ULTRADATA SYSTEMS INC
Form 10QSB
August 09, 2002

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, 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 [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 30, 2002
Common, $.01 par value	3,432,591

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

File Number
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ULTRADATA SYSTEMS, INCORPORATED

Balance Sheets
As of June 30, 2002 and December 31, 2001

Assets	June 30, 2002 (Unaudited)	December 31, 2001
Current assets:		
Cash and cash equivalents	$ 350,988	$ 164,682
Trade accounts receivable, net of allowance for doubtful accounts of $365,287	27,926	376,429
Inventories	880,641	1,346,492
Prepaid expenses and other current assets	13,838	11,649
Total current assets	1,273,393	1,899,252
Property and equipment, net	327,982	413,270
Total property and equipment	327,982	413,270
Notes receivable - long term	225,394	225,394
Other assets	5,444	5,444
Total assets	$ 1,832,213	$ 2,543,360

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts payable	$ 43,408	$ 96,133
Accrued expenses and other liabilities	163,127	272,146
Notes payable - current	110,700	110,991
Total current liabilities	317,235	479,270
Long term liabilities:		
Notes payble - long term	554,740	616,007
Total liabilities	871,975	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, 16 shares outstanding with a stated value of $1,000	16,000	16,000
Common stock, $.01 par value; 10,000,000 shares authorized; 3,758,762 shares issued June 30,2002; 3,698,350 shares issued December 31, 2001	37,588	36,983
Additional paid-in capital	9,578,736	9,573,281
Accumulated deficit	(7,572,934)	(7,049,202)
Treasury stock (326,171 shares at cost)	(942,311)	(942,311)
Notes receivable issued for purchase of common stock	(156,841)	(186,668)
Total stockholders' equity	960,238	1,448,083
Total liabilities and stockholders' equity	$ 1,832,213	$ 2,543,360

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

ULTRADATA SYSTEMS, INCORPORATED

Statements of Operations

	Three months ended June 30, 2002 (Unaudited)	Three months ended June 30, 2001 (Unaudited)	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Net sales:	$ 78,684	$ 510,612	$ 1,074,403	$ 696,454
Cost of sales:	68,563	268,460	783,285	414,650
Gross profit	10,121	242,152	291,118	281,804
Selling expense	21,351	154,972	60,236	205,982
General and administrative expenses	312,829	686,753	609,793	1,140,820
Research and development expense	55,012	96,566	113,369	225,360

Total operating expenses	389,192	938,291	783,398	1,572,162
Operating loss	(379,071)	(696,139)	(492,280)	(1,290,358)
Other (expense) income:				
Interest and dividend income	2,315	12,341	7,221	46,043
Interest expense	(19,003)	-	(38,818)	-
Equity in (losses) earnings of affiliates	-	(41,199)	-	5,568
Other, net	54	(22,249)	144	(22,103)
Total other income, net	(16,634)	(51,107)	(31,453)	29,508
Loss before income taxes	(395,705)	(747,246)	(523,733)	(1,260,850)
Income tax expense	-	-	-	-
Net loss	(395,705)	(747,246)	(523,733)	(1,260,850)
Less deemed dividends on preferred shares	-	(46,219)	-	(91,669)
Net loss available to common shareholders	$(395,705)	$ (793,465)	$ (523,733)	$(1,352,519)
Loss per share-basic and diluted	$ (0.12)	$ (0.25)	$ (0.15)	$ (0.42)
Weighted Average Shares Outstanding: Basic and diluted	3,415,224	3,234,422	3,398,093	3,214,209

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

ULTRADATA SYSTEMS, INCORPORATED
Statements of Cash Flows

Six months ended June 30, 2002 and 2001

	2002	2001
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$ (523,733)	$(1,260,850)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	90,142	99,130
Inventory writedown	65,077	60,000
Equity in (earnings) losses of unconsolidated affiliates	-	(5,568)

Realized loss (gain) on investments	-	13,045
Non-cash compensation expense	-	2,544
Gain on disposal of fixed asset	-	1,715
Increase (decrease) in cash due to changes in operating assets and liabilities:		
Trade accounts receivable	348,503	236,963
Inventories	400,774	(433,859)
Prepaid expenses and other current assets	(2,189)	(45,529)
Accounts payable	(52,724)	(116,316)
Accrued expenses and other liabilities	(109,018)	(10,956)
Deferred rent	-	(3,732)
Net cash provided by (used in) operating activities	216,832	(1,463,413)
Cash flows from investing activities:		
Capital expenditures	(4,854)	(27,711)
Net cash used in investing activities	(4,854)	(27,711)
Cash flows from financing activities:		
Repurchase of preferred shares	-	(120,000)
Subscription payments	29,826	-
Payments on notes payable	(55,498)	-
Net cash used in financing activities	(25,672)	(120,000)
Net increase (decrease) in cash and cash equivalents	186,306	(1,611,124)
Cash and cash equivalents at beginning of period	164,682	1,842,983
Cash and cash equivalents at end of period	$ 350,988	$ 231,859
Non-cash investing and financing		
Redemption of Rabbi Trust	$ -	$ 87,329
Conversion of preferred stock	$ -	$ 28,000
Conversion of convertible debt	$ 6,060	-

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

ULTRADATA SYSTEMS, INCORPORATED

June 30, 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 and six-month periods ended June 30, 2002 and 2001, 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).

