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DAVOX CORP
Form 10-Q
August 10, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

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

For the quarterly period ended June 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 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
August 9, 2001: 12,792,586 shares.

DAVOX CORPORATION & SUBSIDIARIES

INDEX

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
DAVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Per Share Data)

| | June 30, 2001 | December 31, 2000 |
|-----------------------------------------------------------------------------------------------|------------------|----------------------|
| | ----- | ----- |
| ASSETS | (Unaudited) | (Audited) |
| Current assets: | | |
| Cash and cash equivalents | \$ 48,908 | \$ 61,758 |
| Marketable securities | 22,215 | 8,999 |
| Accounts receivable, net of reserves of \$2,117 and \$2,255 in 2001 and 2000, respectively | 14,668 | 14,195 |
| Prepaid expenses and other current assets | 4,099 | 4,564 |
| Deferred tax assets | 3,511 | 3,511 |
| | ----- | ----- |
| Total current assets | 93,401 | 93,027 |
| | ----- | ----- |

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| | | |
|-----------------------------|-----------|-----------|
| Property and equipment, net | 6,699 | 5,863 |
| Other assets | 3,645 | 3,290 |
| | ----- | ----- |
| | \$103,745 | \$102,180 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|------------------------------------------------------------------------------------|-----------|-----------|
| Current liabilities: | | |
| Accounts payable | \$ 5,109 | \$ 5,450 |
| Accrued expenses | 7,582 | 8,092 |
| Customer deposits | 5,524 | 5,914 |
| Deferred revenue | 9,117 | 6,986 |
| | ----- | ----- |
| Total current liabilities | 27,332 | 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 | 81,647 | 82,676 |
| Accumulated foreign currency translation adjustments | (389) | (299) |
| Retained earnings | 11,929 | 10,988 |
| | ----- | ----- |
| | 94,643 | 94,821 |
| Treasury stock, 1,787 and 1,927 shares, at cost, in 2001 and 2000, respectively | | |
| | (18,230) | (19,083) |
| | ----- | ----- |
| Total stockholders' equity | 76,413 | 75,738 |
| | ----- | ----- |
| | \$103,745 | \$102,180 |
| | ===== | ===== |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------|--------------------------------|----------|------------------------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | ----- | ----- | ----- | ----- |
| Product revenue | \$12,369 | \$ 9,700 | \$24,273 | \$24,527 |
| Service revenue | 13,214 | 11,873 | 26,007 | 23,429 |
| | ----- | ----- | ----- | ----- |
| Total revenue | 25,583 | 21,573 | 50,280 | 47,956 |
| | ----- | ----- | ----- | ----- |
| Cost of product revenue | 2,171 | 1,832 | 4,154 | 4,028 |
| Cost of service revenue | 6,807 | 5,906 | 13,867 | 11,516 |

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| | | | | |
|------------------------------------------|---------|---------|---------|----------|
| Total cost of revenue | 8,978 | 7,738 | 18,021 | 15,544 |
| Gross profit | 16,605 | 13,835 | 32,259 | 32,412 |
| Operating expenses: | | | | |
| Research, development and engineering | 4,966 | 3,967 | 9,712 | 7,809 |
| Selling, general and administrative | 11,438 | 10,359 | 22,803 | 20,529 |
| Total operating expenses | 16,404 | 14,326 | 32,515 | 28,338 |
| Income (loss) from operations | 201 | (491) | (256) | 4,074 |
| Other income (primarily interest income) | 683 | 1,072 | 1,621 | 1,972 |
| Income before provision for income taxes | 884 | 581 | 1,365 | 6,046 |
| Provision for income taxes | 274 | 198 | 424 | 2,056 |
| Net income | \$ 610 | \$ 383 | \$ 941 | \$ 3,990 |
| Earnings per share: | | | | |
| Basic | \$ 0.05 | \$ 0.03 | \$ 0.07 | \$ 0.30 |
| Diluted | \$ 0.05 | \$ 0.03 | \$ 0.07 | \$ 0.28 |
| Weighted average shares outstanding: | | | | |
| Basic | 12,784 | 13,572 | 12,737 | 13,488 |
| Diluted | 13,218 | 14,320 | 13,229 | 14,412 |

