as opportunities to earn incremental revenue, as are services such as prepaid, which help to address new market niches. In looking to these services, network carriers are also looking to maximize the return from their past equipment investments. This requires that vendors not only provide the applications required by the carriers, but also provide them in such a way as to leverage the existing infrastructure investments that came with the optimistic build-out of the late 1990s. In addition, as a result of carrier downsizing in recent years, network carriers are looking to the vendors themselves to provide professional services toward deploying and managing the services built on their systems.

The emerging developer market is built on the premise that the advanced speech technologies which are increasingly core to the solutions used by the enterprise and network markets will soon be available to businesses of all sizes as a result of the increasing acceptance of the standards on which they are built. The advent of these industry standards, of which VoiceXML and more recently, SALT, are the most widely known, are being strongly promoted by industry leaders such as IBM and Microsoft. Just as HTML spawned a number of service creation environments (SCEs) for web development, the movement toward open standards to deliver speech and multi-modal solutions will spawn SCEs and associated toolsets to simplify development of these expanded modes of communication among millions of developers worldwide.

PRODUCTS AND SERVICES

Intervoice builds and delivers the Company's products and services around four core strengths and a single value proposition. The four core strengths are technology, tools and components, applications and services. Together, these four strengths deliver on our value proposition which provides the services, applications, tools and technology that enable developers, enterprises and carriers to connect people with information to promote profitability and customer satisfaction.

ENTERPRISE SOLUTIONS

Enterprise Technology

The Company's strengths and the value proposition they support are reflected in the enterprise market as part of a suite of offerings that can be delivered as components or as part of a total, turnkey solution. These IVR solutions use the latest in speech recognition technology to allow enterprises to automate increasingly complex interactions, enabling businesses to provide quick and timely communications with customers and business partners. Such technology enables enterprises to communicate with their customers through voice, web, e-mail, facsimile and other forms of communication on a variety of devices, including telephones, PCs, mobile phones and personal digital assistants ("PDAs").

In utilizing such a sophisticated automated solution, enterprises realize rapid ROI of as little as three months through the resulting reduction of operational costs and, at the same time, realize improved customer satisfaction, and improved product and service differentiation.

Enterprise Tools and Components

The creation of these solutions is enhanced through a market-leading SCE called InVision(R). Using an intuitive interface designed to complement a familiar Windows(R)-based interface, InVision(R) allows drag-and-drop development of menus and call flows using predefined software modules. In addition, the Company offers

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a number of other features and tools for measuring and monitoring installed systems, allowing businesses to continue to review and refine the performance of their systems in order to maximize the return on their investment and optimize customer satisfaction. With the move to open systems and standards, the Company is unbundling its traditional products to address new emerging market segments. These unbundled components can be used by developers, system integrators or other technology companies to create customer solutions.

Enterprise Applications

In the enterprise space, Intervoice has the single largest market share in IVR systems shipped. With a base of over 1,600 customers worldwide, the Company is represented across a number of different industries. The most prominent of these vertical segments is the banking and financial services market where Intervoice's customers include 46 of the 50 largest U.S. bank holding companies. The Company also has a significant share of the transportation and hospitality (travel) industries.

Providing customer access to information when, where, and how they want it is at the core of Intervoice IVR and speech-enabled IVR systems. As speech recognition and text-to-speech technologies are added as natural user interfaces, these systems evolve to allow for the automation of interactions previously seen as too complex for a traditional DTMF (touch-tone) interface. Businesses now use these systems to automate access to account information, allow secure access to sensitive information through voice verification, change or correct name and address information, receive stock quotes and execute securities trades. Applications also enable customer access to order products, pay bills, enroll for college courses, apply for jobs and many other routine and complex interactions.

Enterprise Services

In order to assure the best response from an IVR solution, Intervoice offers its customers a single source for system implementation and ongoing system support to design, deploy and maintain an advanced automated IVR system. The Company's services include identifying and designing appropriate customer applications, complete project management of a customer application, adjustments to user interfaces and vocabularies (of speech-driven applications), customer application specification development and consulting, installation services, technical and maintenance support, and customer training.

Intervoice also offers its systems solutions on a managed services basis to enterprises that wish to outsource voice-enabled solutions for call center applications and web infrastructure. By handling the creation, delivery, management and monitoring of advanced speech and interactive voice applications and equipment, Intervoice allows enterprises to shorten time to market, reduce the demand for skilled IT personnel and enhance their business continuity strategy with overflow or disaster recovery services, all while avoiding the need for a significant capital investment.

NETWORK SOLUTIONS

Network Technology

The Company's carrier class products are network grade platforms designed to support a range of network implementations from thousands of subscribers for a pilot exercise, to millions of users in a globally distributed deployment. These systems have attributes such as redundancy, scalability, reliability and installation environment that are necessary in this market. In order to serve carriers at different stages in their network evolution, the Company's products are designed for, and deployed in, Intelligent Network (IN), 2.5G Wireless, 3G Wireless and SIP based VoIP networks as well as legacy PSTN, SS7 and cellular networks. The network product strategy relies on architecture standards such as

LDAP, XML and VoiceXML to achieve this interoperability at the subscriber level. At the network level, application standards like SNMP, CORBA, Parlay, SOAP, IMAP4 and VPIM ensure compatibility with legacy systems previously deployed in the carrier's network.

Network Tools and Components

With the demanding requirements of a quickly evolving competitive landscape, carriers must have the capability to change and update applications in a fast and cost efficient manner. Intervoice supplies a comprehensive suite of tools for the carrier including a SCE that generates both a proprietary application script and scripts based on the open standard VoiceXML, essentially offering the carrier the best of both worlds. The Company also offers Media Manager, a prompt and application distribution tool that increases customer efficiency by automating the process of updating network based application services.

Network Applications

Intervoice offers payment, messaging and portal applications for network carriers. Payment products and services enable carriers to bill users on a prepaid or postpaid basis. Prepaid payment gives carriers the ability to offer advance payment for telephony services as well as for a wide range of transaction-based events. Prepaid systems have been a large growth product for the Company in developing countries where carriers face customer collection issues, as well as in developed countries where carriers look to serve new niche markets. Prepaid payment services include prepaid wireless, prepaid calling cards, residential prepaid and automated operator services. Postpaid systems enable network operators to offer privately branded long-distance calling services to wholesale and retail customers, and allow callers to charge calls to credit/debit cards or calling cards and make collect calls.

The Intervoice messaging suite of products allows subscribers to collaborate and communicate more effectively through a variety of services, including voicemail, unified messaging, call notification and short message services. Voicemail features include conditional personal greeting, intelligent call return, mailbox-to-mailbox messaging and multi-network mailboxes. Unified Messaging provides a universal mailbox for management of all voice, fax and e-mail messages. Call Notify offers a simple and cost-effective missed call notification service for wireless market segments not using voice-messaging services. Short Message Services, increasingly popular worldwide, allow text messages to be transmitted via telephony networks.

Intervoice portal systems are speech-enabled and interface to live or stored multimedia content such as consumer services (news, sports, weather, etc.), directory assistance, subscriber self-service and secure commerce transactions. Portal products can also be used to enable automation of self-help applications in the carrier environment such as directory assistance and automated customer service.

Network Services

Intervoice offers a suite of professional services to assist the carrier in the planning, deployment and ongoing maintenance of value-added network services. Consulting and business services include business planning, marketing, technical consulting and service planning. Technology services provide customization of the Company's products and integration with third party or partner products. Intervoice also operates a portfolio of operations support services, including maintenance programs, technical support, monitoring and surveillance and disaster recovery services. In addition to systems sales, the Company also offers its products and services on a hosted basis as a Managed Service. The Managed Service model is an outsourcing alternative to carriers that are faced with rapidly changing technologies, scarce capital, uncertain returns on investment and a lack of core competencies to deploy and manage complex services. Intervoice currently serves over 1.5 million carrier end-users on an ASP (managed service) basis from its four secure hosting locations in Cambridge and Manchester in the U.K., and Orlando, Florida and Dallas, Texas in the U.S.

Concentration of Revenue

The Company has historically made significant sales of network systems, customer services and managed services to British Telecom and its affiliate BT Cellnet (together "BT"). In November 2001, BT Cellnet was separated from the British Telecom consolidated group and became O2. Sales to a combination of the BT and O2 entities accounted for 11%, 15% and 19% of the Company's total revenues during fiscal 2003, 2002 and 2001, respectively. Sales under a single managed services contract with BT Cellnet and subsequently with O2 accounted for 8%, 12% and 13% of the Company's total revenues for such years. Monthly minimum managed

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service revenues under this managed services contract declined during fiscal 2002 from a fiscal 2002 high of approximately $2.6 million per month in March 2001 to a fixed fee of approximately $0.9 million per month as of January 2002 in accordance with the terms of the customer contract. Beginning in June 2003, in conjunction with a contract amendment that extends the term of the managed services agreement for two years to June 2005, the fixed fee will be further reduced to approximately $0.7 million per month. The Company expects its cost of providing services under this contract to rise slightly during the extension period. No other customer accounted for 10% or more of the Company's sales during fiscal 2003, 2002, or 2001.

COMPETITION

The enterprise market is fragmented and highly competitive. The Company's major competitors in this market are Avaya, IBM, Nortel, Aspect Communications and Security First (formerly Edify). The principal competitive factors in this market include breadth and depth of solution, product features, product scalability and reliability, client services, the ability to implement solutions, and the creation of a referenceable customer base. The Company believes that its product line of speech-enabled solutions, combined with its professional and technical services and its extensive customer base, allow it to compete favorably in this market. However, the market is evolving rapidly, and the Company anticipates intensified competition not only from traditional IVR vendors but also from emerging vendors with non-traditional technologies and solutions.

Competition in the enhanced network services market ranges from large telecommunication suppliers offering turnkey, multi-application solutions to "niche" companies that specialize in a particular enhanced service such as prepaid or voicemail. The Company's primary competitors in this market are suppliers such as Comverse Technology, UNISYS and Lucent Technologies that provide a suite of enhanced services. Smaller niche players that compete with the Company in various geographies and/or products include GlenAyre, Tecnomen, Boston Communications Group and Huawei. The Company believes that, with its current suite of integrated and interoperable payment, messaging and portal services, its flexible business models, and its professional and technical service offerings, it compares favorably with its competition. However, the

Company anticipates that competition will continue from existing and new competitors, some of which have greater financial, technological and marketing resources and greater market share than the Company.

