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ULTRADATA SYSTEMS INC
Form 10QSB
May 05, 2004

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 MARCH 31, 2004

() 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 May 3, 2004
Common, \$.01 par value	6,158,187

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

File Number
0-25380

ULTRADATA SYSTEMS, INCORPORATED
FORM 10-QSB

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March 31, 2004

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ULTRADATA SYSTEMS, INCORPORATED

Condensed Balance Sheets

As of March 31, 2004 and December 31, 2003

	March 31, 2004 (Unaudited)	December 31, 2003
Assets		
Current assets:		
Cash	\$ 144,709	\$ 2,926
Trade accounts receivable, net of allowance for doubtful accounts of \$100 and \$14,703, respectively	1,016,561	627,490
Inventories, net	69,699	55,594
Prepaid expenses	19,704	5,166
	-----	-----
Total current assets	1,250,673	691,176
	-----	-----
Property and equipment, net	22,606	25,958
Other assets	5,444	5,444
	-----	-----
Total assets	\$ 1,278,723	\$ 722,578
	=====	=====

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Liabilities and Stockholders' Equity (Deficiency)

Current liabilities:		
Accounts payable	\$ 527,011	\$ 460,701
Accrued liabilities	95,503	90,792
Notes payable - current	100,000	173,802
	-----	-----
Total current liabilities	722,514	725,295
	-----	-----
Stockholders' equity (deficiency)		
Preferred Stock, \$0.01 par value, 4,996,680 shares authorized, none outstanding	-	-
Series A convertible preferred stock, 3,320 shares authorized, no shares outstanding with a stated value of \$1,000	-	-
Common stock, \$.01 par value; 10,000,000 shares authorized; 6,158,187 shares issued and outstanding March 31, 2004; 5,783,840 shares issued and outstanding December 31, 2003	61,582	57,838
Additional paid-in capital	8,947,572	8,916,685
Accumulated deficit	(8,452,945)	(8,977,240)
	-----	-----
Total stockholders' equity (deficiency)	556,209	(2,717)
	-----	-----
Total liabilities and stockholders' equity (deficiency)	\$ 1,278,723	\$ 722,578
	=====	=====

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

ULTRADATA SYSTEMS, INCORPORATED

Condensed Statements of Operations

Three months ended March 31, 2004 and 2003

	2004	2003
	-----	-----
	(Unaudited)	
Net sales	\$ 1,753,499	\$ 351,956
Cost of sales	895,608	196,545
	-----	-----
Gross profit	857,891	155,411
	-----	-----
Selling expense	48,593	25,036
General and administrative expenses	260,208	244,035
Research and development expense	19,669	22,428

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Total operating expenses	328,470	291,499
Operating profit (loss)	529,421	(136,088)
Other income (expense):		
Interest and dividend income	-	6,236
Interest expense	(5,257)	(50,809)
Other, net	131	17,853
Total other expense	(5,126)	(26,720)
Income (loss) before income tax expense	524,295	(162,808)
Income tax expense	-	-
Net income (loss)	\$ 524,295	\$ (162,808)
Income (loss) per share:		
Basic	\$ 0.09	\$ (0.04)
Income (loss) per share:		
Fully Diluted	\$ 0.08	\$ (0.04)
Weighted Average Shares Outstanding:		
Basic	6,056,928	4,487,025
Weighted Average Shares Outstanding:		
Fully Diluted	6,195,646	4,487,025

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

ULTRADATA SYSTEMS, INCORPORATED

Condensed Statements of Cash Flows

Three months ended March 31, 2004 and 2003

	2004	2003
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 524,295	\$ (162,808)
Adjustments to reconcile net income (loss) to net cash provided by		

