ULTRADATA SYSTEMS INC
Form 10QSB
November 12, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(MARK ONE)
(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 - FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

( ) TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______________TO_______________

COMMISSION FILE NUMBER 0-25380

ULTRADATA SYSTEMS, INCORPORATED
(Exact name of small business issuer as specified in its charter)

Delaware	43-1401158
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1240 Dielman Industrial Court, St. Louis, MO	63132
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: (314) 997-2250

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act during the past 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 [ ]

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date.

Class	Outstanding as of November 3, 2004
Common, $.01 par value	6,410,187

Transitional Small Business Disclosure Format Yes [ ] No [X]

File Number
0-25380

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PART I - FINANCIAL INFORMATION PAGE

ULTRADATA SYSTEMS, INCORPORATED

Condensed Balance Sheets
As of September 30, 2004 and December 31, 2003

Assets	September 30, 2004 (Unaudited)	December 31, 2003
Current assets:		
Cash	$ 394,952	$ 2,926
Trade accounts receivable, net of allowance for doubtful accounts of $100 and $14,703, respectively	231,547	627,490
Inventories, net	101,887	55,594
Prepaid expenses	25,804	5,166
Total current assets	754,190	691,176
Property and equipment, net	23,384	25,958
Other assets	5,444	5,444
Total assets	$ 783,018	$ 722,578

Liabilities and Stockholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable	$ 33,259	$ 460,701
Accrued liabilities	62,168	90,792

Notes payable - current	-	173,802
Total current liabilities	95,427	725,295
Stockholders' equity (deficiency)		
Preferred Stock, $0.01 par value, 4,996,680 shares authorized, none outstanding	-	-
Series A convertible preferred stock, 3,320 shares authorized with a stated value of $1,000, none and 16 shares outstanding	-	-
Common stock, $.01 par value; 10,000,000 shares authorized; 6,410,187 shares issued and outstanding September 30,2004; 5,783,840 shares issued and outstanding December 31, 2003	64,102	57,838
Additional paid-in capital	9,121,022	8,916,685
Accumulated deficit	(8,338,088)	(8,977,240)
Less: deferred consulting services	(159,445)	-
Total stockholders' equity (deficiency)	687,591	(2,717)
Total liabilities and stockholders' equity (deficiency)	$ 783,018	$ 722,578

See accompanying summary of accounting policies and notes to financial statements.

ULTRADATA SYSTEMS, INCORPORATED

Condensed Statements of Operations
For the three and nine months ended September 30, 2004 and 2003 (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Net sales	$ 101,205	$ 314,763	$3,309,260	$1,112,576
Cost of sales	51,588	193,499	1,703,108	576,705
Gross profit	49,617	121,264	1,606,152	535,871
Selling expense	26,318	48,557	183,183	100,584
General and administrative expenses	210,283	186,235	687,672	665,784
Research and development expense	35,957	6,561	90,941	42,066
Total operating expenses	272,558	241,353	961,796	808,434
Operating (loss) profit	(222,941)	(120,089)	644,356	(272,563)

Other income (expense):				
Interest and dividend income	852	39	1,190	6,390
Interest expense	(697)	(28,048)	(6,408)	(138,085)
Loss on early retirement of note receivable	-	-	-	(57,813)
Settlement of legal dispute	-	127,012	-	127,012
Other, net	(168)	25	16	6,382
Total other (expense) income, net	(13)	99,028	(5,202)	(56,114)
(Loss) income before income taxes	(222,954)	(21,061)	639,154	(328,677)
Income tax	-	-	-	-
Net (loss) income	(222,954)	(21,061)	639,154	(328,677)
Less preferred stock dividends	-	(8,790)	-	(8,790)
Net (loss) income available to common shareholders	$ (222,954)	$ (29,851)	$ 639,154	$ (337,467)
(Loss) income per share - basic	$ (0.04)	$ (0.01)	$ 0.10	$ (0.07)
(Loss) income per share - fully diluted	$ (0.04)	$ (0.01)	$ 0.10	$ (0.07)
Weighted Average Shares Outstanding - Basic	6,257,480	4,865,974	6,152,552	4,665,004
Weighted Average Shares Outstanding - Fully diluted	6,257,480	4,865,974	6,416,115	4,665,004

See accompanying summary of accounting policies and notes to financial statements.