SALES AND MARKETING

Intervoice markets its products directly, with a global sales force, and through more than 70 domestic and international distributors. The Company enters into arrangements with distributors to broaden distribution channels, to increase its sales penetration to specific markets and industries and to provide certain customer services. Distributors are selected based on their access to the markets, industries and customers that are candidates for Intervoice products. The Intervoice direct sales force consists of approximately 70 sales directors and representatives worldwide. During fiscal 2003, approximately 72% and 28% of total Company system revenue were attributable to direct sales to end-users and to sales to distributors, respectively.

Major domestic distributors include Aurum Technology, Liberty/FiTech, EDS, Fiserv, Nextira One, Norstan, Siemens Business Communications, Sprint and Symitar Systems. Major international distributors include Adamnet (Japan), IVRS (Hong Kong, China), Loxbit (Thailand), Norstan (Canada), Promotora Kranon (Mexico), Siemens AG (Worldwide), Switch (Chile), Tatung (Taiwan) and Telia Promotor (Sweden).

Subsidiaries of the Company maintain offices in the U.K., Germany, Switzerland, the Netherlands, the United Arab Emirates, and South Africa to support sales throughout Europe, the Middle East and Africa. A company office located in Singapore supports sales in the Pacific Rim. Latin American sales are supported from the Company's Dallas headquarters and through a regional office in Brazil.

International revenues were 41%, 44% and 48% of total revenues in fiscal 2003, 2002 and 2001, respectively. See "Cautionary Disclosures To Qualify Forward-Looking Statements" under Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of risks attendant to the Company's international operations.

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See "Sales" in Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information on sales by market and geographic area and concentration of revenue.

STRATEGIC ALLIANCES

The Company actively seeks strategic relationships with companies to build its developing partner ecosystem. The partner ecosystem is built by establishing relationships in three basic areas consisting of software and technology solution partners, system integration partners and niche market partners. These relationships will enhance the Company's technological strength, improve its market position, facilitate shorter time-to-market, enhance its ability to deliver end-to-end solutions, and broaden its market coverage.

During the third quarter of fiscal year 2003 Intervoice entered into a new strategic alliance agreement with Microsoft. The alliance is multi-faceted, encompassing joint technology initiatives, joint-marketing strategies and joint go-to-market initiatives. The partnership was formed to help make speech recognition solutions mainstream through the implementation of SALT standards based solutions incorporated in Microsoft's Operating Software. The two companies will collaborate and integrate technology, and Intervoice will build some of its voice solutions based on the combined technology. Intervoice is actively seeking additional relationships with partners for the delivery of solutions based on additional emerging open, standards-based solutions.

The Company also has relationships with several speech technology leaders, including Nuance, ScanSoft and SpeechWorks. These relationships allow Intervoice to integrate speech recognition technologies with core Intervoice technologies to implement fully integrated speech solutions. Intervoice maintains an active relationship with Sun Microsystems for the delivery of its products targeted to the network operators and has also established a relationship with HP for server technology to support the Omvia Media Server product line. In addition, during fiscal 2003 Intervoice also established a relationship with BEA, one of the leading J2EE application server suppliers, for the advancement of VoiceXML based speech recognition solutions. These relationships and others allow Intervoice to act as a complete systems integrator for the voice solutions marketplace.

The Company also has strategic relationships with major telecommunications equipment suppliers such as Ericsson and Siemens who participate in joint sales opportunities around the world.

BACKLOG

The Company's systems backlog at February 28, 2003, 2002 and 2001, which does not include the contracted value of future maintenance and managed services to be recognized by the Company, was approximately $33.5 million, $26 million and $35 million, respectively. The Company expects all existing backlog to be delivered within fiscal 2004. Due to customer demand, some of the Company's sales are completed in the same fiscal quarter as ordered. Thus, the Company's backlog at any particular date may not be indicative of actual sales for any future period.

RESEARCH AND DEVELOPMENT

Research and development expenses were approximately $23 million, $29 million and $35 million during fiscal 2003, 2002 and 2001, respectively, and included the design of new products and the enhancement of existing products.

The Company's research and development spending is focused in four key areas. First, software tools are being developed to aid in the development, deployment and management of customer applications incorporating speech recognition and text to speech technologies. Next, hardware and software platforms are being developed which interface with telephony networks and an enterprise's internal data network. Such platforms are being developed to operate in traditional enterprise networks as well as newer network environments such as J2EE and Microsoft's .NET. Third, "voice browsers" based on open standards such as SALT and VoiceXML are being developed. Voice browsers incorporate speech recognition technologies and perform the task of formatting a user's verbal query into an inquiry that can be acted upon and/or responded to by an

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enterprise system. Finally, research and development activities are focusing on modularization of key hardware and software elements. This is increasingly important in a standards-based, open systems architecture as modularization will allow for interchange of commodity elements to reduce overall systems cost and for the Company's best of breed and core technology strengths to be leveraged into new applications and vertical markets.

The Company expects to maintain a strong commitment to research and development to remain at the forefront of technology development in its markets, which is essential to the continued improvement of the Company's position in the industry.

PROPRIETARY RIGHTS

The Company believes that its existing patent, copyright, license and other proprietary rights in its products and technologies are material to the conduct of its business. To protect these proprietary rights, the Company relies on a combination of patent, trademark, trade secret, copyright and other proprietary rights laws, nondisclosure safeguards and license agreements. As of February 28, 2003, the Company owned 62 patents and had 27 pending applications for patents in the United States. In addition, the Company has registered "Intervoice" as a trademark in the United States. Currently, in the United States, the Company has 25 registered trademarks and service marks and three pending applications for such marks. Some of the Company's patents and marks are also registered in certain foreign countries. The Company also has four registered copyrights and one pending application for a copyright in the United States. The Company's software and other products are generally licensed to customers pursuant to a nontransferable license agreement that restricts the use of the software and other products to the customer's internal purposes. Although the Company's license agreements prohibit a customer from disclosing proprietary information contained in the Company's products to any other person, it is technologically possible for competitors of the Company to copy aspects of the Company's products in violation of the Company's rights. Furthermore, even in cases where patents are granted, the detection and policing of the unauthorized use of the patented technology is difficult. Moreover, judicial enforcement of copyrights may be uncertain, particularly in foreign countries. The occurrence of the unauthorized use of the Company's proprietary information by the Company's competitors could have a material adverse effect on the Company's business, operating results and financial condition.

The Company provides its customers a qualified indemnity against the infringement of third party intellectual property rights. From time to time various owners of patents and copyrighted works send the Company or its customers letters alleging that the Company's products do or might infringe upon the owners' intellectual property rights, and/or suggesting that the Company or its customers should negotiate a license or cross-license agreement with the owner. The Company's policy is to never knowingly infringe upon any third party's intellectual property rights. Accordingly, the Company forwards any such allegation or licensing request to its outside legal counsel for their review and opinion. The Company generally attempts to resolve any such matter by informing the owner of its position concerning non-infringement or invalidity, and/or, if appropriate, negotiating a license or cross-license agreement. Even though the Company attempts to resolve these matters without litigation, it is always possible that the owner of the patent or copyrighted works will institute litigation. Owners of patent(s) and/or copyrighted work(s) have previously instituted litigation against the Company alleging infringement of their intellectual property rights, although no such litigation is currently pending against the Company. As noted above, the Company currently has a portfolio of 62 patents, and it has applied for and will continue to apply for and receive a number of additional patents to reflect its technological innovations. The Company believes that its patent portfolio could allow it to assert counterclaims for infringement against certain owners of intellectual property rights if those owners were to sue the Company for infringement. In certain situations, it might be beneficial for the Company to cross-license certain of its patents for other patents which are relevant to the call automation industry. See Item 3. -- Legal Proceedings for a discussion of certain patent matters.

The Company believes that software and technology companies, including the Company and others in the Company's industry, increasingly may become subject to infringement claims. Such claims may require the Company to enter into costly license agreements, or result in even more costly litigation. To the extent the

Company requires a licensing arrangement, the arrangement may not be available at all, or, if available, may be very expensive or even prohibitively expensive. As with any legal proceeding, there is no guarantee that the Company will prevail in any litigation instituted against the Company asserting infringement of intellectual property rights. To the extent the Company suffers an adverse judgment, it might have to pay substantial damages, discontinue the use and sale of infringing products, repurchase infringing products from the Company's customers pursuant to indemnity obligations, expend significant resources to acquire non-infringing alternatives, and/or obtain licenses to the intellectual property that has been infringed upon. As with licensing arrangements, non-infringing substitute technologies may not be available, and if available, may be very expensive, or even prohibitively expensive, to implement. Accordingly, for all of the foregoing reasons, a claim of infringement could ultimately have a material adverse effect on the Company's business, financial condition and results of operations.

MANUFACTURING AND FACILITIES

The Company's manufacturing operations consist primarily of the final assembly, integration and extensive testing and quality control of subassemblies, host computer platforms, operating software and the Company's run time software. The Company currently uses third parties to perform printed circuit board assembly, sheet metal fabrication and customer-site service and repair. 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. As the Company continues to migrate to open, standards-based systems, it will become increasingly dependent on its component suppliers and software 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 or at historical prices. Consequently, the Company would be unable to provide products and to service its customers or generate historical operating margins, which would negatively impact its business and operating results.

EMPLOYEES

As of May 13, 2003, the Company had 719 employees.

MERGER WITH BRITE VOICE SYSTEMS, INC.

On May 3, 1999, the Company, through a wholly-owned subsidiary, commenced an all cash tender offer (the "Offer") for the purchase of 75% of the outstanding common stock of Brite Voice Systems, Inc. ("Brite"), at a price of $13.40 per share. The Offer was fully subscribed and expired on June 1, 1999. On August 12, 1999 the remaining 25% of Brite shares were exchanged for the Company's shares to complete the merger. The Company entered into a $125 million term loan and borrowed an additional $10 million under a related revolving credit facility to finance the merger. At February 28, 2002 the Company had $30 million of this indebtedness still outstanding. Such amount was refinanced in full during fiscal 2003. See "Liquidity" in Part II, Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the Company's current credit facilities.

AVAILABILITY OF COMPANY FILINGS WITH THE SEC

The Company's Internet website is www.intervoice. com. The Company makes available through its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC).

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PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY DISCLOSURES TO QUALIFY FORWARD LOOKING STATEMENTS

This report on Form 10-K 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-K, 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 Company cautions current and potential investors that the following important risk factors, among others, sometimes have affected, and in the future could affect, the Company's actual results and could cause such results during fiscal 2004, 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 $66.4 million, $44.7 million and $2.3 million in fiscal 2003, 2002 and 2001, respectively. 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 financing 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 revolving credit facility. If the Company at any time defaults 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 any one of the financing 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.

- 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 over the last three years, 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.

