

INTERVOICE INC  
Form 10-Q/A  
May 01, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q/A  
Amendment No. 1

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED November 30, 2006  
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission file number: 1-15045  
INTERVOICE, INC.  
(Exact name of registrant as specified in its charter)**

**TEXAS  
(State or other jurisdiction of  
incorporation or organization)**

**75-1927578  
(I.R.S. Employer  
Identification No.)**

**17811 WATERVIEW PARKWAY, DALLAS, TX  
(Address of principal executive offices)**

**75252  
(Zip Code)**

**972-454-8000**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The Registrant had 38,644,203 shares of common stock, no par value per share, outstanding as of December 21, 2006.

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Item 2. Financial Statements

SIGNATURES

Index to Exhibits

Certification of CEO Pursuant to Rule 13a-14(a)

Certification of CFO Pursuant to Rule 13a-14(a)

Certification of CEO Pursuant to Rule 13a-14(b)

Certification of CFOP Pursuant to Rule 13a-14(b)

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**Table of Contents****Explanatory Note**

Intervoice, Inc. is hereby amending and replacing Item 1. Financial Statements in its Form 10-Q for the quarter ended November 30, 2006 so that such item will read in its entirety as set out below. The only change between Item 1 in this Form 10-Q/A and Item 1 in the Form 10-Q as originally filed is Note E to the Consolidated Financial Statements.

**Item 1. Financial Statements**

INTERVOICE, INC.  
CONSOLIDATED BALANCE SHEETS

	(In Thousands, Except Share and Per Share Data)	
	November 30, 2006 (Unaudited)	February 28, 2006
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 17,924	\$ 42,076
Trade accounts receivable, net of allowance for doubtful accounts of \$1,649 in fiscal 2007 and \$1,701 in fiscal 2006	40,368	25,745
Inventory	13,260	9,439
Prepaid expenses and other current assets	4,642	4,406
Deferred income taxes	3,047	3,047
	79,241	84,713
Property and Equipment, net of accumulated depreciation of \$63,475 in fiscal 2007 and \$59,002 in fiscal 2006	34,086	28,893
Other Assets		
Intangible assets, net of accumulated amortization of \$19,310 in fiscal 2007 and \$17,343 in fiscal 2006	10,136	10,284
Goodwill	32,461	32,461
Long term deferred income taxes	2,972	1,330
Other assets	401	454
	\$ 159,297	\$ 158,135
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 11,484	\$ 10,154
Accrued expenses	14,218	15,176
Customer deposits	4,317	6,157
Deferred income	27,223	32,172
Income taxes payable	785	484
Deferred income taxes	211	270
	58,238	64,413

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: 38,640,517 issued and outstanding in fiscal 2007 and 38,470,087 issued and outstanding in fiscal 2006

	19	19
Additional capital	96,667	92,050
Retained earnings	4,661	3,558
Accumulated other comprehensive loss	(288)	(1,905)
Stockholders' equity	101,059	93,722
	\$ 159,297	\$ 158,135

See notes to consolidated financial statements.

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INTERVOICE, INC.  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)

	(In Thousands, Except Per Share Data)			
	Three Months Ended		Nine Months Ended	
	November 30, 2006	November 30, 2005	November 30, 2006	November 30, 2005
Sales				
Solutions	\$ 27,151	\$ 19,328	\$ 70,865	\$ 62,720
Recurring services	25,617	21,683	78,051	64,844
	52,768	41,011	148,916	127,564
Cost of goods sold				
Solutions	16,604	11,474	44,194	37,328
Recurring services	7,405	6,409	22,071	18,794
	24,009	17,883	66,265	56,122
Gross margin				
Solutions	10,547	7,854	26,671	25,392
Recurring services	18,212	15,274	55,980	46,050
	28,759	23,128	82,651	71,442
Research and development expenses	6,258	4,226	17,279	12,305
Selling, general and administrative expenses	21,959	15,801	62,967	46,601
Amortization of acquisition related intangible assets	673	252	1,836	756
Income (loss) from operations	(131)	2,849	569	11,780
Interest income	290	685	1,237	1,781
Interest expense	(17)		(17)	(31)
Other income (expense)	(292)	212	(210)	379
Income (loss) before taxes	(150)	3,746	1,579	13,909
Income taxes	(62)	121	476	1,764
Net income (loss)	\$ (88)	\$ 3,625	\$ 1,103	\$ 12,145
Net income per share basic	\$ 0.00	\$ 0.09	\$ 0.03	\$ 0.32

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Shares used in basic per share computation	38,616	38,251	38,557	37,970
Net income per share diluted	\$ 0.00	\$ 0.09	\$ 0.03	\$ 0.31
Shares used in diluted per share computation	38,616	39,080	39,120	39,046

See notes to consolidated financial statements.