ULTRADATA SYSTEMS, INCORPORATED

Condensed Statements of Cash Flows
Nine months ended September 30, 2004 and 2003 (unaudited)

	2004	2003
	(unaudited)	
Cash flows from operating activities:		

Net earnings (loss)	$ 639,152	$ (328,677)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	10,780	25,272
Provision for doubtful accounts	283	225
Inventory reserved for obsolescence	-	17,018
Stock issued for services	14,495	4,500
Loss on early settlement of notes receivable	-	57,813
Non-cash accrued interest receivable	-	(12,397)
Increase (decrease) in cash due to changes in operating assets and liabilities:		
Trade accounts receivable	395,660	9,452
Inventories	(46,292)	(74,135)
Prepaid expenses and other current assets	(20,638)	(8,945)
Accounts payable	(427,443)	(57,621)
Accrued expenses	(28,624)	(39,472)
Net cash provided by (used in) operating activities	537,373	(406,967)
Cash flows from investing activities:		
Proceeds from early settlement of notes receivable	-	202,517
Capital expenditures	(8,206)	(10,150)
Net cash (used in) provided by investing activities	(8,206)	192,367
Cash flows from financing activities:		
Proceeds from stock issued for cash and options exercised	9,061	91,910
Proceeds from notes payable issued	165,000	91,600
Preferred dividends paid	-	(8,790)
Subscription payments	-	83,810
Principal payments on notes payable	(311,202)	(58,477)
Net cash (used in) provided by financing activities	(137,141)	200,053
Net increase (decrease) in cash	392,026	(14,547)
Cash at beginning of period	2,926	37,842
Cash at end of period	$ 394,952	$ 23,295

Non-Cash Activities:

During the nine months ended September 30, 2004, the Company issued 223,000 shares of common stock valued at $173,940 to satisfy terms of a management consulting contract.

During the nine months ended September 30, 2003, the Company issued 683,076 shares of common stock to satisfy convertible debt aggregating to $90,000.

During the nine months ended September 30, 2004, the Company issued 273,906 shares of common stock for a note payable of $27,600.

See accompanying summary of accounting policies and notes to condensed financial statements.

ULTRADATA SYSTEMS, INCORPORATED
Notes to Condensed Financial Statements
September 30, 2004 (Unaudited)

Basis of Presentation

The accompanying interim condensed financial statements included herein have been prepared by Ultradata Systems, Incorporated (the "Company"), without audit in accordance with generally accepted accounting principles and pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading.

In the opinion of management, the information furnished for the three-month and nine-month periods ended September 30, 2004 and 2003, respectively, includes all adjustments, consisting solely of normal recurring accruals necessary for a fair presentation of the financial results for the respective interim periods and is not necessarily indicative of the results of operations to be expected for the entire fiscal year ending December 31, 2004. It is suggested that the interim financial statements be read in conjunction with the audited financial statements for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on Form 10-KSB (Commission File Number 0-25380), from which these statements were derived.

Use of Estimates

The financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and adjustments by management, with consideration given to materiality. Actual results could vary from those estimates.

Note 1. Inventories

	September 30, 2004	December 31, 2003
Raw Materials, net of obsolete	$ 50,193	$ 3,738
Finished Goods, net of obsolete	51,694	51,856
Total	$ 101,887	$ 55,594
Obsolete inventory on hand	$ 749,866	$ 816,150

Note 2. Prepaid Expenses

Prepaid expenses consist of the following:

	September 30, 2004	December 31, 2003
Prepaid insurance	$ 12,529	$ 5,166
Prepaid advertising	13,275	-
	$ 25,804	$ 5,166

Note 3. Convertible Notes Payable

At December 31, 2003 the Company had outstanding convertible debt in the principal amount of $173,802. A portion of the notes payable in the amount of $27,600 was converted to 273,906 shares of common stock during the first week of January 2004. Subsequently, during the quarter ending March 31, 2004, the convertible debt was retired by payment in full of the outstanding balance of $146,202 plus all accrued interest.

