

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

ULTRADATA SYSTEMS INC
Form 10QSB
November 08, 2006

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 SEPTEMBER 30, 2006

() 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) 991-8494

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 []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes [] No [X]

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 November 6, 2006
Common, \$.01 par value	17,548,665

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

File Number

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

0-25380

ULTRADATA SYSTEMS, INCORPORATED
FORM 10-QSB
September 30, 2006
INDEX

PART I - FINANCIAL INFORMATION	PAGE
Item 1. Condensed Unaudited Financial Statements	
Condensed Balance Sheets at September 30, 2006 (consolidated and unaudited) and December 31, 2005	3.
Condensed Statements of Operations for the three months and nine months ended September 30, 2006 (consolidated and unaudited) and 2005 (unaudited)	4.
Condensed Statements of Cash Flows for the nine months ended September 30, 2006 (consolidated and unaudited) and 2005 (unaudited)	5.
Notes to Condensed Consolidated Financial Statements (unaudited)	6.
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9.
PART II - OTHER INFORMATION	13.
Signatures	13.
Exhibits	13.

ULTRADATA SYSTEMS, INCORPORATED, AND SUBSIDIARY

Condensed Balance Sheets

As of September 30, 2006 (Consolidated) (unaudited) and December 31, 2005

	September 30, 2006	December 31, 2005
	-----	-----
Assets	(Consolidated)	
	(Unaudited)	
Current assets:		
Cash	\$ 42,679	\$ 133,524
Trade accounts receivable, net of allowance for doubtful accounts of \$100	16,259	96,910
Inventories, net	70,309	86,314
Prepaid expenses	2,614	39,144
	-----	-----
Total current assets	131,861	355,892
	-----	-----
Property and equipment, net	22,310	33,251

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

Other assets	-	5,444
	-----	-----
Total assets	\$ 154,171	\$ 394,587
	=====	=====

Liabilities and Stockholders' Deficiency

Current liabilities:		
Accounts payable	117,013	200,172
Accrued liabilities	308,685	177,687
Notes payable	114,039	119,993
Derivative and warrant liability	-	4,816,193
	-----	-----
Total current liabilities	539,737	5,314,045
	-----	-----
Total liabilities	539,737	5,314,045
Redeemable Preferred Stock Series B convertible preferred stock, 210,000 shares authorized and outstanding with a stated value of \$1,050		
	1,050	-
Series C convertible preferred stock, 150,000 shares authorized, with a stated value of \$750		
100,000 shares outstanding	500	-
Stockholders' deficiency:		
Preferred Stock, \$0.01 par value, 4,636,680 shares authorized, none outstanding	-	-
Common stock, \$.01 par value; 50,000,000 shares authorized; 17,548,665 and 8,341,343 shares issued and outstanding		
	175,487	83,413
Additional paid-in capital	13,852,273	9,528,366
Accumulated deficit	(14,414,876)	(14,531,237)
	-----	-----
Total stockholders' deficiency	(387,116)	(4,919,458)
	-----	-----
Total liabilities and stockholders' deficiency	\$ 154,171	\$ 394,587
	=====	=====

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

ULTRADATA SYSTEMS, INCORPORATED, AND SUBSIDIARY

Condensed Statements of Operations

For the three and nine months ended September 30, 2006 (Consolidated and unaudited) and 2005 (unaudited)

Three months ended September 30,	Nine months ended September 30,
-------------------------------------	------------------------------------