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

	(In Thousands)			
	Three Months Ended		Nine Months Ended	
	November 30, 2006	November 30, 2005	November 30, 2006	November 30, 2005
Operating activities				
Net income (loss)	\$ (88)	\$ 3,625	\$ 1,103	\$ 12,145
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	3,023	2,324	8,274	5,916
Non-cash compensation expense	1,055		3,804	
Change in accounts receivable	(7,412)	884	(13,415)	5,814
Other changes in operating activities	(6,224)	(2,500)	(10,666)	(5,112)
Net cash provided by (used in) operating activities	(9,646)	4,333	(10,900)	18,763
Investing activities				
Purchases of property and equipment	(2,109)	(3,055)	(10,723)	(10,099)
Purchase of Nuasis assets, net of cash acquired	(2,439)		(2,439)	
Purchase of Edify Corporation			(926)	
Other				(300)
Net cash used in investing activities	(4,548)	(3,055)	(14,088)	(10,399)
Financing activities				
Paydown of debt				(1,733)
Exercise of stock options	118	314	376	2,392
Exercise of warrants				2,500
Net cash provided by financing activities	118	314	376	3,159
Effect of exchange rates on cash	37	(726)	460	(1,507)
Increase (decrease) in cash and cash equivalents	(14,039)	866	(24,152)	10,016
Cash and cash equivalents, beginning of period	31,963	69,392	42,076	60,242
Cash and cash equivalents, end of period	\$ 17,924	\$ 70,258	\$ 17,924	\$ 70,258

See notes to consolidated financial statements.





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INTERVOICE, INC.  
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 (Unaudited)  
 (In Thousands, Except Share Data)

	Common Stock Shares	Common Stock Amount	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at February 28, 2006	38,470,087	\$19	\$92,050	\$3,558	\$ (1,905)	\$ 93,722
Net income				1,103		1,103
Foreign currency translation adjustment					1,617	1,617
Comprehensive income						2,720
Tax benefit from exercise of stock options			437			437
Exercise of stock options	170,430		376			376
Non-cash compensation			3,804			3,804
Balance at November 30, 2006	38,640,517	\$19	\$96,667	\$4,661	\$ (288)	\$101,059

See notes to consolidated financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
THREE AND NINE MONTHS ENDED NOVEMBER 30, 2006**

**Note A Basis of Presentation**

We have prepared the accompanying consolidated financial statements in accordance with generally accepted accounting principles for interim financial information. The consolidated balance sheet at February 28, 2006 has been derived from the audited financial statements at that date. We believe we have included all adjustments necessary for a fair presentation of the unaudited November 30, 2006 and 2005 consolidated financial statements. Such adjustments are of a normal recurring nature. These financial statements should be read in conjunction with our audited financial statements and related notes for the three years ended February 28, 2006 included in our Annual Report on Form 10-K. Our Annual Report is available on our website at [www.intervoice.com](http://www.intervoice.com). Our operating results for the three and nine month periods ended November 30, 2006 are not necessarily indicative of the results that may be expected for our fiscal year ending February 28, 2007, as our 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 our sales, the sales mix of products and services sold, and changes in general economic conditions, any of which could have a material adverse effect on our operations.

Our consolidated financial statements include the accounts of Intervoice, Inc. and our subsidiaries, all of which are directly or indirectly 100% owned by Intervoice, Inc. All significant intercompany transactions and accounts have been eliminated in consolidation. Financial statements of our foreign subsidiaries have been translated into U.S. dollars at current and average exchange rates. Resulting translation adjustments are recorded in stockholders' equity as a part of accumulated other comprehensive loss. Any foreign currency transaction gains and losses are included in the accompanying consolidated statements of operations. Our total comprehensive income for the third quarter of fiscal 2007 and 2006 was \$0.4 million and \$2.7 million, respectively. For the nine month periods ended November 30, 2006 and 2005, total comprehensive income was \$2.7 million and \$9.9 million, respectively. Total comprehensive income is comprised of net income and foreign currency translation adjustments.

**Note B Acquisition of Edify Corporation**

As discussed in our Annual Report on Form 10-K for the fiscal year ended February 28, 2006, we acquired Edify Corporation (Edify), a former competitor in the enterprise market, from S1 Corporation. Results of operations for Edify were consolidated with ours beginning December 31, 2005; therefore, our results of operations presented for the three and nine month periods ended November 30, 2005 do not include those of Edify.

The following unaudited pro forma information represents our results of operations for the three and nine month periods ended November 30, 2005 as if the Edify acquisition had occurred at March 1, 2005. The pro forma information has been prepared by combining the results of operations of Intervoice and Edify, adjusted for additional amortization expense of identified intangibles, a reduction in interest income as a result of our use of cash to acquire Edify and pay transaction costs, and the resulting impact on the provision for income taxes. The pro forma information has not been adjusted to reflect any stock compensation expense as required by SFAS No. 123R which was adopted by Intervoice effective March 1, 2006. The unaudited pro forma information does not purport to be indicative of what would have occurred had the Edify acquisition occurred as of the date assumed or of results of operations which may occur in the future (in thousands, except per share data):

	Three Months Ended November 30, 2005 (unaudited)	Nine Months Ended November 30, 2005 (unaudited)
Sales	\$ 50,899	\$ 152,986
Income before income taxes	4,624	14,553
Net income	4,518	12,940
Net income per share	0.12	0.33



**Table of Contents****Note C Inventory**

Our inventory consisted of the following (in thousands):

