FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. 0000950147-96-000556

FILER

VODAVI TECHNOLOGY INC

CIK:**949491**| IRS No.: **860789350** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-26912** | Film No.: **96664805**
SIC: **3661** Telephone & telegraph apparatus

Mailing Address
8300 E. RAINTREE DRIVE
SCOTTSDALE AZ 85260

Business Address
8300 E RAINTREE DR
SCOTTSDALE AZ 85260
6024436000

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended September 30, 1996

Commission File No. 0-26912

Vodavi Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware	86-0789350
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8300 E. Raintree Drive, Scottsdale, Arizona 85260

(Address of principal executive offices) (Zip Code)

(602) 443-6000

(Registrant's telephone number, including area code)

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

The number of shares outstanding of registrant's Common Stock, $.001 par value per share, as of October 31, 1996 was 4,342,238.

VODAVI TECHNOLOGY, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 1996

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

VODAVI TECHNOLOGY, INC.
CONSOLIDATED BALANCE SHEETS
In thousands

	September 30, 1996 (Unaudited)	December 31, 1995
CURRENT ASSETS:		
Cash	$ 1,180	$ 1,944
Accounts Receivable, net	7,541	6,427
Inventory, net	5,456	8,546
Prepaids	837	802
	15,014	17,719
PROPERTY AND EQUIPMENT, net	2,245	1,731
GOODWILL, net	6,739	7,089
OTHER LONG-TERM ASSETS, net	967	931
	$24,965	$27,470
CURRENT LIABILITIES:		
Notes Payable	$ 5,014	$ 0
Accounts Payable	3,268	3,625
Accrued Liabilities	2,356	2,151

	10,638	5,776
LONG-TERM OBLIGATIONS	394	7,884
STOCKHOLDERS' EQUITY:		
Preferred Stock	-	-
Common Stock	4	4
Additional Paid-In Capital	12,308	12,308
Retained Earnings	1,621	1,498
	13,933	13,810
	$24,965	$27,470

The accompanying notes are an integral part of these consolidated balance sheets.

VODAVI TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
In thousands, except share amounts
(Unaudited)

<TABLE>
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	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
REVENUE, net	$ 11,706	$ 10,309	$ 33,961	$ 31,202
COST OF GOODS SOLD	7,824	7,115	22,659	21,779
GROSS MARGIN	3,882	3,194	11,302	9,423
OPERATING EXPENSES				
Engineering and product development	578	447	1,613	1,285
Selling, general and administrative	2,919	2,116	8,586	5,956
OPERATING INCOME	385	631	1,103	2,182
INTEREST EXPENSE	213	304	655	823
INCOME BEFORE INCOME TAXES	172	327	448	1,359
PROVISION FOR INCOME TAXES	119	132	325	550

NET INCOME	$ 53	$ 195	$ 123	$ 809
NET INCOME PER SHARE	$ 0.01	$ 0.09	$ 0.03	$ 0.36
WEIGHTED AVERAGE SHARES OUTSTANDING	4,410,849	2,266,660	4,410,849	2,266,660

</TABLE>

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

VODAVI TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
In thousands
(Unaudited)

	Nine months ended September 30, 1996	1995
OPERATING ACTIVITIES:		
Net Income	$ 123	$ 809
Adjustments:		
Depreciation and amortization	768	322
Rent levelization	50	47
Changes in working capital:		
Accounts receivable	(1,114)	(1,530)
Inventory	3,090	(1,048)
Prepaid expenses	(35)	(682)
Other long term assets	(109)	(40)
Accounts payable	(356)	2,760
Accrued liabilities	120	454
NET CASH FLOWS - OPERATING ACTIVITIES	2,537	1,092
INVESTING ACTIVITIES:		
Purchase of fixed assets	(416)	(579)
NET CASH FLOWS - INVESTING ACTIVITIES	(416)	(579)
FINANCING ACTIVITIES:		
Capital lease payments	(36)	-
Borrowings from GE Capital	29,505	31,383
Payments to GE Capital	(32,354)	(31,128)
Payment of notes payable	-	(1,200)
NET CASH FLOWS - FINANCING ACTIVITIES	(2,885)	(945)