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

	2006	2005	2006	2005
Net sales	\$ 7,827	\$ 140,119	\$ 138,185	\$ 335,288
Cost of sales	40,714	110,892	112,146	199,395
Gross profit (loss)	(32,887)	29,227	26,039	135,893
Selling expense	402	61,388	34,591	209,418
General and administrative expenses	100,507	247,091	434,365	608,958
Research and development expense	923	93,801	59,505	219,795
Total operating expenses	101,832	402,280	528,461	1,038,171
Operating loss	(134,719)	(373,053)	(502,422)	(902,278)
Other income (expense):				
Interest and dividend income	25	82	168	597
Interest expense	-	(80,550)	(163,044)	(101,963)
Fair Value expense	-	-	782,212	-
Royalty income	-	44,800	-	84,800
Settlement of legal dispute	-	-	-	13,844
Other, net	(553)	1	(553)	65
Total other (expense) income, net	(528)	(35,667)	618,783	(2,657)
(Loss) earnings income before income taxes	(135,247)	(408,720)	116,361	(904,935)
Income tax	-	-	-	-
Net (loss) income	\$ (135,247)	\$ (408,720)	\$ 116,361	\$ (904,935)
(Loss) earnings per share - basic	\$ (0.01)	\$ (0.06)	\$ 0.01	\$ (0.14)
(Loss) earnings per share - fully diluted	\$ (0.01)	\$ (0.06)	\$ 0.01	\$ (0.14)
Weighted Average Shares Outstanding - Basic	17,548,665	6,587,587	12,239,245	6,470,168
Weighted Average Shares Outstanding: Fully diluted	17,548,665	6,587,587	12,239,245	6,470,168

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

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

ULTRADATA SYSTEMS, INCORPORATED, AND SUBSIDIARY

Condensed Statements of Cash Flows

Nine months ended September 30, 2006 (Consolidated and unaudited) and 2005 (unaudited)

	2006	2005
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income (loss)	\$ 116,361	\$ (904,935)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	10,378	12,171
Loss on disposal of asset	563	-
Provision for doubtful accounts	(5,141)	(176,104)
Reserve for inventory impairment	6,855	9,597
Stock issued for services	1,550	117,430
Non-cash derivative liability	(782,212)	-
Non-cash amortization of note payable discount	158,507	96,800
Increase (decrease) in cash due to changes in operating assets and liabilities:		
Trade accounts receivable	85,791	162,502
Inventories	9,150	(79,320)
Prepaid expenses and other current assets	36,530	(27,686)
Accounts payable	(83,158)	18,332
Accrued expenses	130,998	-
Other	5,444	67,561
Net cash used in operating activities	(308,384)	(703,652)
Cash flows from investing activities:		
Capital expenditures	-	(816)
Net cash used in investing activities	-	(816)
Cash flows from financing activities:		
Sale of preferred stock	210,000	-
Proceeds from sale of convertible debentures	-	300,000
Advance on future debenture conversion	-	60,000
Note payable - Short term	114,039	-
Principal payments on notes payable	(106,500)	-
Net cash provided by financing activities	217,539	360,000
Net decrease in cash	(90,845)	(344,468)
Cash at beginning of period	133,524	385,966

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

Cash at end of period	----- \$ 42,679 =====	----- \$ 41,498 =====
-----------------------	-----------------------------	-----------------------------

During the nine months ended September 30, 2006, the Company issued 9,207,322 shares of common stock to satisfy convertible debt aggregating \$172,000.

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

ULTRADATA SYSTEMS, INCORPORATED, AND SUBSIDIARY Notes to Condensed Consolidated Financial Statements September 30, 2006 (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 nine-month periods ended September 30, 2006 and 2005, 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, 2006. It is suggested that the interim financial statements be read in conjunction with the audited financial statements for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on Form 10-KSB (Commission File Number 0-25380).

Cash

Cash includes deposits at financial institutions with maturities of three months or less. The Company at times has cash in banks in excess of FDIC insurance limits and places its temporary cash investments with high credit quality financial institutions. At September 30, 2006, the Company had no amounts in excess of the FDIC insured limits.

Income Tax

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized income in the period that includes the enactment date.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Provision for potentially obsolete or slow moving inventory is made based on management's analysis of inventory levels and future sales forecasts.

ULTRADATA SYSTEMS, INCORPORATED, AND SUBSIDIARY Notes to Condensed Consolidated Financial Statements September 30, 2006 (Unaudited)

Recent Pronouncements

SFAS 155, Accounting for Certain Hybrid Financial Instruments and SFAS 156, Accounting for Servicing of Financial Assets were recently issued. SFAS 155 and 156 have no current applicability to the Company and have no effect on the financial statements.

Principles of Consolidation

The 2006 consolidated financial statements include the accounts of Ultradata Systems, Incorporated, and its wholly-owned subsidiary, RW Data, Inc. (June 1, 2006, inception). The 2005 financial statements include Ultradata Systems, Incorporated. All significant intra-company accounts and transactions have been eliminated in consolidation. Ultradata Systems, Inc. and RW Data, Inc. are hereafter referred to as the "Company".