	November 30, 2006	February 28, 2006
Purchased parts	\$ 3,931	\$ 3,908
Work in progress	9,329	5,531
	\$ 13,260	\$ 9,439

**Note D Property and Equipment**

Our property and equipment consisted of the following (in thousands):

	November 30, 2006	February 28, 2006
Land and buildings	\$ 17,400	\$ 16,932
Computer equipment and software	51,328	42,817
Furniture and fixtures	3,416	3,165
Hosted solutions equipment	17,931	16,331
Maintenance services equipment	7,486	8,650
	97,561	87,895
Less allowance for accumulated depreciation	63,475	59,002
Property and equipment, net	\$ 34,086	\$ 28,893

At November 30, 2006 the balance in our computer equipment and software account included approximately \$14.9 million in capitalized costs associated with our SAP implementation. At February 28, 2006, approximately \$8.0 million of such costs were included in our computer equipment and software account. Depreciation on approximately \$2.6 million of the total began during the third quarter of fiscal 2006 as certain elements of the SAP project were placed into service. Depreciation on approximately \$0.5 million additional of the total began during the second quarter of fiscal 2007. Depreciation on the remaining balance began in the third quarter of fiscal 2007 as the remainder of the system was placed in service, and is being amortized over 7 years.

**Note E Stock-based Compensation**

Our shareholders approved the 2005 Stock Incentive Plan in July 2005. This plan encompasses all remaining shares available for grant under all prior plans. As of November 30, 2006, we had reserved 9,331,741 shares of common stock for issuance under the plan, with 8,310,681 shares reserved for stock options and restricted stock units outstanding at that date and 1,021,060 shares reserved for future grants. The Compensation Committee of our Board of Directors controls the granting of options and restricted stock units under the plan. Option prices are set at the fair market value per share of stock on the date of grant. Substantially all of the options have a 7-year or 10-year term. Except for options granted in July 2004 and July 2005, options generally vest ratably over a 3 or 4 year period. Fifty percent of the options granted in July 2004 vested on February 28, 2005, and the remaining fifty percent will vest in July 2007. Fifty percent of the options granted in July 2005 vested on February 28, 2006, and the remaining fifty percent will vest in February 2009. We recognize compensation expense of share-based awards which vest ratably on a straight-line basis over the vesting period of the award.

Effective March 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payments, using the modified prospective application method. SFAS 123R requires companies to include a compensation expense in their statements of operations relating to the issuance of employee stock options and other equity awards based on the grant date fair value of the equity instrument. We applied the requirements of the

statement to new awards and to awards modified, repurchased or cancelled after March 1, 2006. In addition, we recognized compensation cost over the remaining service periods for the portion of awards outstanding as of March 1, 2006, which was based on the grant date fair value of these options as determined in accordance with the provisions of SFAS 123.

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The following is the effect of adopting SFAS 123R as of March 1, 2006 (in thousands, except per share amounts):

	Three Months Ended November 30, 2006	Nine Months Ended November 30, 2006
Cost of Goods Sold	\$ 175	\$ 699
R&D	111	392
SG&A	704	2,561
Decrease in operating income	\$ 990	\$ 3,652
Related deferred income tax benefit	294	1,072
Decrease in net income	\$ 696	\$ 2,580
Decrease in earnings per share basic	\$ 0.02	\$ 0.07
Decrease in earnings per share diluted	\$ 0.02	\$ 0.07

No amounts relating to share-based payments have been capitalized.

We use the Black-Scholes valuation model for estimating the fair value of the share-based payments granted with the following weighted-average assumptions:

	Three Months Ended November 30, 2006	Nine Months Ended November 30, 2006
Expected Volatility	58.9%	57.7%
Expected term (in years)	3.95	3.76
Risk-free rates	4.5%	4.9%
Dividend yield	0.0%	0.0%
Forfeiture rate	8.0%	8.0%

The dividend yield of zero is based on the fact that we have never paid cash dividends and have no present intention to pay cash dividends. We use a weighted average of the implied volatility, the most recent one-year volatility and the median volatility for the period of the expected life of the option to determine the expected volatility to be used in our fair value calculation. The historical volatility factor carries the largest weighting of the three factors considered. We believe that this is the best available estimate of expected volatility. The expected lives of options are determined based on our historical stock option exercise experience. We believe the historical experience method is the best estimate of future exercise patterns currently available.

Based on the above assumptions, the weighted average fair values of the options granted under the plan for the three and nine months ended November 30, 2006 were \$3.29 and \$3.30, respectively.

Estimated forfeiture rates are derived from historical forfeiture patterns. We believe the historical experience method is the best estimate of forfeitures currently available. We will record additional expense if the actual forfeitures are lower than estimated and we will record a recovery of prior expense if the actual forfeitures are higher than estimated.