INCREASE (DECREASE) IN CASH	(764)	(432)
CASH, beginning of period	1,944	1,454
CASH, end of period	$ 1,180	$ 1,022

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

VODAVI TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED
SEPTEMBER 30, 1996

(a) Vodavi Technology, Inc. (the Company) is a Delaware corporation formed in 1994. In April 1994, the Company, through its wholly owned subsidiary, Vodavi Communications Systems, Inc. (VCS), acquired the operating assets of the Vodavi Communications Systems Division (the Vodavi Division) of Executone Information Systems, Inc. VCS designs, develops, produces and distributes business communications systems and related telecommunications products. In July 1995, the Company, through its wholly owned subsidiary Arizona Repair Services, Inc. (ARSI), acquired the operating assets of GoldStar Products Company, Ltd., which provides repair services on telecommunications products, from LG Electronics USA. In October 1995, the Company completed an initial public offering of its common stock. Concurrently with the completion of its initial public offering, the Company acquired Enhanced Systems, Inc. (Enhanced), a Georgia-based provider of voice processing software.

(b) The accompanying unaudited consolidated financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These financial statements reflect all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly state the financial position as of September 30, 1996 and the operating results and cash flows for the periods presented. Operating results for the interim periods presented are not necessarily indicative of the operating results that may be expected for the entire year. These financial statements should be read in conjunction with the Company's December 31, 1995 financial statements and accompanying notes thereto.

(c) Net income per share for the periods ended September 30, 1995 and 1996 was determined by dividing net income by the weighted average number of common and common equivalent shares outstanding. The weighted average number of common equivalent shares outstanding assumes the exercise of all outstanding options and the corresponding repurchase of shares using the treasury stock method as of the beginning of each period presented.

(d) Effective January 1, 1996, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, Accounting For Impairment Of Long-Lived Assets And For Long-Lived Assets To Be Disposed Of. SFAS No. 121 requires the Company to review long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. At September 30, 1996, the Company believes that its long-lived assets are recoverable. The company's judgment of the recoverability of its long-lived assets is based on its estimates of future cash flows.

Included in the Company's estimated future cash flows is revenue from the sale of the Company's Voice Activated Dialing (VAD) systems under the terms of a contract with GTE Mobilnet. The Company has recently installed its first VAD system for GTE Mobilnet. GTE Mobilnet has informed the Company that this first system will be evaluated as to its market acceptance and that the results of this evaluation will influence the timing of any additional installations. If the Company's estimates of future revenue under the terms of this contract are adversely affected by events related to this testing period, the Company may be required to recognize an impairment loss related to the goodwill recorded in connection with its acquisition of Enhanced (approximately $4.1 million at September 30, 1996).

The Company has chosen the disclosure method of accounting under SFAS No. 123, Accounting for Stock Based Compensation. This standard will require the Company to make additional pro forma disclosures in its annual report for fiscal 1996.

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

Basis of Presentation

In July 1995, the Company acquired the operating assets of ARSI and in October 1995 the Company acquired Enhanced. The operating results for the three month and nine month periods ended September 30, 1996 include the operations of the acquired companies for the full periods. The operating results for the three month period ended September 30, 1995 includes the operations of ARSI for the full three month period, but does not include any operating results of Enhanced. The operating results for the nine month period ended September 30, 1995 includes the operating results of ARSI for three months, but does not include any operating results of Enhanced.

Results of Operations

Three Months Ended September 30, 1996 and 1995

The following table summarizes the operating results of the Company as a percentage of revenue for the periods indicated.