Note 4. Income (Loss) Per Share

	For the three months ended September 30, 2004	For the three months ended September 30, 2003	For the nine months ended September 30, 2004	For the nine months ended September 30, 2003
Basic				
Numerator:				
Net income (loss)	$ (222,954)	$ (29,851)	$ 639,154	$(337,467)
Numerator for basic income (loss) per share	$ (222,954)	$ (29,851)	$ 639,154	$(337,467)
Denominator:				
Weighted average common shares	6,257,480	4,865,974	6,152,552	4,665,004
Denominator for basic income (loss) per share	6,257,480	4,865,974	6,152,552	4,665,004
Basic income (loss) per share	$ (0.04)	$ (0.01)	$ 0.10	$ (0.07)
Fully Diluted				
Numerator:				
Net income (loss)	$ (222,954)	$ (29,851)	$ 639,154	$(337,467)
Numerator for fully diluted income (loss) per share	$ (222,954)	$ (29,851)	$ 639,154	$(337,467)
Denominator:				
Weighted average common shares	6,257,480	4,865,974	6,152,552	4,665,004
Common stock equivalents	-	-	263,563	-

Denominator for fully diluted income (loss) per share	6,524,172	4,865,974	6,416,115	4,665,004
Fully diluted income (loss) per share	$ (0.04)	$ (0.01)	$ 0.10	$ (0.07)

Note 5. Notes Payable

During 2004, the Company sold a nine-month note payable in the amount of $150,000 to a shareholder of the Company. The note earned interest at 12% APR and was unsecured. The unpaid balance at March 31, 2004, was $100,000. During April 2004, the Company paid off the remainder of the note payable.

Note 6. Loans Payable - Related Parties

During 2004, the Company received a loan of $15,000 from its Chief Executive Officer to fund operations. The outstanding balance of the loan was paid in full as of March 31, 2004.

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Note 7. Common Stock

A. Employee Stock Options

During the nine-month period ended September 30, 2004, employees exercised stock options to purchase 100,441 shares of common stock for $7,031.

B. Director Stock Options

During the nine-month period ended September 30, 2004, directors exercised stock options to purchase 29,000 shares of common stock for $2,030.

C. Stock Granted For Consulting Services

During the nine months ended September 30, 2004, the Company issued 223,000 shares of common stock valued at $173,940 to satisfy terms of a management-consulting contract. The contract is for a period of twelve months. Therefore, in the quarter ended September 30, 2004, the Company recorded an expense of $14,495. The remaining value of the shares is recorded as an offset to stockholders' equity, which will be amortized over the life of the contract.

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Note 8. AAA Agreements

In January 2004, the Company reached an agreement with AAA National to terminate the existing agreement for private branding of the AAA Talking Road NavigatorTM as of March 27, 2004. This termination occurred at the request of AAA National for internal business reasons and not for cause or non-performance by the Company, in accordance with the terms for cancellation of the agreement by either party.

In May 2004, AAA notified the Company that it does not intend to renew the marketing agreement on the AAA TripWizard. The Company, per terms of the agreement, can continue to market the product and divest itself of its inventory well into 2005.

Note 9. Sales Concentrations

For the nine-month period ended September 30, 2004, the Company had a concentration of sales with two customers of 68.2% and 17.5%, respectively.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

YOU SHOULD NOT RELY ON FORWARD LOOKING STATEMENTS

This quarterly report contains a number of forward-looking statements regarding our future prospects. Among the forward-looking statements are descriptions of our plans to introduce new products to the market, to expand our customer base, to develop products based on a GPS/Internet technology, and to continue the Company's profitability. These forward-looking statements are a true statement of our present intentions, but are neither predictions of the future nor assurances that any of our intentions will be fulfilled. Many factors beyond our control could act against Ultradata in its efforts to develop andmarket its products. Among these factors are:

* The fact that our financial resources are limited and will likely not sustain us for more than one year without continued success of the Road WhizTM product line;

* The fact that our lack of capital severely limits our ability to market our products. As a result, the loss of a significant customer could imperil the marketing of an entire product line;

* The difficulty of attracting mass-market retailers to a seasonal product like the Talking Road Whiz(tm).

There may also be factors that we have not foreseen which could interfere with our plans. In addition, changing circumstances may cause us to determine that a change in plans will be in the best interests of Ultradata. For the reasons given, there is a significant risk that we will not be able to fulfill our expectations for Ultradata.

