DAVOX CORP
Form 10-Q
November 06, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 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 0-15578

DAVOX CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	No. 02-0364368 (I.R.S. Employer Identification Number)

6 Technology Park Drive
Westford, Massachusetts 01886
(Address of principal executive offices) (Zip Code)

Telephone: (978) 952-0200
(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 ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock: Common Stock, par value $.10 per share, outstanding as of November 5, 2001: 12,330,757 shares.

DAVOX CORPORATION & SUBSIDIARIES

INDEX

2

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
DAVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands)

ASSETS	September 30, 2001 (Unaudited)	December 31, 2000 (Audited)
Current assets:		
Cash and cash equivalents	$ 17,172	$ 61,758
Marketable securities	50,437	8,999
Accounts receivable, net of reserves of $2,249 and $2,255 in 2001 and 2000, respectively	15,531	14,195
Prepaid expenses and other current assets	4,416	4,564
Deferred tax assets	3,511	3,511

Total current assets	91,067	93,027
Property and equipment, net	6,900	5,863
Other assets	3,706	3,290
	$101,673	$102,180
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,293	$ 5,450
Accrued expenses	8,752	8,092
Customer deposits	5,967	5,914
Deferred revenue	9,479	6,986
Total current liabilities	29,491	26,442
Stockholders' equity:		
Common stock, $0.10 par value - Authorized - 30,000 shares Issued - 14,556 shares	1,456	1,456
Additional paid-in capital	81,856	82,676
Accumulated foreign currency translation adjustments	(246)	(299)
Retained earnings	9,241	10,988
	92,307	94,821
Treasury stock, 1,994 and 1,927 shares, at cost, in 2001 and 2000, respectively	(20,125)	(19,083)
Total stockholders' equity	72,182	75,738
	$101,673	$102,180

The accompanying notes are an integral part of these consolidated financial statements.

3

PART I. FINANCIAL INFORMATION (continued)
ITEM 1. FINANCIAL STATEMENTS
DAVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months End September 30,
	2001	2000	2001

Product revenue	$ 9,395	$11,081	$33,667	$3
Service revenue	12,747	11,398	38,755	3
Total revenue	22,142	22,479	72,422	7
Cost of product revenue	1,863	2,058	6,018	
Cost of service revenue	6,555	6,461	20,422	1
Total cost of revenue	8,418	8,519	26,440	2
Gross profit	13,724	13,960	45,982	4
Operating expenses:				
Research, development and engineering	4,491	3,913	14,202	1
Selling, general and administrative	10,095	10,738	32,899	3
Non- recurring restructuring costs	2,767	-	2,767	
Total operating expenses	17,353	14,651	49,868	4
Income (loss) from operations	(3,629)	(691)	(3,886)	
Other income (primarily interest income)	644	1,041	2,265	
Income (loss) before provision for (benefit from) income taxes	(2,985)	350	(1,621)	
Provision for (benefit from) income taxes	(297)	119	126	
Net income (loss)	$(2,688)	$ 231	$(1,747)	$
Earnings (loss) per share:				
Basic	$ (0.21)	$ 0.02	$ (0.14)	$
Diluted	$ (0.21)	$ 0.02	$ (0.14)	$
Weighted average shares outstanding:				
Basic	12,705	13,247	12,727	1
Diluted	12,705	13,631	12,727	1

The accompanying notes are an integral part of these consolidated financial statements.

4

PART I. FINANCIAL INFORMATION (continued)
ITEM 1. FINANCIAL STATEMENTS
DAVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended September 30, 2001	2000
Cash Flows from Operating Activities:		
Net income (loss)	$ (1,747)	$ 4,2
Adjustments to reconcile net income (loss) to net cash provided by operating activities -		
Stock-based compensation	200	
Depreciation and amortization	2,935	2,9
Tax benefit from exercise of stock options	177	3
Changes in current assets and liabilities -		
Accounts receivable	(1,341)	1,4
Prepaid expenses and other current assets	155	3
Accounts payable	(158)	(1,4
Accrued expenses	663	(4,3
Customer deposits	50	1,0
Deferred revenue	2,492	3,0
Net cash provided by operating activities	3,426	7,5
Cash Flows From Investing Activities:		
Purchases of property and equipment	(3,976)	(3,1
Increase in other assets	(416)	(6
Purchases of marketable securities	(81,590)	(68,1
Maturities of marketable securities	40,152	73,3
Net cash (used in) provided by investing activities	(45,830)	1,4
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	410	5,2
Proceeds from employee stock purchase plan	369	2
Purchases of treasury stock	(3,019)	(6,4
Net cash used in financing activities	(2,240)	(1,0
Effect of exchange rate changes on cash and cash equivalents	58	(3
Net (decrease) increase in cash and cash equivalents	(44,586)	7,6
Cash and cash equivalents, beginning of period	61,758	34,4
Cash and cash equivalents, end of period	$ 17,172	$ 42,0
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for income taxes	$ 227	$ 2,4

The accompanying notes are an integral part of these consolidated financial statements.

