ULTRADATA SYSTEMS INC
Form 10QSB
August 14, 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 JUNE 30, 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 August 6, 2001
Common, $.01 par value	3,249,533

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

0-25380

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ULTRADATA SYSTEMS, INCORPORATED

Balance Sheets

As of June 30, 2001 and December 31, 2000

Assets	June 30, 2001 (Unaudited)	December 31, 2000
Current assets:		
Cash and cash equivalents	$ 231,859	$ 1,842,983
Restricted cash	765,000	767,724
Trade accounts receivable, net of allowance for doubtful accounts of $117,556	436,511	673,475
Inventories	2,154,115	1,780,255
Prepaid expenses and other current assets	244,641	229,637
Total current assets	3,832,126	5,294,074
Property and equipment, net	544,659	617,794
Total property and equipment	544,659	617,794
Deferred compensation trust investments, available for sale	-	84,605
Investment in Talon Research and Development, Ltd.	786,328	825,757
Advances to affiliates	150,000	150,000
Advertising credits	62,421	62,421
Other assets	34,444	8,594
Total assets	$ 5,409,978	$ 7,043,245
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	48,002	164,319
Accrued expenses and other liabilities	208,040	218,996

Total current liabilities	256,042	383,315
Deferred rent	2,488	6,220
Deferred compensation liability	-	87,329
Total liabilities	258,530	476,864
Stockholders' equity:		
Preferred Stock, $0.01 par value, 4,996,680 shares authorized, none outstanding	-	-
Series A convertible preferred stock, 3,320 shares authorized, 1,482 shares outstanding with a stated value of $1,000	1,482,000	1,616,000
Common stock, $.01 par value; 10,000,000 shares authorized; 3,575,704 shares issued and outstanding June 30,2001; 3,519,586 shares issued and outstanding December 31, 2000	35,757	35,196
Additional paid-in capital	9,877,953	9,861,970
Accumulated deficit	(4,998,040)	(3,737,190)
Treasury stock (326,171 shares at cost)	(942,311)	(942,311)
Notes receivable issued for purchase of common stock	(210,495)	(205,819)
Accumulated other comprehensive (loss) income, net	(93,416)	(61,465)
Total stockholders' equity	5,151,448	6,566,381
Total liabilities and stockholders' equity	$ 5,409,978	$ 7,043,245

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

ULTRADATA SYSTEMS, INCORPORATED

Statements of Operations

	Three months ended June 30, 2001 (unaudited)	Three months ended June 30, 2000 (unaudited)	Six months ended June 30, 2001 (unaudited)	Six months ended June 30, 2000 (unaudited)
Net sales:	$ 510,612	$ 781,702	$ 696,454	$ 1,063,107
Cost of sales:	268,460	553,455	414,650	722,544
Gross profit	242,152	228,247	281,804	340,563
Selling expense	154,972	96,771	205,982	167,448
General and administrative expenses	686,753	585,172	1,140,820	1,034,990
Research and development expense	96,566	75,857	225,360	172,090

Operating loss	(696,139)	(529,552)	(1,290,358)	(1,033,965)
Other (expense) income:				
Interest and dividend income, net	12,341	46,580	46,043	84,355
Equity in (losses) earnings of affiliates	(41,199)	(59,773)	5,568	(125,089)
Other, net	(22,249)	(94,287)	(22,103)	(82,269)
Total other income, net	(51,107)	(107,450)	29,508	(123,002)
Loss before income taxes	(747,246)	(637,032)	(1,260,850)	(1,156,967)
Income tax benefit	-	-	-	-
Net loss	(747,246)	(637,032)	(1,260,850)	(1,156,967)
Less deemed dividends on preferred shares	(46,219)	(1,059,747)	(91,669)	(1,059,747)
Net loss available to common shareholders	$(793,465)	$(1,696,779)	$(1,352,519)	$(2,216,714)
Loss per share-basic and diluted	$ (0.25)	$ (0.53)	$ (0.42)	$ (0.71)
Weighted Average Shares Outstanding:				
Basic and diluted	3,234,422	3,182,867	3,214,209	3,144,051

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

ULTRADATA SYSTEMS, INCORPORATED

Statements of Cash Flows

Six months ended June 30, 2001 and 2000

	2001	2000
	(unaudited)	
Cash flows from operating activities:		
Net loss	$(1,260,850)	$(1,156,967)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	99,130	116,872
Inventory reserve for obsolescence	60,000	60,000
Equity in (earnings) losses of unconsolidated affiliates	(5,568)	125,088
Realized loss (gain) on investments	13,045	(10,602)
Gain on disposal of fixed asset	1,715	-
Non-cash compensation expense	2,544	2,306

