ULTRADATA SYSTEMS INC
Form 10QSB
August 15, 2005

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, 2005

[ ] 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 August 2, 2005 |
|---|---|
| Common, $.01 par value | 6,416,187 |

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

File Number 0-25380

ULTRADATA SYSTEMS, INCORPORATED
FORM 10-QSB
June 30, 2005
INDEX

ULTRADATA SYSTEMS, INCORPORATED

Condensed Balance Sheets
As of June 30, 2005 and December 31, 2004

| | June 30, 2005 | December 31, 2004 |
|---|---|---|
| Assets | (Unaudited) | |
| Current assets: | | |
| Cash | $ 45,955 | $ 385,966 |
| Trade accounts receivable, net of allowance for doubtful accounts of $100 and $176,575, respectively | 7,280 | 38,459 |
| Inventories, net | 96,880 | 89,890 |
| Prepaid expenses | 104,737 | 41,515 |
| Total current assets | 254,852 | 555,830 |
| Property and equipment, net | 23,035 | 30,458 |
| Other assets | 5,444 | 5,444 |
| Total assets | $ 283,331 | $ 591,732 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 17,711 | $ 126,019 |
| Accrued liabilities | 145,019 | 55,967 |
| Total current liabilities | 162,730 | 181,986 |

| | | |
|---|---|---|
| Note payable - long term | 18,630 | - |
| Total liabilities | 181,360 | 181,986 |
| Stockholders' equity | | |
| Preferred Stock, $0.01 par value, 4,996,680 shares authorized, none outstanding | - | - |
| Common stock, $.01 par value; 10,000,000 shares authorized; 6,416,187 shares issued and outstanding June 30, 2005 and December 31, 2004 | 64,162 | 64,102 |
| Additional paid-in capital | 9,222,432 | 9,121,022 |
| Accumulated deficit | (9,155,633) | (8,659,418) |
| Deferred stock compensation | (28,990) | (115,960) |
| Total stockholders' equity | 101,971 | 409,746 |
| Total liabilities and stockholders' equity | $ 283,331 | $ 591,732 |

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



ULTRADATA SYSTEMS, INCORPORATED

Condensed Statements of Operations
For the three and six months ended June 30, 2005 and 2004
(unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | (unaudited) | | (unaudited) | |
| Net sales | $ 111,344 | $ 1,454,556 | $ 195,169 | $ 3,208,055 |
| Cost of sales | 44,601 | 755,912 | 88,503 | 1,651,520 |
| Gross profit | 66,743 | 698,644 | 106,666 | 1,556,535 |
| Selling expense | 125,620 | 108,272 | 148,030 | 156,865 |
| General and administrative expenses | 262,283 | 217,181 | 361,867 | 477,389 |
| Research and development expense | 90,793 | 35,315 | 125,994 | 54,984 |
| Total Operating Expenses | 478,696 | 360,768 | 635,891 | 689,238 |
| Operating (loss) profit | (411,953) | 337,876 | (529,225) | 867,297 |
| Other income (expense): | | | | |
| Interest and dividend income | 136 | 338 | 515 | 338 |
| Interest expense | (14,655) | (454) | (21,413) | (5,711) |
| Royalty income | 40,000 | - | 40,000 | - |
| Other, net | 13,858 | 51 | 13,908 | 182 |

| | | | | |
|---|---|---|---|---|
| Total other income (expense), net | 39,339 | (65) | 33,010 | (5,191) |
| (Loss) income before income taxes | (372,614) | 337,811 | (496,215) | 862,106 |
| Income tax expense | - | - | - | - |
| Net (loss) income | $ (372,614) | $ 337,811 | $ (496,215) | $ 862,106 |
| (Loss) income per share: Basic | $ (0.06) | $ 0.05 | $ (0.08) | $ 0.14 |
| (Loss) income per share: Fully diluted | $ (0.06) | $ 0.05 | $ (0.08) | $ 0.14 |
| Weighted Average Shares Outstanding: Basic | 6,410,780 | 6,172,209 | 6,410,485 | 6,114,567 |
| Weighted Average Shares Outstanding: Fully diluted | 6,410,780 | 6,438,901 | 6,410,485 | 6,381,259 |