PART 1. FINANCIAL INFORMATION (continued)
DAVOX CORPORATION & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Preparation

The unaudited consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. The statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K, Commission File No. 000-15578, that was filed with the Securities and Exchange Commission on March 15, 2001. In the opinion of management, the accompanying consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position and results of operations. The results of operations for the three month and nine month periods ended September 30, 2001 may not be indicative of the results that may be expected for the next quarter or the full fiscal year.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

3. Revenue Recognition

The Company generates software revenue from licensing the rights to use its software products. The Company also generates service revenues from the sale of product maintenance contracts, implementation, education and consulting services. The Company recognizes revenue in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position (SOP) No. 97-2, Software Revenue Recognition, and SOP No. 98-9, Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions. Revenue from software license fees are generally recognized upon delivery provided that there are no significant post delivery obligations, persuasive evidence of an agreement exists, the fee is fixed or determinable and collection of the related receivable is probable. If acceptance is required beyond the Company's standard published specifications, software license revenue is recognized upon customer acceptance.

SOP 98-9 requires use of the residual method for recognition of revenues when vendor-specific objective evidence exists for undelivered elements but does not exist for the delivered elements of a multiple-element arrangement. In such circumstances, the Company defers the fair value of the undeliverable elements and recognizes, as revenue, the remaining value for the delivered elements.

PART 1. FINANCIAL INFORMATION (continued)
DAVOX CORPORATION & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

3. Revenue Recognition (continued)

Revenues for consulting, implementation and educational services are recognized over the period in which services are provided. Maintenance revenue is deferred at the time of software license shipment and is recognized ratably over the term of the support period, which is typically one year. Amounts collected from customers prior to satisfying the revenue recognition criteria are reflected as deferred revenue in the accompanying balance sheet.

4. Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding. Diluted earnings per share is computed using the weighted average number of common shares outstanding and the effect of dilutive common stock options using the treasury stock method. A reconciliation of basic and diluted weighted average shares outstanding is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Basic weighted average shares outstanding	12,705	13,247	12,727	13,407
Effect of dilutive stock options	-	384	-	751
Diluted weighted average shares outstanding	12,705	13,631	12,727	14,158

For the three months ended September 30, 2001 and 2000, 2,848,150 and 1,953,013 common equivalent shares, respectively, were not included in the diluted weighted average shares outstanding, as their effect would be antidilutive. For the nine months ended September 30, 2001 and 2000, 1,798,131 and 1,276,724 common equivalent shares, respectively, were not included in the diluted weighted average shares outstanding, as their effect would be antidilutive.

5. Non-Recurring Restructuring Costs

For the three and nine months ended September 30, 2001, the Company incurred a restructuring charge of approximately $2.8 million, related to the reduction in its workforce, costs associated with excess leased office space due to the workforce reduction and the departure of its previous president and chief executive officer.

5. Non-Recurring Restructuring Costs (cont.)

For the three months ended September 30, 2001, the Company reduced its workforce by 97 people, or 18% of its total employees. All functional areas were affected by the reductions.

The components of the restructuring costs are as follows (in thousands):

	Nine Months Ended September 30, 2001
Severance and related costs	$2,308
Excess leased office space	259
Stock-based compensation	200
	$2,767

Cash payments totaled $0.9 million for the three and nine month periods ended September 30, 2001 and $1.8 million in restructuring liabilities remain in accrued expenses in the accompanying balance sheet at September 30, 2001.

6. Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows (in thousands):

	Three Months Ended September 30,		Nine Se
	2001	2000	20
Net income (loss)	$(2,688)	$ 231	$(1,
Foreign currency translation adjustments	142	(24)	
Comprehensive income (loss)	$(2,546)	$ 207	$(1,

7. Segment and Geographic Information

The Company has two primary product lines: its Ensemble Customer Contact Suite and Unison Call Management System. The following table represents the Company's percentage of product revenue by product line for the three and nine months ended September 30, 2001 and 2000:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Unison	72.4%	89.4%	81.1%	90.7
Ensemble	22.5	9.3	14.7	3.6
Other	5.1	1.3	4.2	5.7
Total	100.0%	100.0%	100.0%	100.0

Product revenue from international sources totaled approximately $2.6 million and $1.9 million for the three months ended September 30, 2001 and 2000 respectively and $12.0 million and $6.7 million for the first nine months of 2001 and 2000, respectively. The Company's revenue from international sources was primarily generated from customers located in the United Kingdom, Europe and Asia/Pacific. Substantially all of the Company's product revenue for the periods presented was shipped from its headquarters located in the United States.