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(used in) operating activities:		
Depreciation and amortization	3,352	8,915
Provision for doubtful accounts	43	-
Inventory reserved for obsolescence	-	7,586
Stock issued for services	-	4,500
Non-cash interest expense	-	31,457
Non-cash accrued interest receivable	-	(6,198)
Increase (decrease) in cash due to changes in operating assets and liabilities:		
Trade accounts receivable, net	(389,114)	4,908
Inventories	(14,105)	(9,278)
Prepaid expenses and other current assets	(14,538)	(13,442)
Accounts payable	66,310	(65,082)
Accrued expenses and other liabilities	4,711	37,420
	-----	-----
Net cash provided by (used in) operating activities	180,954	(162,022)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	-	(10,150)
	-----	-----
Net cash used in investing activities	-	(10,150)
	-----	-----
Cash flows from financing activities:		
Exercise of employee stock options	7,031	-
Subscription payments	-	29,336
Payments on notes payable	(211,202)	(30,062)
Note Payable - short-term	165,000	91,600
Common stock	-	76,700
	-----	-----
Net cash (used in) provided by financing activities	(39,171)	167,574
	-----	-----
Net increase (decrease) in cash	141,783	(4,598)
	-----	-----
Cash at beginning of period	2,926	37,842
	-----	-----
Cash at end of period	\$ 144,709	\$ 33,244
	=====	=====

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

During the three months ended March 31, 2004, the Company issued 273,906 shares of common stock to satisfy convertible debt aggregating to \$27,600

ULTRADATA SYSTEMS, INCORPORATED
Notes to Condensed Financial Statements
March 31, 2004 (Unaudited)

Summary of Significant Accounting Policies

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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 periods ended March 31, 2004 and 2003, 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, 2004. It is suggested that the interim financial statements be read in conjunction with the audited financial statements for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on Form 10-KSB (Commission File Number 0-25380), from which these statements were derived.

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:

	March 31, 2004	December 31, 2003
	-----	-----
Raw Materials, net of obsolete	\$ 24,681	\$ 3,738
Finished Goods, net of obsolete	45,018	51,856
	-----	-----
Total	\$ 69,699	\$ 55,594
	=====	=====
 Obsolete inventory on hand	 \$ 716,507	 \$ 816,150

Note 2. Prepaid Expenses

Prepaid expenses consist of the following:

	March 31, 2004	December 31, 2003
	-----	-----
Prepaid insurance	\$ 11,973	\$ 5,166
Prepaid advertising	7,731	-
	-----	-----
	\$ 19,704	\$ 5,166
	=====	=====

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Note 3. Convertible Notes Payable

At December 31, 2003 the Company had outstanding convertible debt in the principal amount of \$173,802. A portion of the notes payable in the amount of \$27,600 was converted to 273,906 shares of common stock during the first week of January 2004. Subsequently, during the quarter ending March 31, 2004, the convertible debt was retired by payment in full of the outstanding balance \$146,202 plus all accrued interest.

Note 4. Income (Loss) Per Share

	For the three months ended March 31,	
Basic	2004	2003
Numerator:		
Net income (loss)	\$ 524,295	\$ (162,808)
	-----	-----
Numerator for basic income (loss) per share	\$ 524,295	\$ (162,808)
	=====	=====
Denominator:		
Weighted average common shares	6,056,928	4,487,025
	-----	-----
Denominator for basic income (loss) per share	6,056,928	4,487,025
	=====	=====
Basic income (loss) per share	\$ 0.09	\$ (0.04)
Fully Diluted		
Numerator:		
Net income (loss)	\$ 524,295	\$ (162,808)
	-----	-----
Numerator for fully diluted income (loss) per share	\$ 524,295	\$ (162,808)
	=====	=====
Denominator:		
Weighted average common shares	6,056,928	4,487,025
Common stock equivalents	138,718	-
	-----	-----
Denominator for fully diluted income (loss) per share	6,195,646	4,487,025
	=====	=====
Fully diluted income (loss) per share	\$ 0.08	\$ (0.04)
	=====	=====

Note 5. Notes Payable

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During 2004, the Company sold a nine-month note payable in the amount of \$150,000 to a shareholder of the Company. The note earned interest at 12% APR and was unsecured. The unpaid balance at March 31, 2004, was \$100,000. During April 2004, the Company paid off the remainder of the note payable.