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



ULTRADATA SYSTEMS, INCORPORATED

Condensed Statements of Cash Flows
Six months ended June 30, 2005 and 2004
(unaudited)

| | 2005 (unaudited) | 2004 (unaudited) |
|---|---|---|
| Cash flows from operating activities: | | |
| Net (loss) income | $ (496,215) | $ 862,106 |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 8,788 | 6,916 |
| Provision for doubtful accounts | (176,252) | 143 |
| Reserve for inventory impairment | 6,489 | - |
| Stock issued for services | 88,440 | - |
| Non-cash amortization of note payable discount | 18,630 | - |
| Increase (decrease) in cash due to changes in operating assets and liabilities: | | |
| Trade accounts receivable | 207,432 | (4,496) |
| Inventories | (13,479) | (49,188) |
| Prepaid expenses and other current assets | (63,222) | (7,515) |
| Accounts payable | (108,308) | (91,140) |
| Accrued expenses | 39,052 | (21,582) |
| Net cash provided by (used in) operating | | |

| | | |
|---|---|---|
| activities | (488,645) | 695,244 |
| Cash flows from investing activities: | | |
| Capital expenditures | (1,366) | (8,206) |
| Net cash (used in) provided by investing activities | (1,366) | (8,206) |
| Cash flows from financing activities: | | |
| Proceeds from stock issued for cash and options exercised | - | 9,061 |
| Proceeds from sale of convertible debentures | 100,000 | - |
| Advance on future debenture conversion | 50,000 | - |
| Note payable - Short term | - | 165,000 |
| Principal payments on notes payable | - | (311,202) |
| Net cash provided by (used in) financing activities | 150,000 | (137,141) |
| Net increase in cash and cash equivalents | (340,011) | 549,897 |
| Cash and cash equivalents at beginning of period | 385,966 | 2,926 |
| Cash and cash equivalents at end of period | $ 45,955 | $ 552,823 |

During the six months ended June 30, 2004, the Company issued 273,906 shares of common stock to satisfy convertible debt aggregating to $27,600.

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



ULTRADATA SYSTEMS, INCORPORATED
Notes to Condensed Financial Statements
June 30, 2005
(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 six-month periods ended June 30, 2005 and 2004, 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, 2005. It is suggested that the interim financial statements be read in conjunction with the audited financial statements for the year ended December 31, 2004, 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.

## Note 1. Inventories

Inventories consist of the following:

| | June 30, 2005 (Unaudited) | December 31, 2004 |
|---|---|---|
| Raw Materials, net of obsolete | $ 20,259 | $ 4,966 |
| Finished Goods, net of obsolete | 76,621 | 84,924 |
| Total | $ 96,880 | $ 89,890 |
| Obsolete inventory on hand | $ 743,193 | $ 738,826 |

## Note 2. Prepaid Expenses

Prepaid expenses consist of the following:

| | June 30, 2005 (Unaudited) | December 31, 2004 |
|---|---|---|
| Prepaid insurance | $ 19,085 | $ 6,015 |
| Prepaid expenses | 85,652 | 35,500 |
| | $ 104,737 | $ 41,515 |



## Note 3. Income (Loss) Per Share

| | For the three months ended June 30, 2005 | 2004 | For the six months ended June 30, 2005 | 2004 |
|---|---|---|---|---|
| Basic | | | | |
| Numerator: | | | | |
| Net (loss) income | $(372,614) | $ 337,810 | $(496,215) | $ 862,105 |
| Numerator for basic income (loss) per share | $(372,614) | $ 337,810 | $(496,215) | $ 862,105 |

| | | | | |
|---|---|---|---|---|
| Denominator: | | | | |
| Weighted average common shares | 6,410,780 | 6,172,209 | 6,410,485 | 6,114,567 |
| Denominator for basic income (loss) per share | 6,410,780 | 6,172,209 | 6,410,485 | 6,114,567 |
| Basic income (loss) per share | $ (0.06) | $ 0.05 | $ (0.08) | $ 0.14 |
| Fully Diluted | | | | |
| Numerator: | | | | |
| Net income (loss) | $(372,614) | $ 337,810 | $(496,215) | $ 862,105 |
| Numerator for fully diluted income (loss) per share | $(372,614) | $ 337,810 | $(496,215) | $ 862,105 |
| Denominator: | | | | |
| Weighted average common shares | 6,410,780 | 6,172,209 | 6,410,485 | 6,114,567 |
| Common stock equivalents | - | 266,692 | - | 266,692 |
| Denominator for fully diluted income (loss) per share | 6,410,780 | 6,438,901 | 6,410,485 | 6,381,259 |
| Fully diluted income (loss) per share | $ (0.06) | $ 0.05 | $ (0.08) | $ 0.14 |

