INTERVOICE BRITE INC
Form 10-Q
January 11, 2002

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED
NOVEMBER 30, 2001

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: 0-13616

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

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

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

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

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

YES [X] NO [ ]

THE REGISTRANT HAD 33,735,258 SHARES OF COMMON STOCK, NO PAR VALUE PER SHARE, OUTSTANDING AS OF THE CLOSE OF THE PERIOD COVERED BY THIS REPORT.

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INTERVOICE-BRITE, INC.

CONSOLIDATED BALANCE SHEETS

	(In Thousands, Except Share and Per Share	
ASSETS	November 30, 2001	February 28, 2001
	(Unaudited)	
Current Assets		
Cash and cash equivalents	$ 11,751	$ 15,901
Trade accounts receivable, net of allowance for doubtful accounts of $3,233 in fiscal 2002 and $3,642 in fiscal 2001	75,011	72,148
Income tax receivable	3,323	3,323
Inventory	38,997	40,184
Prepaid expenses and other current assets	6,685	5,238
Deferred income taxes	4,180	3,968
	139,947	140,762
Property and Equipment		
Building	20,303	20,228
Computer equipment and software	46,143	46,316
Furniture, fixtures and other	4,609	4,528
Service equipment	7,731	6,905
	78,786	77,977
Less allowance for depreciation	48,465	42,037
	30,321	35,940
Other Assets		
Intangible assets, net of amortization of $37,100 in fiscal 2002 and $26,702 in fiscal 2001	68,823	79,760
Other assets	1,851	299
	$ 240,942	$ 256,761
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 22,491	$ 22,952
Accrued expenses	14,965	16,863
Customer deposits	6,200	7,730
Deferred income	19,174	19,705
Current portion of long term borrowings	20,179	18,537
Income taxes payable	1,708	5,117
	84,717	90,904
Deferred income taxes	20,127	20,127
Long term borrowings	14,846	31,100
Stockholders' Equity		
Preferred Stock, $100 par value--2,000,000 shares authorized: none issued		
Common Stock, no par value, at nominal assigned value--62,000,000 shares authorized: 33,735,258 issued and outstanding in fiscal 2002, 33,099,647 issued and outstanding in fiscal 2001	17	17
Additional capital	59,987	55,671
Unearned compensation	(315)	(1,311)

Retained earnings	67,473	64,308
Accumulated other comprehensive loss	(5,910)	(4,055)
Stockholders' equity	121,252	114,630
	$ 240,942	$ 256,761

See notes to consolidated financial statements.

INTERVOICE-BRITE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	(In Thousands, Except Per Share D		
	Three Months Ended		Nin
	November 30, 2001	November 30, 2000	November 30 2001
Sales			
Systems	$ 36,777	$ 46,437	$ 117,67
Services	21,276	22,178	66,37
	58,053	68,615	184,04
Cost of goods sold			
Systems	18,761	21,465	58,19
Services	8,760	10,990	28,55
	27,521	32,455	86,74
Gross margin			
Systems	18,016	24,972	59,48
Services	12,516	11,188	37,82
	30,532	36,160	97,30
Research and development expenses	6,938	8,704	21,56
Selling, general and administrative expenses	18,964	20,492	57,49
Amortization of goodwill and acquisition related intangible assets	3,359	3,466	10,14
Income from operations	1,271	3,498	8,10
Other income	137	390	1,09
Interest expense	(1,355)	(1,675)	(3,91
Income before taxes and the cumulative effect of a change in accounting principle	53	2,213	5,27
Income taxes	21	1,107	2,11

Income before the cumulative effect of a change in accounting principle	32	1,106	3,16
Cumulative effect on prior years of adopting SEC Staff Accounting Bulletin No. 101	--	--	-
Net income (loss)	$ 32	$ 1,106	$ 3,16
Per Basic Share:			
Income before the cumulative effect of a change in accounting principle	$ 0.00	$ 0.03	$ 0.0
Cumulative effect on prior years of adopting SEC Staff Accounting Bulletin No. 101	--	--	-
Net income (loss)	$ 0.00	$ 0.03	$ 0.0
Per Diluted Share:			
Income before the cumulative effect of a change in accounting principle	$ 0.00	$ 0.03	$ 0.0
Cumulative effect on prior years of adopting SEC Staff Accounting Bulletin No. 101	--	--	-
Net income (loss)	$ 0.00	$ 0.03	$ 0.0

See notes to consolidated financial statements.

INTERVOICE-BRITE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Thousands)

	Three Months Ended		
	November 30, 2001	November 30, 2000	Nove 2
Operating Activities			
Income before the cumulative effect of a change in accounting principle	$ 32	$ 1,106	$
Adjustments to reconcile income before the cumulative effect of a change in accounting principle to net cash provided by operating activities			
Depreciation and amortization	6,310	7,201	
Other changes in operating activities	(6,385)	(10,314)	
Net cash provided by (used in) operating activities	(43)	(2,007)	

Investing Activities			
Purchases of property and equipment	(1,511)	(1,817)	
Other	(81)	--	
Net cash used in investing activities	(1,592)	(1,817)	
Financing Activities			
Paydown of debt	(5,045)	(7,500)	
Borrowings	--	7,500	
Exercise of stock options	2,199	335	
Net cash provided by (used in) financing activities	(2,846)	335	
Effect of exchange rates on cash	(58)	46	
Decrease in cash and cash equivalents	(4,539)	(3,443)	
Cash and cash equivalents, beginning of period	16,290	17,642	
Cash and cash equivalents, end of period	$ 11,751	$ 14,199	$

See notes to consolidated financial statements.

INTERVOICE-BRITE, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

(In Thousands, Except Share Data)

	Common Stock		Additional	Unearned	Retained
	Shares	Amount	Capital	Compensation	Earnings
Balance at February 28, 2001	33,099,647	$ 17	$ 55,671	$ (1,311)	$ 64,308
Net income					3,165
Foreign currency translation adjustment					
Cumulative effect on prior years of adopting Statement of Financial Accounting Standards No. 133, as amended, net of tax effect of $261					

Valuation adjustment of interest rate swap hedge, net of tax effect of $14					
Exercise of stock options	635,611		4,316		
Amortization of unearned compensation				996	
Balance at November 30, 2001	33,735,258	$ 17	$ 59,987	$ (315)	$ 67,473

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED NOVEMBER 30, 2001

NOTE A - BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. The consolidated balance sheet at February 28, 2001 has been derived from audited financial statements at that date. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the unaudited November 30, 2001 and 2000 consolidated financial statements have been included. Operating results for the three and nine month periods ended November 30, 2001 are not necessarily indicative of the results that may be expected for the year ending February 28, 2002, as such results may be affected by a number of factors including the timing and ultimate receipt of orders from significant customers which continue to constitute a large portion of the Company's sales, the sales channel mix of products sold, and changes in general economic conditions, any of which could have an adverse effect on operations.