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

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

| | Six Months Ended June 30, | |
|------------------------------------------------------------------------------------|------------------------------|----------|
| | 2001 | 2000 |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 941 | \$ 3,990 |
| Adjustments to reconcile net income to net cash provided by operating activities - | | |
| Depreciation and amortization | 2,005 | 1,977 |

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| | | |
|--------------------------------------------------------------|-----------|-----------|
| Tax benefit from exercise of stock options | 171 | 295 |
| Changes in current assets and liabilities - | | |
| Accounts receivable | 584 | 2,103 |
| Prepaid expenses and other current assets | (612) | (228) |
| Accounts payable | (341) | (330) |
| Accrued expenses | (501) | (4,592) |
| Customer deposits | (390) | (67) |
| Deferred revenue | 2,130 | 3,202 |
| | ----- | ----- |
| Net cash provided by operating activities | 3,987 | 6,350 |
| | ----- | ----- |
| Cash Flows From Investing Activities: | | |
| Purchases of property and equipment | (2,834) | (2,196) |
| Increase in other assets | (354) | (607) |
| Purchases of marketable securities | (56,558) | (52,784) |
| Maturities of marketable securities | 43,343 | 44,759 |
| | ----- | ----- |
| Net cash used in investing activities | (16,403) | (10,828) |
| | ----- | ----- |
| Cash Flows From Financing Activities: | | |
| Proceeds from exercise of stock options | 327 | 4,870 |
| Proceeds from employee stock purchase plan | 198 | -- |
| Purchases of treasury stock | (874) | -- |
| | ----- | ----- |
| Net cash (used in) provided by financing activities | (349) | 4,870 |
| | ----- | ----- |
| Effect of exchange rate changes on cash and cash equivalents | (85) | (287) |
| | ----- | ----- |
| Net (decrease) increase in cash and cash equivalents | (12,850) | 105 |
| Cash and cash equivalents, beginning of period | 61,758 | 34,433 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 48,908 | \$ 34,538 |
| | ===== | ===== |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for income taxes | \$ 227 | \$ 2,429 |
| | ===== | ===== |

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

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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

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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 six month periods ended June 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.

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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

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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 June 30, | | Six Months Ended June 30, | |
|------------------------------------------------|--------------------------------|--------|------------------------------|--------|
| | 2001 | 2000 | 2001 | 2000 |
| Basic weighted average shares outstanding | 12,784 | 13,572 | 12,737 | 13,488 |
| Effect of dilutive stock options | 434 | 748 | 492 | 924 |
| Diluted weighted average shares outstanding | 13,218 | 14,320 | 13,229 | 14,412 |

For the three months ended June 30, 2001 and 2000, 1,587,607 and 1,254,639 common equivalent shares, respectively, were not included in the diluted weighted average shares outstanding, as their effect would be antidilutive. For the six months ended June 30, 2001 and 2000, 1,611,107 and 610,720 common equivalent shares, respectively, were not included in the diluted weighted average shares outstanding, as their effect would be antidilutive.

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

5. Comprehensive Income

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------------------------------|--------------------------------|--------|------------------------------|---------|
| | 2001 | 2000 | 2001 | 2000 |
| Net income | \$ 610 | \$ 383 | \$ 941 | \$3,990 |
| Foreign currency translation adjustments | (151) | (116) | (90) | (229) |
| Comprehensive income | \$ 459 | \$ 267 | \$ 851 | \$3,761 |

6. Segment and Geographic Information

Product revenue from international sources totaled approximately \$4.3 million and \$1.8 million for the three months ended June 30, 2001 and 2000 respectively and \$9.4 million and \$4.8 million for the first six 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

