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ULTRADATA SYSTEMS INC
Form 10QSB
May 09, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(MARK ONE)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 - FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

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 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 April 23, 2002
-----	-----
Common, \$.01 par value	3,405,805

Transitional Small Business Disclosure Format Yes No

File Number
0-25380

ULTRADATA SYSTEMS, INCORPORATED

FORM 10-QSB

March 31, 2002

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ULTRADATA SYSTEMS, INCORPORATED

Balance Sheets
As of March 31, 2002 and December 31, 2001

	March 31, 2002 (Unaudited)	December 31, 2001
Assets		

Current assets:		
Cash and cash equivalents	\$ 274,874	\$ 164,682
Trade accounts receivable, net of allowance for doubtful accounts of \$365,287	591,419	376,429
Inventories	943,467	1,346,492
Prepaid expenses and other current assets	16,523	11,649
	-----	-----
Total current assets	1,826,283	1,899,252
	-----	-----
Property and equipment, net	366,761	413,270
	-----	-----
Total property and equipment	366,761	413,270
	-----	-----
Notes receivable - long term	225,394	225,394
Other assets	5,444	5,444
	-----	-----
Total assets	\$ 2,423,882	\$ 2,543,360
	=====	=====
Liabilities and Stockholders' Equity		

Current liabilities:		
Accounts payable	\$ 227,048	\$ 96,133
Accrued expenses and other liabilities	165,624	272,146
Notes payable - current	109,028	110,991
	-----	-----
Total current liabilities	501,700	479,270

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Long term liabilities:		
Notes payable - long term	584,940	616,007
Total liabilities	1,086,640	1,095,277
Stockholders' equity		
Preferred Stock, \$0.01 par value, 4,996,680 shares authorized, none outstanding	-	-
Series A convertible preferred stock, 3,320 shares authorized, 1,606 shares outstanding with a stated value of \$1,000	16,000	16,000
Common stock, \$.01 par value; 10,000,000 shares authorized; 3,731,976 shares issued and outstanding March 31,2002; 3,698,350 shares issued and outstanding December 31, 2001	37,320	36,983
Additional paid-in capital	9,576,004	9,573,281
Accumulated deficit	(7,177,230)	(7,049,202)
Treasury stock (326,171 shares at cost)	(942,311)	(942,311)
Notes receivable issued for purchase of common stock	(172,541)	(186,668)
Total stockholders' equity	1,337,242	1,448,083
Total liabilities and stockholders' equity	\$ 2,423,882	\$ 2,543,360

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

ULTRADATA SYSTEMS, INCORPORATED

Statements of Operations

Three months ended March 31, 2002 and 2001

	2002	2001
	(Unaudited)	
Net sales	\$ 995,719	\$ 185,842
Cost of sales	714,722	146,190
Gross profit	280,997	39,652
Selling expense	38,885	51,010
General and administrative expenses	296,964	454,067
Research and development expense	58,357	128,794
Operating loss	(113,209)	(594,219)
Other income (expense):		
Interest and dividend income	4,906	33,702
Interest expense	(19,815)	-

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Equity in earnings of affiliates	-	46,767
Other, net	90	146
	-----	-----
Total other (loss) income	(14,819)	80,615
	-----	-----
Loss before income tax expense	(128,028)	(513,604)
	-----	-----
Income tax expense	-	-
	-----	-----
Net loss	\$ (128,028)	\$ (513,604)
	-----	-----
Less preferred stock dividends	-	(45,450)
	-----	-----
Net loss available to common shareholders	\$ (128,028)	\$ (559,054)
	=====	=====
Loss per share:		
Basic and diluted	\$ (0.04)	\$ (0.18)
	=====	=====
Weighted Average Shares Outstanding:		
Basic and diluted	3,380,772	3,193,772
	=====	=====

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

ULTRADATA SYSTEMS, INCORPORATED

Statements of Cash Flows

Three months ended March 31, 2002 and 2001

	2002	2001
		(Unaudited)
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (128,028)	\$ (513,604)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	48,429	49,979
Inventory writedown	31,130	-
Equity in earnings of unconsolidated affiliates	-	(46,767)
Non-cash compensation expense	-	2,544
Increase (decrease) in cash due to changes in operating assets and liabilities:		
Trade accounts receivable, net	(214,990)	483,905
Inventories	371,895	(301,044)
Prepaid expenses and other current assets	(4,874)	(15,242)
Accounts payable	130,915	(48,278)
Accrued expenses and other liabilities	(106,522)	(67,516)
Deferred rent	-	(1,866)
Deferred compensation trust liability	-	(15,673)
	-----	-----
Net cash provided by (used in) operating activities	127,955	(473,562)
	-----	-----

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Cash flows from investing activities:		
Deferred compensation trust investments	-	(16)
Capital expenditures	(1,920)	(34,919)
	-----	-----
Net cash used in investing activities	(1,920)	(34,935)
	-----	-----
Cash flows from financing activities:		
Subscription payments	14,127	-
Payments on note payable	(29,970)	-
Restricted cash	-	(89)
	-----	-----
Net cash used in financing activities	(15,843)	(89)
	-----	-----
Net increase (decrease) in cash and cash equivalents	110,192	(508,586)
Cash and cash equivalents at beginning of period	164,682	\$1,842,983
	-----	-----
Cash and cash equivalents at end of period	\$ 274,874	\$1,334,397
	=====	=====

Supplemental Disclosure of Non-Cash and Financial Activities:

During March 2002, the Company converted \$3,060 of notes payable into 33,626 shares of common stock

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

ULTRADATA SYSTEMS, INCORPORATED

March 31, 2002

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.