In accordance with Statement of Financial Accounting Standards No. 130, the following comprehensive income disclosures are provided. Total comprehensive income (loss) for the third quarters of fiscal 2002 and 2001 was $(1.6) million and $0.5 million, respectively. For the nine month periods ended November 30, 2001 and 2000, comprehensive income (loss) was $1.3 million and $(14.2) million, respectively. Total comprehensive income is comprised of net income (loss), foreign currency translation adjustments, the cumulative effect of the adoption in fiscal 2002 of Statement of Financial Accounting Standards No. 133 - Accounting for Derivative Instruments and Hedging Activities, as amended, ("Statement No. 133") and the adjustments to the carrying value of certain derivative instruments as of November 30, 2001. Financial statements of the Company's foreign subsidiaries have been translated into U.S. dollars at current and average exchange rates. Resulting translation adjustments are recorded as a separate component of stockholders' equity. Any transaction gains or losses are included in the accompanying consolidated statements of operations.

In June 2001, the Financial Accounting Standards Board issued new rules on accounting for goodwill and other intangible assets in its Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (the "Statements"), which become effective for fiscal years beginning after December 15, 2001. Under the new rules: 1) goodwill and intangible assets deemed to have indefinite lives will no longer be amortized and 2) such assets will be subject to impairment tests at least

annually in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules in the first quarter of fiscal 2003.

The Company's preliminary estimate is that the application of the non-amortization provisions of the Statements will result in an increase in net income in fiscal 2003 of the $4.0 million ($0.12 per share). Final results, however, may vary from this preliminary estimate, and any such variance may be material.

The Company is not in a position to estimate the effect on fiscal 2003 net income resulting from the impairment tests required by the Statements until the tests and any additional required tests are performed during the fourth quarter of fiscal 2002 and the first quarter of fiscal 2003. The balance, as of November 30, 2001, of unamortized goodwill and other indefinite lived assets was $25.6 million. The results of the required tests may result in a charge to earnings if any such assets are deemed to be impaired. The Company will not be in a position to determine what impact the impairment tests will have on its fiscal 2003 earnings and financial position until the required tests are completed, however, the impact could be material.

NOTE B - CHANGE IN ACCOUNTING PRINCIPLE FOR DERIVATIVES

Since entering into its current credit facilities in 1999, the Company has used interest rate swap arrangements to hedge the variability of interest payments on its variable rate debt. The swap arrangements have effectively converted the Company's outstanding floating rate debt to a fixed rate basis. Prior to March 1, 2001, the Company did not assign a value to the interest rate swaps, and gains and losses from the swaps were included on the accrual basis in interest expense.

Effective March 1, 2001, the Company adopted Statement No. 133 which requires that the Company record an asset or liability for the fair value of its derivatives and that it mark such asset or liability to market on an ongoing basis. For derivatives, such as the Company's interest rate swaps, which are defined as cash flow hedges, changes to the derivative's market value are initially reported as a component of other comprehensive loss to the extent that the hedge is determined to be effective. Such changes are subsequently reclassified into earnings when the related transaction (the quarterly payment of variable rate

interest) affects earnings. Changes in market value attributable to the ineffective portion of a hedge are reported in earnings immediately as incurred.

At March 1, 2001, the Company was a party to swap arrangements with a notional amount of $50 million under which the Company paid interest at a fixed rate of 6.2% and received interest at the three-month London Interbank Offering Rate ("LIBOR") (5.1% at March 1, 2001). Upon adoption of Statement No. 133, the Company recorded an initial derivative liability included in accrued liabilities of approximately $0.7 million and incurred a charge to other comprehensive loss totaling approximately $0.4 million (net of tax). The charge to other comprehensive loss represented the transition adjustment associated with the cumulative effect on prior years of adopting Statement No. 133. During the three and nine month periods ended November 30, 2001, the Company increased its derivative liability by $0.0 million and $0.3 million, respectively, to reflect changes in its fair value attributable to reductions in the LIBOR offset by the reduction of the obligation through the payment of scheduled quarterly interest rate swap settlements. During the same periods, the Company recorded a net of

tax charge to other comprehensive loss of less than $0.1 million and charges to interest expense for the ineffective portion of the derivative and the payment of its quarterly swap settlements of approximately $0.5 million and $1.1 million, respectively.

The interest rate swap arrangements were scheduled to expire in June 2002, but in response to the continued downward movement in the LIBOR rate, the Company terminated its swap arrangements in October 2001, retiring the derivative liability and related accrued settlement charges through a cash payment of $1.4 million. Under the provisions of Statement No. 133, the Company will recognize non-cash interest expense of approximately $0.4 million and $0.3 million in its quarters ending February 28, 2002 and May 31, 2002, respectively, as a result of the final reclassifications into earnings of the remaining balance in other comprehensive loss that is related to the derivative agreements. The Company will also continue to incur interest expense under the provisions of the credit facilities.

Amounts due under the credit facilities totaled $35.0 million and $49.6 million at November 30, 2001 and February 28, 2001, respectively. Interest accrues at variable rates indexed to a combination of LIBOR, the prime rate and the federal funds rate. The average annual interest rate under the facilities was 5.9% and 9.2% at November 30, 2001 and February 28, 2001, respectively, and was reduced to 4.8% subsequent to November 30, 2001.

NOTE C - CHANGE IN ACCOUNTING PRINCIPLE FOR REVENUE RECOGNITION

Effective March 1, 2000, the Company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements" issued by the Securities and Exchange Commission. The cumulative effect of the adoption of SAB 101 on prior years resulted in a charge to operations of $11.9 million (after reduction for income taxes of $6.4 million) which is included in results of operations for the three months ended May 31, 2000. For the three and nine months ended November 30, 2000, the net effect of the change in accounting was to increase income before the cumulative effect of the accounting change $3.0 million ($0.09 per share) and $11.5 million ($0.34 per share), respectively. For the three and nine months ended November 30, 2000, the Company recognized $5.0 million and $22.0 million, respectively, in revenue whose contribution to income is included in the cumulative effect adjustment as of March 1, 2000.

NOTE D - INVENTORIES

Inventories consist of the following (in thousands):

	November 30, 2001	February 28, 2001
Purchased parts	$ 28,577	$ 33,103
Work in progress	8,262	5,961
Finished goods	2,158	1,120
	$ 38,997	$ 40,184

NOTE E - RESTRUCTURING ACTIVITIES AND UNUSUAL ITEMS

Accrued expenses at February 28, 2001 included $1.8 million of severance and related special charges incurred by the Company in the fourth quarter of fiscal

2001. The Company charged payments of $1.4 million against this accrual during the nine months ended November 30, 2001. 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 which reduced selling, general and administrative expenses. Accrued expenses at February 28, 2001 also included $0.9 million of accrued customer settlement expenses recorded in

the fourth quarter of fiscal 2001 in connection with the Company's discontinuance of its Agent Connect product line. During the third quarter of fiscal 2002, the Company reached settlement with its affected customers for amounts that were less than originally anticipated. As a result of its settlement activities, the Company reversed $0.5 million of accrued settlement expenses which reduced selling, general and administrative expenses and retained $0.4 million in accrued liabilities for settlements to be completed in the fourth quarter of fiscal 2002.