- The Company is prone to quarterly sales fluctuations. Some of the Company's transactions are completed in the same fiscal quarter as ordered. 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 from its "pipeline" of sales opportunities during a quarter. No matter how promising a pipeline opportunity may appear, there is no assurance it will ever result in a sale. Accordingly, the Company's actual sales for any fiscal reporting period may be significantly different from any estimate of sales for such period. See the discussion entitled "Sales" in this Item 7 for a discussion of the Company's system for estimating sales and trends in its business.

- 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 3 "Legal Proceedings". 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, Aspect Communications, Security First, Comverse Technology, 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 O2. 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 O2, formerly BT Cellnet, which purchases both systems and managed services from the Company, accounted for approximately 11%, 15% and 19% of the Company's total sales during fiscal 2003, 2002 and 2001, respectively. Under the terms of its recently extended managed services contract with O2 and at current exchange rates, the Company will recognize revenues of approximately $0.9 million per month through July 2003, and $0.7 million per month from August 2003 through the end of the contract in July 2005. The amounts received under the agreement may vary based on future changes in the exchange rate between the dollar and the British pound.

- The Company may not be successful in transitioning its products and services to an open, standards-based business model. The Company has historically provided complete, bundled hardware and software systems using internally developed components to address its customers' total business needs. Increasingly, the markets for the Company's products are requiring a shift to the development of products and services based on an open, standards-based architecture such as the J2EE and Microsoft's(R).NET environments utilizing VoiceXML and/or SALT standards. Such an open, standards-based approach allows customers to independently purchase and combine hardware compo-

nents, standardized software modules, and customization, installation and integration services from individual vendors deemed to offer the best value in the particular class of product or service. In such an environment, the Company believes it may sell less hardware and fewer bundled systems and may become increasingly dependent on its development and sale of software application packages, customized software and consulting and integration services. This shift will place new challenges on the Company's management to transition its products and to hire and retain the mix of personnel necessary to respond to this business environment, to adapt to the changing expense structure that the new environment may tend to foster, and to increase sales of services, customized software and application packages to offset reduced sales of hardware and bundled systems. If the Company is unsuccessful in resolving one or more of these challenges, the Company's revenues and profitability could decline.

- The Company will incur substantial expenses to transition its products and services to an open, standards-based business model. The Company anticipates that it will incur substantial research and development expenses and other expenses to adapt its organization and product and service offerings to an open, standards-based business model. If the Company is unable to accurately estimate the future expenses associated with these strategic initiatives, or if the Company must divert its resources to fund other strategic or operational obligations, the Company's ability to fund the strategic initiatives and to operate profitably will be adversely affected.

- 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. As the Company continues to migrate to open, standards-based systems, it will become increasingly dependent on its component suppliers and software 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 or at historical prices. Consequently, the Company would be unable to provide products and to service its customers or to generate historical operating margins, which would negatively impact its business and operating results.

- 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. See Item 3 "Legal Proceedings" for a discussion of certain pending and potential claims of infringement.

- 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 41%, 44% and 48% in fiscal 2003, 2002 and 2001, respectively. International sales are subject to certain risks, including:

    - fluctuations in currency exchange rates;

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

- tariffs and other barriers to trade;

- greater difficulty in protecting and enforcing intellectual property rights;

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- 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 may 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.

- 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.

- The occurrence of force majeure events could impact the Company's results from operations. The occurrence of one or more of the following events could potentially cause the Company to incur significant losses: acts of God, war, riot, embargoes, acts of civil or military authorities, acts of terrorism or sabotage, shortage of supply or delay in delivery by Intervoice's vendors, the spread of SARS or other diseases, fire, flood, explosion, earthquake, accident, strikes, radiation, inability to secure transportation, failure of communications, failure of utilities or similar events.

RESULTS OF OPERATIONS

The following table presents certain items as a percentage of sales for the Company's last three fiscal years.

	YEAR ENDED FEBRUARY 28		
	2003*	2002**	2001***
Sales	100%	100.0%	100.0%
Cost of Goods Sold	56.3	59.3	50.9
Gross Margin	43.7	40.7	49.1
Research and Development Expenses	14.5	13.8	12.6
Selling, General and Administrative Expenses	42.2	39.4	31.4
Amortization of Goodwill and Acquisition Related Intangible Assets	4.5	6.3	5.0
Impairment of Goodwill and Acquisition Related Intangible Assets	10.7	5.5	--
Operating Income (Loss)	(28.2)	(24.3)	0.1
Other Income (Expense), Net	(4.6)	(1.7)	5.2
Income (Loss) Before Income Taxes and the Cumulative Effect of a Change in Accounting Principle	(32.8)	(26.0)	5.3
Income Taxes (Benefit)	(0.5)	(4.9)	1.9
Income (Loss) Before the Cumulative Effect of a Change in Accounting Principle	(32.3)	(21.1)	3.4

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* The fiscal 2003 loss from operations was impacted by special charges of $34.3 million (22.0% of sales) related to staffing reductions, facilities closures, the write down of excess inventories, costs associated with loss contracts, loss on early extinguishment of debt, and impairment of certain intangible assets. (See "Special Charges" and "Amortization and Impairment of Goodwill and Acquired Intangible Assets" under Item 7.) Fiscal 2003 results benefited from a change in the U.S. federal tax law that allowed it to recognize net tax benefits of approximately $3.0 million (1.9% of sales).

** The fiscal 2002 loss from operations was impacted by special charges of $33.4 million (15.8% of sales) related to the streamlining of product lines, the write down of excess inventories and non-productive assets, the closure of certain facilities, and staffing reductions (see "Special Charges" under Item 7).

*** The fiscal 2001 loss from operations was impacted by special charges of $8.2 million (3.0% of sales) related to changes in the Company's organizational structure and product offerings (see "Special Charges" under Item 7). Income before the cumulative effect of a change in accounting principle was impacted by these special charges of $8.2 million ($5.4 million or 2.0% of sales, net of taxes) and by a gain on the sale of SpeechWorks International, Inc. common stock of $21.4 million ($13.8 million or 5.0% of sales, net of taxes). See "Other Income (Expense)" under Item 7.

CRITICAL ACCOUNTING POLICIES

In preparing its consolidated financial statements in conformity with accounting principles generally accepted in the United States, the Company uses statistical analyses, estimates and projections that affect the reported amounts and related disclosures and that may vary from actual results. The Company considers the following accounting policies to be both those most important to the portrayal of its financial condition and those that require the most subjective judgment. If actual results differ significantly from management's estimates and projections, there could be a material effect on the company's financial statements.

REVENUE RECOGNITION

The Company recognizes revenue from the sale of hardware and software systems, from the delivery of maintenance and other customer services associated with installed systems and from the provision of its

enhanced telecommunications services and IVR applications on an ASP (managed service) basis. The Company's policies for revenue recognition follow the guidance in Statement of Position No. 97-2 "Software Revenue Recognition," as amended (SOP 97-2), and SEC Staff Accounting Bulletin No. 101 (SAB 101). The Company adopted SAB 101 effective March 1, 2000. See Item 8, Note D -- Change in Accounting Principle for Revenue Recognition which describes the impact of that change on the fiscal 2001 operating results. If contracts include multiple elements, each element of the arrangement is separately identified and accounted for based on the relative fair value of such element. Revenue is not recognized on any element of the arrangement if undelivered elements are essential to the functionality of the delivered elements.

Sale of Hardware and Software Systems: Many of the Company's sales are of customized software or customized hardware/software systems. Such systems incorporate newly designed software and/or standard building blocks of hardware and software which have been significantly modified, configured and assembled to match unique customer requirements defined at the beginning of each project.

Sales of these customized systems are accounted for using contract accounting principles under either the percentage of completion (POC) or completed contract methodology as further described below. In other instances, particularly in situations where the Company sells to distributors or where the Company is supplying only additional product capacity (i.e., similar hardware and software systems to what is already in place) for an existing customer, the Company may sell systems that do not require significant customization. In those situations, revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. Typically, this is at shipment when there is no installation obligation or at the completion of minor post-shipment installation obligations.

Generally, the Company uses POC accounting for its more complex custom systems. In determining whether a particular sale qualifies for POC treatment, the Company considers multiple factors including the value of the contract, the anticipated duration of the contract performance period, and the degree of customization inherent in the project. Projects normally must have an aggregate value of more than $500,000 to qualify for POC treatment. For a project accounted for under the POC method, the Company recognizes revenue as work progresses over the life of the project based on a comparison of actual labor inputs (labor hours worked) to current estimates of total labor inputs required to complete the project. Project estimates are reviewed and updated on a quarterly basis.

The terms of most POC projects require customers to make interim progress payments during the course of the project based on the Company's completion of contractually defined milestones. Such payments and a written customer acknowledgement at the completion of the project, usually following a final customer test phase, document the customer's acceptance of the project. In some circumstances, the passage of a contractually defined time period or the customer's use of the system in a live operating environment may also constitute final acceptance of a project.

The Company uses completed contract accounting for smaller custom projects not meeting the POC thresholds described above. The Company also uses completed contract accounting in situations where the technical requirements of a project are so complex or are so dependent on the development of new technologies or the unique application of existing technologies that the Company's ability to make reasonable estimates is in doubt or where a sale is subject to unusual "inherent hazards" that make the Company's estimates doubtful. Such hazards are unrelated to, or only incidentally related to, the Company's typical activities and include situations where the enforceability of a contract is suspect, completion of the contract is subject to pending litigation, or where the systems produced are subject to condemnation or expropriation risks. These latter situations are extremely rare. For all completed contract sales, the Company recognizes revenue upon customer acceptance as evidenced by a written customer acknowledgement, the passage of a contractually defined time period or the customer's use of the system in a live operating environment.

The Company 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

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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 of systems and/or services to the actual cash received to date from the customer, provided that all other revenue recognition criteria have been satisfied.

Sale of Maintenance and Other Customer Services: The Company recognizes revenue from maintenance and other customer services when the services are performed or ratably over the related contract period. All significant costs and expenses associated with maintenance contracts are expensed as incurred. This approximates a ratable recognition of expenses over the contract period.

Sale of Managed Services: The Company can provide enhanced communications solutions to customers on an outsourced basis through its ASP (managed service) business. While specific arrangements can vary, the Company generally builds a customized computer system to address a specific customer's business need and then owns, monitors, and maintains that system, ensuring that it processes the customer's business transactions in accordance with defined specifications. For its services, the Company generally receives a one-time setup fee paid at the beginning of the contract and a service fee paid monthly over the life of the contract. Most contracts range from 12 to 36 months in length.