Note 4. Note Payable

On February 17, 2005 Ultradata entered into a Securities Purchase Agreement dated February 14, 2005 with Golden Gate Investors, Inc., which was modified by an Addendum dated February 17, 2005. Ultradata sold to Golden Gate a 43/4% Convertible Debenture and Warrants to Purchase Shares of Common Stock, all for a purchase price of $300,000. The Company received proceeds of $100,000 of the purchase price, except that $50,000 of that sum is being held in escrow for payment of the costs of preparing and filing a registration statement that will permit Golden Gate to make a public resale of the shares into which the Debenture is convertible and for which the Warrant is exercisable (the "Registration Statement"). As a result of the beneficial conversion of the debenture, the Company has allocated $100,000 of the debenture proceeds to additional paid-in capital and recorded a discount on the debenture of $100,000. The remainder of the purchase price is payable when the Securities and Exchange Commission declares the Registration Statement effective.

-7-

Interest that accrues on the Debenture, at 43/4% per annum, will be payable monthly. The principal amount of the Debenture is payable in full on February 14, 2007. However, the holder of the Debenture has agreed that, in each month after the Securities and Exchange Commission declares the Registration Statement effective, the holder will convert at least 3% of the face amount of the debenture into common stock. Similarly, the holder of the Warrant is required to purchase at least 3% of the shares subject to the Warrant in each month after the Securities and Exchange Commission declares the Registration Statement effective.

The conversion provisions of the Debenture and the exercise provisions of the Warrant are correlated so that the Debenture will be converted and the Warrant exercised in like proportions. The result is that in any month in which the holder converts the 3% minimum it will also exercise the 3% minimum under the Warrant, which will result in it purchasing common stock for $99,000 ($90,000 paid in cash and $9,000 of the Debenture principal converted). The number of shares that will be purchased will equal the purchase price divided by the lesser of (a) $1.25 or (b) 80% of the average of the three lowest volume weighted average prices during the twenty trading days preceding conversion/ exercise. In total, the conversion of the Debenture and exercise of the Warrant will result in Golden Gate purchasing Ultradata common stock for up to $3,300,000 ($3,000,000 paid in cash and $300,000 of the Debenture principal converted) during the period between the effective date of the Registration Statement and February 14, 2007.

There are four conditions that may reduce the aggregate purchase price paid by Golden Gate below $3,300,000:

1. If Golden Gate only converts the 3% minimum per month, the February 14, 2007 payment date for the Debenture will occur before full conversion and exercise have occurred.

2. The conversion and exercise provisions of the securities provide that at no time may Golden Gate acquire ownership of more that 9.9% of Ultradata's outstanding common stock.

3. If at the time of a conversion/exercise, the conversion price would be less than $.40, then either (a) Ultradata may opt to redeem the amount of principal that the holder presents for conversion at 125% of face value, or (b) if the conversion/exercise date is later than November 11, 2005, the holder may elect to convert up to $100,000 of the Debenture without exercising the Warrant, either of which events would reduce the aggregate purchases under the Debenture and Warrant by 900% of the amount redeemed by Ultradata or converted without exercise.

4. When the principal amount of the Debenture falls below $100,000, Ultradata may redeem the remaining principal for its face value. In that event, the aggregate purchase price paid by Golden Gate for Ultradata common stock would be only $2,200,000.

During the three months ended June 30, 2005, the Company amortized $18,630 of the note payable discount.

| | |
|---|---|
| Note payable - face | $100,000 |
| Note payable - discount | 81,370 |
| | $ 18,630 |

In June 2005, Golden Gate Investors provided $50,000 as an advance payment.

## Note 5. Going Concern

As reflected in the accompanying financial statements, a major customer of the Company has experienced deteriorating operations during 2004 and during the second quarter of 2004 ceased ordering products from the Company. This customer accounted for 55.4% of sales during 2004. In addition the Company terminated its agreements with AAA for the sale of its products using the AAA logo to AAA retail locations. Although Management has a plan in place to replace these lost customers, it is not yet clear that the plan will be successful. The ability of the Company to continue as a going concern is dependent on the Company's ability to further implement its business plan, raise capital and generate revenues.

The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.