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:

	September 30, 2006	December 31, 2005
	-----	-----
Raw Materials, net of obsolete	\$ 5,602	\$ 9,664
Finished Goods, net of obsolete	64,707	76,649
	-----	-----
Total	\$ 70,309	\$ 86,313
	=====	=====
Obsolete inventory on hand	\$228,600	\$712,062

Note 2. Prepaid Expenses

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

Prepaid expenses consist of the following:

	September 30, 2006	December 31, 2005
	-----	-----
Prepaid insurance	\$ 2,615	\$ 6,752
Prepaid expenses	-	32,392
	-----	-----
	\$ 2,615	\$ 39,144
	=====	=====

ULTRADATA SYSTEMS, INCORPORATED, AND SUBSIDIARY
Notes to Condensed Consolidated Financial Statements
September 30, 2006 (Unaudited)

Note 3. Income (Loss) Per Share

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
	-----		-----	
Basic				
Numerator:				
Net (loss) income	\$(135,247)	\$(408,720)	\$(116,361)	\$(904,935)
Numerator for basic income (loss) per share	\$(135,247)	\$(408,720)	\$(116,361)	\$(904,935)
Denominator:				
Weighted average common shares	17,548,655	6,587,587	12,239,245	6,470,168
Denominator for basic income (loss) per share	17,548,655	6,587,587	12,239,245	6,470,168
Basic income (loss) per share	\$ (0.01)	\$ (0.06)	\$ (0.01)	\$ (0.14)
Fully Diluted Numerator:				
Net income (loss)	\$(135,247)	\$(408,720)	\$(116,361)	\$(904,935)
Numerator for fully diluted income (loss) per share	\$(135,247)	\$(408,720)	\$(116,361)	\$(904,935)
Denominator:				
Weighted average common shares	17,548,655	6,587,587	12,239,245	6,470,168
Common stock equivalents	-	-	-	-
Denominator for fully diluted income (loss) per share	17,548,655	6,587,587	12,239,245	6,470,168
Fully diluted income (loss) per share	\$ (0.01)	\$ (0.06)	\$ (0.01)	\$ (0.14)

Note 4. Convertible Debentures

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

To obtain funding for ongoing operations, the Company entered into a Securities Purchase Agreement (the SPA) and various amendments to the SPA with Golden Gate Investors, Inc. (GGI) on February 14, 2005 for the sale of (i) \$300,000 in unsecured convertible debentures (the Notes) and (ii) warrants to purchase 300,000 shares of the Company's common stock.

The Notes bore interest at 4.75% per annum, matured three years from the date of issuance and were convertible into the number of shares of the Company's common stock equal to the dollar amount of the Notes being converted multiplied by 11, less the product of the conversion formula multiplied by 10 times the dollar amount of the Notes being converted, which is divided by the conversion formula. The conversion formula was the lesser of (a) \$1.25, (b) eighty percent of the average of the three lowest volume weighted average prices during the twenty trading days prior to the conversion. Accordingly, there was no limit on the number of shares into which the Notes may be converted.

ULTRADATA SYSTEMS, INCORPORATED, AND SUBSIDIARY Notes to Condensed Consolidated Financial Statements September 30, 2006 (Unaudited)

The Notes included certain features that are considered embedded derivative financial instruments, such as the conversion feature, events of default and a variable liquidated damages clause. These features are described below, as follows:

- The Notes' conversion feature is identified as an embedded derivative and has been bifurcated and recorded on the Company's balance sheet at its fair value;
- The SPA includes a penalty provision based on any failure to meet registration requirements for shares issuable under the conversion of the Notes or exercise of the warrants, which represents an embedded derivative, but such derivative has a de minimus value and has not been recorded in the accompanying financial statements; and
- The SPA contains certain events of default including not having adequate shares registered to effectuate allowable conversions; in that event, the Company is required to pay a conversion default payment at 125% of the then outstanding principal balance on the Notes, which is identified as an embedded derivative, but such derivative has a de minimus value and has not been recorded in the accompanying consolidated financial statements.