Bad debt expense on advances to affiliates	-	122,683
Increase (decrease) in assets and liabilities:		
Trade accounts receivable	236,963	505,343
Inventories	(433,859)	199,831
Prepaid expenses and other current assets	(45,529)	56,409
Accounts payable	(116,316)	47,986
Accrued expenses and other liabilities	(10,956)	(47,726)
Deferred rent	(3,732)	(3,732)
Deferred compensation trust liability	-	3,476
Other assets	-	25,974
Net cash (used in) provided by operating activities	(1,463,413)	46,941
Cash flows from investing activities:		
Investment in affiliated company	-	(200,000)
Deferred compensation trust investments	-	(8,699)
Capital expenditures	(27,711)	(95,376)
Net cash used in investing activities	(27,711)	(304,075)
Cash flows from financing activities:		
Proceeds from issuance of redeemable preferred stock and common stock warrants	-	1,616,000
Costs related to issuance of redeemable preferred stock and common stock warrants	-	(375,625)
Repurchase of preferred shares	(120,000)	-
Exercise of employee stock options	-	314,625
Restricted cash	-	8,360
Net cash (used in) provided by financing activities	(120,000)	1,563,360
Net (decrease) increase in cash and cash equivalents	(1,611,124)	1,306,226
Cash and cash equivalents at beginning of period	1,842,983	1,220,134
Cash and cash equivalents at end of period	$ 231,859	$ 2,526,360
Non-cash investing and financing		
Redemption of Rabbi Trust	$ 87,329	$ -
Conversion of preferred stock	$ 28,000	$ -

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

ULTRADATA SYSTEMS, INCORPORATED

June 30, 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 and six-month periods ended June 30, 2001 and 2000, 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 and second quarters of 2000 to reflect this change. The Company reduced sales and selling expense by $8,282 in the first quarter and $37,193 in the second quarter.

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:

	June 30, 2001	December 31, 2000
Raw Materials	$ 1,259,998	$1,262,820
Work in Process	25,275	57,393
Finished Goods	1,447,072	1,020,803
	2,732,345	2,341,016

Reserve for obsolescence	(578,230)	(560,761)
	$ 2,154,115	$1,780,255

Note 3. Prepaid Expenses

Prepaid expenses consist of the following:

	June 30 2001	December 31, 2000
Prepaid advertising	$ 213,782	$ 201,225
Prepaid insurance	15,662	5,461
Other prepaid expenses	15,197	22,951
	$ 244,641	$ 229,637

Note 4. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	June 30, 2001	December 31, 2000
Accrued vacation	$ 73,379	$ 82,990
Accrued sales commissions and royalties	-	14,758
Payroll and payroll-related liabilities	40,456	42,294
Accrued advertising	28,718	1,563
Other	65,487	77,391
	$ 208,040	$ 218,996

Note 5. Preferred Stock Redemption

During the three months ended June 30, 2001, the Company repurchased from preferred shareholders 106 shares of preferred stock for $120,000 cash.

During the three months ended June 30, 2001, the Company converted 18 shares of preferred stock into 40,058 shares of common stock.

Note 6. Subsequent Events

(A) Redemption of preferred stock

After June 30, 2001, the Company repurchased from preferred shareholders 58 additional preferred shared for $70,000 cash.

(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.

(C) Exchange of preferred stock for notes

In August 2001 we exchanged 11.25% convertible promissory notes with a face value of $1,748,120 for the remaining 1408 preferred shares. The Company will satisfy the interest and principal on the notes with payments of $140,000 in September, $70,000 in October, and $90,000 per month thereafter. The notes are convertible into common stock on the same terms as the Series A Preferred Stock, except that the cumulative conversions are limited to 20% of the trading volume for the 66 trading days preceding the conversion.

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 and Six Months Ended June 30, 2001 Compared to Three and Six Months Ended June 30, 2000

Operating results for the first half of 2001 were not significantly different from the first half 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 half is, therefore, generally a period of minimal sales, having represented less than 17% of annual sales during 2000. On the other hand, 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 three and six months ended June 30,2001, net sales totaled $510,612 and $696,454, respectively, compared with $781,702 and $1,063,107, respectively for the same periods in 2000. These figures represent decreases of 34.7% and 34.5% for the three- and six-month periods, respectively, representing slowing demand for our traditional products in the present softening U.S. economy and reflecting the fact that new products had not yet been shipped by June 30, 2001.

Gross Profit. Gross profit margin for the three- and six-month periods ending June 30, 2001 were 47.4% and 40.5%, respectively, representing an improvement from the corresponding periods of 2000 of 30.0% and 32.6%, respectively. Gross profit in 2000 and early 2001 was low primarily due to higher cost of microchips.

S,G&A Expense. Selling expenses for the three- and six-month periods ended June 30, 2001 were $154,972 and $205, 982, respectively, compared with

$96,771 and $167,448, respectively for the corresponding periods in 2000. These figures represent an increase of 60.1% and 23.0%, respectively, for the three- and six-month periods in 2001 versus 2000. The primary reasons for the increase is the initial royalties to Rand McNally for the TripLinkTM product and commissions to IdeaVillage for Wal-Mart sales in the second quarter of 2001. General and administrative expenses were slightly lower in the periods of 2001 than in those of 2000.