The Company combines the setup fee and the total service fee to be received from the customer and recognizes revenue ratably over the term of the ASP contract. The Company capitalizes the cost of the computer system(s) used to provide the service and depreciates such systems over the contract life (for assets unique to the individual contract) or the life of the equipment (for assets common to the general managed service operations). All labor and other period costs required to provide the service are expensed as incurred.

Loss Contracts: The Company updates its estimates of the costs necessary to complete all customer contracts in process on a quarterly basis. Whenever current estimates indicate that the Company will incur a loss on the completion of a contract, the Company immediately records a provision for such loss as part of the current period cost of goods sold.

INVENTORIES

Inventories are valued at the lower of cost or market. Inventories are recorded at standard cost which approximates actual cost determined on a first-in, first-out basis. The Company periodically reviews its inventories for unsaleable or obsolete items and for items held in excess quantities based on current and projected usage. Adjustments are made where necessary to reduce the carrying value of individual items to reflect the lower of cost or market, and any such adjustments create a new carrying value for the affected items.

INTANGIBLE ASSETS AND GOODWILL

Intangible Assets: Intangible assets are comprised of separately identifiable intangible assets arising out of the Company's fiscal 2000 acquisition of Brite Voice Systems, Inc., and certain capitalized purchased software. Intangible assets are being amortized using the straight-line method over each asset's estimated useful life. Such lives range from five to twelve years. In accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), which the Company adopted on March 1, 2002, and Statement of Financial Accounting Standards No. 121, which was effective for the Company's fiscal years 2002 and 2001, the Company reviews its intangible assets for possible impairment when events and circumstances indicate that the assets might be impaired and the undiscounted projected cash flows associated with such assets are less than the carrying amounts of the assets. In those situations, the Company recognizes an impairment loss on the intangible asset equal to the excess of the carrying amount of the asset over the asset's fair value, generally determined based upon discounted estimates of future cash flows.

The cost of internally developed software products and substantial enhancements to existing software products for sale are expensed until technological feasibility is established, at which time any additional costs

would be capitalized in accordance with Statement of Financial Accounting Standards (SFAS) No. 86. Technological feasibility of a computer software product is established when the Company has completed all planning designing, coding, and testing activities that are necessary to establish that the product can be produced to meet its design specifications including functions, features, and technical performance requirements. No costs have been capitalized to date for internally developed software products and enhancements as the Company's current process for developing software is essentially completed concurrently with the establishment of technological feasibility. The Company capitalizes purchased software upon acquisition when such software is technologically feasible or if it has an alternative future use, such as use of the software in different products or resale of the purchased software.

Goodwill: The Company's goodwill also results from its fiscal 2000 purchase of Brite Voice Systems, Inc. Under the provisions of SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, which the Company adopted on March 1, 2002, goodwill is presumed to have an indefinite life and is not subject to annual amortization. Goodwill is subjected, however, to tests for impairment on at least an annual basis and more frequently if triggering events are identified on an interim basis. The impairment review follows the two-step approach defined in SFAS No. 142. The first step compares the fair value of the Company, with its carrying amount, including goodwill. If the fair value exceeds the carrying amount, goodwill is considered not impaired. If the carrying amount exceeds fair value, the Company must compare the implied fair value of goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the lesser of that excess or the carrying amount of goodwill.

INCOME TAXES

Deferred income taxes are recognized using the liability method and reflect the tax impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The Company provides a valuation allowance for deferred tax assets in circumstances where it does not consider realization of such assets to be more likely than not.

SALES

The Company is a leader in providing converged voice and data solutions for the network and enterprise markets. The Company operates as a single, integrated business unit focusing on these two major markets. The Company's sales to the network market focus on products and services that are designed to create opportunities for network carriers and service providers to increase revenue through value-added services and/or reduce costs through automation. Sales to the enterprise market focus on providing automated customer service and communications systems that reduce costs and improve customer service levels through enabling accurate and efficient communication and transactions between an enterprise, its customers and its business partners. In both markets, the Company provides a suite of professional services that supports its installed systems including maintenance, implementation, and business and technical consulting services. To further leverage the strong return on investment offered by its systems offerings, the Company also offers enhanced communications solutions to network and enterprise customers on an outsourced basis as an Application Service Provider, or ASP.

The Company's sales by market for fiscal 2003, 2002 and 2001, were as follows (in millions):

	2003	2002	2001
Enterprise Systems Sales	$ 52.4	$ 77.6	$ 95.8
Enterprise Services Sales	35.9	30.8	25.6
Enterprise Total Sales	88.3	108.4	121.4
Network Systems Sales	32.3	48.8	86.9
Network Services Sales	35.6	54.4	66.4
Network Total Sales	67.9	103.2	153.3
Total Company Systems Sales	84.7	126.4	182.7
Total Company Services Sales	71.5	85.2	92.0
Total Company Sales	$156.2	$211.6	$274.7

The Company assigns revenues to geographic locations based on the location of the customer. The Company's net sales by geographic area for fiscal years 2003, 2002 and 2001 were as follows (in millions):

	2003	2002	2001
North America	$ 91.5	$118.8	$141.6
Central and South America	6.1	7.4	14.9
Pacific Rim	2.9	5.5	11.6
Europe, Middle East and Africa	55.7	79.9	106.6
Total	$156.2	$211.6	$274.7

International sales constituted 41%, 44% and 48% of total Company sales in fiscal 2003, 2002 and 2001, respectively.

Effective March 1, 2000, the Company changed its method of accounting for revenue recognition in accordance with SAB No. 101, "Revenue Recognition in Financial Statements". The cumulative effect of this change in accounting has been reflected as a charge to fiscal 2001 operations and is discussed below in "Income (Loss) from Operations and Net Income (Loss)". As a result of the change, the Company recognized as part of fiscal 2001 sales $22.4 million of revenue whose contribution to income is included in the cumulative effect adjustment and did not recognize $2.8 million of 2001 sales whose contribution to income would have been recognized had the change in accounting policy not been adopted.

Total Company sales declined 26% in fiscal 2003 and 23% in fiscal 2002 when compared to sales of the preceding year. The decrease in sales in fiscal 2003 was comprised of decreases in systems sales of approximately 33% in both of the Company's primary markets and a 35% decline in services sales to the network market, partially offset by a 17% increase in services sales to the enterprise market. The reduced levels of systems sales continue to reflect the previously reported sharp declines in the Company's primary markets over the past two years. The Company believes that its major markets will remain soft through fiscal 2004. The decline in services sales to the networks sector is primarily attributable to decreased managed service revenues resulting from a decrease in the volume of activity processed under certain of the Company's contacts, including, particularly, its contract with O2 as further described below. The increase in services sales to the enterprise sector is attributable to 10% growth in the sale of customer support services and growth in the managed services customers base during the year. The Company anticipates continued growth in its enterprises services business, including particularly its managed services business.

The decrease in sales in fiscal 2002 was comprised of decreases in enterprise and network systems sales of 19% and 44%, respectively, an 18% decrease in network services sales and a 20% increase in enterprise services sales. The decline in system sales reflects the sharp decline in the Company's primary markets, particularly the decline in the market for telecommunications equipment and services during the year. This decline was particularly pronounced in the fourth quarter of 2002 when the Company's sales declined by 52% from the

third quarter of fiscal 2002. As in fiscal 2003, the network services decline reflects a reduction in the division's managed services revenues, particularly those attributable to its contract with O2 as further described below. The increase in enterprise services was primarily attributable to growth in the sale of service and support contracts. The impact of foreign currency changes during the year on annual sales for fiscal 2002 was not material.

The Company has historically made significant sales of systems, customer services and managed services to British Telecom and its affiliate BT Cellnet (together "BT"). In November 2001, BT Cellnet was separated from the British Telecom consolidated group and became O2. Sales to a combination of the BT and O2 entities accounted for 11%, 15% and 19% of the Company's total revenues during fiscal 2003, 2002 and 2001, respectively. Sales under a single managed services contract with BT Cellnet and subsequently with O2 accounted for 8%, 12% and 13% of the Company's total revenues for such years. Monthly minimum managed service revenues under this managed services contract declined during fiscal 2002 from a fiscal 2002 high of approximately $2.6 million per month in March 2001 to a fixed fee of approximately $0.9 million per month as of January 2002 in accordance with the terms of the customer contract. Beginning in June 2003, in conjunction with a contract amendment that extends the term of the managed services agreement for two years to June 2005, the fixed fee will be further reduced to approximately $0.7 million per month. The Company expects its cost of providing services under this contract to rise slightly during the extension period. No other customer accounted for 10% or more of the Company's sales during fiscal 2003, 2002, or 2001.

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 in fiscal 2003 from service and support contracts, including contracts for ASP managed services, comprised approximately 46% of the Company's total sales, up from 40% in fiscal 2002. On average, the backlog of systems sales and the pipeline of opportunities for systems sales during the same period have contributed approximately 29% and 25%, respectively. Each contributed approximately 30% of sales during fiscal 2002.

The Company's service and support contracts 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 measure 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.

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. At February 28, 2003, 2002 and 2001, the Company's backlog of systems sales was approximately $33.5 million, $26 million, and $35 million, respectively.

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 future fiscal quarters is, therefore, highly dependent upon its ability to successfully estimate which pipeline opportunities will close during the quarter.

In fiscal 2003, management implemented an Oracle-based customer relationship management (CRM) tool to provide the necessary data to allow the Company to better, track, manage and forecast its active global sales backlog and pipeline. In fiscal 2004, the Intervoice sales force is performing required weekly forecasting with the CRM tool. The forecasts are expected to provide management and the sales force with the information necessary to effectively direct the Company's complex global sales organization and increase sales productivity. Other projected benefits of the automated CRM process are enhanced strategy formulation

through greater insight into market demand and trends and increased visibility into the Company's sales pipeline and backlog.

The Company is prone to quarterly sales fluctuations. Some of the Company's transactions are completed in the same fiscal quarter as ordered. 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.

To compete effectively in its target markets in fiscal 2004 and beyond, the Company believes it must transition its products and services to an open, standards-based business model. The Company has historically provided complete, bundled hardware and software systems using internally developed components to address its customers' total business needs. Increasingly, the markets for the Company's products are requiring a shift to the development of products and services based on an open, standards-based architecture such as the J2EE and Microsoft's(R).NET environments utilizing VoiceXML and/or SALT standards. Such an open, standards-based approach allows customers to independently purchase and combine hardware components, standardized software modules, and customization, installation and integration services from individual vendors deemed to offer the best value in the particular class of product or service. In such an environment, the Company believes it may sell less hardware and fewer bundled systems and may become increasingly dependent on its development and sale of software application packages, customized software and consulting and integration services. This shift will place new challenges on the Company's management to transition its products and to hire and retain the mix of personnel necessary to respond to this business environment, to adapt to the changing expense structure that the new environment may tend to foster, and to increase sales of services, customized software and application packages to offset reduced sales of hardware and bundled systems.