The following table represents the Company's percentage of product revenue by geographic region from customers for the three months and nine months ended September 30, 2001 and 2000:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
United States	72.6%	83.0%	64.4%	81.3
United Kingdom	10.4	5.6	18.5	9.2
Europe	2.8	4.2	4.0	4.2
Asia/Pacific	12.4	6.7	12.1	3.0
Other	1.8	0.5	1.0	2.3
Total	100.0%	100.0%	100.0%	100.0

Substantially all of the Company's assets are located in the United States.

8. New Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 141, Business

Combinations. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. The adoption of SFAS No. 141 is not expected to have a material impact on the Company's consolidated financial statements.

In July 2001, the FASB also issued SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. Also under SFAS No. 142, intangible assets acquired in conjunction with a business combination should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so. Intangible assets will continue to be amortized over their respective useful lives under SFAS No. 142. The Company must adopt SFAS No. 142 on January 1, 2001. The adoption of SFAS No. 142 is not expected to have a material impact on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to (a) all entities and (b) legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 amends SFAS No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies, and is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not anticipate that the adoption of SFAS No. 143 will have a material impact on its financial statements.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes FASB SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, but retains SFAS No. 121's fundamental provisions for (a) recognition/measurement of impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS No. 144 also supersedes the accounting/reporting provisions of Accounting Principles Board (APB) Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for segments of a business to be disposed of but retains APB No. 30's requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS

8. New Accounting Standards (cont.)

No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company does not anticipate that the adoption of SFAS No. 144 will have a material impact on its financial statements.

PART I. FINANCIAL INFORMATION (continued)
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENTS

The Private Securities Litigation Reform Act of 1995 contains certain safe harbors regarding forward-looking statements. Statements set forth herein may contain "forward-looking" information that involves risks and uncertainties. Actual future financial or operating results may differ materially from such forward-looking statements. Statements indicating that the Company "expects," "estimates," "believes," "is planning," or "plans to" are forward-looking, as are other statements concerning future financial or operating results, product offerings or other events that have not yet occurred. There are several important factors that could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors are described in greater detail under Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors That May Affect Future Results. Although the Company has sought to identify the most significant risks to its business, the Company cannot predict whether, or to what extent, any of such risks may be realized nor can there be any assurance that the Company has identified all possible issues that the Company may face.

PART I. FINANCIAL INFORMATION (continued)
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2001 and 2000

During the third quarter of 2001, in response to the weak economic environment, the Company recorded a non-recurring restructuring charge totaling approximately $2.8 million. The components of the restructuring charge included a reduction in workforce of approximately 97 people or 18% of the Company's total workforce, which effected all functional areas, costs associated with excess leased office space due to the reduction in headcount and the departure of the Company's previous president and chief executive officer.

Total revenue for the third quarter of 2001 decreased approximately $337,000, or 1.5%, to $22.1 million compared to $22.5 million for the same period in 2000. Total revenue for the first nine months of 2001 increased approximately $2.0 million, or 2.8%, to $72.4 million compared to $70.4 million for the same period in 2000.

Product revenue for the third quarter of 2001 decreased approximately $1.7 million, or 15.2%, to $9.4 million compared to the same period in 2000. Product revenue for the first nine months of 2001 decreased approximately $1.9 million, or 5.5%, to $33.7 million compared to the same period in 2000. These decreases in product revenue for the third quarter and first nine months of 2001 is due to the weakening economic conditions experienced in 2001.

Cost of product revenue for the third quarter of 2001 decreased approximately $194,000, or 9.4%, to $1.9 million compared to the same period in 2000. Cost of product revenue for the first nine months of 2001 decreased approximately $68,000, or 1.1%, to $6.0 million compared to the same period in 2000. The cost of product revenue decreases for the three and nine month periods in 2001 is principally related to the decrease in revenue noted above and to a decrease in the hardware content of the systems shipped in 2001 compared to the same periods in 2000.

Service revenue for the third quarter of 2001 increased approximately $1.3 million, or 11.9%, to $12.7 million compared to the same period in 2000. Service revenue for the first nine months of 2001 increased approximately $3.9 million, or 11.3%, to $38.8 million compared to the same period in 2000. The increase in service revenue for the three and nine months ended September 30, 2001 was primarily due to the growth in the Company's installed customer base, resulting in increased new and renewed contract maintenance revenue as compared to the same periods in 2000.

