ULTRADATA SYSTEMS INC
Form 10QSB
July 27, 2001

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 MARCH 31, 2001

[ ] 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.)
9375 Dielman Industrial Drive, 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 July 19, 2001
Common, $.01 par value	3,249,533

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

ULTRADATA SYSTEMS, INCORPORATED
FORM 10-QSB
March 31, 2001
INDEX File No. 0-25380

ULTRADATA SYSTEMS, INCORPORATED
Balance Sheets
As of March 31, 2001 and December 31, 2000

	March 31, 2001 (Unaudited)	December 31, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 1,334,397	$ 1,842,983
Restricted cash	767,813	767,724
Trade accounts receivable, net of allowance for doubtful accounts of $117,556	189,570	673,475
Inventories	2,081,299	1,780,255
Prepaid expenses and other current assets	241,693	229,637
Total current assets	4,614,772	5,294,074
Property and equipment, net	602,733	617,794
Total property and equipment	602,733	617,794
Deferred compensation trust investments, available for sale	68,842	84,605
Investment in Talon Research and Development, Ltd.	796,520	825,757
Advances to affiliates	150,000	150,000
Advertising credits	62,421	62,421
Other assets	9,444	8,594
Total assets	$ 6,304,732	$ 7,043,245
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	116,041	164,319
Accrued expenses and other liabilities	151,480	218,996
Total current liabilities	267,521	383,315
Deferred rent	4,354	6,220

Deferred compensation liability	71,656	87,329
Total liabilities	343,531	476,864
Stockholders' equity (Notes 3 and 7):		
Preferred Stock, $0.01 par value, 4,996,680 shares authorized, none outstanding	-	-
Series A convertible preferred stock, 3,320 shares authorized, 1,606 shares outstanding with a stated value of $1,000	1,606,000	1,616,000
Common stock, $.01 par value; 10,000,000 shares authorized; 3,535,646 shares issued and outstanding March 31,2001; 3,519,586 shares issued and outstanding December 31, 2000	35,356	35,196
Additional paid-in capital	9,874,354	9,861,970
Accumulated deficit	(4,250,794)	(3,737,190)
Treasury stock (326,171 shares at cost)	(942,311)	(942,311)
Notes receivable issued for purchase of common stock	(208,157)	(205,819)
Accumulated other comprehensive (loss) income, net	(153,247)	(61,465)
Total stockholders' equity	5,961,201	6,566,381
Total liabilities and stockholders' equity	$ 6,304,732	$ 7,043,245

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

ULTRADATA SYSTEMS, INCORPORATED
Statements of Operations

	Three months ended March 31, 2001	2000
	(Unaudited)	
Net sales	$ 185,842	$ 281,405
Cost of sales	146,190	169,089
Gross profit	39,652	112,316
Selling expense	51,010	70,677
General and administrative expenses	454,067	449,818
Research and development expense	128,794	96,233
	633,871	616,728
Operating loss	(594,219)	(504,412)
Other income:		
Interest and dividend income	33,702	37,775
Equity in earnings (losses) of affiliates	46,767	(65,316)
Other, net	146	12,018
Total other income (loss)	80,615	(15,522)
Loss before income tax expense	(513,604)	(519,935)

Income tax expense	-	-
Net loss	$ (513,604)	$ (519,935)
Less preferred stock dividends	(45,450)	-
Net loss available to common shareholders	$ (559,054)	$ (519,935)
Loss per share:		
Basic and diluted	$ (0.18)	$ (0.17)
Weighted Average Shares Outstanding:		
Basic and diluted	3,193,772	3,105,235