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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 six months ended June 30, 2001 and 2000:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------|--------------------------------|--------|------------------------------|--------|
| | 2001 | 2000 | 2001 | 2000 |
| United States | 65.5% | 81.3% | 61.3% | 80.3% |
| United Kingdom | 17.4 | 12.6 | 21.7 | 11.2 |
| Europe | 6.6 | 2.6 | 4.4 | 3.9 |
| Asia/Pacific | 10.5 | 1.1 | 11.9 | 1.5 |
| Latin America | -- | 1.6 | 0.4 | 0.9 |
| Canada | -- | 0.8 | 0.3 | 2.2 |
| | | | | |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

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

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

7. 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.

8. Subsequent Events

In July 2001, the Company completed a 10% reduction in its workforce, resulting in a pretax charge to operations of approximately \$1.0 million, which will be recorded in the third quarter of 2001.

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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.

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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 Six Months Ended June 30, 2001 and 2000

Total revenue for the second quarter of 2001 increased approximately \$4.0 million, or 18.5%, to \$25.6 million compared to \$21.6 million for the same period in 2000. Total revenue for the first six months of 2001 increased approximately \$2.3 million, or 4.8%, to \$50.3 million compared to \$48.0 million for the same period in 2000.

Product revenue for the second quarter of 2001 increased approximately \$2.7 million, or 27.5%, to \$12.4 million compared to the same period in 2000. Product revenue for the first six months of 2001 decreased approximately \$0.3 million, or 1.0%, to \$24.3 million compared to the same period in 2000. This increase in product revenue for the second quarter of 2001 was due principally to an increase in the number of sales of the Company's Ensemble(TM) product and continued strong international sales. The decrease in product revenue for the first six months of 2001 compared to 2000 was due to lower sales of the Company's Unison product, which was partially offset by the increase in Ensemble(TM) product sales.

Cost of product revenue for the second quarter of 2001 increased approximately \$0.3 million, or 18.5%, to \$2.2 million compared to the same period in 2000. Cost of product revenue for the first six months of 2001 increased approximately \$0.1 million, or 3.1%, to \$4.2 million compared to the same period in 2000. The cost of product revenue increase for the three and six month periods in 2001 is related to higher material and operating costs compared to the same periods in 2000.

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Service revenue for the second quarter of 2001 increased approximately \$1.3 million, or 11.3%, to \$13.2 million compared to the same period in 2000. Service revenue for the first six months of 2001 increased approximately \$2.6 million, or 11.0%, to \$26.0 million compared to the same period in 2000. The increase in service revenue for the three and six months ended June 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 second quarter of 2001 increased approximately \$0.9 million, or 15.3%, to \$6.8 million compared to the same period in 2000. Cost of service revenue for the first six months of 2001 increased approximately \$2.4 million, or 20.4%, to \$13.9 million compared to the same period in 2000. The increases during the second quarter and first six 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.

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Part I. Financial Information (continued)

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

Research, development and engineering expenses increased approximately \$1.0 million, or 25.1%, to \$5.0 million for the second quarter of 2001 as compared to the same period in 2000. Research, development and engineering expenses increased approximately \$1.9 million, or 24.4%, to \$9.7 million for the first six months of 2001 compared to the same period in 2000. The three and six 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 increased by approximately \$1.1 million, or 10.4%, to \$11.4 million for the second quarter of 2001 compared to the same period in 2000. SG&A expenses increased by approximately \$2.3 million, or 11.1%, to \$22.8 million for the first six months of 2001 compared to the same period in 2000. The increases in SG&A for the second quarter and first six months of 2001 compared to the same periods in 2000 were principally due to increased headcount and payroll related expenses and continuing investment in the international operations as the Company continues to expand its global presence.