Cost of service revenue for the third quarter of 2001 increased approximately $94,000, or 1.5%, to $6.6 million compared to the same period in 2000. Cost of service revenue for the first nine months of 2001 increased approximately $2.4 million, or 13.6%, to $20.4 million compared to the same period in 2000. The increases during the third quarter and first nine months of 2001 were due primarily to increased headcount, payroll and related expenses,

and increased costs related to the international expansion of the Company's support and services organizations to better serve our international customers as compared to the same periods in 2000.

Research, development and engineering expenses increased approximately $0.6 million, or 14.8%, to $4.5 million for the third quarter of 2001 as compared to the same period in 2000. Research, development and engineering expenses increased approximately $2.5 million, or 21.2%, to $14.2 million for the first nine months of 2001 compared to the same period in 2000. The three and nine month period increases for research, development and engineering expenses were primarily due to increased headcount and payroll and related expenses in 2001 compared to the same periods in 2000.

Selling, general and administrative (SG&A) expenses decreased by approximately $0.6 million, or 6.0%, to $10.1 million for the third quarter of 2001 compared to the same period in 2000. The decrease in SG&A expenses for the third quarter of 2001 was principally due to lower discretionary spending combined with the cost savings experienced as a result of the restructuring actions completed during the third quarter of 2001. SG&A expenses increased by approximately $1.6 million, or 5.2%, to $32.9 million for the first nine months of 2001 compared to the same period in 2000. The increase in SG&A for the first nine months of 2001 compared to the same period in 2000 was principally due to continued investment in international operations as the Company continues to expand its global presence and higher payroll and related expenses which was partially offset by a decrease in travel expenses.

Other income in 2001 was derived primarily from interest income from investments in commercial paper, corporate bonds, Eurodollar bonds, and similar financial instruments, net of investment fees. Other income decreased 38.2% for the third quarter of 2001 compared to the same period in 2000 and decreased

24.8% for the first nine months of 2001 compared to the same period in 2000. The decreases for the third quarter of 2001 and first nine months of 2001 were due to lower interest rates and investment yields compared to the same periods in 2000 as well as lower average investment balances for the first nine months of 2001 compared to 2000.

In accordance with generally accepted accounting principles, the Company provides for income taxes on an interim basis using its estimated annual effective income tax rate. The Company provided for income taxes in the first six months of 2001 at an effective tax rate of 31%, which is lower than the combined federal and state statutory tax rates due primarily to anticipated utilization of net operating loss carryforwards, tax credits and benefits derived from the Company's foreign sales corporation. For the three month period ended September 30, 2001, the Company recorded a net loss of $2.7 million and for the nine months ended September 30, 2001, the Company recorded a net loss totaling $1.7 million. As a result, during the third quarter of 2001, the Company recorded a $0.3 million benefit from income taxes from amounts provided for in the first six months of 2001. The Company's tax provision of $0.1 million for the nine months ended September 30, 2001 relates primarily to anticipated foreign income taxes.

14

PART I. FINANCIAL INFORMATION (continued)
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2001, the Company's principal sources of liquidity were its cash and cash equivalent balances of approximately $17.2 million, as well as its marketable securities of approximately $50.4 million. At December 31, 2000, the Company's cash and cash equivalent balances were approximately $61.8 million and its marketable securities were approximately $9.0 million. The overall decrease of approximately $3.1 million in the total cash and marketable securities balances was due primarily to the utilization of approximately $3.0 million during 2001 to fund the repurchase of shares of the Company's stock and the payment of approximately $0.7 million related to the restructuring activities during the first nine months of 2001.

Net cash provided by operating activities for the first nine months of 2001, was approximately $3.2 million compared to cash provided by operating activities of approximately $7.5 million for the same period in 2000. The decrease in cash provided by operating activities for the first nine months of 2001 was due primarily to less favorable operating results and an increase in accounts receivable of approximately $1.3 million for the nine month period ended September 30, 2001.

The Company's primary investing activities were purchases and maturities of marketable securities and purchases of property and equipment. Purchases and maturities of marketable securities generated a net cash outflow of approximately $41.4 million during the first nine months of 2001, compared to a net cash inflow of approximately $5.3 million during the same period in 2000. Property and equipment purchases were approximately $4.0 million during the first nine months of 2001, compared to approximately $3.2 million during the same period in 2000.