	Three Months Ended September 30	
	1996	1995
Revenue	100%	100%
Cost of goods sold	67%	69%
Gross margin	33%	31%
Operating expenses:		
Engineering and product development	5%	4%
Selling, general and administrative	25%	21%
Operating income	3%	6%

Interest expense	2%	3%
	---	---
Pre-tax income	1%	3%
Income taxes	1%	1%
	---	---
Net income	0%	2%
	===	===

Revenue

Revenue was approximately $11.7 million in the third quarter of 1996, an increase of $1.4 million, or 13.6%, over the third quarter of 1995. Approximately $475,000 of the increased revenue can be attributed to the acquisition of Enhanced.

Gross Margin

Gross margins increased to approximately 33.2% of revenue in the third quarter of 1996 as compared with 31% in the third quarter of 1995. The increased gross margin percentage reflects improvements resulting from the acquisition of Enhanced. The acquisition of Enhanced internalizes margins previously paid to Enhanced as a separate company for products purchased and sold by VCS. In addition, given the nature of the products sold by Enhanced, the gross margins earned by Enhanced on sales of its products to third parties have traditionally been significantly higher than those earned on sales by VCS.

Engineering and Product Development

Expenditures related to engineering and product development during the third quarter of 1996 increased approximately $131,000 over the third quarter of 1995, primarily as a result of the acquisition of Enhanced and increased efforts at VCS related to its new wireless key system and digital product lines.

Selling, General and Administrative

Selling, general and administrative expenses were approximately $2.9 million for the third quarter of 1996, an increase of approximately $800,000, or 37.9%, over the third quarter of 1995. The increase can be attributed primarily to the acquisition of Enhanced. Included in this increase is approximately $116,000 of additional goodwill amortization related to this acquisition.

Interest Expense

Interest expense was approximately $213,000 in the third quarter of 1996, a decrease of $91,000, or 29.9%, over the third quarter of 1995. The decrease is attributable to a decrease in borrowings as a result of reduced inventories.

Income Taxes

The provision for income taxes in the third quarter of 1996 reflects the impact of certain non-deductible expenses (primarily goodwill related to the Enhanced acquisition) which did not impact the third quarter of 1995. Such non-deductible expenses will be approximately $125,000 per quarter.

Nine Months Ended September 30, 1996 and 1995

The following table summarizes the operating results of the Company as a percentage of sales for the periods indicated.

	Nine Months Ended September 30 1996	1995
Revenue	100%	100%
Cost of goods sold	67%	70%
Gross margin	33%	30%
Operating Expenses:		
Engineering and product development	5%	4%
Selling, general and administrative	25%	19%
Operating income	3%	7%
Interest expense	2%	3%
Pre-tax income	1%	4%
Income taxes	1%	2%
Net income	0%	2%

Revenue

Revenue was approximately $34.0 million for the first nine months of 1996, an increase of $2.8 million, or 8.8%, over the first nine months of 1995. Approximately $1.7 million of the increased revenue can be attributed to the acquisitions of ARSI and Enhanced.

Gross Margin

Gross margins increased to approximately 33.3% of revenue for the first nine months of 1996 as compared with 30.2% in the first nine months of 1995. The increased gross margin percentage reflects improvements resulting from the acquisitions of ARSI and Enhanced. The acquisition of ARSI has internalized amounts previously paid to third parties for the costs associated with repairing equipment sold by the Company and the acquisition of Enhanced internalizes margins previously paid to Enhanced as a separate company for products purchased and sold by VCS. In addition, given the nature of the products sold by Enhanced, the gross margins earned by Enhanced on sales of its products to third parties have traditionally been significantly higher than those earned on sales by VCS.

Engineering and Product Development

Expenditures related to engineering and product development during the first nine months of 1996 increased approximately $328,000 over the first nine months of 1995, primarily as a result of the acquisition of Enhanced.

Selling, General and Administrative

Selling, general and administrative expenses were approximately $8.6 million for the first nine months of 1996, an increase of approximately $2.6 million, or 44% over the first nine months of 1995. The increase can be attributed primarily to the acquisitions of ARSI and Enhanced. Included in this increase is approximately $375,000 of additional goodwill amortization related to these acquisitions.