In conjunction with the Notes, the Company issued warrants to purchase 300,000 shares of common stock. The accounting treatment of the derivatives and warrants requires that the Company record the warrants at their fair values as of the inception date of the agreement, which totaled \$600.

The initial fair value assigned to the embedded derivatives and warrants was \$5,957,188. The Company recorded the first \$300,000 of fair value of the derivatives and warrants to debt discount which will be amortized to interest expense over the term of the Notes. The Company recorded an amortization expense for the three months ended March 31, 2006 of \$34,339. During the quarter ending June 30, 2006, no such amortization expense was incurred.

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

The market price of the Company's common stock significantly impacts the extent to which the Company may be required or may be permitted to convert the unrestricted and restricted portions of the Notes into shares of the Company's common stock. The lower the market price of the Company's common stock at the respective times of conversion, the more shares the Company will need to issue to convert the principal and interest payments then due on the Notes. If the market price of the Company's common stock falls below certain thresholds, the Company will be unable to convert any such repayments of principal and interest into equity, and the Company will be forced to make such repayments in cash. The Company's operations could be materially adversely impacted if the Company was forced to make repeated cash payments on the Notes.

ULTRADATA SYSTEMS, INCORPORATED, AND SUBSIDIARY Notes to Condensed Consolidated Financial Statements September 30, 2006 (Unaudited)

During the 3-month period ending June 30, 2006, conversions of \$100,000 of the debenture resulted in eliminating the Fair Value liability taken in 2005 in accordance with guidance provided in EITF 00-19:

Note payable as of 12/31/2005	\$ 278,500
Conversions during the first quarter 2006	72,000
Conversions during the second quarter 2006	100,000
Note payable principal balance paid in cash in second quarter 2006	106,500
Discount on note payable	-
Note payable - net	-
Amortized amount charged to interest	52,280
Initial (non-cash) fair-value charge	\$ 4,816,193
Reduction in liability due to first quarter conversions	1,245,120
Reduction in liability due to second quarter conversions	2,788,861

Gain from reduction in fair-value liability	782,212
	=====

On June 8, 2006 the Company fully satisfied the Notes by a payment of \$106,612.40, which equaled the remaining principal balance and accrued interest on that date. In connection with that payment, Golden Gate Investors, Inc. agreed to a termination of the Warrant to Purchase Common Stock that had been linked to the Debenture.

Note 5. Note Payable

Since May 2006, cash advances have been provided by our supplier Sweda to allow the Company to buy product and continue operations during this transition period. The Company issued a note payable to Sweda, which is to be repaid from proceeds of the sale of the assets of the RW Data subsidiary of the Company when that occurs. The note is non-interest-bearing, is due and payable December 31, 2006, and is secured by the assets of the Company. The loan balance as of September 30, 2006, was \$114,039.

Note 6. Preferred Stock

On June 6, the Company filed with the Delaware Secretary of State

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

a Certificate of Designation of 210,000 shares of Series B Preferred Stock. The holder of the Series B shares will be entitled to cast 51% of the votes at any shareholders meeting. The holder will be entitled to convert the Series B stock into 10% of the outstanding shares of Ultradata common stock, but only if Ultradata has acquired an operating company during 2006. Otherwise the Series B Preferred Stock will be redeemed automatically for a price of \$.001 per share on December 31, 2006. In the event the Company declares a dividend, the holder of a share of Series B Preferred Stock will receive the same dividend as the holder of a share of common stock. In the event of a liquidation of the Company, the holder of a share of Series B Preferred Stock will receive \$.005 per share before any distribution is made to the holders of common stock, and will then share in the distribution on a pari passu basis.

On June 6, the Company filed with the Delaware Secretary of State a Certificate of Designation of 150,000 shares of Series C Preferred Stock. The holder of the Series C shares will not be entitled to cast votes at any shareholders meeting. The holder will be entitled to convert the Series C stock into 2% of the outstanding shares of Ultradata common stock, but only if Ultradata has acquired an operating company during 2006. Otherwise the Series C Preferred Stock will be redeemed automatically for a price of \$.001 per share on December 31, 2006. In the event the Company declares a dividend, the holder of a share of Series C Preferred Stock will receive the same dividend as the holder of a share of common stock. In the event of a liquidation of the Company, the holder of a share of Series C Preferred Stock will receive \$.005 per share before any distribution is made to the holders of common stock, and will then share in the distribution on a pari passu basis.