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

ULTRADATA SYSTEMS, INCORPORATED

Statements of Cash Flows

	Three months ended March 31, 2001 (Unaudited)	2000
Cash flows from operating activities:		
Net loss	$ (513,604)	$ (519,935)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	49,979	58,980
Inventory reserve for obsolescence	-	30,000
Equity in (earnings) losses of unconsolidated affiliates	(46,767)	65,315
Realized loss (gain) on investments	-	(10,602)
Non-cash compensation expense	2,544	-
Increase (decrease) in cash due to changes in operating assets and liabilities:		
Trade accounts receivable, net	483,905	1,044,240
Inventories	(301,044)	(106,736)
Prepaid expenses and other current assets	(15,242)	(38,905)
Accounts payable	(48,278)	40,940
Accrued expenses and other liabilities	(67,516)	(153,494)
Deferred rent	(1,866)	(1,866)
Deferred compensation trust liability	(15,673)	11,858
Net cash (used in) provided by operating activities	(473,562)	419,795
Cash flows from investing activities:		
Deferred compensation trust investments	(16)	(8,634)
Advances to affiliated company	-	(4,669)
Capital expenditures	(34,919)	(46,644)

Net cash used in investing activities	(34,935)	(59,947)
Cash flows from financing activities:		
Exercise of employee stock options	-	314,625
Restricted cash	(89)	8,396
Net cash provided by (used in) financing activities	(89)	323,021
Net increase (decrease) in cash and cash equivalents	(508,586)	682,869
Cash and cash equivalents at beginning of period	1,842,983	1,220,134
Cash and cash equivalents at end of period	$1,334,397	$1,903,003

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

ULTRADATA SYSTEMS, INCORPORATED

March 31, 2001

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim 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. The Company's investment in Talon Research and Development, Ppty., Auckland, NZ Ltd. of 22.6% is accounted for using the equity method.

In the opinion of management, the information furnished for the three-month periods ended March 31, 2001 and 2000, 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, 2001. It is suggested that the interim financial statements be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2000, as filed with the Securities and Exchange Commission on Form 10-KSB (Commission File Number 0-25380).

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.

Reclassifications

Certain 2000 balances have been reclassified to conform to the 2001 presentation. In the fourth quarter 2000, the Company changed the way it accounts for certain sales incentives, in accordance with EITF Issue No. 00-25. Accordingly, the Company has restated the financial statements for the first quarter 2000 to reflect this change. The Company reduced sales and selling expense by $8,282.

Note 1. Nature of Operations

The principal business activity of Ultradata Systems, Incorporated (the Company), located in St. Louis, Missouri, is the design, manufacture, and sale of hand-held electronic information products.

Note 2. Inventories

Inventories consist of the following:

	March 31, 2001	December 31, 2000
Raw Materials	$1,409,010	$1,262,820
Work in Process	57,393	57,393
Finished Goods	1,174,622	1,020,803
	2,641,025	2,341,016
Reserve for obsolescence	(559,726)	(560,761)
	$2,081,299	$1,780,255

Note 3. Prepaid Expenses

Prepaid expenses consist of the following:

	March 31, 2001	December 31, 2000
Prepaid advertising	$ 189,344	$ 201,225
Prepaid insurance	23,806	5,461
Other prepaid expenses	28,543	22,951
	$ 241,693	$ 229,637

Note 4. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	March 31, 2001	December 31, 2000
Accrued vacation	$ 75,625	$ 82,990
Accrued sales commissions and royalties	-	14,758
Payroll and payroll-related liabilities	20,208	42,294
Accrued advertising	20,659	1,563
Other	34,988	77,391
	$ 151,480	$ 218,996

Note 5. Preferred Stock Conversion

During March 2001, preferred shareholders have converted 10 shares of preferred stock into 16,060 shares of common stock.

Note 6. Subsequent Events

(A) Conversion of preferred stock

After March 31, 2001, preferred shareholders converted 18 additional preferred shared into 40,058 common shares.

(B) Factoring Agreement

On July 3, 2001, the Company entered into an accounts receivable factoring agreement for a maximum facility of $500,000. Under the agreement, the factor advances 80% of the face value of the receivables sold by the company. The company is charged a variable percentage fee based upon the length of the collection period. All of the Company's accounts receivable, contracts, inventories, and intangibles are pledged as collateral under this agreement.