Interest Expense

Interest expense was approximately $655,000 in the first nine months of 1996, a decrease of $168,000, or 20%, over the first nine months of 1995. The decrease is attributable to a decrease in borrowings as a result of reduced inventories.

Income Taxes

The provision for income taxes in the first nine months of 1996 reflects the impact of certain non-deductible expenses (primarily goodwill related to the Enhanced acquisition) which did not impact the first nine months of 1995. Such non-deductible expenses will be approximately $125,000 per quarter.

Liquidity and Capital Resources

The Company, through its wholly owned subsidiary, VCS, acquired the operating assets of the Vodavi Division in April 1994 for approximately $12.0 million. The Company financed the acquisition with (i) $7.8 million in cash provided through borrowings under a revolving credit facility; (ii) $3.0 million of proceeds from the sale of common stock; and (iii) a promissory note to the seller in the amount of $1.2 million, which was repaid in full in September 1995.

In connection with the acquisition of the Vodavi Division, General Electric Capital Corporation (GE Capital) provided debt financing in the form of a $12.0 million revolving line of credit. The line of credit extends through April 1997 and bears interest, payable monthly, at 4.5% over the 30-day commercial paper rate (9.9% at September 30, 1996). Advances under the line of credit are based upon the accounts receivable and inventories of VCS and are secured by substantially all of the assets and all of the capital stock of VCS. At September 30, 1996, the Company had outstanding borrowings of approximately $5.0 million under this facility and had approximately $3.2 million available for additional borrowing based on its existing collateral.

The revolving line of credit contains certain financial covenants and also prohibits VCS from paying dividends to the Company without the consent of GE Capital. At September 30, 1996, the Company was in violation of two financial covenants related to (i) net worth (by approximately $22,000), and (ii) rolling twelve months Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (by approximately $39,000). At October 31, 1996, the Company was in compliance with the covenant related to net worth, but remained in violation of the covenant related to rolling twelve months EBITDA. The Company expects that it will remain in violation of this covenant through the remainder of the loan term.

The Company has been working with GE Capital, as well as other lenders, to secure a new credit facility. The Company has received a commitment from a commercial lender, as well as renewal terms from GE Capital. The Company believes it will be able to either renew or replace its credit facility on terms no less favorable than those currently in place.

In April 1996, the Company entered into a leasing facility with a third-party lender for capital expenditures. The facility provides the Company with access to up to $400,000 at rates tied to Treasury notes (approximately 9.0% at September 30, 1996). As of September 30, 1996, the Company has financed approximately $200,000 of capital assets under this facility and has commitments outstanding for the remaining balance. In October 1996, the Company entered into a second leasing facility with this lender, which will provide an additional $400,000.

In June 1995, the Company acquired from an affiliate of LG Electronics, Inc. (LGE), a major stockholder of the Company, certain of the assets and liabilities of a telecommunications equipment repair business located in Scottsdale, Arizona. The purchase price was $250,000. The terms of the acquisition were determined by negotiations between representatives of the Company and representatives of LGE and its affiliates. The Company utilized a portion of the proceeds from its initial public offering to fund the acquisition.

On October 6, 1995, the Company sold 1,488,083 shares of its common stock in an initial public offering at $6.00 per share. The offering provided the Company with approximately $7.8 million in net proceeds after deducting the underwriter's discounts and other offering expenses. The proceeds were utilized (i) to provide the $3.0 million cash portion of the purchase price to complete the acquisition of Enhanced; (ii) to retire outstanding indebtedness of approximately $3.1 million to LGE incurred in connection with inventory purchases and the acquisition of the Company's telecommunications equipment repair facility; and (iii) to reduce, by approximately $1.3 million, its borrowings on its revolving credit facility.