ULTRADATA SYSTEMS, INCORPORATED, AND SUBSIDIARY
Notes to Condensed Consolidated Financial Statements
September 30, 2006 (Unaudited)

Note 7. Financing Activity

On June 1, 2006 Ultradata entered into a group of agreements. The purpose of the agreements is to fund Ultradata's ongoing operations and enable Ultradata to acquire a new business under new management. The business that will be acquired has not yet been determined.

Under the primary agreement on June 1, 2006 Ultradata sold to Warner Technology & Investment Corp. ("Warner Technology") 210,000 shares of Series B Preferred Stock for \$210,000 in cash paid on that date. In connection with the purchase by Warner Technology of the Series B Preferred Stock, the present directors of Ultradata elected to the Board a designee of Warner Technology and submitted their resignations from the Board, effective June 30, 2006. After that change of control, Warner Technology and its designee to the Board bear responsibility for negotiating the acquisition of an operating company. The Certificate of Designation of the Series C stock provides, however, that no corporation acquisition can be completed without the approval of the holders of the Series C stock - i.e. the Managers (identified below). In the Management Agreement, the Managers agreed that they will approve any corporate acquisition in which (a) the acquired company had not less than \$2.5 million in revenue and not less than \$700,000 in net pre-tax income in the year ended September 30, 2005, (b) the shareholders of Ultradata at the time of the merger and the holders of the Series C Preferred Stock will, on closing of the acquisition, own not less than five percent of the equity in Ultradata, and (c) there are no other material terms of the corporate acquisition that are objectionable to the Managers.

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

Also on June 1, 2006, Ultradata entered into an Assignment and Assumption Agreement, which effected the transfer of all of Ultradata's operating assets to a wholly-owned subsidiary named "RW Data, Inc." In the same agreement, RW Data agreed to pay all of Ultradata's debts and obligations existing on June 1, 2006.

On the same date Ultradata and RW Data entered into a Management Agreement with Monte Ross, Ernest Clarke and Mark Peterson (the "Managers"), who were officers and members of Ultradata's Board of Directors prior to June 30, 2006. All directors of Ultradata resigned, and a designee of Warner Technology became the sole director. The Managers agreed to the termination of their employment agreements with Ultradata, and that they would instead assume responsibility for the management of RW Data, Inc. The Managers undertake to use their best efforts to effect a sale of the assets of RW Data during 2006. In consideration for their commitment, Ultradata issued to the Managers a total of 100,000 shares of Series C Preferred Stock and granted them options to purchase a total of 50,000 additional Series C shares for \$150,000.

The Managers will be able to convert the Series C Preferred Stock into 2% of the outstanding Ultradata shares (3% if they exercise the option for additional Series C shares), but only if Ultradata has acquired an operating company during 2006. Otherwise the Series C Preferred Stock will be cancelled. If the 100,000 shares of Series C Preferred Stock are converted into common stock, the Managers will be entitled to sell the shares to Ultradata after April 1, 2007 for a price equal to the sum of \$275,000 less all liabilities of RW Data at December 31, 2006 and all liabilities of Ultradata that existed on June 1, 2006 and remain on the balance sheet on December 31, 2006. In the event that the afore-mentioned liabilities exceed \$275,000, then the Managers will be required to surrender one Series C share for each \$2.75 of excess liabilities.

Note 8. Contingency

On August 9, 2006 a lawsuit was commenced in the Superior Court of the State of California against Ultradata and its previous Chief Executive Officer and Chief Financial Officer, among other defendants. The complaint alleged that the defendants conspired to sell the AutoPilot Talking Road Navigator(tm) in the State of California by means of false advertising. The complaint asserts claims under California laws against false advertising and unfair competition, as well as under California consumer protection statutes. The complaint seeks restitution, compensatory damages and punitive damages of an unspecified amount as of September 30, 2006. Ultradata and its management are evaluating the complaint and the extent to which indemnity for the claim is available from Ultradata's insurance carrier.