Under the modified prospective application method, results for periods prior to March 1, 2006 have not been restated to reflect the effects of implementing SFAS No. 123R. The following pro forma information, as required by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123*, is presented for comparative purposes and illustrates the pro forma effect on income from continuing operations and related earnings per common share for the three and nine month periods ended November 30, 2005, as if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based

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compensation for those periods (in thousands, except per share amounts):

	Three Months Ended November 30, 2005	Nine Months Ended November 30, 2005
Net income, as reported	\$ 3,625	\$ 12,145
Less: Total stock-based compensation expense determined under fair value based methods for all awards	(2,615)	(5,854)
Pro forma net income	1,010	6,291
Net income per share:		
Basic as reported	\$ 0.09	\$ 0.32
Basic pro forma	\$ 0.03	\$ 0.17
Diluted as reported	\$ 0.09	\$ 0.31
Diluted pro forma	\$ 0.03	\$ 0.16



**Table of Contents****Stock Options**

The table below summarizes activity relating to stock options for the nine months ended November 30, 2006:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of February 28, 2006	7,094,033	\$ 8.39		
Granted	2,108,060	\$ 6.93		
Exercised	(170,430)	\$ 2.18		
Forfeited and cancelled	(857,202)	\$ 8.89		
Outstanding as of November 30, 2006	8,174,431	\$ 8.09	6.0 years	\$3.5 million
Exercisable as of November 30, 2006	4,459,034	\$ 7.99	5.4 years	\$3.5 million

During the three and nine month periods ended November 30, 2006, the total intrinsic value of stock options exercised was \$0.3 million and \$0.8 million, respectively. The unamortized fair value of stock options as of November 30, 2006 was \$8.6 million with a weighted average remaining recognition period of 2.5 years.

**Restricted Stock Units**

We also granted restricted stock units under our 2005 Stock Incentive Plan. These units will vest upon the completion of the service period of two to four years from the date of grant. Each restricted stock unit granted reduces the number of shares available for future grant under the plan by two shares.

The table below summarizes activity relating to restricted stock units for the nine months ended November 30, 2006:

	Number of RSUs	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of February 28, 2006	46,875	\$ 8.20		
Granted	93,750	\$ 6.73		
Vested	0			
Forfeited	(4,375)	\$ 7.68		
Outstanding as of November 30, 2006	136,250	\$ 7.21	2.4 years	\$0.9 million

Unamortized compensation expense related to outstanding restricted stock units at November 30, 2006 was \$0.8 million.

**Note F Special Charges***Fiscal 2007*

During the third quarter of fiscal 2007, we incurred approximately \$1.3 million in connection with organizational changes affecting approximately 35 positions. In addition, we incurred \$1.1 million in connection with the elimination of redundant office leases. The following table summarizes the effect on reported operating results by financial statement category of this special charge activity for fiscal 2007 (in thousands):

	Cost of Goods Sold	Research and Development	Selling, General and Administrative	Total
Severance payments and related benefits	\$ 573	\$ 195	\$ 519	\$ 1,287
Facility Costs			\$ 1,075	\$ 1,075
Total	\$ 573	\$ 195	\$ 1,594	\$ 2,362

Of this amount, \$0.8 million remained accrued at November 30, 2006.

*Fiscal 2006*

Accrued expenses at February 28, 2006 included amounts associated with severance and organizational changes affecting approximately 50 persons made at the time of the acquisition of Edify. Activity during the first nine months of fiscal 2007 related to such accruals was as follows (in thousands):

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	Accrued Balance February 28, 2006	Payments	Adjustments	Accrued Balance November 30, 2006
Severance payments and related benefits	\$ 1,748	\$1,536	\$ (29)	\$ 183

We expect to pay the balance of accrued severance and related benefits during fiscal 2007.

**Note G Income Taxes**

For the quarter and nine months ended November 30, 2006, our effective tax rate of 41% and 30%, respectively, differs from the U.S. federal statutory rate primarily as a result of an increase in valuation allowance associated with certain foreign deferred tax assets due to our uncertainty related to the utilization of those tax assets, a reduction in tax expense resulting from the completion and filing of our fiscal 2006 federal income tax return, and the effect of non-U.S. taxes.

Given our three year history of profitability and the belief that we will continue to generate sufficient taxable income in the future to realize the benefits of certain of our remaining U.S. federal deferred tax assets, in February 2006 we reversed the valuation allowance associated with our U.S. federal deferred tax assets. However, due to uncertainties regarding our ability to generate sufficient future taxable income in certain foreign jurisdictions to realize the benefit of deferred tax assets in such foreign jurisdictions, we continue to maintain a valuation allowance against those deferred tax assets.

For the quarter and nine months ended November 30, 2005, our effective tax rate of 3% and 13%, respectively, differs from the U.S. federal statutory rate primarily as a result of the favorable settlement of certain foreign tax liabilities and other foreign tax contingencies, a reduction in tax expense resulting from the completion and filing of fiscal 2005 federal and state income tax returns, the expected tax benefits associated with the utilization of previously reserved net operating losses, and the effect of non-U.S. taxes.

On June 13, 2006, the Financial Accounting Standards Board issued FASB Interpretation Number 48 (FIN 48), *Accounting for Income Tax Uncertainties*, which will be effective as of the beginning of our fiscal year ending February 29, 2008. FIN 48 defines the threshold for recognizing the financial statement benefit of tax return positions as more-likely-than-not to be sustained by the taxing authority. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its merits, no tax benefit can be recognized from the position.