In October 1995, Enhanced merged with a wholly owned subsidiary of the Company in exchange for 666,662 shares of the Company's Common Stock and cash in the amount of $3.0 million. The Company will issue to the former stockholders of Enhanced up to an additional 250,000 shares of Common Stock in the event that Enhanced meets certain sales criteria during the period beginning April 1, 1995 and ending April 12, 1997 As of September 30, 1996, the Company believes it is unlikely that such sales targets will be met.

The Company believes that its working capital and credit facilities will be sufficient to finance its internal growth for the foreseeable future. The Company also intends to continue to explore acquisition opportunities as they arise and may be required to seek additional financing in the future to meet such opportunities.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On March 11, 1996, Syntellect Technology Corp. ("Syntellect") filed suit against the Company, Enhanced, and Sharon Dominguez d/b/a Crosstalk Communications, alleging infringement of six United States patents held by Syntellect. Syntellect is suing for an unspecified amount of damages and injunctive relief. The Company has conducted a preliminary investigation of the claimed infringements and has filed an answer to the complaint. The Company and Syntellect have initiated settlement discussions.

On September 20, 1996, the Company and Enhanced filed a lawsuit in the United

States District Court for the District of Arizona (No. CIV 96-2184 PHX SMM) against Michael Mittel and Fereydoun Taslimi, former officers and directors of Enhanced. The lawsuit alleges, among other things, that Messrs. Mittel and Taslimi violated federal and Arizona securities laws and engaged in fraudulent activities in connection with the Company's acquisition of Enhanced in 1995; breached certain terms of their respective employment contracts with Enhanced; and converted certain corporate assets of Enhanced, breached their fiduciary duties to Enhanced, and misappropriated certain corporate opportunities for their own benefit. The Company and Enhanced are seeking compensatory and punitive damages against Messrs. Mittel and Taslimi.

On September 23, 1996, Messrs. Mittel and Taslimi filed a lawsuit in the United States District Court for the Northern District of Georgia, Atlanta Division (No. 196-CV-2453), against the Company and Enhanced. The lawsuit alleges that Enhanced breached Messrs. Mittel's and Taslimi's respective employment agreements by terminating their employment. The Company intends to proceed with its lawsuit against Messrs. Mittel and Taslimi and to vigorously defend the lawsuit filed by them against the Company and Enhanced.

Item 2. CHANGES IN SECURITIES

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

10.22 Equipment Schedule No. 2 dated October 7, 1996, to Master Lease Agreement between Matrix Funding Corporation and Vodavi Communications Systems, Inc.

27.1 Financial Data Schedule.

b) Reports on Form 8-K

Not applicable.

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.

Vodavi Technology, Inc.

Dated:	November 13, 1996	/s/ Glenn R. Fitchet -- Glenn R. Fitchet President and Chief Executive Officer (Principal Executive Officer)
Dated:	November 13, 1996	/s/ Gregory K. Roeper -- Gregory K. Roeper Vice President Finance and Chief Financial Officer (Principal Financial and Accounting Officer)

EQUIPMENT SCHEDULE

MATRIX FUNDING CORPORATION
6925 Union Park Center, Suite 250
Midvale, Utah 84047

LEASE NO. R0551

EQUIPMENT SCHEDULE NO. 2

SCHEDULE DATE: October 7, 1996

To Master Lease Agreement dated May 13, 1996 between MATRIX FUNDING CORPORATION, as Lessor and VODAVI COMMUNICATIONS SYSTEMS, INC., as Lessee. This Equipment Schedule incorporates by reference the terms and conditions of the Master Lease and constitutes a separate lease between Lessor and Lessee.

1. Equipment: Computer equipment to be more fully described on an attached Schedule A, together with all other equipment and property hereafter purchased by Matrix Funding Corporation pursuant to that Master Progress Funding Agreement dated May 13, 1996, between Matrix Funding Corporation and Vodavi Communications Systems, Inc. (including without limitation, all authorizations signed in connection with said Master Progress Funding Agreement), and any and all additions, enhancements and replacements thereto.