R&D Expense. Research and development expense in the three- and six-month periods ended June 30,2001 increased 27.3% and 31.8%, respectively, from the corresponding periods of 2000. These increases are due primarily to the fact that the capitalization of the TRAVEL*STAR 24(software tools developed over the last 18 month ended and the amortization of those costs began in the first quarter of 2001.

The Company posted a net loss from operations of ($696,140) and ($1,290,359) for the three- and six-month periods ended June 30, 2001, respectively, compared to a net loss from operations of ($661,606) and ($1,166,018) for the corresponding periods in 2000.

Other Income. Other income (expense) for the three- and six-month periods ended June 30, 2001 totaled ($51,107) and $29,508, respectively, compared with $24,573 and $9,050, respectively, for the corresponding periods of 2000. During the first half of 2000, we recorded a loss of $269,596 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 (losses) earnings of affiliates" represents only our interest in Talon Research and Development Ltd. in the year 2001. Talon's contribution was $5,568 for the six-month period ended June 30, 2001 as compared with $144,508 for the same period in 2000. The large difference between 2000 and 2001 is attributed to the 4-fold increase in R&D for 2001 over 2000. US Generally Accepted Accounting Principles differ from those in New Zealand in that most research and development costs must be expensed in the US but may be capitalized in New Zealand. The R&D activity supports Talon's new-product development and general modernization of their product line.

As a result of the foregoing, the Company posted a net loss available to common shareholders of ($793,465), or ($0.25) per basic and diluted common share, for the three-month period ended June 30, 2001, compared to a net loss available to common shareholders of ($1,696,779), or ($0.53) per basic and diluted common share, for the three-month period ended June 30, 2000. The Company posted a net loss available to common shareholders of ($1,352,519), or ($0.42) per basic and diluted common share, for the six-month period ended June 30, 2001, compared to a net loss available to common shareholders of ($2,216,714), or ($0.71) per basic and diluted common share, for the six-month period ended June 30, 2000. The Company was required to record an imputed dividend as a result of its sale of Series A redeemable convertible preferred stock in May of 2000 of $46,219 and $91,669 during the three- and six-month periods ended June 30, 2001, respectively, as compared with $1,059,747 for both the corresponding periods in 2000.

FINANCIAL CONDITION AND LIQUIDITY

At June 30, 2001`, the Company had $231,859 in cash and cash equivalents, compared to $1,842,983 at December 31, 2000. This figure for 2001 is over and above the restricted cash of $765,000, which is expected to be available on September 1, 2001 upon expiration of the letter of credit to fund the Talon line of credit, in accordance with an agreement with Talon. The Company's operating activities in the six months ended June 30, 2001, used cash totaling $1,463,413, primarily due to its losses for the first half of the year. Accounts receivable decreased by $236,963 due to collections on sales in the first quarter of 2001. Inventories increased by $433,859 due to manufacturing for the deliveries in the third quarter, and accounts payable decreased by $116,316, more than offsetting the cash collected on accounts receivable.

Net cash used in investing activities for the six-month period ended June 30, 2001 totaled ($27,711) compared to ($304,075) for the same period in 2000. The deferred compensation trust was drawn down and eliminated in the second quarter of 2001,producing loss without cash flow, whereas the additional investment in Influence-Data took place in the second quarter of 2000, producing cash flow without loss at that time.

Net cash used in financing activities for the quarter ended June 30, 2001 was ($120,000), primarily due to the repurchase of 106 shares of Series A Preferred Stock outlined below. In the comparable period of 2000, the preferred shares were subscribed, providing the bulk of the $1,563,360 provided by financing activities.

Our cash position was aided in 2000 by the sale of Series A Preferred Stock and common stock warrants to two investment funds for $1,600,000. During 2001, we have repurchased 164 of the shares and an additional 28 have been converted into common stock. In August 2001 we exchanged 11.25% convertible promissory notes with a face value of 1,748,120 for the remaining 1408 preferred shares. The Company will satisfy the interest and principal on the notes with payments of $140,000 in September, $70,000 in October, and $90,000 per month thereafter. The notes are convertible into common stock on the same terms as the Series A Preferred Stock, except that the cumulative conversions are limited to 20% of the trading volume for the 66 trading days preceding the conversion. The Company made this arrangement in order to relieve the threat of massive dilution that the Series A Preferred Stock posed to investors in its common stock.

Our operating losses over the past three years have had an adverse effect on our working capital. Nevertheless, at June 30, 2001, we still had $3.58 million in working capital, which we believe to be substantially greater than most companies our size. There remains, however, 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. We expect, therefore, given achievement of our fourth quarter forecast, to have sufficient capital resources to fund our operations for the next year and the foreseeable future.

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:

Exhibits:
None

Reports on Form 8-K:
April 6, 2001 - Report on change of certifying accountant.

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.

August 14, 2001

/s/ Monte Ross
Monte Ross, CEO

(Duly authorized officer and
principal financial officer)