During the third quarter of fiscal 2002, the Company recognized $0.8 million of revenue and pretax profit relating primarily to non-refundable customer deposits received in prior quarters. During the quarter, the Company determined that the orders associated with these deposits had been canceled and that the Company had no remaining unperformed obligations.

NOTE F - EARNINGS PER SHARE

(in thousands except per share data)

	Three Months Ended		Nine
	November 30, 2001	November 30, 2000	November 30, 200
Numerator:			
Income before the cumulative effect of a change in accounting principle	$ 32	$ 1,106	$ 3,16
Cumulative effect on prior years of adopting SEC SAB No. 101	--	--	-
Net Income (loss)	$ 32	$ 1,106	$ 3,16
Denominator:			
Denominator for basic earnings per share	33,557	32,807	33,29
Employee stock options	1,541	1,370	1,40
Non-vested restricted shares	56	50	5
Dilutive potential common shares	1,597	1,420	1,45
Denominator for diluted			

earnings per share	35,154	34,227	34,75
BASIC:			
Income before the cumulative effect of a change in accounting principle	$ 0.00	$ 0.03	$ 0.0
Cumulative effect on prior years of adopting SEC SAB No. 101	--	--	-
Net Income (loss)	$ 0.00	$ 0.03	$ 0.0
DILUTED:			
Income before the cumulative effect of a change in accounting principle	$ 0.00	$ 0.03	$ 0.0
Cumulative effect on prior years of adopting SEC SAB No. 101	--	--	-
Net Income (loss)	$ 0.00	$ 0.03	$ 0.0

Options to purchase 1,430,937 and 1,528,437 shares of common stock at average prices of $14.82 and $14.64, respectively, were outstanding during the three and nine month periods ended November 30, 2001, respectively, but were not included in the computation of diluted earnings per share because the options' prices were greater than the average market price of the Company's common stock during such periods and, therefore, the effect would have been anti-dilutive. Options to purchase 2,170,824 and 1,614,374 shares of common stock at average prices of $13.97 and $15.14, respectively, were excluded from the diluted earnings per share calculations for the three and nine month periods ended November 30, 2000, respectively, because their prices were greater than the average market price of the Company's common stock during such periods.

NOTE G - OPERATING SEGMENT INFORMATION AND MAJOR CUSTOMERS

Beginning in fiscal 2002, the Company has defined two reportable segments: the Enterprise Solutions Division ("ESD") and the Network Solutions Division ("NSD"). The ESD focuses on the interactive voice response (IVR) market in which the Company provides automated customer service and self-help solutions to enterprises and institutions. The NSD focuses on the enhanced telecommunications market in which the Company provides value-added, revenue generating solutions to network service providers. Each division sells integrated systems and related services including system maintenance and software licenses. As a complement to the Company's systems sales, the NSD also provides and manages enhanced network services and IVR applications for customers on an application service provider (ASP) basis.

The Company's reportable segments are strategic business units that focus on separate customer groups. They are managed separately to enable the Company to target its product development and marketing efforts to meet the unique needs of the Company's target markets.

The accounting policies of the segments are the same as those of the Company. The Company evaluates performance based on profit or loss from operations before income taxes, excluding the amortization of goodwill and acquisition related intangible assets. Corporate operating expenses are allocated to the segments

based on budgeted and historical percentages of revenue. The Company does not have material intersegment sales and does not allocate Company assets to individual segments.

The operating results of the Company's segments for the three and nine month periods ended November 30, 2001 and 2000 are as follows (in thousands).

	Three Months Ended November 30, 2001			
	Enterprise Solutions	Network Solutions	Total	Enterpris Solution
Systems	$ 20,421	$ 16,356	$ 36,777	$ 25,
Services	8,068	13,208	21,276	6,
Total sales to external customers	28,489	29,564	58,053	31,
Systems	10,357	7,659	18,016	15,
Services	6,102	6,414	12,516	3,
Total gross margin	16,459	14,073	30,532	18,
Segment operating expenses	12,292	13,610	25,902	14,
Segment operating income*	$ 4,167	$ 463	$ 4,630	$ 4,

	Nine Months Ended November 30, 2001			
	Enterprise Solutions	Network Solutions	Total	Enterpris Solution
Systems	$ 65,666	$ 52,007	$ 117,673	$ 74,
Services	22,969	43,405	66,374	18,
Total sales to external customers	88,635	95,412	184,047	93,
Systems	33,716	25,767	59,483	40,
Services	16,603	21,221	37,824	9,
Total gross margin	50,319	46,988	97,307	50,
Segment operating expenses	37,537	41,522	79,059	45,
Segment operating income*	$ 12,782	$ 5,466	$ 18,248	$ 5,

* Consolidated income from operations includes amortization of goodwill and acquisition related intangible assets of $3,359 and $10,147 for the three and nine month periods ended November 30, 2001, respectively, that is not allocated by the Company to individual segments. Such expenses were $3,466 and $10,377 for the same periods of fiscal 2001.

Geographic Operations

The Company's net sales by geographic area were as follows (in thousands):

	Three Months Ended		Nine Mont
	November 30, 2001	November 30, 2000	November 30, 2001
Geographic Area Net Sales:			
United States	$ 30,726	$ 38,758	$ 96,678
The Americas (Excluding U.S.)	2,297	3,032	12,757
Pacific Rim	1,137	2,965	4,825
Europe, Middle East & Africa	23,893	23,860	69,787
Total	$ 58,053	$ 68,615	$ 184,047

Concentration of Revenue

One Network Solutions Division customer, British Telecom (together with its affiliate BT Cellnet), accounted for approximately 14% and 15% of the Company's sales during the three-month periods ended November 30, 2001 and 2000, respectively. The same customer accounted for 14% and 19% of the Company's sales during the nine-month periods ended November 30, 2001 and 2000, respectively. During the three months ended May 31, 2001, the Company extended its managed services contract with British Telecom through July 2003. Under the terms of the extended contract and at current exchange rates, BT Cellnet continued to purchase managed services totaling at least $2.6 million per month through July 2001, and the Company will recognize revenues of approximately $2.1 million per month for the six month period ending January 2002 and totaling approximately $0.9 million per month thereafter for the remaining term of the contract. No other customer accounted for 10% or more of the Company's sales during the three and nine month periods ended November 30, 2001.