   The equipment and property subject to this Equipment Schedule shall be more fully and completely described in an Acceptance Certificate which shall later be executed by Lessee in connection with this Equipment Schedule. Upon Lessee's execution thereof, this Equipment Schedule shall be automatically amended to include herein as property leased hereunder all equipment and property described in said Acceptance Certificate.

2. Equipment Location: 8300 E. Raintree Drive, Scottsdale, AZ 85260

3. Acceptance Date: As specified in the Acceptance Certificate

4. Initial Period: 24 months from Commencement Date

5. Monthly Rental: $18,158.76 (plus applicable sales tax)

6. Deposit: $3,340.49 applied to the last Monthly Rental (plus applicable sales tax)

7. Total Cost not to Exceed: $400,000.00

8. Floating Lease Rate Factor: The Lease Rate Factor of .0453969 shall

increase .0003990 for every five (05) basis point increase in thirty-six (36) month U.S. Treasury Notes, until all items of equipment have installed, at which point the Acceptance Date of the lease shall have occurred. The thirty-six (36) month U.S. Treasury Note yield used as the basis for the derivation of the Lease Rate Factor contained herein is 5.05%.

9. For this Equipment Schedule No. 1, the fourth and fifth lines of Section 19(k) of the Master Lease will be amended by deleting the phrase "a mutually agreeable price" and substituting in place thereof "$1.00".

10. Representation of Lessee: Lessor and Lessee agree that this Equipment Schedule constitutes a "finance lease" under the Utah Uniform Commercial Code - Leases, in that (a) Lessee has selected the Equipment in its sole discretion, (b) Lessor has acquired the Equipment solely for purposes of leasing such Equipment under this Equipment Schedule, or (c) Lessee has received a copy of the contract evidencing Lessor's purchase of the Equipment.

LESSOR:	LESSEE:
MATRIX FUNDING CORPORATION	VODAVI COMMUNICATIONS SYSTEMS, INC.
BY: ________________________________	BY: ________________________________
TITLE: _____________________________	TITLE: _____________________________

ACCEPTANCE CERTIFICATE

TO

EQUIPMENT SCHEDULE NO. 2

TO

Master Lease Agreement No. RO551 dated May 13, 1996, (the "Lease") between MATRIX FUNDING CORPORATION, (the "Lessor"), and VODAVI COMMUNICATIONS SYSTEMS, INC., (the "Lessee").

1. Condition of the Equipment:

The Lessee certifies that all items of Equipment described in Paragraph 4 have been delivered to the location indicated in Paragraph 2, and are hereby accepted as items of Equipment under the Lease, all on the date indicated in Paragraph 3.

2. Location of Equipment: 8300 E. Raintree Drive, Scottsdale, AZ 85260

3. Acceptance Date: ____

4. Description of Equipment: Computer as more fully described on an attached Schedule A.

LESSEE:

VODAVI COMMUNICATIONS SYSTEMS, INC.

BY: _____________________________________

TITLE: __________________________________

SCHEDULE A

Equipment as more fully described on an attached Schedule, which by reference to becomes a part hereof, together with all other equipment and property hereafter purchased by Matrix Funding Corporation pursuant to that Master Progress Funding Agreement dated May 13, 1996, between Matrix Funding Corporation and Vodavi Communications Systems, Inc. (including without limitation, all authorizations signed in connection with said Master Progress Funding Agreement), and any and all additions, enhancements and replacements thereto and all proceeds thereform.

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<LEGEND>	This Exhibit contains summary financial information extracted from the Registrant's unaudited consolidated financial statements for the period ended September 30, 1996 and is qualified in its entirety by reference to such financial statements. This Exhibit shall not be deemed filed for purposes of Section 11 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of such Sections, nor shall it be deemed a part of any other filing which incorporates this report by reference, unless such other filing expressly incorporates this Exhibit by reference.
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