Note 9. Going Concern

As reflected in the accompanying financial statements, for the three months ended September 30, 2006 the Company had an operating loss of \$133,170 and a negative cash flow from operations of \$308,384 for the nine months ended September 30, 2006. At September 30, 2006, it had a working capital deficiency of \$407,876, and a stockholders' deficiency of \$387,116. As a result of its financing activities (see Notes 5 and 7), the Company has had an infusion of capital from its supplier, Sweda, and from the sale of Series B Preferred Stock. Consequently, Management

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

believes the Company has access to sufficient resources to continue operations throughout the transition period begun with the signing of the agreements outlined in Note 7.

Note 10. Subsequent Events

Subsequent to September 30, 2006, the Company received \$40,000 from Sweda, Ltd. related to the note payable disclosed in Note 5.

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 acquire a new operating company, to sell our existing operations, and to return our company to 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 implement this plan. Among these factors are:

- * The fact that we may not be able to complete a satisfactory acquisition within the time limits set in the June 2006 agreement.
- * The fact that we may not be able to sell our current operations on satisfactory terms.
- * The fact that, if we continue in the current business beyond 2006, our financial resources will be insufficient to sustain us.

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's mission since 1987 has been to aid the road traveler with useful information with products easy to use and affordable in price. For almost 20 years 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. These new products are consistent with our goal of improved ease of use by the consumer. In 2005, development of the Road Genie Audio Navigation System was accomplished. We also have developed a low-cost voice-controlled audio recorder for automobile use using the same voice-recognition technology. Production of this unit was initiated in the first quarter of 2006. Availability for sale depends on obtaining commitments sufficient to complete production.

The Company has sold over 3 million of its low-cost handheld

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

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 has developed a Talking Road Whiz™. Significant deliveries of this product began in September of 2003 and, the Company received significant revenue in the last four months of 2003 from sales of this new addition to its product line. This success continued in the first two quarters of 2004, which have traditionally been weak quarters for Ultradata. Our growth was stalled, however, in the second half of 2004, when our primary distributor and one significant customer both ceased placing orders. We engaged in efforts to replace those sales lost in 2005 but without success, although sales of the product continue in the same channels as in 2005. More broadly, the Company is completing development of a Cellular Road Whiz application using our proprietary database and enabling access via a cell phone rather through separate hardware. Users who subscribe to our service can get not only information about services along their route with directions and distance from their location but, in addition, can obtain fuel prices in real time and select their stop on that basis. We started tests of the system in June 2006.

-10-

In the Spring of 2006 Management determined that the Company was unlikely to obtain the funding necessary to carry out its plans for launching new products. Accordingly, in June 2006 we commenced an initiative whose goal is to (a) acquire a new operating company and (b) dispose of our current operations. Towards that end we sold a controlling interest in Ultradata to Warner Technology, subject to a provision that Warner Technology will lose its shares if Ultradata has not completed a satisfactory acquisition by the end of 2006. We also transferred our operating assets to a wholly-owned subsidiary, and entered into an agreement with members of our Management that charges them with responsibility for obtaining a buyer for those operations. To date no transaction of the sort contemplated in the June 2006 activities has been completed.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2006 Compared to Three and Nine Months Ended September 30, 2005

Operating results for the three- and nine-month periods ended September 30, 2006, were significantly below those of the same periods in 2005.

Sales. During the three and nine months ended September 30, 2006, net sales totaled \$7,827 and \$138,185, respectively, compared with \$140,119 and \$335,288, respectively, for the same periods in 2005. The reduction in 2006 was primarily due to a lack of sales to large retailers and a lack of significant sales through QVC during this period of transition.

Backlog. As of September 30, 2006, the Company had no backlog. On September 30, 2005 we had a backlog of \$300,204.

Gross Profit. Gross profit margin for the three-month period ending September 30, 2006 was negative due to the write-off of a deposit for electronic parts to guarantee a minimum purchase that will not be realized in our current business climate. The nine-month period was negatively affected as well, with gross margin as a percent of sales equaling 18.8% compared with gross margin in the corresponding period of 2005 of 40.5% of sales.

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

S,G&A Expense. Selling expenses for the three- and nine-month periods ended September 30, 2006 were \$402 and \$34,591, respectively, compared with \$61,388 and \$209,418, respectively, for the corresponding periods in 2005. These figures reflect the elimination of sales activity due to lack of funds.