The Company has continued its product design and development efforts to introduce new products in 2005 and has introduced its new Road GenieTM in 2005. In addition, the Company has completed development of two other new products. The first is a cell-phone version of the Road Whiz technology that allows the user to access our proprietary database by means of a cell phone. The second is a voice-activated digital voice recorder that provides hands-free recording of urgent reminders or other information received while driving when writing them down is awkward or even dangerous. Based on the success of the Talking Road Whiz with direct TV marketing, the Company is proceeding with plans to market Road GenieTM by means of direct-response commercials, with the Company marketing directly to consumers. This new product represents an increase in technology compared to the Talking Road Whiz and, in addition, can be enhanced to include a digital voice recorder for additional value to the customer. The Company is also opening a new source of revenue by developing the cell-phone Road Whiz application. Thus, the Company has several different methods in work to enhance sales revenue. In addition, the Company has obtained a loan and a commitment for additional equity capital for up to $3.3 million (see Note 4). Management believes that actions presently taken to obtain additional funding provide the opportunity for the Company to continue as a going concern.

## Note 6. Settlement of Office Max Receivable

On April 20, 2005 Office Max settled the lawsuit we filed against them for the full amount of the disputed receivable without interest. The first-quarter financials reflect the reversal of the bad-debt expense of $176,475 recorded in 2004 when collection was uncertain.

## Note 7. Issuance of Shares to Outside Directors

During 2005, an aggregrate of 6,000 shares of common stock having a a fair market value of $1,470 were issued to outside directors for services rendered during 2004. The shares were valued on the prevailing price on the grant date.

## 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 and market 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 Talking 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 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 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. The Spanish-speaking unit was completed in 2004 and initial deliveries to customers have been made. The voice-recognition unit was completed and available for sale in limited quantities in June 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. We have produced a TV commercial to enable selling the Road Genie directly to consumers. We will attempt to repeat the success of the Talking Road Whiz through direct TV promotion. We began test marketing began in May 2005.

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 $59.95 per unit. The products have been available in retail mass-market chains, catalogs, credit-card inserts, and 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. The introduction of expensive GPS navigation systems has brought more awareness to this category. However, most consumers do not wish to pay over $500 or monthly fees for directions. Our low-cost user-friendly products offer an affordable alternative.

Another quite different channel is a cell-phone implementation of the Road Whiz function. In this case, the user can download software to his cell phone and use the Company's proprietary database and functionality availability in the Road Whiz product by subscription on his cell phone. We're in the process of completing development of an initial implementation of the Road Whiz that functions on the user's cell phone. We will market it to service providers as another feature available to modern cell phone subscribers. The user will need no other hardware beyond a current-generation cell phone. The cell-phone Road Whiz also has the potential of enabling service discounts based on the user's location needs. Information that there is a brand name motel, for example, with rooms available 10 miles down the road can be provided to the user and offered at a significant discount to that highly-targeted consumer. The Company has a patent on electronic coupons for travelers that may be significant as real-time targeting of travelers grows. The initial implementation of this application will operate on a number of new models of cell phones. Specific software is in development that will broaden the list of models compatible with this capability. There will, therefore, be a ramp-up over time of potential users. Because of the large number of cell-phone users, we expect that small market penetration could produce significant results for the Company.

We have had a number of successful years selling our products followed by a number of years when significant losses took place. The most recent downward sales trend was reversed in 2003 due to the successful introduction of the Talking Road WhizTM in the third quarter of 2003. The success of this new product enabled us to overcome losses in the first three quarters of the year with a superb fourth quarter and be profitable for the year. In 2004, this trend continued through the first two quarters of the year. In the second half of the year, sales declined due to internal problems at Media Solutions Services, who accounted for 55.4% of sales during 2004. This customer experienced deteriorating operations during 2004, which resulted in the customer ceasing to order products from us during the second quarter of 2004. In addition, at the request of AAA corporate office, we terminated our agreements with AAA for the use of the AAA logo on certain versions of our products. The effect of this development is difficult to quantify. We realized about 4% of sales from AAA stores in 2003 and 2004. These events led our independent registered public accounting firm, in their report dated March 5, 2005, to express substantial doubt about our ability to continue as a going concern. These events have resulted in a significant decline in revenue and have placed increased pressure on our company to develop new customers. We are working to rectify that situation by expanding our channels of distribution and introducing new products we hope are attractive to the marketplace, as outlined below.