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 restructure the marketing program for the Road Whiz(tm) line of products, to introduce Triplink(tm) and GPS products to the market, and to develop products based on a GPS/Internet technology. 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 to thwart Ultradata in its efforts to develop and market its products. Among these factors are:

* The difficulty of attracting mass-market retailers to a seasonal product like the Road Whiz(tm);
* The breadth and depth of competition in the GPS market, which will make introduction of our product with a limited marketing budget difficult;
* The difficulty of attracting qualified engineering and marketing personnel to our company.

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 this reason, you should not place undue reliance on any of the forward-looking statements in this report.

Readers are urged to carefully review and consider the various disclosures made by the Company in this report and in the Company's report Form 10-KSB filed with the Securities and Exchange Commission.

The analysis of the Company's financial condition, capital resources and operating results should be viewed in conjunction with the accompanying financial statements, including the notes thereto.

OVERVIEW

Since 1987 we have been engaged in the business of manufacturing and marketing handheld computers that 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 technology have opened up new opportunities for us to use our technology. Therefore, we still sell our handheld computers, but over the past three years we have been expanding the scope of our operations:

* In 1998 we acquired an interest in Talon Research & Development, Ltd., which manufactures GPS (global positioning satellite) antennas that can be combined with our database to create a variety of travel products. We currently own 22.6% of Talon.

* Early in 2001 we introduced, in joint venture with Rand McNally, the Rand McNally Triplink(tm), a handheld computer that enables the user to download travel information from the Rand McNally Website.

* During the first quarter of 2001 we shipped the first production units of our Travel*Star 24(tm), which combines our travel information with a GPS antenna to enable a driver to obtain his location and directions to his destination while he drives.

* We have begun development of an enhanced version of our GPS product that will include a cellular transceiver to permit the driver to use the product to access the Internet while traveling.

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 are in the three largest retail mass-market chains in the country plus many other locations. The new TRAVEL*STAR 24 is offered at retail for about $400, which should make it very competitive in the auto aftermarket.

Its portability and the fact that it requires no elaborate installation offer advantages over the more expensive in-car systems.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

Operating results for the first quarter of 2001 were not significantly different from the first quarter of 2000. Handheld travel computers, which were our only product offerings until this summer, continue to be promoted primarily as gift items. Sales are, therefore, heaviest in the 4th quarter holiday season, with some surges during the summer travel months and around Mother's Day and Father's Day. The first quarter is, therefore, generally a period of minimal sales, usually less than 5% of annual sales. We expect the seasonality of our sales to level out to some extent during the coming years due to expansion of our product line into GPS navigation systems and Internet appliances.

Sales. During the first three months of 2001, net sales totaled $185,842, 34% less than the $281,405 in sales recorded in the first quarter of 2000.

Gross Profit. Gross profit margin for the current quarter was only 14.1% of sales compared to 39.9% for the first quarter of 2000. Gross profit in early 2001 was low primarily due to higher cost of microchips remaining in inventory from the chip shortage in 2000. This problem will be reduced as we exhaust the higher-priced inventory because of the reduced price currently paid for microchips in 2001.

S,G&A Expense. Selling expenses dropped somewhat on a quarter-to-quarter basis, reflecting the relative efficiency of our focus on mass-market distribution channels. General and administrative expenses were virtually unchanged with respect to the first quarter of 2000.

R&D Expense. Research and development expense in the first quarter of 2001 increased 33.8% from the first quarter of 2000 due primarily to the fact that the capitalization of the TRAVEL*STAR 24(tm) software tools developed over the last 18 month has ended and the amortization of those costs has begun.

The Company posted a net loss from operations of ($594,219) for the quarter ended March 31, 2001 compared to a net loss from operations of ($504,412) for the quarter ended March 31, 2000.