NOTE H - CONTINGENCIES

Customer Dispute

The Company provides certain automated call processing services on a managed services basis for a large domestic telecommunications company. As previously disclosed by the Company, the telecommunications company has asserted that the Company should pay monetary penalties under the managed services contract for failing to achieve certain representations, covenants and specified levels of

service. The telecommunications company is also in the process of performing an audit of the Company's records relating to the managed services, as expressly contemplated by the contract. While the Company does not believe that the audit will result in any claims for material amounts, it is possible that the telecommunications company could make such claims and such claims could be material. The telecommunications company recently expressed confidence that if it conducted an exhaustive audit, it would find that the Company issued material amounts of improper credits to the telecommunications company's customers. The Company believes that it did not issue material amounts of improper credit. If the audit ultimately proves that the Company issued such improper credits, the Company could be assessed significant penalties under the managed services contract, but the telecommunications company has not provided the Company with evidence to substantiate its beliefs. The Company has acknowledged that it may owe an immaterial amount as a monetary penalty for failing to adhere to a specific service level, and has denied all other asserted failures under the contract. A reserve has been established to cover the immaterial amount the Company has acknowledged it might owe. The parties recently amended and extended their managed services agreement. The parties are in the process of attempting to negotiate mutually satisfactory agreements to resolve their dispute. There is no assurance that the parties will negotiate mutually acceptable agreements. The telecommunications company has not threatened litigation against the Company in connection with this matter. In the event litigation is instituted against the Company concerning the dispute under the contract, the Company intends to vigorously contest the claims and to assert appropriate defenses. As with any legal proceeding, there is no guarantee that the Company would prevail in any litigation that might be asserted against the Company in connection with the managed services contract.

Intellectual Property Matters

From time to time Ronald A. Katz Technology Licensing L.P. ("RAKTL") has sent letters to certain customers of the Company suggesting that the customer should negotiate a license agreement to cover the practice of certain patents owned by RAKTL. In the letters, RAKTL has alleged that certain of its patents pertain to certain enhanced

services offered by network providers, including prepaid card and wireless services and postpaid card services. RAKTL has further alleged that certain of its patents pertain to certain call processing applications, including applications for call centers that route calls using a called party's DNIS identification number. Certain products offered by the Company can be programmed and configured to provide enhanced services to network providers and call processing applications for call centers. The Company's contracts with customers usually include a qualified obligation to indemnify and defend customers against claims that products as delivered by the Company infringe a third party's patent.

To the Company's knowledge, RAKTL has not initiated litigation against any of the Company's customers. Moreover, none of the customers have notified the Company that RAKTL has claimed that any product provided by the Company infringes any claims of any RAKTL patent. Accordingly, the Company has not been required to defend any customers against a claim of infringement under a RAKTL patent. The Company has, however, received letters from customers notifying the Company of the efforts by RAKTL to license its patent portfolio and reminding the Company of its potential obligations under the indemnification provisions of the applicable agreements in the event that a claim is asserted. In response to correspondence from RAKTL, a few customers have attempted to tender to the Company the defense of its products under contractual indemnity provisions. The

Company has informed these customers that while it fully intends to honor any contractual indemnity provisions, it does not believe it currently has any obligation to provide such a defense because RAKTL does not appear to have made a claim that a Company product infringes a patent. Even though RAKTL has not instituted litigation against any customers, it is always possible that RAKTL may do so. In the event of such litigation, a customer could attempt to invoke the Company's indemnity obligations under the applicable agreement. As with most sales contracts with suppliers of computerized equipment, the Company's contractual indemnity obligations are generally limited to the products provided by the Company, and generally require the customer to allow the Company to have sole control over any litigation and settlement negotiations with the patent holder. The customers who have received letters from RAKTL generally have multiple suppliers of the types of products that might potentially be subject to claims by RAKTL.

Even though no claims have been made that a specific product offered by the Company infringes any claim under the RAKTL patent portfolio, the Company has received opinions from its outside patent counsel that certain products and applications offered by the Company do not infringe certain claims of the RAKTL patents. The Company has also received opinions from its outside counsel that certain claims under the RAKTL patent portfolio are invalid. Furthermore, based on the reviews by outside counsel, the Company is not aware of any claims under the RAKTL portfolio that are infringed by the Company's products. If the Company does become involved in litigation in connection with the RAKTL patent portfolio, under a contractual indemnity or any other legal theory, the Company intends to vigorously contest the claims and to assert appropriate defenses. A number of companies, including some large, well known companies and some customers of the Company, have already licensed certain rights under the RAKTL patent portfolio. During November 2000, RAKTL announced license agreements with, among others, AT&T Corp., Microsoft Corporation and International Business Machines Corporation.

In the matter of Aerotel, Ltd. et al, vs. Sprint Corporation, et al, Cause No. 99-CIV-11091 (SAS), pending in the United States District Court Southern District of New York, Aerotel, Ltd., has sued Sprint Corporation alleging that certain prepaid services offered by Sprint are infringing Aerotel's U.S. Patent No. 4,706,275 ("275 patent"). According to Sprint, the suit originally focused on land-line prepaid services not provided by the Company. Recently, as part of an unsuccessful mediation effort, Aerotel also sought compensation for certain prepaid wireless services provided to Sprint PCS by the Company. As a result of the mediation effort, Sprint has requested that the Company provide a defense and indemnification to Aerotel's infringement claims, to the extent that they pertain to any wireless prepaid services offered by the Company. In response to this request, the Company has offered to assist Sprint's counsel in defending against such claims, to the extent they deal with issues unique to the system and services provided by the Company, and to reimburse Sprint for the reasonable attorneys' fees associated therewith. The trial court has stayed the lawsuit pending certain rulings from the United States Patent and Trademark Office. The Company has received opinions from its outside patent counsel that the wireless prepaid services offered by the Company do not infringe the "275 patent". If the Company does become involved in litigation in connection with the "275 patent", under a contractual indemnity or any other legal theory, the Company intends to vigorously contest any claims that its prepaid wireless services infringe the "275 patent" and to assert appropriate defenses.

Pending Litigation

Several related class action lawsuits were filed in the United States District Court for the Northern District of Texas on behalf of purchasers of common stock of the Company during the period from October 12, 1999 through June 6, 2000, the "Class Period." These lawsuits have been consolidated in the case of David Barrie, et al., on Behalf of Themselves and All Others Similarly Situated v. InterVoice-Brite, Inc., et al.; No. 3-01CV1071-D, pending in the United States District Court, Northern District of Texas, Dallas Division. Plaintiffs have filed claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and the Securities and Exchange Commission Rule 10b-5 against the Company as well as certain named current and former officers and directors of the Company on behalf of the alleged class members. In the Complaint, Plaintiffs claim that the Company and the named current and former officers and directors issued false and misleading statements during the Class Period concerning the financial condition of the Company, the results of the Company's merger with Brite Voice Systems, Inc., and the alleged future business projections of the Company. Plaintiffs have asserted that these alleged statements resulted in artificially inflated stock prices.