General and administrative expenses for the three- and nine-month periods ended September 30, 2006 were \$100,507 and \$434,365, respectively, compared with \$247,091 and \$608,958, respectively, for the corresponding periods in 2005. These comparisons also reflect the reduction of expenses due to our lack of funds.

R&D Expense. Research and development expenses in the three- and nine-month periods ended September 30, 2006 were \$923 and \$59,505, respectively, as compared to \$93,801 and \$219,795, respectively, for the same periods in 2005. These decreases also reflect the cessation of R&D activity in the transition period.

The Company recognized a loss from operations of (\$134,719) and (\$502,422) for the three- and nine-month periods ended September 30, 2006, respectively, compared to (\$373,053) and (\$902,278) for the corresponding periods in 2005.

-11-

Other Income (Expense). Other income for the three- and nine-month periods ended September 30, 2006 totaled (\$528) and \$618,783, respectively, compared with (\$35,667) and (\$2,657), respectively, for the corresponding periods of 2005. The nine-month 2006 numbers included a non-cash gain due to the reversal of most of the non-cash Fair Value expense incurred in the fourth quarter of 2005 due to the Golden Gate Investors convertible debenture (see Note 6). These debentures were completely retired in June 2006 through conversions and a cash payment as described in the note.

As a result of the foregoing, the Company realized a net loss of (\$135,247), or (\$0.01) per basic and diluted common share, for the three-month period ended September 30, 2006, compared to (\$408,720), or (\$0.06) per basic and diluted common share, for the three-month period ended September 30, 2005. The Company realized a net income of \$116,361, or \$0.01 per basic and diluted common share, for the nine-month period ended September 30, 2006, compared to a net loss of (\$904,935), or (\$0.14) per basic and diluted common share, for the six-month period ended September 30, 2005.

FINANCIAL CONDITION AND LIQUIDITY

At September 30, 2006, the Company had \$42,679 in cash, compared to \$133,524 at December 31, 2005. The Company's operating activities in the nine months ended September 30, 2006 used cash totaling (\$308,384) as compared to (\$703,652) during the same period in 2005.

No cash was used in investing activities for the six-month period ended September 30, 2006, compared to (\$816) in the same period in 2005.

Cash provided by financing activities for the nine-month period ended September 30, 2006 was \$217,539 compared to \$360,000 in the same period in 2005. The 2006 amount resulted from loans and proceeds from sale of preferred stock (see Note 7).

As a result of our present business situation, our recent net

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

losses, and our negative cash flow, our auditor has expressed substantial doubt in its opinion on our December 31, 2005 financial statements regarding our ability to continue as a going concern. Management believes that the financing described in Notes 5 and 7 above will provide sufficient resources to complete the actions outlined in the agreements itemized in Note 7 but insufficient resources for operations for the next 12 months.

SFAS 155, Accounting for Certain Hybrid Financial Instruments and SFAS 156, Accounting for Servicing of Financial Assets were recently issued. SFAS 155 and 156 have no current applicability to the Company and have no effect on the financial statements.

ITEM 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: As of September 30, 2006, 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.

-12-

PART II - OTHER INFORMATION

Item 1. Legal Proceedings:

On August 9, 2006 a lawsuit was commenced in the Superior Court of the State of California against Ultradata and its previous Chief Executive Officer and Chief Financial Officer, among other defendants. The complaint alleged that the defendants conspired to sell the AutoPilot Talking Road Navigator(tm) in the State of California by means of false advertising. The complaint asserts claims under California laws against false advertising and unfair competition, as well as under California consumer protection statutes. The complaint seeks restitution, compensatory damages and punitive damages. Ultradata and its management are evaluating the complaint and the extent to which indemnity for the claim is available from Ultradata's insurance carrier.

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

None

Edgar Filing: ULTRADATA SYSTEMS INC - Form 10QSB

Item 3. Defaults upon Senior Securities:

None

Item 4. Submission of Matters to a Vote of Security Holders:

None

Item 5. Other Information: Change in Management

None

Item 6. Exhibits:

Exhibits:

31 Rule 13a-14(a) Certification.

32 Rule 13a-14(b) Certification.

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.

November 6, 2006

/s/ Huakang Zhou

Huakang Zhou
(Chief executive officer and chief
financial officer)