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:

	June 30, 2002	December 31, 2001
Raw Materials	$ 301,967	$ 831,318
Work in Process	-	-
Finished Goods	578,674	515,174
Total Net	$ 880,641	$1,346,492
Obsolete inventory on hand	$ 465,066	$ 434,487

Note 3. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	June 30, 2002	December 31, 2001
Accrued sales commissions and royalties	$ 63,367	$ 141,811
Payroll and payroll-related liabilities	49,538	69,061
Accrued advertising	6,254	-
Other	43,968	61,274
	$ 163,127	$ 272,146

Note 4. Convertible Debt Conversion

During the three months ended June 30, 2002, the holders of the Company's Senior Convertible Notes converted $3,000 of convertible debt into 26,786 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

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 fact that our limited financial resources may be insufficient to permit us to develop products and introduce them to the market;

* 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.

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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.

* In the second quarter of 2002 we shipped the reprogrammed 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. Improved performance was obtained, but the tests revealed several software bugs which are being resolved, and we expect to be in production in the second half of the year.

* The Company has sold over 3 million of its low-cost handheld travel computers, demonstrating that there is a market for travel information products. To re-awaken that market with an improved product that speaks, the Company is developing a Talking Road Whiz. This product is expected to be available at the beginning of 2003. The Company is introducing for the holiday season a very low-cost gift item called Road Rage Relief that produces one-line voice comments about driving upon the press of a button. The product provides a simple means of fastening to an interior surface of the car and can be activated without taking one's eyes off the road.

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 retail mass-market chains plus many other locations. The new TRAVEL*STAR 24 will be 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, 2002 Compared to Three and Six Months Ended June 30, 2001

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

Sales. During the three and six months ended June 30,2002, net sales totaled $78,684 and $1,074,403, respectively, compared with $510,612 and $696,454, respectively for the same periods in 2001. These figures represent a decrease of 84.6% for the three-month period and an increase of 54.3% for the six-month period. The figures are somewhat distorted by the fact that a significant order was shipped on the last day of the first quarter. Had that order been booked in the second quarter, there would have been increased sales for both the three-month and the six-month periods as compared with 2001.

Backlog. As of June 30, 2002, the Company had a backlog of $258,412 for purchase orders to be fulfilled in the third quarter 2002, as compared to $134,061 for June 30, 2001.

Gross Profit. Gross profit margin for the three- and six-month periods ending June 30, 2002 were 12.8% and 27.1%, respectively, representing a reduction from the corresponding periods of 2001 of 34.6% and 13.4%, respectively. Gross profit in 2002 is still low primarily due to higher cost of microchips in inventory for these sales. The higher-priced chips are now out of inventory, paving the way for improved margins on future sales.

S,G&A Expense. Selling expenses for the three- and six-month periods ended June 30, 2002 were $21,351 and $60,236, respectively, compared with $154,972 and $205, 982, respectively, for the corresponding periods in 2001. These figures represent reductions of 86.2% and 70.8%, respectively, for the three- and six-month periods in 2002 versus 2001. General and administrative expenses for the three- and six-month periods ended June 30, 2002 were $312,829 and $609,793, respectively, compared with $686,753 and $1,140,820, respectively, for the corresponding periods in 2001. These figures represent reductions of 54.4% and 46.5%, respectively, for the three- and six-month periods in 2002 versus 2001. These reductions reflect success in our on-going effort to reduce expenses.

R&D Expense. Research and development expense in the three- and six-month periods ended June 30,2002 also decreased 43.0% and 49.7%, respectively, from the corresponding periods of 2001.

The Company posted a loss from operations of ($379,071) and ($492,280) for the three- and six-month periods ended June 30, 2002, respectively, compared to a loss from operations of ($696,140) and ($1,290,359) for the corresponding periods in 2001.

Other Income. Other income (expense) for the three- and six-month periods ended June 30, 2002 totaled ($16,634) and ($31,453), respectively, compared with ($51,107) and $29,508, respectively, for the corresponding periods of 2001. The primary sources of the differences in these results stems from the sale of Talon and the conversion of preferred shares to debt - both of which took place in the fourth quarter of 2001.

As a result of the foregoing, the Company posted a net loss available to common shareholders of ($395,705), or ($0.12) per basic and diluted common share, for the three-month period ended June 30, 2002, compared to 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. The Company posted a net loss available to common shareholders of ($523,733), or ($0.15) per basic and diluted common share, for the six-month period ended June 30, 2002, compared to 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. 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. No such dividend was applicable in 2002 since the preferred shares were converted to debt in the fourth quarter of 2001.

FINANCIAL CONDITION AND LIQUIDITY

At June 30, 2002, the Company had $350,988 in cash and cash equivalents, compared to $164,682 at December 31, 2001. The Company's operating activities in the six months ended June 30, 2002, provided cash totaling $216,832 from reductions of inventory and accounts receivable that outweighed losses and other uses of cash. Accounts receivable decreased by $348,503 due to collections on sales in the first quarter of 2002. Inventories decreased by $400,774 due to second quarter deliveries, and accounts payable decreased by $52,724.

Net cash used in investing activities for the six-month period ended June 30, 2002 totaled ($4,854) compared to ($27,711) for the same period in 2001, all for capital expenditures.

Net cash used in financing activities for the quarter ended June 30, 2002 was ($25,672) and amounted to the difference between cash outlays to repay long-term debt and cash received in payments from employees against outstanding loans. In the comparable period of 2001, net cash used in financing activities was ($120,000), primarily due to the repurchase of 106 shares of Series A Preferred Stock.

Our operating losses over the past three years have had an adverse effect on our working capital. Nevertheless, at June 30, 2002 we still had over $956,000 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 activity during 2001.

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:

None

SIGNATURES AND CERTIFICATION

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.

The undersigned officers certify that this report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and that the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

August 9, 2002

/s/ Monte Ross

Monte Ross, CEO
(Chief executive officer)

/s/ Ernest S. Clarke

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