The Company must answer or otherwise respond to these complaints, which have now been consolidated into one proceeding, on or before January 14, 2002. Plaintiffs will then have 45 days to respond. The Company believes that it and its officers complied with their obligations under the securities laws, and intends to defend the lawsuits vigorously.

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

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

This report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Form 10-Q, including, without limitation, statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements" located elsewhere herein regarding the Company's financial position, business strategy, plans and objectives of management of the Company for future operations, and industry conditions, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. In addition to important factors described elsewhere in this report, the following significant factors, among others, sometimes have affected, and in the future could affect, the Company's actual results and could cause such results during fiscal 2002, and beyond, to differ materially from those expressed in any forward-looking statements made by or on behalf of 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.

- o The continued availability of suitable non-proprietary computing platforms and system operating software that are compatible with the Company's products.

- o Certain components for the Company's products are available only from select suppliers and, as a result, the Company's operating results could be adversely affected if the Company were unable to obtain such components in the future.

- o Increasing litigation with respect to the enforcement of patents, copyrights and other intellectual property.

- o The ability of the Company to retain its customer base and, in particular, its more significant customers such as British Telecom, which purchases both systems and managed services from the Company. 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 British Telecom accounted for approximately 14% and 15% of the Company's total sales during the three month periods ended November 30, 2001 and 2000, respectively. For the nine month periods ended November 30, 2001 and 2000, sales to British Telecom accounted for 14% and 19% of the Company's sales, respectively. British Telecom's managed services contract with the Company was extended by eighteen months through July 17, 2003. Under the managed services contract at current exchange rates, BT Cellnet purchased services in a minimum amount of approximately $2.6 million per month through July 17, 2001, and revenues have been reduced to approximately $2.1 million per month for the six month period that commenced July 18, 2001, and will be further reduced to approximately $0.9 million per month for the eighteen month period commencing on January 18, 2002. The amounts received under the agreement may vary based on future changes in the exchange rate between the dollar and the British pound.

- o The Company's ability to successfully qualify, estimate and close "pipeline" opportunities for systems sales during a quarter. See the discussion entitled "Sales" in this "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the Company's "pipeline" of systems sales opportunities.

- o Legislative and administrative changes and, in particular, changes affecting the telecommunications industry, such as the Telecommunications Act of 1996.

- o The Company's sales are largely dependent upon the strength of the domestic and international economies and, in particular, demand for the types of systems offered by the Company in its primary markets. In this

regard, demand for all of the Company's systems is partially dependent upon the general level of demand for telecommunications equipment, computers, software and other technology products. Furthermore, demand for the Company's products offered to telecommunications companies is very dependent upon the general level of demand for telephone switches and other telecommunications equipment for public networks. There are indications that, at least for the short term, demand for such technology products and network-based telecommunications equipment has softened. In addition, the slow down in certain sectors of the economy that followed the attacks by terrorists on September 11, 2001, has increased concerns that demand for the types of products offered by the Company might soften as a result of domestic and global economic and political conditions. The Company noted a slowing of general business activity in the period immediately following the September 11, 2001 incident, however, it is too soon for the Company to determine whether the slow down will be sustained and whether it will have a material adverse effect on the Company's future financial performance. The Company's revenues are not overly dependent upon sales to the travel, lodging and entertainment industries, which were among the industries most severely affected by the events of September 11, 2001.

- Risks involved in the Company's international distribution and sales of its products, including unexpected and adverse changes in regulatory requirements, unexpected changes in exchange rates, the difficulty and expense of maintaining foreign offices and distribution channels, tariffs and other barriers to trade, the difficulty in protecting intellectual property rights, and foreign governmental regulations that may limit or restrict the sales of the Company's systems. Additionally, changes in foreign credit markets and currency exchange rates may result in requests by many international customers for extended payment terms and may have an adverse impact on the Company's cash flow and its level of accounts receivable.

- The ability of the Company to currently estimate the impact on future earnings of Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets which the Company will adopt beginning with fiscal 2003. These Statements will affect the Company's amortization of goodwill and other intangible assets and could require the Company to write off certain of those assets should the Company conclude that the value of such assets has been impaired. See "Item 2 - Amortization of Goodwill and Acquired Intangible Assets."

- The quantity and size of large sales (sales valued at approximately $4 million or more) during any fiscal quarter, which can cause wide variations in the Company's quarterly sales and earnings.

- 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 performance by the Company or for system down time under ASP contracts. Since the Company's projects frequently require a significant degree of customization, it is difficult for the Company to predict when it will complete such projects. Accordingly, 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.

- The Company's ability to properly estimate costs under fixed price contracts in developing application software and otherwise tailoring its systems to customer-specific requests.

- The Company's ability to hire and retain, within the Company's compensation parameters, qualified sales, administrative and technical talent and outside contractors in highly competitive markets for the services of such personnel.

- Mergers and acquisitions between companies in the telecommunications and financial industries which could result in fewer companies purchasing the Company's products for telecommunications and financial applications, and/or delay such purchases by companies that are in the process of reviewing their strategic alternatives in light of a merger or acquisition.

- Extreme price and volume trading volatility in the U.S. stock market, which has had a substantial effect on the market prices of securities of many high technology companies, frequently for reasons other than the operating performance of such companies. These broad market fluctuations could adversely affect the market price of the Company's common stock.

- The ability of the Company to retain certain customers of the former Brite in light of the Company's decision to phase out certain Brite products and its ability to persuade such customers to purchase similar products offered by the Company.

- The Company's business transactions in foreign currencies are subject to adverse movements in foreign currency exchange rates.

- The effect of class action lawsuits alleging securities law violations and other litigation filed against the Company which could negatively affect the Company and its financial condition if adversely determined. See "Item 1 - Legal Proceedings" in Part II for a discussion of these lawsuits.

RESULTS OF OPERATIONS

SALES. The Company's total sales for the third quarter of fiscal 2002 were $58.1 million, including $0.8 million of revenue and pretax profit relating primarily to non-refundable customer deposits received in prior quarters. During the quarter, the Company determined that the orders associated with these deposits had been canceled and that the Company had no remaining unperformed obligations. Total sales for the nine months ended November 30, 2001 were $184.1 million. Third quarter sales decreased $10.5 million, or 15%, when compared to the same period of fiscal 2001. The Company's Enterprise Solutions Division ("ESD") sales were down $3.5 million or 11% and its Network Solutions Division ("NSD") sales were down $7.0 million or 19% from the prior year's third quarter totals. Sales during the first nine months of fiscal 2002 decreased $28.4 million, or 13%, when compared to the same period of fiscal 2001. The Company's ESD sales were down $4.6 million or 5% while its NSD sales were down $23.8 million or 20% from the prior year's nine-month totals.