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 36.3% for the second quarter of 2001 compared to the same period in 2000 and decreased 17.8% for the first six months of 2001 compared to the same period in 2000. The decreases for the second quarter of 2001 and first six months of 2001 were due to the lower average investment balances combined with lower interest rates and investment yields compared to the same periods in 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 is providing for income taxes in 2001 at an effective tax rate of 31%, which is lower than the combined federal and state statutory tax rates due primarily to net operating loss carryforwards,

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utilization of tax credits and benefits derived from the Company's foreign sales corporation.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2001, the Company's principal sources of liquidity were its cash and cash equivalent balances of approximately \$48.9 million, as well as its marketable securities of approximately \$22.2 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 increase of approximately \$0.4 million in the total cash and marketable securities balances was due primarily to cash provided from operating activities during the first six months of 2001.

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

Net cash provided by operating activities for the first six months of 2001, was approximately \$4.0 million compared to cash provided by operating activities of approximately \$6.4 million for the same period in 2000. The decrease in cash provided by operating activities for the first six months of 2001 was due primarily to less favorable operating results, a decrease in accrued expenses of approximately \$0.5 million and an increase in accounts receivable of approximately \$0.6 million for the period.

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 \$13.2 million during the first six months of 2001, compared to a net cash outflow of approximately \$8.0 million during the same period in 2000. Property and equipment purchases were approximately \$2.8 million during the first six months of 2001, compared to approximately \$2.2 million during the same period in 2000.

Cash used in financing activities during the first six months of 2001 totaled approximately \$0.3 million. The utilization of cash was the result of the repurchase of 92,300 shares of the Company's common stock, for approximately \$0.9 million during the first six 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. Cash provided by financing activities during the first six months of 2000 totaled approximately \$4.9 million and was generated from proceeds from exercises of stock options.

At June 30, 2001, the working capital of the Company decreased to approximately \$66.1 million from approximately \$66.6 million as of December 31, 2000.

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.

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PART I. FINANCIAL INFORMATION (continued)
ITEM 3. QUANTITATIVE AND QUALITATIVE

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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 June 30, 2001, the Company did not participate in any derivative financial instruments or other financial and commodity instruments for which fair value disclosure would be required under Statement of Financial Standards (SFAS) No. 107. 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 six months ended June 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.

Part I. Financial Information (continued)

ITEM 3. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISKS (continued)

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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.

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 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.

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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 4. Submission of Matters to a Vote of Security-Holders

The annual meeting of security-holders of the Company was held on May 2, 2001. The number of directors was fixed at five and the following persons were elected as directors:

| Nominee | | |
|----------------------|-------------------------|-----------------------------|
| Nominee | Total Votes for Nominee | Total Votes Against Nominee |
| Alphonse M. Lucchese | 11,837,190 | 70,398 |
| Michael D. Kaufman | 11,843,133 | 64,455 |
| R. Scott Asen | 11,751,633 | 155,955 |
| David M. Sample | 11,566,093 | 341,495 |
| Peter Gyenes | 11,453,779 | 453,809 |

The selection of the firm Arthur Andersen LLP as auditors for the fiscal year ending December 31, 2001 was ratified, with 11,881,127 shares voting in favor and 17,582 shares abstaining.

Item 5. Other Information

Proposal of stockholders intended for inclusion in the proxy statement to be furnished to all stockholders entitled to vote at the next annual meeting of stockholders of the Company must be received at the Company's principal executive offices not later than December 3, 2001. The deadline for providing timely notice to the Company of matters that stockholders otherwise desire to introduce at the next annual meeting

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of stockholders of the Company is February 15, 2001. In order to curtail any controversy as to the date, on which a proposal was received by the Company, it is suggested that proponents submit their proposal by Certified Mail, Return Receipt Requested.

Item 6. Exhibits and Reports on Form 8-K

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

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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.

DAVOX CORPORATION

Date: August 10, 2001

By: /s/ David M. Sample

David M. Sample
Chief Executive Officer
and President (Principal
Executive Officer)

Date: August 10, 2001

By: /s/ Michael J. Provenzano III

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

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