In the opinion of management, the information furnished for the three-month periods ended March 31, 2002 and 2001, 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, 2002. It is suggested that the interim financial statements be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2001, as filed with the Securities and Exchange Commission on Form 10-KSB (Commission File Number 0-25380).

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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. 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, 2002	December 31, 2001
Raw Materials, net of obs.	\$ 558,378	\$ 831,318
Work in Process, net of obs.	-	-
Finished Goods, net of obs.	385,089	515,174
Total	\$ 943,467	\$1,346,492
	=====	=====
Obsolete inventory on hand	\$ 449,186	\$ 434,487

Note 3. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	March 31, 2002	December 31, 2001
Accrued sales commissions and royalties	\$ 88,366	\$ 141,811
Payroll and payroll-related liabilities	39,488	69,061
Accrued advertising	67	-
Other	37,703	61,274
	-----	-----
	\$ 165,624	\$ 272,146
	=====	=====

Note 4. Debt Conversion

During March 2002, convertible debt holders converted \$3,060 of convertible debt into 33,626 shares of common stock.

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

YOU SHOULD NOT RELY ON FORWARD LOOKING STATEMENTS

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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 impede 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 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 beta-test 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. The production release of this product is scheduled for the second quarter 2002.
- * We have completed development of the CarPad, which installs in the visor over the driver's seat in an automobile and provides door-to-door directions. The CarPad also contains organizer functions such as phone numbers, addresses, appointments, and to do lists on a large-text display. We intend to introduce CarPad to the market in 2002 at a retail price of approximately \$50.

Each of our consumer products is designed to allow the consumer to access

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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, 2002 Compared to Three Months Ended March 31, 2001

Operating results for the first quarter of 2002 were significantly improved over the first quarter of 2001.

Sales. During the first three months of 2002, net sales totaled \$995,719, as compared with \$185,842 in sales recorded in the first quarter of 2001, representing a 436% increase. Replenishment of customer inventory, which finally sold through during the slow year of 2001, represented the bulk of sales in the first quarter, which is generally a period of minimal sales after the holiday season.

Gross Profit. Gross profit margin for the current quarter was \$280,997, or 28.2% of sales compared to \$39,652, or 21.3% of sales for the first quarter of 2001. Although improved, gross profit in early 2002 still suffered from higher cost of microchips remaining in inventory from the chip shortage in 2000. First-quarter sales volume has exhausted the higher-priced chips in inventory, and margins in future quarters should improve because of the reduced price currently paid for microchips. Our goal is to achieve a gross profit equaling 50% of sales.

S,G&A Expense. Selling expenses amounted to \$38,885, or 3.9% of sales, for the first quarter of 2002 as compared with \$51,010, or 27.4% of sales for the first quarter of 2001. The dollar value of the expense decreased 23.8%, and, as a percent of sales, selling expense dropped by a factor of 7. The percentage drop is primarily because of fixed selling costs and much higher volume in 2002, but it also represents improved efficiency in selling and promotion. General and administrative expenses were \$296,964 for the first quarter of 2002 as compared with \$454,067 for the same quarter in 2001, representing a decrease of 34.6%, reflecting reduced personnel and office space effected in the last quarter of 2001.

R&D Expense. Research and development expense in the first quarter of 2002 was \$58,357 as compared to \$128,794 for the same quarter of 2001, representing a decrease of 54.7% due primarily to the completion of the TRAVEL*STAR 24 software and reduction in R&D personnel.

The Company posted a net loss from operations of (\$113,209) for the quarter ended March 31, 2002 compared to a net loss from operations of (\$594,219) for the quarter ended March 31, 2001. Continuing losses in spite of improved sales and lower SG&A and R&D expenses is due to the low margins realized on first-quarter sales.

Other Income (Expense). Other income (expense) for the first quarter of 2002 amounted to an expense of (\$14,815) compared with income of \$80,615 for the same period in 2001. The changes to our business that took place in 2001 are reflected in this difference. In 2001 we included profits derived from our interest in Talon Research and Development in New Zealand, which we sold in the last quarter of 2001. In the current quarter we include interest expenses on the debt derived from the conversion of the preferred stock to debt in the

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third quarter of 2001.