We are making progress with wider channels of distribution of our present products, with Kohl's and Wal-Mart committing to carry these products later this year. Our efforts include using branding sources other than AAA, and we have a product in the market with Automobile Clubs of America (ACA) brand. We are also attempting to broaden the markets for our products in 2005 and are taking on the tasks of promoting products, such as Road Genie - tasks that traditionally have been performed by our customers. This development



will add to our marketing costs in 2005 but should permit us to command a higher margin than we could otherwise realize. In the past wholesalers or distributors were burdened with these marketing costs, which will fall to us on the new products.

In the area of new products, the Company has recently completed a voice-activated audio navigation system called Road GenieTM which is just coming to market. The user requests data verbally, and the unit responds verbally with directions to the service requested. Because this device provides for hands-free operation, it represents a significant jump in performance over earlier products and we hope will generate revenue if funds for marketing it are available. The funds necessary for marketing the Road Genie will be available from the funding described in Note 4 to the Financial Statements.

Based on the past success of selling our product on TV directly to the consumer by a major distributor, who sold approximately 200,000 Talking Road Whiz units in 2004, we plan to market through television commercials directly to the consumer rather than through a major distributor. We hope to establish sales during the second half of 2005. Although we anticipate our marketing expenses will be greater in the short term as we pay for media time, we will receive the full retail price rather than having to pay a percentage of the sale price to a distributor.

We also plan to add a voice-activated digital voice recorder feature to the Road Genie at little additional cost. Development is complete, and this feature will add value and make the product even more attractive to consumers.

If we sell 100,000 Road Genie units in 2005, which is much less than the number of less-capable Talking Road Whiz units sold in 2004, we will reach revenue levels above $4 million and should achieve profitability for the year, with expectations of a better year in 2006 when a full year of Road Genie sales can occur.

Further revenue can be expected downstream by implementation of the cell-phone Road Whiz application now in field test. The marketing objective for that product is to have the service carrier include this application in offers to his customer base. Since there is no hardware cost to the consumer, Road Whiz information can be obtained at very low cost to the consumer. Economic models, such as a monthly subscription of $1 or pay-per-use method, all contribute revenue to us with large numbers of potential clients, namely anyone with a cell phone traveling on the highways.

The product-development plan for 2006 consists of adding a GPS receiver and to incorporate software we've developed to implement a relatively low-cost voice-activated navigation system with even more capability than the Road Genie for simplicity of operation by the consumer.

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2005 Compared to Three and Six Months Ended June 30, 2004

Operating results for the six-month period ended June 30, 2005, as compared the same period in 2004, differed primarily due to the fact that the Talking Road Whiz was very successful in the first half of 2004 whereas the problems with distribution in the second half of 2004 have persisted into 2005, pending the marketing of the new Road Genie by direct response in the second half of 2005 and by placing Talking Road Whiz in more locations.

Sales. During the three and six months ended June 30, 2005, net sales totaled $111,344 and $195,169, respectively, compared with $1,454,556 and $3,208,055, respectively, for the same periods in 2004. These figures represent a decrease of 92.4% for the three-month period and of 93.9% for the six-month period.

Our sales revenue in 2005 comes, primarily, from individual orders as opposed to 2004 when revenues were concentrated from a small number of mass market retailers. For example, in the first six months of 2004 over 85% of our revenue came from two customers. This concentration of our business among a few customers means that our historical results are not a reliable predictor of future results. Until we develop a broader customer base, our quarter-to-quarter operating results are likely to vary considerably, depending on when our customers choose to place their orders. In June we received orders from QVC and Kohl's for delivery in the last half of the year.



Backlog. As of June 30, 2005, the Company had a backlog of $328,116. This backlog is for purchase orders to be fulfilled in the third and fourth quarter of 2005. On June 30, 2004 we had a backlog of $520,447 for shipment through the remainder of 2004.

Gross Profit. Gross profit margin for the three- and six-month periods ending June 30, 2005 were 59.9% and 54.7%, respectively, representing an increase over gross margin in corresponding periods of 2004 of 48.0% and 48.5%, respectively. Gross profit in 2004 was slightly lower due to the pricing that applies to the high-volume sales contracts that were fulfilled in 2004.