SPECIAL CHARGES

FISCAL 2003

During fiscal 2003, the Company continued to implement actions designed to lower cost and improve operational efficiency in response to continued softness in the primary markets for its products. It also reviewed its intangible assets for evidence of impairment in light of changes in its business and continued weakness in the world-wide telecommunications networks markets. (See "Amortization and Impairment of Goodwill and Acquired Intangible Assets").

The following table summarizes the effect of the special charges on fiscal 2003 operations by financial statement category (in millions).

	COST OF GOODS SOLD	RESEARCH & DEVELOPMENT	SG&A	OTHER EXPENSES	IMPAIRMENT OF INTANGIBLE
Write down of intangible assets.........	$ --	$ --	$--	$ --	$16.7
Severance payments and related benefits............................	2.3	0.8	3.1	--	--
Facilities closures....................	0.2	0.1	0.4	--	--
Write down of excess inventories........	4.1	--	--	--	--
Costs associated with loss contracts....	4.7	--	--	--	--
Loss on early extinguishment of debt....	--	--	--	1.9	--
Total................................	$11.3	$0.9	$3.5	$1.9	$16.7

The severance and related costs recognized during fiscal 2003 relate to three separate workforce reductions that affected a total of 273 employees. One of the reductions was associated with the Company's consolidation of its separate Enterprise and Networks divisions into a single, integrated organizational structure. The charge also includes costs associated with the resignation of the Networks division president during the first quarter of fiscal 2003. Costs related to facilities closures include $0.4 million for the closure of the Company's leased facility in Chicago, Illinois and $0.3 million associated with the closure of a portion of the Company's leased facilities in Manchester, United Kingdom. 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 reflect the Company's continued assessment of its inventory levels in light of sales projections, the decision to eliminate the U.K. manufacturing operation and the consolidation of the business units. The charges for loss contracts reflect the costs incurred on two contracts which are expected to result in net losses to the Company upon completion. 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. As of February 28, 2003, approximately $0.4 of severance and related costs remain unpaid. Unpaid amounts are expected to be paid in full during fiscal 2004.

FISCAL 2002

During the fourth quarter of fiscal 2002, the Company performed a comprehensive review of the positioning of its product lines, including lines brought forward from its merger with Brite, reevaluated its physical plant needs, and reviewed its aggregate staffing levels. Based on these reviews, the Company took a number of strategic actions designed to lower costs and streamline product offerings. As a result of these actions, the Company incurred special charges of approximately $33.4 million, including $16.4 million for the write down of intangible assets and inventories associated with discontinued product lines, $6.5 million for the write down of excess inventories, $5.2 million for severance payments and related benefits, $4.2 million for facilities closures, and $1.1 million relating to the write down of non-productive fixed assets.

The following table summarizes the effect of these special charges on fiscal 2002 operations by financial statement category (in millions).

	COST OF GOODS SOLD	RESEARCH & DEVELOPMENT	SG&A	IMPAIRMENT OF INTANGIBLES	T
Write down of intangible assets and inventories associated with discontinued product lines	$ 4.4	$ --	$0.3	$11.7	$
Write down of excess inventories	6.5	--	--	--	
Severance payments and related benefits	2.2	0.8	2.2	--	
Facilities closures	--	--	4.2	--	
Write down of non-productive fixed assets	0.3	0.7	0.1	--	
Total	$13.4	$1.5	$6.8	$11.7	$

The $11.7 million write down of intangible assets reflects the impairment of the Brite tradename, the impairment of certain IVR technology acquired as part of the Brite acquisition and the impairment of related goodwill (See "Amortization and Impairment of Goodwill and Acquired Intangible Assets"). The $4.4 million write down of inventories and $0.3 million charge to selling, general and administrative ("SG&A") expenses relate to the Company's decision to discontinue sales of certain earlier versions of its payment and messaging systems that run on a different hardware platform than that used by the current versions of those systems. The additional writedown of inventories totaling approximately $6.5 million relates to items which the Company will continue to use in current sales situations but which, given the slowdown in market demand, it held in excess quantities at year end.

As part of its fiscal 2002 initiatives, the Company announced plans to forego expansion into existing leased space in Allen, Texas and to close its Jacksonville, Florida and Wichita, Kansas locations. As a result of these actions, the Company recorded charges of approximately $4.2 million, including approximately $3.8 million accrued for future lease commitments and approximately $0.4 million for accelerated depreciation expense arising from a reassessment of the useful lives of certain related property and equipment. As part of its overall facilities assessment, the Company also identified and wrote off approximately $1.1 million of fixed assets no longer being used by the Company. As of February 28, 2003, approximately $1.9 million of the accrued lease costs remain unpaid. The Company completed the sale of its Wichita, Kansas office building on May 31, 2002. The $2.0 million in gross proceeds was used to pay down amounts outstanding under the Company's then outstanding revolving credit facility.

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The severance and related costs recognized in the fourth quarter of fiscal 2002 were associated with two workforce reductions that affected 198 employees. As of February 28, 2003, approximately $0.1 million of the total severance and related costs remained unpaid. Unpaid amounts are expected to be paid in full during fiscal 2004.

FISCAL 2001

During the fourth quarter of fiscal 2001, the Company changed its organizational structure and eliminated certain product offerings in order to reduce costs and improve the Company's focus on its core competencies and products. As a result of these actions, the Company incurred special charges of approximately $8.2 million, including $3.6 million for severance and related costs, $3.1 million for the write-off of assets associated with discontinued product lines and $1.5 million for estimated customer accommodations related to the discontinued product lines.

The following table summarizes the effect of these special charges on fiscal 2001 operations by financial statement category (in millions).

	COST OF GOODS SOLD	RESEARCH AND DEVELOPMENT	SG&A	TOTAL
Severance payments and related benefits................	$1.3	$0.4	$1.9	$3.6
Write down of assets associated with discontinued product lines......................................	3.1	--	--	3.1
Customer accommodations associated with discontinued product lines......................................		--	1.5	1.5
Total..	$4.4	$0.4	$3.4	$8.2

The severance and related costs were associated with a workforce adjustment that affected approximately 130 employees and included the resignation of the Company's President and Chief Operating Officer. During the third quarter of fiscal 2002, the Company determined that it had settled its severance related obligations for less than originally anticipated, and, accordingly, the Company reversed the remaining accrual of $0.4 million, reducing selling, general and administrative expenses.

The $3.1 million charge to write off assets is primarily attributable to the Company's decision to discontinue its AgentConnect product line and includes a $2.9 million charge for the impairment of unamortized purchased software (included in other intangible assets) associated with this product. The $1.5 million charge for estimated customer accommodations is comprised primarily of bad debts and customer settlements associated with the Company's decision to discontinue the AgentConnect product line. This charge is reflected in selling, general and administrative expenses. During fiscal 2002, the Company reached settlements with its affected customers for amounts that were less than originally anticipated. As a result, it reversed $0.5 million of the accrual, reducing selling, general and administrative expenses in the third fiscal quarter.

During the fourth quarter of fiscal 2001, the Company realized a gain of $21.4 million upon the sale of shares of stock of SpeechWorks International, Inc. acquired through the exercise of a warrant received in connection with a 1996 supply agreement between the Company and SpeechWorks. This gain is reflected as other income in the accompanying Consolidated Statements of Operations. In prior periods, the warrant had been assigned no value in the Company's balance sheets because the warrant and the underlying shares were unregistered securities, and significant uncertainties existed regarding the Company's ability to monetize the warrant and the timing of any such monetization.

SUBSEQUENT EVENT

During April 2003, the Company reduced its workforce by 56 positions. The Company estimates that it will incur charges of approximately $1.4 million during the first quarter of fiscal 2004 in connection with this action, with approximately $0.6 million, $0.2 million, and $0.6 million impacting cost of goods sold, research and development, and SG&A expenses, respectively. The majority of such charges are expected to be paid

during the first half of fiscal 2004. The Company anticipates that operating expenses will be reduced approximately $0.9 million to $1.2 million per quarter from fourth quarter fiscal 2003 levels once these restructuring activities are completed.

COST OF GOODS SOLD

Cost of goods sold was $88.0 million (56.3% of sales), $125.6 million (59.3% of sales) and $139.7 million (50.9% of sales) in fiscal 2003, 2002 and 2001, respectively. During fiscal 2003, 2002 and 2001, the Company incurred special charges to cost of goods sold totaling $11.3 million (7.2% of sales), $13.4 million (6.3% of sales) and $4.4 million (1.6% of sales), respectively, as described in the preceding "Special Charges" section. 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. The decrease in the cost of goods sold percentage relating to other than special charges for fiscal 2003 is attributable to actions taken during fiscal 2003 and 2002 to reduce this fixed component of cost. The Company reduced manufacturing headcount by 70 from ending fiscal 2002 levels, consolidated its manufacturing operations in a single location, and consolidated certain customer service and managed service support centers. The increase in the cost of goods sold percentage relating to other than special charges during fiscal 2002 is primarily attributable to the softness in the Company's fiscal 2002 sales, including, particularly, its fiscal fourth quarter sales.

RESEARCH AND DEVELOPMENT

Research and development expenses during fiscal 2003, 2002 and 2001 were approximately $22.6 million (14.5% of sales), $29.3 million (13.8% of sales), and $34.6 million (12.6% of sales), respectively. The Company incurred special charges of $0.9 million (0.6% of sales), $1.5 million (0.7% of sales) and $0.4 million (0.1% of sales) in fiscal 2003, 2002 and 2001, respectively, as described in "Special Charges" above. Recurring research and development expenses included the design of new products and the enhancement of existing products.

The Company's research and development spending is focused in four key areas. First, software tools are being developed to aid in the development, deployment and management of customer applications incorporating speech recognition and text to speech technologies. Next, hardware and software platforms are being developed which interface with telephony networks and an enterprise's internal data network. Such platforms are being developed to operate in traditional enterprise networks as well as newer network environments such as J2EE and Microsoft's.NET. Third, "voice browsers" based on open standards such as SALT and VoiceXML are being developed. Voice browsers incorporate speech recognition technologies and perform the task of formatting a user's verbal query into an inquiry that can be acted upon and/or responded to by an enterprise system. Finally, research and development activities are focusing on modularization of key hardware and software elements. This is increasingly important in a standards-based, open systems architecture as modularization will allow for interchange of commodity elements to reduce overall systems cost and for the Company's best of breed and core technology strengths to be leveraged into new applications and vertical markets.