OVERVIEW

The Company mission is to aid the road traveler with useful information with products easy to use and affordable in price. Since 1987 we have been engaged in the business of manufacturing and marketing handheld computers t hat provide travel information. The products are based upon a data compression technology that we developed, portions of which we have patented. Recent developments in communications and speech technology have opened up new opportunities for us to integrate our technology and create new products merging these technologies with our own. The Company is completing development of several new products which are based on adding significant features to the successful Talking Road Navigator such as a Spanish-speaking unit and a voice-recognition unit which allows for hands-free operation. These new products are consistent with our goal of improved ease of use by the consumer. We completed development of the Spanish- speaking unit in the third quarter, and it should be available for sale by the end of the year.

The voice-recognition unit should be available for sale in early 2005. The voice recognition product is called the Road Genie Audio Navigation System and represents a quantum jump in user convenience. We believe this product will achieve significant success in 2005.

The Company has sold over 3 million of its low-cost handheld travel computers, demonstrating that there is a market for travel information products. To re-awaken that market with an improved product that speaks, the Company has developed a Talking Road WhizTM. Significant deliveries of this product began in September of 2003 and, the Company received significant revenue in the last four months of 2003 from sales of this new addition to its product line. Company earnings in the fourth quarter of 2003 were sufficient to offset losses in the first three quarters of 2003. This success continued in the first two quarters of 2004, which have traditionally been weak quarters for Ultradata. At the present time, our backlog of orders is not significantly greater than it was at the same time in 2003. However, because we have already exceeded last year's sales, we expect results for all of 2004 to be a significant improvement on 2003.

Each of our consumer products is designed to allow the consumer to access useful information stored in a convenient manner. Our handheld computers generally sell at retail prices between $19.95 and $49.95 per unit. The products have been available in retail mass-market chains, catalogs, credit card inserts and many other channels.

The goals of the Company's research and development investments are targeted at attaining the right product at the right price. There are over 125 million drivers in the U. S., and there is a great demand for useful, easy-to-access information for convenience and safety on the road. Low-cost products that achieve these benefits have a significant niche in the marketplace. Thus far, Management feels the Company has barely penetrated this huge, largely untapped market. The Company expects to continue to exploit this niche over the next few years by bringing the results of merged technologies to bear on the goals stated above with significant impact on Company sales and profits. Ease of use and low cost are major considerations. With the new voice-recognition unit, we believe we are close to tapping this large market.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2004 Compared to Three and Nine Months Ended September 30, 2003

Cumulative operating results through the third quarter of 2004 were significantly improved when compared to the same period of 2003. Operating results for the third quarter of 2004 were significantly less when compared to the third quarter of 2003 after three consecutive strong quarters. Much of the reduction in sales for the quarter came about due to our major distributor entering a period of uncertainty with new ownership. In addition, their internal difficulties prevented aggressive marketing of our products and they actually eliminated certain sales channels. It is taking time for the Company to adequately replace this distributor; it has had serious effect on the second half of 2004. Management sees this setback as temporary and feels it should have little effect on 2005 results.

Sales. During the three and nine months ended September 30, 2004, net sales totaled $101,205 and $3,309,260, respectively, compared with $314,763 and $1,112,576, respectively for the same periods in 2003. These figures represent a decrease of 67.9% for the quarter and an increase of 197% for the nine-month period.

Backlog. As of September 30,2003, the backlog for delivery in the fourth quarter 2004 was $558,722, as compared with $692,730 as of September 30, 2003.

Gross Profit. Gross profit for the three- and nine-month periods ending September 30, 2004 were 49.0% and 48.5%, respectively comparing favorably to 38.5% and 48.2%, respectively, for the corresponding periods in 2003.

SG&A Expense. Selling expenses for the three- and nine-month periods ended September 30, 2004 were $26,318 and $183,183, respectively, compared with $48,557 and $100,584, respectively, for the corresponding periods in 2003. As a percent of sales, selling expenses for the periods in 2004 were 26.0% and 5.5%, respectively as compared to 15.4% and 9.0% for the same periods in 2003. The primary reason for the increase in the quarter is the fact that costs associated with producing advertisements for sale of products in the fourth quarter and beyond were incurred in the third quarter 2004. General and administrative expenses for the three- and nine-month periods ended September 30, 2004 were $210,283 and $687,672, respectively, compared with $186,235 and $665,784, respectively, for the corresponding periods in 2003. These figures represent increases of 12.9% and 3.3%, respectively, for the three- and nine-month periods in 2004 versus 2003. The quarter-to-quarter increase is due to a one-time accounting adjustment in 2003 because of outside contract work performed by the Company in 2003. The small increase for the nine-month period reflects our continuing efforts to keep these costs under control.