S,G&A Expense. Selling expenses for the three- and six-month periods ended June 30, 2005 were $125,620, or 113% of sales, and $148,030, or 75.9% of sales, respectively, compared with $108,272, or 7.4% of sales, and $156,865, or 4.9% of sales, respectively, for the corresponding periods in 2004. These figures mirror the sales levels of the respective periods in that similar amounts for a much smaller sales base will amount to a much larger percentage. In addition, significant expenses have been incurred in developing the TV ads we need to promote the product ourselves, as well as the costs associated with initial test marketing. We expect these percentages to come down but to be significantly higher than in 2004 because of the differences in our marketing approach in 2005.

General and administrative expenses for the three- and six-month periods ended June 30, 2005 were $260,813 and $360,397, respectively, compared with $217,181 and $477,389, respectively, for the corresponding periods in 2004. The quarter comparison reflects consulting expenses from a New York firm in the current quarter that were not present in 2004. The six-month figures include a significant reversal of a bad-debt expense in the first quarter of 2005 due to collection of the Office Max receivable. The figures reflect continued success in our on-going effort to maintain efficiency in our control of overhead costs.

R&D Expense. Research and development expenses in the three- and six-month periods ended June 30,2005 were $90,793 and $125,994, respectively, as compared to $35,315 and $54,984, respectively, for the same periods in 2004. These increases reflect a step-up in new-product development involving the voice-technology devices incorporated in our newest products and costs related to the development of the cell-phone Road Whiz application.

The Company recognized a loss from operations of (411,953) and (529,225) for the three- and six-month periods ended June 30, 2005, respectively, compared to profits from operations of $337,876 and $867,297 for the corresponding periods in 2004.

Other Income (Expense). Other income for the three- and six-month periods ended June 30, 2005 totaled $39,339 and $33,010, respectively, compared with expenses of ($65) and ($5,191), respectively, for the corresponding periods of 2004. The 2005 numbers included $40,000 of royalty income from sales to Radio Shack by our supplier, Sweda, Ltd., of Hong Kong. Royalty revenues will continue in the third quarter at increased levels from additional sales to Radio Shack and sales to Wal-Mart and other retailers.

As a result of the foregoing, the Company realized a net loss of (372,614), or ($0.06) per basic and diluted common share, for the three-month period ended

June 30, 2005, compared to a net income of $337,811, or $0.05 per basic common and diluted share, for the three-month period ended June 30, 2004. The Company realized a net loss of ($496,215), or ($0.08) per basic and diluted common share, for the six-month period ended June 30, 2005, compared to a net income of $862,106, or $0.14 per basic common and diluted share, for the six-month period ended June 30, 2004.

-12-

FINANCIAL CONDITION AND LIQUIDITY

At June 30, 2005, the Company had $45,955 in cash, compared to $552,823 at December 31, 2004. The Company's operating activities in the six months ended June 30, 2005 used cash totaling (488,645) because of the similar loss incurred in that period.

Net cash used in investing activities for the six-month period ended June 30, 2005 totaled ($1,366) for capital equipment, compared to ($8,206) in the same period in 2004.

Net cash provided by in financing activities for the six-month period ended June 30, 2005 was $150,000 compared to cash used of ($137,141) in the same period in 2004. The 2004 amount resulted from paying off debt with proceeds of sales in the last quarter of 2003, and the 2005 amount resulted from the debenture and advance received in the first half of 2005.

The Company's current ratio at June 30, 2005 was 1.56:1 and its working capital was $92,122.

Management believes that the financing described in Note 4 above will provide sufficient working capital for operations for the rest of 2005 and will permit product promotion for sales levels that will return the Company to profitability in 2005.

ITEM 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: As of June 30, 2005, the Company's management carried out an evaluation, under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer of the effectiveness of the design and operation of the Company's system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal controls: There were no changes in internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting.

ULTRADATA SYSTEMS, INCORPORATED
10QSB

PART II - OTHER INFORMATION

Item 1. Legal Proceedings:

None

Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities:

In June 2005 Ultradata issued a total of 6,000 shares of common stock to three of the members of its Board of Directors. The shares were issued in consideration for services, and were valued at the market value on the date of issuance - i.e. $1,470. The issuances were exempt pursuant to Section 4(2) of the Act since the issuances were not made in a public offering and were made to individuals who had access to detailed information about Headliners and were acquiring the shares for their own accounts. There were no underwriters.

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.

August 15, 2005

/s/ Monte Ross
-------------------------------
Monte Ross, CEO
(Chief executive officer)

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