As a result of the foregoing, the Company posted a net loss available to common shareholders of (\$128,028), or (\$0.04) per basic and diluted common share, for the three-month period ended March 31, 2002, compared to 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. 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, 2002, the Company had \$274,874 in cash and cash equivalents, compared to \$164,682 at December 31, 2001. The Company's operating activities provided cash totaling \$127,955. Accounts receivable increased by \$214,990 due to late quarter sales. Accounts payable increased \$130,915 for the same reason. Inventories decreased by \$371,895 in the same period.

Net cash used in investing activities for the quarter ended March 31, 2002 totaled (\$1,920) as compared to (\$34,935) in the first quarter of 2001, reflecting reductions in cash outlays for capitalized self-constructed assets.

Net cash used in financing activities for the quarter ended March 31, 2002 was \$15,843 compared to a negligible sum in 2001. The pay down of the outstanding long-term debt is the major contributor.

Our operating losses over the past three years have had an adverse effect on our working capital. Nevertheless, at March 31, 2002 we still had over \$1.3 million in working capital. Management believes we 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.

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. In July 2001, Management obtained a \$500,000 credit facility with KBK Financial, an asset-based lender, to finance production for purchase orders expected for the fourth quarter. Because fourth-quarter orders were below expectations, it was not necessary to utilize the facility in 2001. Our plan is to meet the liquidity requirements to fund the late-quarter production in 2002 with the use of the credit facility from KBK Financial, if necessary.

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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:

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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:

10-a(2) Lease Addendum dated October 5, 2001 for premises at 1240-1244 Dielman Industrial Court, St. Louis, Missouri.

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.

May 9, 2002

/s/ Monte Ross

Monte Ross, CEO
(Chief executive officer)

/s/ Ernest Clarke

Ernest Clarke, President
(Principal financial and
accounting officer)

* * * * *

EXH. 10-a(2)

Addendum # 2 to Original Lease Dated May 23, 1990 between
Ultradata Systems, Inc., and
Samuel B Murphy Revocable Living Trust/Samuel B Murphy Unified Credit Trust
(formerly referred to as Samuel B. Murphy Living Trust), Landlord

The following terms and conditions shall become effective November 1, 2001

Tenant: Ultradata Systems, Inc.

Premises: Approximately 5,039 square feet located at 1240-1244
Dielman Industrial Court and the temporary space
located at 9367 Dielman Industrial Drive, St. Louis,
Missouri 63132

Lease Term: The new revised term would commence on November 1,

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2001, and expire October 31, 2003, being a two (2) year term.

Base Lease Rate: \$9.00 psf gross, "as is", being \$3,779.25 per month

Security Deposit: Landlord shall require a Security Deposit of \$5,000.00 to be held for the term of the lease. The current security deposit of \$9,000.00 shall be reduced by \$4,000.00, which amount shall be returned to the tenant.

Base Year: To remain 1995.

Tenant Improvements: By tenant; no contribution from Landlord.

Renewal Option: Landlord will grant one two (2) year renewal option at market rate.

Option to Expand: Upon any contiguous space being vacated, Landlord shall give Ultradata Systems, Inc., first Right of Refusal.

Real Estate Commission/
Brokers: Landlord shall pay any Real Estate Commission due. Landlord and Tenant agree that no other real estate broker was involved in this transaction but Bell & Associates, Inc., representing the Landlord.

Lease Termination: Tenant shall have the right to cancel this lease, upon the following conditions: a) Three month written notice, and b) Penalty payment of \$10,000.

Tenant Finish: Any new tenant improvements must be approved by the Landlord prior to construction.

Signage: Landlord shall allow tenant, at tenant's expense to relocate the current Ultradata signage to the side of the building facing Dielman Industrial Court. Any required approvals by the City of Olivette will be obtained by the Tenant. Tenant shall make all necessary repairs to the current location of sign after moving it to the new location.

Sublease: Landlord agrees to allow Tenant the right to sublease all or a portion of the premises with Landlord's written approval.

Temporary Warehouse
Space: Landlord agrees to allow Tenant to continue to occupy, on a monthly basis, the approximately 2,040 (subject to final measurement) square foot warehouse space to the south of the subject premises, at the annual rate of \$7.50 psf, being \$1,275.00 per month. Tenant agrees to vacate the space within 30 days following notification by the Landlord that a new occupant for the space has been found. Otherwise, the space will be rented on a month-by-month basis, and Tenant will provide 30 day notification to Landlord when the space will no longer be needed.

Required Improvements: Tenant shall close off the two openings now in place between the "new" lease space, and the area being

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vacated. All improvements shall be approved by the
Landlord.

Agreed and Accepted:

Ultradata Systems, Inc.,
Tenant

Samuel B. Murphy Revocable Living Trust/Samuel
B. Murphy Unified Credit Trust,
Landlord

By: /s/ Monte Ross

Monte Ross

Title: CEO
Date: 10/11/01

By: /s/ Stephen Murphy

Stephen Murphy

Title: Trustee
Date: 10/22/01