Sales and gross margin results for the Company's segments for the three and nine month periods ended November 30, 2001 and 2000 are as follows (in millions).

	Three Months Ended November 30, 2001			
	Enterprise Solutions	Network Solutions	Total	Enterpri Solution
Systems	$ 20.4	$ 16.4	$ 36.8	$ 2
Services	8.1	13.2	21.3	
Total sales to external customers	28.5	29.6	58.1	3
Systems	10.3	7.7	18.0	1
Services	6.1	6.4	12.5	
Total gross margin	16.4	14.1	30.5	1

	Nine Months Ended November 30, 2001			
	Enterprise Solutions	Network Solutions	Total	Enterpris Solution
Systems	$ 65.7	$ 52.0	$ 117.7	$ 7
Services	23.0	43.4	66.4	1
Total sales to external customers	88.7	95.4	184.1	9
Systems	33.7	25.8	59.5	4
Services	16.6	21.2	37.8	
Total gross margin	50.3	47.0	97.3	5

ESD system sales in the third quarter and first nine months of fiscal 2002 were, respectively, $20.4 million, down $5.2 million or 20% from the prior year's same period totals, and $65.7 million, down $9.2 million or 12%. ESD systems sales continue to be affected by a lengthening of the overall sales cycle resulting from the transition in customer demand from simpler, touch-tone systems to complex, speech enabled applications and were also affected in the third quarter by a general slowing of business activity following the terrorists attacks of September 11, 2001. ESD service sales in the third quarter and first nine months of fiscal 2002 were $8.1 million and $23.0 million, respectively, an increase of $1.7 million or 27% and $4.6 million or 25%, respectively, over the same periods from the prior year. The increase was primarily attributable to growth in the Company's sales of extended warranty services. International sales accounted for approximately 11% and 14% of the Company's total ESD sales during the third quarter and the first nine months of fiscal 2002, respectively, versus 20% and 17% for the same periods in fiscal 2001.

NSD system sales in the third quarter and first nine months of fiscal 2002 were,

respectively, $16.4 million, down $4.4 million or 22% from the prior year's same period totals, and $52.0 million, down $16.2 million or 24%. Contributing factors to the decline in system sales are the rebuilding and training of the sales force and softness in the markets for network-based telecommunications systems. NSD system sales were also affected in the third quarter by a general slowing of business activity following the terrorists attacks of September 11, 2001. NSD services sales totaled $13.2 million and $43.4 million for the third quarter and first nine months of fiscal 2002, down $2.6 million or 17% and $7.6 million or 15% compared to the same periods of fiscal 2001. The decline in NSD service sales is primarily comprised of a reduction in managed services (ASP) revenues attributable to a decrease in the volume of activity processed under certain of the division's ASP contracts. See "Disclosures Regarding Forward-Looking Statements" for a discussion of BT Cellnet's monthly contractual revenue commitments through July 2003, including reductions in monthly revenue commitments that began in July 2001 and further reductions commencing in January 2002. NSD

international sales constituted 81% and 79% of the Company's total NSD sales during the third quarter and first nine months of fiscal 2002 as compared to 64% and 73% for the same periods of fiscal 2001.

The Company continues to believe the long-term prospects in its current markets remain strong. At the same time, the Company realizes its markets are being transformed by the ongoing convergence of voice, data and internet technologies. As a result, the Company continues to investigate alternate methods of combining its products and services and is focusing on new, strategic partnerships to profit from this transformation. The result of such investigations may lead the Company to redirect its marketing efforts and/or increase its investments in application engineering, customer service, research and development, sales, sales support, marketing and administrative personnel and resources to pursue new opportunities.

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 for the last four quarters from service and support contracts, including contracts for ASP managed services, have averaged approximately 35% of the Company's quarterly sales. On average, the pipeline of opportunities for systems sales and backlog of systems sales during the same period contributed approximately 35% and 30% of quarterly revenues, respectively.

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. The Company's largest services customer is BT Cellnet, which accounted for 31% of service and support sales during the third quarter of fiscal 2002 and 33% of service and support sales during the first nine months of fiscal 2002. See "Disclosures Regarding Forward-Looking Statements" for a discussion of BT Cellnet's monthly revenue commitments through July 2003, under its managed services contract, including reductions in monthly revenue that began in July 2001 and further reductions commencing in January 2002. 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 November 30, 2001, August 31, 2001. May 31, 2001 and February

28, 2001 the Company's backlog of systems sales was approximately $21.3 million, $25.4 million, $31.0 million and $35.0 million, respectively. As a result of the decline in backlog and the reduction of quarterly revenues under the managed services contract with BT Cellnet, the Company will have to increase sales from its pipeline of opportunities for systems sales and/or other service and support contracts to maintain or increase revenues in future quarters. 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.

COST OF GOODS SOLD. Cost of goods sold for the third quarter and first nine months of fiscal 2002 was $27.5 million or 47% of sales and $86.7 million or 47% of sales, respectively, as compared to 47% and 49% of sales for the same periods of fiscal 2001. ESD systems costs averaged approximately 49% of sales for the third quarter and first nine months of fiscal 2002 compared to 41% and 46% for the same periods of fiscal 2001. NSD systems costs averaged 53% of sales for the third quarter of fiscal 2002 and 51% of sales for the first nine months of fiscal 2002 as compared to 53% of sales and 52% of sales for the same periods of fiscal 2001. ESD services cost of sales was 24% of sales for the third quarter of fiscal 2002, and 28% of sales for the first nine months of fiscal 2002, significantly down from 43% of sales for the third quarter of fiscal 2001 and 46% of sales for the first nine months of fiscal 2001. ESD services costs for the first nine months of fiscal 2001 included a larger than normal charge of $0.5 million (3% of services sales) to increase the obsolescence reserve on the division's customer service inventory. The remainder of the improvement resulted primarily from efficiency gains as the division was able to reduce its absolute support costs while serving a larger customer base. NSD services costs were 51% of sales for the third quarter and first nine months of fiscal 2002 compared to 52% and 50% for the same periods of fiscal 2001.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses during the third quarter and first nine months of fiscal 2002 were approximately $6.9 million or 12% of the Company's total sales and $21.6 million or 12% of sales, respectively. R&D expenses in comparable periods of fiscal 2001 totaled $8.7 million and $26.6 million, or 12% of sales for each period. Research and development expenses include the design of new products and the enhancement of existing products.