The Company expects to maintain a strong commitment to research and development to remain at the forefront of technology development in its business markets, which is essential to the continued improvement of the Company's position in the industry.

SELLING, GENERAL AND ADMINISTRATIVE

SG&A expenses totaled $65.9 million (42.2% of sales), $83.3 million (39.4% of sales), and $86.2 million (31.4% of sales), in fiscal 2003, 2002 and 2001, respectively. Such amounts included special charges of $3.5 million (2.2% of sales), $6.8 million (3.2% of sales) and $3.4 million (1.2% of sales), respectively, as described in "Special Charges" above. SG&A expenses have declined in absolute dollars 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 AND IMPAIRMENT OF GOODWILL AND ACQUIRED INTANGIBLE ASSETS

In connection with its purchase of Brite in fiscal 2000, the Company recorded intangible assets and goodwill totaling $103.8 million. These assets were assigned useful lives ranging from 5 to 10 years. For the fiscal years ended February 28, 2003, 2002 and 2001, the Company recognized amortization and impairment expense related to these assets as follows (in millions):

	2003	2002	2001
Amortization of goodwill	$ --	$ 2.6	$ 2.9
Amortization of other acquisition related intangible assets	7.1	12.8	10.9
Total amortization of goodwill and other acquisition related intangible assets	7.1	13.4	13.8
Impairment of other acquisition related intangible assets as described below	16.7	8.0	--
Impairment of goodwill in connection with the impairment of other acquisition related intangible assets as described below	--	3.7	--
Total impairment charged to operating income	16.7	11.7	--
Total amortization and impairment charged to operating income	$23.8	$25.1	$13.8
Impairment of goodwill in connection with the adoption of SFAS No. 142 as described below	$15.8	$ --	$ --

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 Enterprise and Networks 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 Networks 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 Networks sales and profitability during the fourth quarter of fiscal 2002 and related reduced forecasts for the division's sales and profitability. Effective August 1, 2002, the Company combined its divisions into a single integrated organizational structure in order to address changing market demands and global customer requirements. The Company conducted its required annual test of goodwill impairment during the fourth quarter of fiscal 2003. No additional impairment of goodwill was indicated. Accordingly, at February 28, 2003, the Company's remaining acquired goodwill totaled $3.4 million

During fiscal 2003, the Company was adversely affected by continuing softness in the general U.S. economy, by extreme softness in the worldwide network/telecommunications market and by political tensions in parts of South America and the Middle East. The Company experienced a second year of declining network revenue and significantly reduced its estimates of near term growth in revenue and net income for its networks based products. As a result, the Company determined that a triggering event, as defined in SFAS No. 144, had occurred during the fourth quarter of fiscal 2003 and, accordingly, the Company evaluated its

intangible assets for evidence of impairment. Based on the results of its review, the Company recognized impairment charges of $14.2 million and $2.5 million, respectively, to reduce the carrying value of its customer relations and developed technology intangible assets to their respective fair values, which were based on estimated discounted future cash flows.

During the fourth quarter of fiscal 2002, the Company performed a comprehensive review of the positioning of all product lines, including lines brought forward from its fiscal 2000 merger with Brite. As a result of decisions made during that review, the Company performed impairment tests in accordance with its stated policies on the Brite tradename and on certain of the developed technology associated with the Brite acquisition. Based on these tests, the Company recorded impairment charges of $4.8 million and $3.2 million, respectively, to reduce the carrying value of these intangible assets and an additional charge of $3.7 million to reduce the carrying value of goodwill associated with the impaired assets.

At February 28, 2003, the Company had $9.3 million in net intangible assets other than goodwill which will be subject to amortization in future periods. The estimated amortization expense attributable to the Company's intangible assets for each of the next five years and thereafter is as follows (in millions):

Fiscal 2004	$3.0
Fiscal 2005	$1.6
Fiscal 2006	$1.2
Fiscal 2007	$1.1
Fiscal 2008	$1.1
Thereafter	$1.3

OTHER INCOME (EXPENSE)

Other income (expense) during fiscal 2003 and 2002 was primarily interest income on cash and cash equivalents. During fiscal 2003, the Company also incurred foreign currency transaction losses of approximately $0.9 million.

During the fourth quarter of fiscal 2001, the Company realized a gain of $21.4 million from the sale of SpeechWorks International, Inc. common stock acquired through the exercise of a warrant received in connection with a 1996 supply agreement between the Company and SpeechWorks. In prior periods, the warrant had been assigned no value because the warrant and the shares underlying the warrant were unregistered securities, and significant uncertainties existed regarding the Company's ability to monetize the warrant and the timing of any such monetization.

INTEREST EXPENSE

The Company incurred interest expense of approximately $4.7 million, $4.9 million and $8.2 million during fiscal 2003, 2002 and 2001, respectively. Substantially all of this expense relates to the Company's long term borrowings initially obtained in connection with the Brite merger and as subsequently refinanced (See "Liquidity and Capital Resources" for a description of the Company's long term borrowings). The reduction in interest expense from fiscal 2001 through fiscal 2003 is primarily attributable to the lower levels of debt outstanding during 2002 and 2003, partially offset in fiscal 2003 by additional costs associated with the amortization of debt issuance costs and debt discounts associated with financings undertaken during the year. Borrowings under the credit agreements totaled $19.1 million, $30.0 million and $49.6 million at February 28, 2003, 2002 and 2001, respectively. Assuming principal payments in accordance with the Company's existing financing agreements and interest rates consistent with current market rates, the Company expects its fiscal 2004 interest expense to be approximately $2.5 million

From July 1999 through October 2001, the Company used interest rate swap arrangements to hedge the variability of interest payments on its variable rate credit facilities. While in effect, the swap arrangements essentially converted the Company's outstanding floating rate debt to a fixed rate basis. Of the $4.9 million total interest expense in fiscal 2002, approximately $1.5 million was attributable to net settlements under the

interest rate swap arrangements. The Company terminated its swap arrangements in October 2001 in response to the continued downward movement in interest rates during fiscal 2002 and had no derivative contracts in place as of February 28, 2003 and 2002.

INCOME TAXES

The Company's income tax benefit for fiscal 2003 and 2002 differs significantly from the federal statutory rate of 35% primarily as a result of benefits recognized in fiscal 2003 as a result of a change in U.S. tax law, operating losses and credit carryforwards generated but not benefited, non-deductible amortization of goodwill resulting from the merger with Brite, and various U.S. tax credits.

On March 7, 2002, United States tax law was amended to allow companies which incurred net operating losses in 2001 and 2002 to carry such losses back a maximum of five years instead of the maximum of two years previously allowed. As a result of this change, during the first quarter of fiscal 2003, the Company used $21.5 million of its previously reported net operating loss carryforwards and $0.4 million of its previously reported tax credit carryforwards and recognized a one-time tax benefit of $7.9 million, of which $2.2 million was recognized as additional capital associated with previous stock option exercises.

The Company's federal income tax returns for fiscal years 2000 and 2001 are currently being audited by the Internal Revenue Service. The Company has tentatively agreed to proposed adjustments from the IRS challenging certain positions taken by the Company on those returns. Although resolution of the issues is still subject to final review by the Joint Committee on Taxation, it is probable that as a result of these proposed adjustments, the Company will lose the ability to carry back approximately $5.4 million in net operating losses generated in fiscal 2001. If this occurs, the Company will be required to repay up to $2.0 million of refunds previously received from the IRS plus accrued interest. The Company has recorded a charge for these probable adjustments as part of its net tax provision (benefit) for fiscal 2003. The Company expects final resolution of the issue and cash settlement with the IRS to occur during the first half of fiscal 2004. Any net operating losses which ultimately cannot be carried back to prior years under the settlement with the IRS may be carried forward to future years.

At February 28, 2003, the Company had U.S. net operating loss carryforwards totaling $45.0 million, including $13.7 million which will expire in 2022 and $31.3 million which will expire in 2023. The Company also had $4.3 million and $1.3 million in research and development and foreign tax credit carryforwards, respectively, at February 28, 2003. If unused, the R&D tax credit carryforwards will begin to expire in 2019, and the foreign tax credit carryforwards will begin to expire in 2005.

The Company has established a valuation allowance of $29.3 million against its net deferred tax assets, including the carryforwards described above. The Company believes the existence of losses in its U.S. operations and the dependency of its international subsidiaries on continuing U.S. operations prevent it from concluding that it is more likely than not that its deferred tax assets will be realized. If some or all of such reserved deferred tax assets are ultimately realized, approximately $1.8 million of the valuation allowance reversal related to stock option deductions will not provide future benefit to income but rather will be credited to additional capital.

In fiscal 2002, the Company did not provide a valuation allowance for deferred assets associated with its foreign subsidiaries. In providing such a reserve during fiscal 2003, the Company recognized tax expense totaling $0.8 million to increase the valuation allowance for net foreign deferred tax assets that existed at February 28, 2002. During fiscal 2003, and as discussed in "Amortization and Impairment of Goodwill and Acquired Intangible Assets", the Company reduced its deferred tax liabilities by $1.4 million in connection with the reclassification of its assembled workforce intangible asset to goodwill. As a result of this transaction, the Company increased the valuation allowance associated with its U.S. net deferred tax asset by $1.4 million.

INCOME (LOSS) FROM OPERATIONS AND NET INCOME (LOSS)

The Company generated a loss from operations of $(44.1) million, a loss before the cumulative effect of a change in accounting principle of $(50.6) million and a net loss of $(66.4) million during fiscal 2003. Its loss

from operations and net loss totaled $(51.6) million and $(44.7) million, respectively, in fiscal 2002. In fiscal 2001, the Company generated operating income of $0.4 million, income before the cumulative effect of a change in accounting principle of $9.5 million and a net loss of $(2.3) million.

During each of fiscal 2003, 2002 and 2001, the Company incurred significant special charges as previously described in this Item 7 totaling $34.3 million, $33.4 million and $8.2 million, respectively. In fiscal 2003, the Company benefited from a change in the U.S. federal tax law that allowed it to recognize net tax benefits of approximately $3.0 million. In fiscal 2001, the Company also recognized the previously described non-recurring gain of $21.4 million associated with the Company's sale of SpeechWorks International, Inc. common stock.