We have begun our evaluation of the effect of FIN 48 on our reported income tax liabilities. We may be required to adjust our income tax liabilities as a result of our adoption of FIN 48 in the first quarter of fiscal 2008. We have not yet completed our assessment of applying the provisions of FIN 48.

**Table of Contents****Note H Earnings Per Share**

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	November 30, 2006	November 30, 2005	November 30, 2006	November 30, 2005
Numerator:				
Net income (loss)	\$ (88)	\$ 3,625	\$ 1,103	\$ 12,145
Denominator:				
Denominator for basic earnings per share	38,616	38,251	38,557	37,970
Dilutive potential common shares				
Employee stock options		829	563	1,005
Outstanding warrants				71
Denominator for diluted earnings per share	38,616	39,080	39,120	39,046
Net income per share:				
Basic	\$ 0.00	\$ 0.09	\$ 0.03	\$ 0.32
Diluted	\$ 0.00	\$ 0.09	\$ 0.03	\$ 0.31

Options to purchase 7,018,018 and 4,718,494 shares of common stock at average exercise prices of \$8.82 and \$10.51 per share were outstanding during the three month periods ended November 30, 2006 and 2005, respectively, but were not included in the computation of diluted earnings per share because of our loss for the third quarter in fiscal 2007 and because the options' exercise prices were greater than the average market price of our common shares during the applicable period in fiscal 2006 and, therefore, the effect would have been anti-dilutive. Options to purchase 6,843,518 and 1,479,644 shares at average exercise prices of \$8.88 and \$13.09 were outstanding during the nine month periods ended November 30, 2006 and 2005, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average prices of our shares for the nine month periods.

**Note I Operating Segment Information and Major Customers**

We operate as a single, integrated business unit. Our chief operating decision maker assesses performance and allocates resources on an enterprise wide basis. Our product line includes voice automation/IVR solutions, messaging solutions, payment solutions, maintenance and support services, and hosted solutions. We believe that product line distinction provides the most meaningful breakdown of quarterly and annual sales activity. Our net sales by product line for the three and nine month periods ended November 30, 2006 and 2005 were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	November 30, 2006	November 30, 2005	November 30, 2006	November 30, 2005
Voice automation/IVR solution sales	\$ 19,062	\$ 10,438	\$ 52,060	\$ 38,371
Messaging solution sales	4,347	5,877	11,634	16,743
Payment solution sales	3,742	3,013	7,171	7,606
Total solution sales	27,151	19,328	70,865	62,720

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Maintenance and related service revenues	21,329	15,589	62,180	45,964
Hosted solutions revenues	4,288	6,094	15,871	18,880
Total recurring services revenues	25,617	21,683	78,051	64,844
Total sales	\$ 52,768	\$ 41,011	\$ 148,916	\$ 127,564

**Table of Contents****Geographic Operations**

We assign revenues to geographic areas based on the locations of our customers. Our net sales by geographic area for the three and nine month periods ended November 30, 2006 and 2005 were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	November 30, 2006	November 30, 2005	November 30, 2006	November 30, 2005
North America	\$ 34,880	\$ 22,105	\$ 94,127	\$ 67,508
Europe	7,168	7,233	22,551	28,938
Middle East and Africa	4,660	5,201	12,219	17,146
Central and South America	2,898	4,831	12,342	10,207
Pacific Rim	3,162	1,641	7,677	3,765
Total	\$ 52,768	\$ 41,011	\$ 148,916	\$ 127,564

**Concentration of Revenue**

No customer accounted for 10% of our revenues during the quarters and nine months ended November 30, 2006 and November 30, 2005.

**Note J Contingencies****Intellectual Property Matters**

We provide our 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 us or our customers letters alleging that our products do or might infringe upon the owner's intellectual property rights, and/or suggesting that we or our customers should negotiate a license or cross-license agreement with the owner. Our policy is to never knowingly infringe upon any third party's intellectual property rights. Accordingly, we forward any such allegation or licensing request to our outside legal counsel for their review and opinion. We generally attempt to resolve any such matter by informing the owner of our position concerning non-infringement or invalidity, and/or, if appropriate, negotiating a license or cross-license agreement. Even though we attempt to resolve these matters without litigation, it is always possible that the owner of a patent or copyrighted work will sue us. Although no such litigation is currently pending against us, owners of patents and/or copyrighted works have previously sued us alleging infringement of their intellectual property rights. We currently have a portfolio of 85 patents, and we have applied for and will continue to apply for and receive a number of additional patents to protect our technological innovations. We believe our patent portfolio could allow us to assert counterclaims for infringement against certain owners of intellectual property rights if those owners were to sue us for infringement.

From time to time Ronald A. Katz Technology Licensing L.P. ( RAKTL ) has sent letters to certain of our customers 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. As a result of the correspondence, many of Intervoices customers have had discussions, or are in discussions, with RAKTL.