R&D Expense. Research and development expenses in the three-month period ended September 30,2004 amounted to $35,957 as compared to $6,561 for the same period in 2003. For the nine-month period, they were $90,941 as compared to $42,066 in the same period in 2003. The quarter increase is the result of adding to our R&D staff in May of 2004, coupled with the fact that during the third quarter of 2003 our R&D personnel were fully engaged in a consulting project that did not result in Company R&D expenses. The development of Talking Road Navigator had been completed and submitted for production. The increase for the nine-month period is the result of the same events and the concentration of efforts in 2004 for the development of new products.

The Company posted a net loss from operations of ($222,941) for the three-month period ended September 30, 2004, compared to a net loss from operations of ($120,089) for the corresponding period in 2003. For the nine-month period, the Company posted an operating profit of $644,356 compared to an operating loss of ($272,563) for the same period in 2003. The loss for the quarter is due to a lull of orders in the quarter, and the profit for the nine-month period is due to the strong first half of the year and sales of the Talking Road Navigator.

Other Income. Other income (expense) for the three- and nine-month periods ended September 30, 2004 totaled ($13) and ($5,202), respectively, compared with $99,028 and ($56,114), respectively, for the corresponding periods of 2003. In the third quarter of 2003, the Company received a one-time settlement for a legal dispute that offset the interest expenses that dominated this category in 2003.

As a result of the foregoing, the Company realized a net loss of

($222,954), or $0.04 per basic and diluted common share, for the three-month period ended September 30, 2003, compared to a net loss to common shareholders of ($29,851), or ($0.01) per basic and diluted common share, for the three-month period ended June 30, 2003. The Company realized a net income of $639,154, or $0.10 per basic and diluted common share, for the nine-month period ended September 30, 2004, compared to a net loss to common shareholders of ($337,467), or ($0.07) per basic and diluted common share, for the nine-month period ended September 30, 2003.

FINANCIAL CONDITION AND LIQUIDITY

At September 30, 2004, the Company had $394,952 in cash, compared to $2,926 at December 31, 2003. The Company's operating activities in the nine months ended September 30, 2003, provided cash totaling $537,373. In addition to earnings of $639,152, receipts of accounts receivable produced cash of $395,660, offset by paying down $427,443 of accounts payable.

Net cash used in investing activities included $8,026 for capital expenditures.

Net cash used in financing activities for the nine-month period ended September 30, 2004, included $311,202 to pay down all outstanding debt, including $165,000 borrowed in the first quarter of 2004, compared with $200,053 provided in the same period of 2003.

The Company's current ratio at September 30, 2004 was 7.9:1 and its working capital was $658,763. The Company has no material capital commitments at this time. Therefore, if sales revenue is sufficient to offset our fixed operating costs, our working capital will be adequate to support our operations for the forseeable future.

Item 3. Controls and Procedures

Monte Ross, our Chief Executive Officer, and Ernest Clarke, our Chief Financial Officer, performed an evaluation of the Company's disclosure controls and procedures as of September 30, 2004. Based on their evaluation, they concluded that the controls and procedures in place are sufficient to assure that material information concerning the Company which could affect the disclosures in the Company's quarterly and annual reports is made known to them by the other officers and employees of the Company, and that the communications occur with promptness sufficient to assure the inclusion of the information in the then-current report.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date on which Messrs. Ross and Clarke performed their evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings:

None

Item 2. Changes in Securities and Use of Proceeds:

None

Item 3. Defaults upon Senior Securities:

None

Item 4. Submission of Matters to a Vote of Security Holders:

None

Item 5. Other Information:

None

Item 6. Exhibits and Reports on Form 8-K:

Exhibits:

31 Rule 13a-14(a) Certification
32 Rule 13a-14(b) Certification

Reports on Form 8-K:

None

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.

November 12, 2004

/s/ Monte Ross

Monte Ross, CEO
(Chief executive officer)

/s/ Ernest S. Clarke

Ernest S. Clarke, President
(Principal financial and accounting officer)