SELLING, GENERAL AND ADMINISTRATION EXPENSES. Selling, general and administration expenses during the third quarter and first nine months of fiscal 2002 were approximately $19.0 million and $57.5 million, or 33% and 31%, respectively, of the Company's total sales. Such expenses totaled $20.5 million and $63.7 million, respectively, each approximately 30% of the Company's total sales for comparable periods in fiscal 2001. SG&A expenses in the third quarter of fiscal 2002 were reduced by $0.9 million ($0.02 per diluted share) as a result of the favorable settlement of certain restructuring accruals originally established in fiscal 2001. The Company's results for the nine months ended

November 30, 2001 continue to reflect the benefits from cost reduction initiatives implemented by the Company during the fourth quarter of fiscal 2001.

AMORTIZATION OF GOODWILL AND ACQUIRED INTANGIBLE ASSETS. Goodwill and intangible assets acquired in the fiscal 2000 merger with Brite Voice Systems, Inc. ("Brite") totaled approximately $104 million with useful lives averaging seven years. Amortization of these assets totaled $3.4 million and $10.1 million for the third quarter and first nine months of fiscal 2002, respectively. Such expenses are essentially unchanged from the same periods of the prior year.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules: 1) goodwill and intangible assets deemed to have indefinite lives will no longer be amortized and 2) such assets will be subject to impairment test at least annually in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules in the first quarter of fiscal 2003.

The Company's preliminary estimate is that the application of the non-amortization provisions of the Statements will result in an increase in net income in fiscal 2003 of $4.0 million ($0.12 per share). Final results, however, may vary from this preliminary estimate, and any such variance may be material.

The Company is not in a position to estimate the effect on fiscal 2003 net income resulting from the impairment tests required by the Statements until the tests and any additional required tests are performed during the fourth quarter of fiscal 2002 and the first quarter of fiscal 2003. The balance, as of November 30, 2001, of unamortized goodwill and other indefinite lived assets was $25.6 million. The result of the required tests may result in a charge to earnings if any of such assets are deemed to be impaired. However, ongoing amortization expense associated with any impaired asset would be reduced. The Company will not be in a position to determine what impact the impairment tests will have on its fiscal 2003 earnings and financial position until the required tests are completed, however, the impact could be material.

OTHER INCOME. Other income of $0.1 million and $1.1 million during the third quarter and first nine months of fiscal 2002, respectively, was primarily interest income.

INTEREST EXPENSE. Interest expense was $1.4 million and $3.9 million during the third quarter and first nine months of fiscal 2002, respectively, versus $1.7 million and $5.7 million for the same periods of the previous fiscal year. The Company reduced its outstanding long term debt by $40 million from November 30, 2000 to November 30, 2001. See "Liquidity and Capital Resources" for a description of the Company's long term borrowings and related interest rate swap arrangements.

INCOME FROM OPERATIONS AND NET INCOME (LOSS). The Company generated operating income and net income of $1.3 million and $0.0 million, respectively, for the third quarter of fiscal 2002 as compared to $3.5 million and $1.1 million, respectively, for the third quarter of fiscal 2001. For the first nine months of fiscal 2002, the Company generated operating income and net income of $8.1 million and $3.2 million, respectively. For the first nine months of fiscal 2001, the Company generated operating income of $8.2 million, income before the cumulative effect of a change in accounting principle of $1.8 million, and a net loss of $10.0 million, respectively. The Company's third quarter results were negatively affected by softness in the Company's sales and were positively affected by the Company's continuing efforts to control operating expenses.

LIQUIDITY AND CAPITAL RESOURCES. At November 30, 2001, the Company had cash reserves of $11.8 million and borrowings under the Company's long-term debt

facilities of $35.0 million. Net cash provided by operating activities for the third quarter and first nine months of fiscal 2002 was $0.0 million and $11.0 million, respectively.

Investing activities for the three and nine month periods, primarily the purchase of computer equipment and software, used cash of $1.6 million and $4.8 million, respectively. Financing activities included the pay down of debt, which used $5.0 million and $14.6 million of cash during the third quarter and first nine months of fiscal 2002, respectively, and the receipt of net proceeds from the exercise of employee stock options which provided $2.2 million and $4.3 million for the third quarter and first nine months of fiscal 2002. Net cash flow was a negative $4.5 million for the third quarter and a negative $4.2 million for the first nine months of fiscal 2002.

The Company continuously monitors its days sales outstanding (DSO) of accounts receivable. At November 30, 2001, DSO was 116 days, up from 104 days at February 28, 2001. The increase arises from both the softness in fiscal 2002 third quarter sales and the increase in the Company's international business where more extended payments terms are frequently required as a condition of the sale. In addition, for sales of certain of its more complex, customized systems (generally ones with a sales price of $500,000 or more), the Company recognizes revenue based on a percentage of completion methodology. Unbilled receivables accrued under the methodology totaled $27.9 million at November 30, 2001, up from $25.6 million at August 31, 2001 and up from $24.1 million at February 28, 2001. The Company expects to bill and collect unbilled receivables as of November 30, 2001 within the next twelve months.

As noted above, the Company generates a significant percentage of its sales outside of the United States. Certain customers outside the United States are accustomed to vendor financing in the form of extended payment terms. To remain competitive in markets outside the United States, the Company may offer its most creditworthy customers such payment terms. Historically, customer extended payment terms have had no material adverse impact on the Company's DSO. However, there is no assurance such extended payment terms will not adversely impact DSO for the remainder of fiscal 2002 and beyond.

In connection with its plans to sell software solutions that integrate speech and wireless internet technologies, the Company purchased $2.8 million and $0.9 million in software licenses from a vendor during the quarters ended November 30, 2001 and August 31, 2001, respectively. Payment for the third quarter purchases will be due in the Company's fourth fiscal quarter. The Company expects to resell these licenses during its fiscal year ending February 28, 2003.

During the third quarter of fiscal 2002, the Company modified its managed services agreement with BT Cellnet by transferring title to certain assets used in the provision of the service to BT Cellnet in exchange for BT Cellnet's assumption of certain responsibilities under the agreement. In connection with this modification, the parties also amended the contract payment terms such that the Company will now receive approximately $0.9 million more in net cash flow from this contract in the fourth quarter of fiscal 2002 and approximately $1.3 million less in net cash flow in the first quarter of fiscal 2003. The amount and timing of revenue recognized in the third fiscal quarter and to be recognized in future quarters on the BT Cellnet managed services contract were not materially changed as a result of these modifications.

In connection with the merger with Brite, the Company entered into a loan agreement with Bank of America and nine other banks to provide a senior secured

credit facility amounting to $150 million, including a $125 million term loan (subsequently reduced to $27.5 million as a result of principal repayments) and a $25 million revolving credit agreement. The term loan agreement is subject to future scheduled repayments of $5.0 million, $20.2 million, and $2.3 million during fiscal 2002, 2003 and 2004, respectively. The revolving credit agreement will expire upon the earlier of the termination of the term loan or November 30, 2003. The cash required to service the facilities could have a material impact upon the operating cash requirements of the Company for the foreseeable future. At November 30, 2001, the Company had $35.0 million of borrowings outstanding under the agreement at an average annual interest rate of 5.9%. This variable rate was reduced to 4.8% subsequent to November 30, 2001. Interest under the credit facility accrues at variable rates indexed to a combination of the adjusted LIBOR, the prime rate and the federal funds rate. The Company's annual interest cost and cash flow have also been impacted by its interest rate swap contracts as discussed below.