We offer certain products that can be programmed and configured to provide enhanced services to network providers and call processing applications for call centers. Our contracts with customers usually include a qualified obligation to indemnify and defend customers against claims that products as delivered by Intervoices infringe a third party's patent. None of our customers has notified us that RAKTL has claimed that any specific product provided by us infringes any claims of any RAKTL patent. Accordingly, we have not been required to defend any customers against a claim of infringement under a RAKTL patent. We have, however, received letters from customers notifying us of the

efforts by RAKTL to license its patent portfolio and reminding us of our potential obligations under the indemnification provisions of our agreements in the event that a claim is asserted.

Some of our customers have licensed certain rights under the RAKTL patent portfolio. Two such customers who had previously attempted to tender the defense of their products to us informed us that they had entered into agreements to license certain rights under the RAKTL patents and demanded we indemnify them for unspecified amounts, including attorney's fees, paid in connection with the license agreements. We notified these customers that we believe we do not

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have any indemnity obligation in connection with the license agreements. We have received no further response from either customer.

A number of companies, including customers of ours and Edify s have been sued as defendants in several lawsuits recently brought by RAKTL in the United States District Court for the Eastern District of Texas and the United States District Court for the District of Delaware. Several of these defendants who are also customers have notified us or Edify of the lawsuits pursuant to the indemnity paragraphs of their respective sales agreements and have indicated to us that the lawsuits could potentially impact the defense and indemnity paragraphs of their respective sales agreements. Neither we nor Edify believe that we have a current obligation to defend or indemnify these customers in connection with the current allegations made in the RAKTL lawsuits and when contacted we have requested that the customers provide additional information concerning the assertions made by RAKTL.

In response to the correspondence from, and litigation initiated by, RAKTL a few of our customers and customers of Edify have attempted to tender to us the defense of our products under contractual indemnity provisions. We have informed these customers that, while we fully intend to honor any contractual indemnity provisions, we do not believe we currently have any obligation to provide such a defense because RAKTL does not appear to have made a claim, either in the correspondence or litigation, that any Intervoice product infringes a RAKTL patent. Some of these customers have disagreed with us and stated that they believe that the statements and allegations contained within correspondence and/or litigation pleadings filed by RAKTL can be construed as a claim against Intervoice products.

Even though no claims or allegations have been made by RAKTL that a specific product offered by Intervoice infringes any claim under the RAKTL patent portfolio, we have received opinions from our outside patent counsel that certain products and applications we offer do not infringe certain claims of the RAKTL patents. We have also received opinions from our outside counsel that certain claims under the RAKTL patent portfolio are invalid or unenforceable. Furthermore, based on the reviews by outside counsel, we are not aware of any valid and enforceable claims under the RAKTL portfolio that are infringed by our products. If we do become involved in litigation in connection with the RAKTL patent portfolio, under a contractual indemnity or any other legal theory, we intend to vigorously contest the claims and to assert all appropriate defenses.

We have received letters from Webley Systems ( Webley ), a division of Parus Holdings, Inc. ( Parus ), and its counsel alleging that certain Webley patents cover one or more of our products and services. In the letters, Parus offers a license to the Webley patents. As a result of the correspondence, we conducted discussions with Parus. Based on reviews by our outside counsel, we are not aware of any valid and enforceable claims under the Webley patents that are infringed by our products or services.

### **Pending Litigation**

*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:

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 Intervoice during the period from October 12, 1999 through June 6, 2000 (the Class Period ). Plaintiffs have filed claims, which were consolidated into one proceeding, under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Securities and Exchange Commission Rule 10b-5 against us as well as certain named current and former officers and directors of Intervoice on behalf of the alleged class members. In the complaint, Plaintiffs claim that we and the named current and former officers and directors issued false and misleading statements during the Class Period concerning the financial condition of Intervoice, the results of the merger with Brite Voice Systems, Inc. and the alleged future business projections of Intervoice. Plaintiffs have asserted that these alleged statements resulted in artificially inflated stock prices.

The District Court dismissed the Plaintiffs' complaint because it lacked the degree of specificity and factual support to meet the pleading standards applicable to federal securities litigation. The Plaintiffs' appealed the dismissal to the United States Court of Appeals for the Fifth Circuit, which affirmed the dismissal in part and reversed in part. The Fifth Circuit remanded a limited number of issues for further proceedings in the District Court.

On September 26, 2006, the District Court granted the Plaintiffs' motion to certify a class of people who purchased Intervoice stock during the Class Period between October 12, 1999 and June 6, 2000. On November 14, 2006, the Fifth Circuit granted our petition to appeal the District Court's decision to grant Plaintiffs' motion to certify a class.



Based on the Fifth Circuit's decision to accept our appeal, we filed a motion to stay further discovery pending the Fifth Circuit's decision on the merits of our appeal. Plaintiffs filed a brief opposing our motion to stay further discovery, and we filed a reply brief in support of our motion. We are in the process of continuing to produce documents in response to the Plaintiffs' request for production while we await the District Court's decision on our motion for a stay. We believe

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that we and our officers and directors complied with the applicable securities laws and will continue to vigorously defend the case.