The Company's losses in fiscal 2003 and fiscal 2002 are primarily attributable to the significant decline in the Company's sales volumes from 2001 levels and to the significant restructuring and other special charges incurred by the Company in its efforts to adjust its operations to the rapidly changing market for its products. While the Company benefited throughout fiscal 2003 and 2002 from the cumulative effect of these efforts, its aggregate costs were too high to allow the Company to operate profitably in the face of the sharp downturn in sales activity.

The cumulative effect of a change in accounting principle on prior years associated with the Company's adoption of SFAS No. 142 in fiscal 2003 resulted in a charge to income of $15.8 million. Assuming the accounting change had been applied retroactively by the Company to prior periods, pro forma net loss for fiscal 2002 and pro forma net income for 2001 would have been ($40.3) million and $1.8 million, respectively. Net loss per common share would have been ($1.21) in 2002, and net income per diluted share would have been $0.05 in 2001. Had the Company not adopted SFAS No. 142, the Company's net loss for the year ended February 28, 2003 would have been $54.7 million or $1.61 per share.

LIQUIDITY AND CAPITAL RESOURCES

CASH AND CASH EQUIVALENTS

The Company had $26.2 million in cash and cash equivalents at February 28, 2003, an increase of $8.6 million over ending fiscal 2002 balances. Borrowings under the Company's long-term credit facilities totaled $19.1 million at February 28, 2003, a reduction of $10.9 million from fiscal 2002 ending balances.

Although it incurred a net loss for fiscal 2003 of $66.4 million, over 80% of this loss was attributable to non-cash charges for depreciation and amortization ($16.1 million), the impairment of intangible assets ($32.5 million), and the reduction of certain inventory values ($5.7 million). In addition, the Company aggressively managed its inventory holdings, its extension of credit and its accounts receivable collection efforts during the year. Inventory balances excluding the write-down in certain values described above declined significantly during fiscal 2003, generating $12.4 million of operating cash, and days sales outstanding (DSOs) of accounts receivable were 61 days at February 28, 2003, down from 133 days at February 28, 2002. As a result, despite the net loss, the Company generated $23.6 million in cash from operating activities during fiscal 2003.

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 this methodology totaled $4.9 million (19.0% of total net receivables) at February 28, 2003. The Company expects to bill and collect unbilled receivables as of February 28, 2003 within the next twelve months.

While the Company continues to focus on 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 of systems and/or services 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 tentatively agreed to proposed adjustments from the IRS challenging certain positions taken by the Company on those returns. Although resolution of the issues is still subject to final review by the Joint Committee on Taxation, it is probable that as a result of these proposed adjustments, the Company will lose the ability to carry back approximately $5.4 million in net operating losses generated in fiscal 2001. If this occurs, the Company will be required to repay up to $2.0 million of refunds previously received from the IRS plus accrued interest. The Company has recorded a charge for these probable adjustments as part of its net tax provision (benefit) for fiscal 2003. The Company expects final resolution of the issue and cash settlement with the IRS to occur during the first half of fiscal 2004. Any net operating losses which ultimately cannot be carried back to prior years under the settlement with the IRS may be carried forward to future years.

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 Company and the IRS have reached a tentative agreement, subject to final review and approval by the Joint Committee on Taxation, which eliminates the proposed deficiency and, in fact, results in the Company receiving a small net refund. The Company expects final resolution of this matter to occur during the first half of fiscal 2004.

The Company used $2.6 million of cash in net investing activities and used $13.7 million of cash in net financing activities, including the net repayment of debt described above and the payment of $2.5 million in debt issuance costs associated with various refinancing activities undertaken during the year as further described below.

MORTGAGE LOAN

In May 2002, the Company entered into a $14.0 million mortgage loan secured by a first lien on the Company's Dallas headquarters. The mortgage loan bears interest, payable monthly, at the greater of 10.5% or the prime rate plus 2%. The principal balance is due in May 2005. Proceeds from the loan were used to partially repay amounts outstanding under the amortizing term loan that existed at the time the Company entered into the mortgage. In October 2002 and February 2003, the Company amended the mortgage loan to modify a minimum net equity covenant contained in the loan agreement. Under the amended loan, the Company must have at least $5.0 million in net equity at the end of each of its fiscal quarters beginning with the quarter ending August 31, 2004. In connection with these amendments, the Company prepaid $3.5 million of the original principal amount outstanding under the loan. The mortgage loan contains cross-default provisions with respect to the Company's new term loan and revolving credit agreement, such that a default under the credit facility which leads to the acceleration of amounts due under the facility and the enforcement of liens against the mortgaged property also creates a default under the mortgage loan.

NEW TERM LOAN AND REVOLVING CREDIT AGREEMENT

In August 2002, the Company entered into a new credit facility agreement with a lender which provided 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 ($16.4 million maximum at February 28, 2003) or a defined borrowing base comprised primarily of eligible U.S. and U.K. accounts receivable ($0.3 million maximum at February 28, 2003). The term loan bears interest, payable monthly, at the prime rate plus 2.75% (7% at February 28, 2003). Principal is due in equal monthly installments of approximately $0.3 million through July 2005 and final payments of approximately $0.6 million in August 2005. Proceeds from the term loan were used to retire $9.0 million of convertible notes

outstanding at the time the Company entered into the credit facility, to pay $0.6 million in accrued interest and early termination premiums related to the convertible notes and to provide additional working capital to the Company.

Any advances under the revolver loan will accrue interest at the prime rate plus a margin of 0.5% to 1.5%, or at the 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 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, as defined in the agreement, 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 $5.0 million and $9.0 million, respectively, for the nine and twelve month periods ending May 31, 2003 and August 31, 2003. Thereafter, the Company is required to have minimum cumulative EBITDA, as defined, of $15 million and $20 million for the 12-month periods ending November 30, 2003 and February 29, 2004, respectively, and $25 million for the 12-month periods ending each fiscal quarter thereafter. In order for the Company to comply with the escalating minimum EBITDA requirements in the credit facility, the Company will have to continue to increase revenues and/or lower expenses in future quarters. 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 $4.0 million for any fiscal year beginning on or after March 1, 2003 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 contains cross-default provisions with respect to the Company's mortgage loan, such that an event of default under the mortgage loan which allows the mortgage lender to accelerate the mortgage loan or terminate the agreement creates a default under the credit facility. As of February 28, 2003, the Company was in compliance with all financial and operating covenants.

WARRANTS

In connection with a sale of convertible notes during fiscal 2003, which notes were subsequently redeemed in full for cash prior to year end, the Company issued warrants to the buyers. The warrants give the holders the right to purchase from the Company, for a period of three years, an aggregate of 621,304 shares of the Company's common stock for $4.0238 per share as of the date of issuance. Under certain circumstances, this "purchase" may be accomplished through a cashless exercise. Both the number of warrants and the exercise price of the warrants are subject to antidilution adjustments as set forth in the warrants. If the Company is prohibited from issuing warrant shares under the rules of the Nasdaq National Market, the Company must redeem for cash those warrant shares which cannot be issued at a price per warrant share equal to the difference between the weighted average market price of the Company's common stock on the date of attempted exercise and the applicable exercise price. The Company's obligations under the warrants remain in force and are unaffected by the redemption of the convertible notes.

COSTS ASSOCIATED WITH THE REFINANCINGS

During fiscal 2003, the Company incurred approximately $1.5 million in debt issuance costs, consisting primarily of investment banking and legal fees, to establish the new term loan and revolving credit agreement and the mortgage loan. Such costs were capitalized and are being charged to interest expense over the life of the related debt obligations. In addition, in connection with the restructuring of its fiscal 2002 debt, the Company incurred approximately $1.0 million in debt issuance costs associated with the convertible notes and warrants. During the third quarter of fiscal 2003, the Company recognized a loss of approximately $1.9 million

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on the early extinguishment of the convertible notes. The loss included a $0.5 million early conversion/ retirement premium as well as the non-cash costs to write off the unamortized debt issuance costs and unamortized discount associated with the convertible notes.

SUMMARY OF FUTURE OBLIGATIONS

The following table summarizes the Company's obligations and commitments as of February 28, 2003, to be paid in fiscal 2004 through 2008 (in millions):

NATURE OF COMMITMENT	2004	2005	2006	2007	2008
Long-term debt, excluding related interest amounts	$3.3	$3.3	$12.5	$ --	$ --
Operating lease payments	3.2	2.8	2.4	1.3	0.8
Total obligations and commitments	$6.5	$6.1	$14.9	$1.3	$0.8

The Company believes its cash reserves and internally generated cash flow along with any cash availability under its revolver loan will be sufficient to meet its operating cash requirements for the next twelve months.

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 should reduce the Company's exposure to inflationary effects.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	THREE MONTHS ENDED			
FISCAL 2003*	MAY 31, 2002	AUGUST 31, 2002	NOVEMBER 30, 2002	FEBRUARY 28, 2003
	(IN MILLIONS, EXCEPT PER SHARE DATA)			

Sales	$ 38.4	$ 35.6	$ 44.0	$ 38.2
Gross profit (loss)	15.6	10.9	21.7	20.0
Income (loss) from operations	(9.8)	(15.8)	(0.9)	(17.6)
Income (loss) before the cumulative effect of a change in accounting principle	(8.7)	(16.3)	(7.8)	(17.8)
Net income (loss)	(24.5)	(16.3)	(7.8)	(17.8)
Income (loss) before the cumulative effect of a change in accounting principle per diluted share	(0.26)	(0.48)	(0.23)	(0.52)
Net income (loss) per diluted share	(0.72)	(0.48)	(0.23)	(0.52)

	THREE MONTHS ENDED			
FISCAL 2002	MAY 31, 2001	AUGUST 31, 2001	NOVEMBER 30, 2001	FEBRUARY 28, 2002**
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
Sales	$ 61.5	$ 64.5	$ 58.1	$ 27.6
Gross profit (loss)	33.7	33.1	30.5	(11.2)
Income (loss) from operations	3.2	3.6	1.3	(59.7)
Net income (loss)	1.4	1.7	--	(47.8)
Net income (loss) per diluted share	0.04	0.05	0.00	(1.42)

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* During fiscal 2003, the Company incurred special charges of $2.6 million, $10.1 million, $4.9 million and $16.7 million, respectively, in its first, second, third and fourth fiscal quarters. The special charges included

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$6.2 million of severance and related benefit costs, $0.7 million related to facilities closures, $4.1 million write down of excess inventories, $4.7 million of charges for contracts expected to result in losses to the Company, $1.9 million loss on early extinguishment of debt, and $16.7 million related to impairment of certain intangible assets. (See "Special Charges".) The Company benefited from a change in the U.S. federal tax law that allowed it to recognize net tax benefits of approximately $3.0 million.