The Company has historically used interest rate swap contracts to hedge the variability of interest payments on its variable rate debt. As of the beginning of the third quarter of fiscal 2002, the Company was a party to swap arrangements with a notional amount of $50 million under which the Company paid interest at a fixed rate of 6.2% and received interest at the LIBOR three-month rate. The swap arrangements were scheduled to expire in June 2002, but in response to the continued downward movement in the LIBOR rate, the Company paid $1.4 million in October 2001 to terminate the contracts.

The Company believes its cash reserves and internally generated cash flow will be sufficient to meet its operating cash requirements for the foreseeable future. In addition, the Company has $17.5 million available under its $25 million revolving credit facility. The Company reviews share repurchase and acquisition opportunities from time to time. Although, the term loan and revolving credit agreement discussed above includes normal and customary provisions which limit the Company's ability to make such repurchases and acquisitions, the Company believes that should an attractive opportunity arise, the Company will be able to access the necessary financial resources to pursue the opportunity and to extinguish any remaining borrowings under its existing credit agreement.

ASSET AND ORGANIZATIONAL REVIEWS. The Company anticipates reviewing the current and future positioning of all product lines brought forward from its merger with Brite. The Company also anticipates reviewing the ongoing value of the Brite tradename and other separately identifiable intangible assets. It is possible that, as a result of these reviews, the Company might make decisions about its future direction that could cause the Brite tradename and certain of its separately identifiable intangible assets to be impaired and/or to be subject to a shortened useful life. The result of any such decision may result in a charge to earnings if any such assets are deemed to be impaired, with a resulting decrease to ongoing amortization expense. If any such asset is deemed to have only a shortened useful life, there could be an increase to amortization expense. Until the reviews are conducted and any such decisions are made, it is not possible for the Company to determine what impact, if any, such activities may have on its financial position or on earnings in the fourth quarter of fiscal 2002 or in fiscal 2003, however, the impact could be material.

The Company also anticipates a review of its inventories and equipment in the light of any decision it may make as a result of its product line review. The results of such a review may result in a charge to earnings if such assets are deemed to be impaired. Until the reviews are conducted, it is not possible for the Company to determine what impact, if any, the results of the review may have on its financial position or on earnings in the fourth quarter of fiscal 2002 or

in fiscal 2003, however, the impact could be material.

The Company continuously monitors its organization for areas to improve efficiencies and reduce expenses. The Company also reviews its facilities utilization for the same purposes. Any decisions made to improve efficiencies or to reduce expenses with respect to the size of the Company's organization or its facilities utilization could result in restructuring charges, which could be material to the Company's financial position or on its earnings in the fourth quarter of fiscal 2002 or in fiscal 2003.

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, which should reduce the Company's exposure to inflationary effects.

The Company's debt facilities financing is considered to be a material long term debt obligation, which may expose the Company to inflationary effects associated with such variable rate loans.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risks

The Company invests cash balances in excess of operating requirements in short-term securities that generally have maturities of 90 days or less. The carrying value of these securities approximates market value, and there is no long-term interest rate risk associated with this investment.

The Company's current term loan and revolving credit agreement provides for borrowings of up to $52.5 million which bear interest at variable rates based on the London Interbank Offering Rate, a prime rate or the federal funds rate plus an applicable margin. As of November 30, 2001, the Company had $35.0 million outstanding under the credit agreement. The fair value of the borrowings approximate their carrying value at November 30, 2001.

The credit agreement matures on August 31, 2003, and the term loan facility is subject to quarterly principal amortization. Due to the magnitude of this credit facility, the Company believes that the effect of any reasonably possible near-term changes in interest rates on the Company's financial position, results of operations, and cash flows may be material.

The following table provides information about the Company's credit agreement which is sensitive to changes in interest rates. For the credit agreement, the table presents cash flows for scheduled principal payments and related weighted-average interest rates by expected maturity dates. Weighted-average variable rates are based on rates in effect as of November 30, 2001 and as anticipated by the Company.

	Fair Value	Fisc

(dollars in millions)	November 30, 2001	2002*	2003
Long-term borrowings, including current portion	$ 35.0		
Maturities by fiscal year		$ 5.0	$ 20.
Projected weighted average interest rate		4.8%	5.

* For the three months ending February 28, 2002.

Foreign Currency Risks

The Company transacts business in certain foreign currencies including the British pound. Accordingly, the Company is subject to exposure from adverse movements in foreign currency exchange rates. The Company attempts to mitigate this risk by transacting business in the functional currency of each of its subsidiaries, thus creating a natural hedge by paying expenses incurred in the local currency in which revenues will be received. However, the Company's major foreign subsidiary procures much of its raw materials inventory from its US parent. Such transactions are denominated in dollars, limiting the Company's ability to hedge against adverse movements in foreign currency exchange rates.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Several related class action lawsuits were filed in the United States District Court for the Northern District of Texas on behalf of purchasers of common stock of the Company during the period from October 12, 1999 through June 6, 2000, the "Class Period." These lawsuits have been consolidated in the case of David Barrie, et al., on Behalf of Themselves and All Others Similarly Situated v. InterVoice-Brite, Inc., et al; No. 3-01CV1071-D, pending in the United States District Court, Northern District of Texas, Dallas Division. Plaintiffs have filed claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and the Securities and Exchange Commission Rule 10b-5 against the Company as well as certain named current and former officers and directors of the Company on behalf of the alleged class members. In the Complaint, Plaintiffs claim that the Company and the named current and former officers and directors issued false and misleading statements during the Class Period concerning the financial condition of the Company, the results of the Company's merger with Brite Voice Systems, Inc., and the alleged future business projections of the Company. Plaintiffs have asserted that these alleged statements resulted in artificially inflated stock prices.

The Company must answer or otherwise respond to these complaints, which have now been consolidated into one proceeding, on or before January 14, 2002. Plaintiffs will then have 45 days to respond. The Company believes that it and its officers complied with their obligations under the securities laws, and intends to defend the lawsuits vigorously.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 First Amended Employment Agreement dated as of October 31, 2001, between the Company and David W. Brandenburg.

10.2 Second Amendment to Employment Agreement dated as of October 31, 2001, between the Company and Rob-Roy J. Graham.

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the three month period ended November 30, 2001.

SIGNATURES

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

INTERVOICE-BRITE, INC.

Date: January 11, 2002

By: /s/ ROB-ROY J. GRAHAM

Rob-Roy J. Graham
Chief Financial Officer

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
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