A customer of Edify, Sony Electronics, Inc., was sued on December 13, 2006 in the case of *Phoenix Solutions, Inc. v. Sony Electronics, Inc.*; No. CV-06-7916-PA, pending in the United States District Court for the Central District of California. In the suit, Phoenix Solutions alleges that Sony Electronics infringes certain of its patents. Edify has a qualified contractual obligation to indemnify Sony Electronics against certain claims that products it provides infringe patents. Sony Electronics notified us that they believe we have an obligation to defend and indemnify them in the lawsuit. We are currently reviewing the claims in the lawsuit against our contractual obligations to determine our response. We have asked Sony Electronics to provide us certain additional information so we can complete our review.

### **Audit Committee Investigation**

During fiscal 2005, our Audit Committee conducted an investigation of certain transactions that occurred during our fiscal years 2000 through 2002. The Audit Committee was assisted in its investigation by separate independent legal counsel and a national accounting firm. The Audit Committee reported the results of its investigation to the SEC, and we are cooperating with the SEC in its own investigation regarding the transactions. We are currently providing documents to the SEC in response to a subpoena and informal requests for information about the transactions, and several of our current and former officers and non-officer employees have provided testimony to the SEC. Our Audit Committee and its counsel are continuing to monitor our response to the SEC, and they also have conducted a review of certain documents provided to the SEC which we located after the Committee's original investigation. Intervoice is also honoring our obligation to indemnify certain current and former officers and other employees of Intervoice, including our Chief Executive Officer, who received subpoenas to produce documents and provide testimony to the SEC in connection with the investigation. Furthermore, we are honoring our obligation to reimburse legal fees incurred by certain recipients of the subpoenas.

The Audit Committee investigation found that we accounted for certain transactions incorrectly during our fiscal years 2000 through 2002. The Audit Committee investigation concluded that a \$0.9 million payment made by Intervoice to a publicly held supplier purportedly for certain prepaid licenses was linked to an agreement to amend a 1997 warrant issued to us by the supplier to permit our cashless exercise of the warrant. As a result, we believe the \$0.9 million payment should have been recorded as a reduction in the \$21.4 million gain we recognized on the sale of the shares underlying the warrant during the fourth quarter of fiscal 2001 and should not have been recorded as prepaid license inventory. Our payment to the supplier may have rendered unavailable a nonexclusive registration exemption for the sale of the shares underlying the warrant. The Audit Committee investigation also found that we intentionally provided the same supplier false or misleading documents for such supplier to use to support such supplier's improper recognition of revenue in calendar 2001.

The Audit Committee investigation and review further found that six of the seven customer sales transactions the Committee investigated were accounted for incorrectly and that there was intentional misconduct in at least one of those sales transactions. These six transactions occurred at the end of quarters in which we just met analysts' expectations with respect to earnings per share. The Audit Committee found that we improperly recognized revenue in a quarter-end barter transaction involving approximately 0.4% of annual revenues for fiscal 2000, and that we improperly accelerated the recognition of revenue in five quarter-end transactions totaling approximately 0.4% and 0.3% of annual revenues in fiscal 2000 and fiscal 2002, respectively. We, and certain of our current and former officers and the SEC have agreed that Intervoice and the officers will not assert any defenses based on a statute of limitations with respect to any action or proceeding against Intervoice or such officers brought by or on behalf of the SEC arising out of the SEC investigation for the time periods set forth in the agreements. As a result of work performed in responding to the SEC subpoena, the Committee has concluded that Intervoice also improperly recognized approximately \$5.4 million of revenue in two sales transactions during the second and third quarters of fiscal 2002 because the transactions were subject to oral side agreements that gave our customer expanded rights of return. We subsequently reversed the \$5.4 million of revenue during the fourth quarter of fiscal 2002 in connection with a return of the related systems. We are providing documents to the SEC concerning these two additional sales transactions pursuant to a separate subpoena. Separately, the Audit Committee determined that in September 2001 one

of our current executive officers improperly communicated Intervoice information to a shareholder.

Intervoice's management has concluded, with the concurrence of the Audit Committee and our external auditors, that restatement of our prior period financial statements to adjust for the findings of the Audit Committee investigation and review is not necessary. In reaching this conclusion, we considered the impact of the incorrect

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accounting on each of the periods affected, the ages of the affected financial statements and the lack of any material changes in prior period trends as a result of the incorrect accounting. In addition, we noted that since the date of the most recent transaction reviewed in the investigation, we have restructured our business, made significant management changes, consolidated our physical operations, significantly reduced our fixed operating costs and refinanced and repaid all of our major debt obligations. We cannot predict whether we may have future losses relating to the matters investigated by the Audit Committee as a result of future claims, if any, including any claims by the government.

**Other Matters**

We are a defendant from time to time in lawsuits incidental to our business. Based on currently available information, we believe that resolution of the lawsuits and other matters described above is uncertain, and there can be no assurance that future costs related to such matters would not be material to our financial position or results of operations.

We are a party to many routine contracts in which we provide general indemnities and warranties in the normal course of business to third parties for various risks. These indemnities and warranties are discussed in the following paragraphs. Except in specific circumstances where we have determined that the likelihood of loss is probable and the amount of the loss quantifiable, we have not recorded a liability for any of these indemnities or warranties. In general, we are not able to estimate the potential amount of any liability relating to these indemnities and warranties.