Cash used in financing activities during the first nine months of 2001 totaled approximately $2.0 million compared to approximately $1.0 million utilized for the same period in 2000. The utilization of cash was the result of the repurchase of 333,100 shares of the Company's common stock, for approximately $3.0 million during the first nine months of 2001, and was partially offset by the proceeds received from exercises of stock options and from purchases of stock through the Company's employee stock purchase plan.

At September 30, 2001, the working capital of the Company decreased to approximately $61.6 million from approximately $66.6 million as of December 31, 2000. The $5.0 million decrease in working capital is primarily attributable to the previously mentioned $3.1 million decrease in total cash and marketable securities balances combined with a $2.5 million increase in deferred revenue, as the Company's global installed customer base continues to grow.

Management believes, based on its current operating plan, that the Company's existing cash and marketable securities balances and cash generated from operations are sufficient to meet the Company's cash requirements for the next twelve months.

PART I. FINANCIAL INFORMATION (continued)
ITEM 3. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISKS

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments.

As of September 30, 2001, the Company did not participate in any derivative financial instruments or other financial and commodity instruments. Substantially all, of the Company's investments are short-term; commercial paper, corporate bonds, Eurodollar bonds, and similar financial instruments that are carried on the Company's books at amortized cost, which approximates fair market value. Accordingly, the Company has no quantitative information concerning the market risk of participating in such investments.

Primary Market Risk Exposures.

The Company's primary market risk exposures are in the areas of interest rate risk and foreign currency exchange rate risk. The Company's investment portfolio of cash equivalents and marketable securities is subject to interest rate fluctuations, but the Company believes this risk is minimized due to the short-term nature of these investments.

The Company's exposure to currency exchange rate fluctuations has been and is expected to continue to be modest due to the fact that the operations of its international subsidiaries are almost exclusively conducted in their respective local currencies. International subsidiary operating results are translated into U.S. dollars and consolidated for reporting purposes. The impact of currency exchange rate movements on intercompany transactions was immaterial for the nine months ended September 30, 2001. Currently, the Company does not engage in foreign currency hedging activities.

New Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 141, Business Combinations. SFAS No. 141 requires all business combinations initiated after

June 30, 2001 to be accounted for using the purchase method. The adoption of SFAS No. 141 is not expected to have a material impact on the Company's consolidated financial statements.

In July 2001, the FASB also issued SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. Also under SFAS No. 142, intangible assets acquired in conjunction with a business combination should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so.

Intangible assets will continue to be amortized over their respective useful lives under SFAS No. 142. The Company must adopt SFAS No. 142 on January 1, 2001. The adoption of SFAS No. 142 is not expected to have a material impact on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to (a) all entities and (b) legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 amends SFAS No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies, and is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not anticipate that the adoption of SFAS No. 143 will have a material impact on its financial statements.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes FASB SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, but retains SFAS No. 121's fundamental provisions for (a) recognition/measurement of impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS No. 144 also supersedes the accounting/reporting provisions of Accounting Principles Board (APB) Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for segments of a business to be disposed of but retains APB No. 30's requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company does not anticipate that the adoption of SFAS No. 144 will have a material impact on its financial statements.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

In addition to historical information contained herein, this report contains forward-looking statements concerning future expected financial and operating results. The Company's future actual results could differ materially from the forward-looking statements discussed or implied in this report because of risks or uncertainties including, but not limited to, competition and competitive pricing pressures, technological change, new product introduction and market acceptance, the ability of Davox to attract and retain key personnel and general economic and political conditions in the United States and worldwide markets served by Davox; and those other factors discussed from time to time in Davox's public reports filed with the Securities and Exchange Commission, such as those discussed under "Certain Factors That May Affect Future Results" in Davox's quarterly reports on Form 10-Q and annual report on Form 10-K.

17

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There were no material changes since the Company's Annual Report on Form 10-K for the period ended December 31, 2000.

Item 6. Exhibits and Reports on Form 8-K

(a) No current reports on Form 8-K were filed during the quarter ended September 30, 2001.

10.19	Severance agreement for James D. Foy, President and Chief Executive Officer
10.20	Severance agreement and release for David M. Sample, former President and Chief Executive Officer
10.21	2001 Stock Option Plan of the Registrant
10.22	2001 Form of Non-Qualified Stock Option Agreement under the Registrant's 2001 Stock Option Plan

18

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.

DAVOX CORPORATION

Date: November 6, 2001 By: /s/ James D. Foy

James D. Foy
Chief Executive Officer
and President (Principal
Executive Officer)

Date: November 6, 2001 By: /s/ Michael J. Provenzano III

Michael J. Provenzano III
Vice President of Finance
and Chief Financial Officer
(Principal Financial Officer)

19