Other Income. Other income for the first quarter of 2001 totaled $80,615 compared with a loss of ($15,222) for the same period in 2000. During the first quarter of 2000, we recorded a loss of $120,128 attributable to our investment in Influence Data, LLC. At the end of 2000, we wrote off all of the investment, since our joint-venture partner terminated its operational support of the venture. As a result, "Equity in earnings of affiliates" for the first quarter of 2001 represents only our interest in Talon Research and Development Ltd. Talon's contribution was $46,767, 14.7% less than for the first quarter of 2000.

As a result of the foregoing, the Company posted a net loss available to common shareholders of ($559,054), or ($0.18) per basic and diluted common share, for the three-month period ended March 31, 2001, compared to a net loss available to common shareholders of ($519,935), or ($0.17) per basic and diluted common share, for the three-month period ended March 31, 2000. The Company was required to record an imputed dividend of $45,450 during the three-month period ended March 31, 2001 as a result of its sale of Series A redeemable convertible preferred stock in May of 2000.

FINANCIAL CONDITION AND LIQUIDITY

At March 31, 2001, the Company had $1,334,397 in cash and cash equivalents, compared to $1,842,983 at December 31, 2000. The Company's operating activities used cash totaling $457,784, primarily due to its losses for the quarter. Accounts receivable decreased by $483,905 due to collections on sales in the last quarter of 2000. Inventories increased by $301,044 due to manufacturing for the spring deliveries, substantially offsetting the cash collected on accounts receivable. Smaller cash-flow items roughly balanced so that the losses for the quarter approximated the cash used in operations.

Net cash used by investing activities for the quarter ended March 31, 2001 totaled $34,935 and was 41.7% below the $59,947 used in the first quarter of 2000.

Net cash used in financing activities for the quarter ended March 31, 2001 was negligible compared to $323,021 provided by these activities in 2000 when $314,625 arose from the exercise of employee stock options.

Our operating losses over the past three years have had an adverse effect on our working capital. Nevertheless, at March 31, 2001 we still had over $4.3 million in working capital, which we believe to be substantially greater than most companies of our size. So we do have sufficient working capital to sustain our operations and introduce our new products, provided that we can realize our sales projections in our handheld business through our strategy of developing mass-market customers and opening new distribution channels.

Our cash position was aided in 2000 by the sale of Series A Preferred Stock in May 2000 to two investment funds. The Company recently reached an agreement in principle with the holders of the Series A Preferred Stock, and is presently preparing the definitive agreements. The agreements will provide that the Series A shares will be converted into Series B shares with a face value equal to the current conversion value of the Series A shares (i.e., face value plus 11.25% accrual since date of issue) plus 10% of the face value. The Company will redeem a portion of the Series B shares each month by paying $70,000 per month through October 2001 and $90,000 thereafter until the shares are fully redeemed. The shareholders will retain the right to convert their shares prior to redemption, except that the number of shares they may acquire on conversion will be limited to 20% of the trading volume for the quarter preceding conversion. The Company has made this arrangement in order to relieve the threat of massive dilution that the Preferred Stock presently poses to potential investors in the Company's common stock. Management does not expect that the payments will significantly affect the Company's ability to finance its ongoing business during 2001. Management expects that, with the new products, the fourth quarter of 2001 will generate sufficient revenue and cash to permit operations beyond 2001.

Because the Company has stabilized the cash requirements of our handheld business, its working capital and cash reserves appear to be sufficient to sustain over the coming year the level of business during 2001. There remains one near-term liquidity issue: the cash needed for development of new products. The Company's $1 million credit facility with Southwest Bank expired on July 1, 2001. Management has obtained a $500,000 replacement facility with KBK Financial, an asset-based lender, which it believes will be sufficient to finance the purchase orders expected for the fourth quarter.

ULTRADATA SYSTEMS, INCORPORATED
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PART II - OTHER INFORMATION

Item 1. Legal Proceedings:

None

Item 2. Changes in Securities:

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:

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.

July 27, 2001

/s/ Monte Ross
Monte Ross, CEO
(Duly authorized officer and
principal financial officer)