Many of our contracts, particularly for hosted solutions, foreign contracts and contracts with telecommunication companies, include provisions for the assessment of damages for delayed project completion and/or for our failure to achieve certain minimum service levels. We have had to pay damages in the past and may have to pay additional damages in the future. Any such future damages could be significant.

Our contracts with our customers generally contain qualified indemnifications against third party claims relating to the infringement of intellectual property as described in Intellectual Property Matters above.

Our contracts with our customers also generally contain warranties and, in some cases, general indemnifications against other unspecified third party and general liability claims. We have liability insurance protecting us against certain obligations, primarily certain claims related to property damage, that result from these indemnities.

We are obligated under letters of credit totaling approximately \$0.4 million issued by a bank to guarantee our performance under a long-term international hosted solution contract and related proposals. These letters of credit expire during fiscal 2007 and fiscal 2008.

We have employment agreements with four executive officers and three other officers. One agreement with an executive officer requires us to make termination payments to the officer of one and one-half times the officer's annual base compensation in the event the officer's services are terminated without cause or payments of up to 2.99 times the officer's annual compensation including bonuses in connection with a termination of the officer's services within a two year period following a change in ownership of Intervoice, as defined in the agreement. If the officer with whom we have such an agreement were terminated for one of the preceding reasons during fiscal 2007, we would incur costs ranging from \$0.6 million to \$1.2 million. The agreements with two other executive officers require us to make termination payments of one and one-half times the officer's annual base compensation in the event the officer's services are terminated without cause or payments of up to two times the officer's annual base compensation including bonuses in connection with a termination of the officer's services within an 18 month period following a change in ownership of Intervoice, as defined in the agreements. If both of these officers were terminated for one of the preceding reasons during fiscal 2007, we would incur costs ranging from \$0.9 million to \$1.2 million. The agreement with the fourth executive officer, which was amended and restated on October 9, 2006, requires us to make payment of the greater of the compensation for the unexpired term of the contract which expires in December 2007 or one-half of the annual compensation under the contract. If this officer were terminated during fiscal 2007, we would incur costs ranging from \$0.1 million to \$0.2 million. The remaining agreements with officers provide for their employment through December 2007 for one of the officers and through August 2008 with respect to the remaining two officers. If we terminated these officers prior to the expiration of their contracts, we would owe them the greater of their compensation for the unexpired terms of the contracts or one-half of their annual compensation under the contracts. If these officers were terminated during fiscal 2007, we would incur costs ranging from \$0.6 million to \$0.8 million.



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Under the terms of our Articles of Incorporation, we indemnify our directors, officers, employees or agents or any other person serving at our request as a director, officer, employee or agent of another corporation in connection with a derivative suit if he or she (1) is successful on the merits or otherwise or (2) acted in good faith, and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation. We will not provide indemnification, however, for any claim as to which the person was adjudged liable for negligence or misconduct unless the court determines that under the circumstances the person is fairly and reasonably entitled to indemnification. We provide the same category of persons with indemnification in a non-derivative suit only if such person (1) is successful on the merits or otherwise or (2) acted in good faith, and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, had no reason to believe his or her conduct was unlawful. Under the terms of our Bylaws, we also indemnify our current and former officers and directors to the fullest extent permitted or required under Article 2.02-1 of the Texas Business Corporation Act.

In connection with certain lawsuits filed against us and certain of our present and former officers and directors (see Pending Litigation above), we have agreed to pay in advance any expenses, including attorneys' fees, incurred by such present and former officers and directors in defending such litigation, in accordance with Article 2.02-1 of the Texas Business Corporation Act and the Company's Articles of Incorporation and Bylaws. Each of these parties has provided us with a written undertaking to repay us the expenses advanced if the person is ultimately not entitled to indemnification.

We have a qualified obligation to defend and indemnify certain current and former officers and other employees of Intervoice in connection with activities resulting from the Audit Committee investigation and related SEC investigation described in Audit Committee Investigation above.

Texas corporations are authorized to obtain insurance to protect officers and directors from certain liabilities, including liabilities against which the corporation cannot indemnify its officers and directors. We have obtained liability insurance for our officers and directors as permitted by Article 2.02-1 of the Texas Business Corporation Act. Our insurance policies provide coverage for losses and expenses incurred by us and our current and former directors and officers in connection with claims made under the federal securities laws. These policies, however, exclude losses and expenses related to the Barrie class action lawsuit, or to other litigation based on claims that are substantially the same as those in the Barrie class action, and contain other customary provisions to limit or exclude coverage for certain losses and expenses.

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**SIGNATURES**

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

INTERVOICE, INC.

Date: May 1, 2007

By: /s/ CRAIG E. HOLMES  
Craig E. Holmes  
Executive Vice President and Chief  
Financial Officer

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**Index to Exhibits**

**Exhibit**

<b>No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) or Rule 15d-14(a). (1)
31.2	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) or Rule 15d-14(a). (1)
32.1	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350. (1)*
32.2	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350. (1)*

(1) Filed herewith.

\* The certifications attached as Exhibit 32.1 and 32.2 accompany the Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.