** During the fourth quarter of fiscal 2002, the Company incurred special charges of $33.4 million, including $16.4 million for the write down of intangible assets and inventories associated with discontinued product lines, $6.5 million for the write down of excess inventories, $5.2 million for severance payments and related benefits, $4.2 million for facilities closures, and $1.1 million relating to the write down of non-productive fixed assets. (See "Special Charges".) Sales for the quarter were reduced as a result of the Company's decisions to accept the return of two systems sales in the aggregate amount of $7.7 million. Pretax income for the fourth quarter was reduced by approximately $6.5 million as a result of these returns.

PART IV

ITEM 16. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following consolidated financial statements and financial statement schedule of Intervoice, Inc. and subsidiaries are included in Items 8 and 16(a), respectively.

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits:

The exhibits required to be filed by this Item 16 are set forth in the Index to Exhibits accompanying this report.

(b) Reports on Form 8-K

1. A report on Form 8-K filed on December 20, 2002 to announce the Company's third quarter earnings release.

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SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERVOICE, INC.

By: /s/ DAVID W. BRANDENBURG

David W. Brandenburg
Chairman of the Board of Director
and Chief Executive Officer

Dated: June 10, 2003

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CERTIFICATIONS

I, David W. Brandenburg, certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 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 annual 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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 functions):

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 annual 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.

/s/ DAVID W. BRANDENBURG

David W. Brandenburg
Chief Executive Officer and Chairman

Date: June 10, 2003

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CERTIFICATIONS

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

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 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 annual 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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 functions):

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 annual 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.

/s/ ROB-ROY J. GRAHAM

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

Date: June 10, 2003

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation, as amended, of Registrant.(2)
3.2	Amendment to Articles of Incorporation of Registrant.(9)
3.3	Amendment to Articles of Incorporation of Registrant.(19)
3.4	Second Restated Bylaws of Registrant, as amended.(1)
4.1	Third Amended and Restated Rights Agreement dated as of May 1, 2001 between the Registrant and Computershare Investor Services, LLC, as Rights Agent.(4)
4.2	Securities Purchase Agreement, dated as of May 29, 2002, between the Registrant and the Buyers named therein (the "Securities Purchase Agreement").(17)
4.3	Form of Convertible Note, dated as of May 29, 2002, between the Registrant and each of the Buyers under the Securities Purchase Agreement.(17)
4.4	Form of Warrant, dated as of May 29, 2002, between the Registrant and each of the Buyers under the Securities Purchase Agreement.(17)
4.5	Registration Rights Agreement, dated as of May 29, 2002, between the Registrant and each of the Buyers under the Securities Purchase Agreement.(17)
4.6	First Amendment to Third Amended and Restated Rights Agreement dated as of May 29, 2002, between the Registrant and Computershare Investor Services, LLC.(17)
10.1	The InterVoice, Inc. 1990 Incentive Stock Option Plan, as amended(8)
10.2	The InterVoice, Inc. 1990 Nonqualified Stock Option Plan for Non-Employees, as amended(3)
10.3	The InterVoice, Inc. Employee Stock Purchase Plan(6)
10.4	InterVoice, Inc. Employee Savings Plan(5)
10.5	InterVoice, Inc. Restricted Stock Plan(7)
10.6	Employment Agreement dated as of September 16, 1998 between the Company and Rob-Roy J. Graham(8)

10.7	InterVoice, Inc. 1998 Stock Option Plan(8)
10.8	Acquisition Agreement and Plan of Merger dated as of April 27, 1999, by and among the Company, InterVoice Acquisition Subsidiary III, Inc. ("Acquisition Subsidiary") and Brite Voice Systems, Inc.(11)
10.9	Patent License Agreement between Lucent Technologies GRL Corp. and InterVoice Limited Partnership, effective as of October 1, 1999. Portions of this exhibit have been excluded pursuant to a request for confidential treatment.(9)
10.10	Intervoice, Inc. 1999 Stock Option Plan.(12)
10.11	Credit Agreement dated June 1, 1999 among InterVoice, Inc., InterVoice Acquisition Subsidiary III, Inc. and Bank of America National Trust and Savings Association, as "Agent", Banc of America Securities LLC and certain other financial Institutions indicated as being parties to the Credit Agreement (collectively, "Lenders") incorporated by reference to Exhibit 99.(b)(1) of the Schedule 14-D1 (Amendment No. 4) filed by InterVoice, Inc. and InterVoice Acquisition Subsidiary III, Inc. on June 14, 1999.(11)
10.12	Forbearance Agreement dated as of March 7, 2002, by and among the Company, Brite Voice Systems, Inc., Bank of America, National Association, as agent, and the Lenders party thereto.(15)
10.13	Consent and Amendment to Forbearance Agreement, dated as of March 31, 2002, by and among the Company, Brite Voice Systems, Inc., Bank of America, National Association, as agent, and the Lenders party thereto.(16)
10.14	Form of Commitment Letter dated May 29, 2002.(17)
10.15	Consent, Waiver and Third Amendment to Credit Agreement, effective as of May 29, 2002 among the Registrant, Brite Voice Systems, Inc. (successor by merger to InterVoice Acquisition Subsidiary III, Inc.), Bank of America, National Association (successor by merger to Bank of America National Trust and Savings Association), as Agent, and the other Lenders named therein.(17)

EXHIBIT NUMBER	DESCRIPTION
10.16	Subordination and Intercreditor Agreement effective as of May 29, 2002 by and among the Registrant, the Buyers under the Securities Purchase Agreement, and Bank of America, National Association, as Agent for the Senior Creditors (defined therein).(17)
10.17	Promissory Note, dated May 29, 2002, executed by the Registrant in favor of Beal Bank, S.S.B.(17)
10.18	Deed of Trust, Security Agreement, and Assignment of Leases and Rents dated May 29, 2002, executed by the Registrant for its benefit of Beal Bank, S.S.B.(17)
10.19	First Amendment to Employment Agreement effective as of July 1, 2000, between the Company and Rob-Roy J. Graham.(10)
10.20	First Amendment to Credit Agreement effective as of January 15, 2001, between the Company, Agent and the Lenders.(13)
10.21	Consent and Second Amendment to Credit Agreement effective as of February 28, 2001, between the Company, Agent and the Lenders.(13)

10.22	Second Amendment to Employment Agreement dated as of October 31, 2001, between the Company and Rob-Roy J. Graham.(14)
10.23	Second Amended Employment Agreement dated as of February 18, 2002, between the Company and David W. Brandenburg.(18)
10.24	Loan and Security Agreement dated as of August 29, 2002 between the Company and Foothill Capital Corporation.(20)
10.25	Modification Agreement dated as of September 30, 2002, by and between the Company and Beal Bank S.S.B., modifying a deed of trust.(19)
10.26	Second Modification Agreement dated as of February 27, 2003 by and between the Company and Beal Bank S.S.B., modifying a deed of trust.(21)
10.27	Employment Agreement dated as of October 23, 2002, between the Company and Robert E. Ritchey.(21)
21	Subsidiaries(21)
23	Consent of Independent Auditors(21)
99.1	Certification Pursuant to 18 U.S.C. Section 1350, signed by David W. Brandenburg(22)
99.2	Certification Pursuant to 18 U.S.C. Section 1350, signed by Rob-Roy J. Graham(22)
99.3	Pages 12, 13, 18, 38-40, 43 and 45 of the Registration Statement on Form S-4, as amended (incorporated by reference to page 12, 13, 18, 38-40, 43 and 45 of the Registration Statement on Form S-4/A (Amendment No. One) filed by the Company on July 13, 1999)(9)
99.4	Letter Agreement dated April 2, 2002 between the Company and a prospective purchaser of the Company's facilities in Wichita, Kansas. Portions of this exhibit have been excluded pursuant to a request for confidentiality treatment.(16)

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(1) Incorporated by reference to exhibits to the Company's 1991 Annual Report on Form 10-K for the fiscal year ended February 28, 1991, filed with the Securities and Exchange Commission (SEC) on May 29, 1991, as amended by Amendment No. 1 on Form 8 to Annual Report on Form 10-K, filed with the SEC on August 1, 1991.

(2) Incorporated by reference to exhibits to the Company's 1995 Annual Report on Form 10-K for the fiscal year ended February 28, 1995, filed with the SEC on May 30, 1995.

(3) Incorporated by reference to exhibits to the Company's Registration Statement on Form S-8 filed with the SEC on April 6, 1994, with respect to the Company's 1990 Nonqualified Stock Option Plan for Non-Employees, Registration Number 33-77590.

(4) Incorporated by reference to exhibits to Form 8-A/A (Amendment 3) filed with the SEC on May 9, 2001.

(5) Incorporated by reference to exhibits to the Company's 1994 Annual Report on Form 10-K for the fiscal year ended February 28, 1994, filed with the SEC on May 31, 1994.

(6) Incorporated by reference to exhibits to Registration Statement on Form S-8 filed with the SEC on November 20, 2002, Registration Number 333-1013280.

(7) Incorporated by reference to exhibits to the Company's 1996 Annual Report on Form 10-K for the fiscal year ended February 29, 1996, filed with the

SEC on May 29, 1996.

(8) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1998, filed with the SEC on October 14, 1998.

(9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 1999, filed with the SEC on October 14, 1999.

(10) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2000, filed with the SEC on October 14, 2000.

(11) Incorporated by reference to Registration Statement on Form S-4 filed with the SEC on July 13, 1999, Registration Number 333-79839.

(12) Incorporated by reference to Registration Statement on Form S-8 filed with the SEC on October 15, 1999, Registration Number 333-89127.

(13) Incorporated by reference to exhibits to the Company's 2001 Annual Report on form 10-K for the fiscal year ended February 28, 2001, filed with the SEC on May 18, 2001.

(14) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2001, filed with the SEC on January 11, 2002.

(15) Incorporated by reference to exhibits to the Company's Current Report on Form 8-K, filed with the SEC on March 13, 2002.

(16) Incorporated by reference to exhibits to the Company's Current Report on Form 8-K, filed with the SEC on April 18, 2002.

(17) Incorporated by reference to exhibits to the Company's Current Report on Form 8-K, filed with the SEC on May 30, 2002.

(18) Incorporated by reference to exhibits to the Company's 2002 Annual Report on Form 10-K for the fiscal year ended February 28, 2002, filed with the SEC on May 30, 2002.

(19) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2002, filed with the SEC on October 15, 2002.

(20) Incorporated by reference to exhibits to the Company's Current Report on Form 8-K, filed with the SEC on August 29, 2002.

(21) Filed with the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2003, filed with the SEC on May 29, 2003.

(22) Filed herewith.