Note 6. Loans Payable - Related Parties

During 2004, the Company received a loan of \$15,000 from its Chief Executive Officer to fund operations. The outstanding balance of the loan was paid in full as of March 31, 2004.

Note 7. Common Stock

During the first quarter of 2004, employees exercised stock options to purchase 100,441 shares of common stock for \$7,031.

Note 8. AAA Agreement Amendment

In January 2004, the Company reached an agreement with AAA National to terminate the existing agreement for private branding of the AAA Talking Road NavigatorTM as of March 27, 2004. This termination occurred at the request of AAA National for internal business reasons and not for cause or non-performance by the Company, in accordance with the terms for cancellation of the agreement by either party. The termination only applies to the 2003 agreement for the Talking Road NavigatorTM and does not affect the agreement with regard to the AAA TripWizardTM.

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 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 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 WhizTM.

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

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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, as 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 technology have opened up new opportunities for us to use our technology.

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 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. Company earnings in the fourth quarter of 2003 were sufficient to offset losses in the first three quarters of 2003. This success continued in the first quarter of 2004, which has traditionally been a weak quarter for Ultradata.

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 have been in retail mass-market chains plus many other locations. The new TRAVEL*STAR 24 is expected to be offered at retail for under \$300, 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.

The goals of 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 new technology to bear on the goals stated above with significant impact on Company sales and profits.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Operating results for the first quarter of 2004 were significantly improved over the first quarter of 2003.

Sales. During the first three months of 2004, net sales totaled \$1,753,499, as compared with \$351,956 in sales recorded in the first quarter of 2003, representing a 398% increase. 85.5% of the sales were made to one

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customer, with the balance spread over a number of customers. This resulted in an uncharacteristically strong first quarter for the Company.

Orders for our Talking Road Whiz™ product continued strong from the holiday period, when it was first introduced. The Company's backlog at March 31, 2004 was \$1,296,993 as compared with \$304,521 as of March 31, 2003. This included over \$500,000 ordered by one new customer, reflecting our efforts to increase the number of our significant customers.

Gross Profit. Gross profit margin for the current quarter was \$857,891, or 48.9% of sales compared to \$155,411, or 44.1% of sales for the first quarter of 2003. Gross profit as a percent of sales in 2004 benefited from a higher margin on the new product. In addition, because of the improved sales performance over 2003, the gross profit amount increased 452% in the first quarter of 2004 as compared with the same quarter in 2003.

S,G&A Expense. Selling expenses amounted to \$48,593, or 2.8% of sales, for the first quarter of 2004 as compared with \$25,036, or 7.1% of sales for the first quarter of 2003. Although within expected limits, selling expense decreased as a percent of sales due to the fixed portion being spread over a much larger sales base in the first quarter of 2004 as compared with 2003. General and administrative expenses were \$260,208 for the first quarter of 2004 as compared with \$244,035 for the same quarter in 2003, representing an increase of 6.6%. We expect general and administrative expense to increase somewhat as our sales volume increases, but we believe the 6.6% first quarter increase (compared to a 398% increase in sales) will be characteristic of the effect of our sales growth on general and administrative expense.

R&D Expense. Research and development expense in the first quarter of 2004 was \$19,669 as compared to \$22,428 for the same quarter of 2003, representing a slight decrease due primarily to the increased development activity of the Talking Road Whiz™ during the 2003 time frame.

The Company posted a net profit from operations of \$529,421 for the quarter ended March 31, 2004 compared to a net loss from operations of (\$136,088) for the quarter ended March 31, 2003.

Other Expense. Other expense for the first quarter of 2004 amounted to (\$5,126) compared with (\$26,720) for the same period in 2003. The first quarter of 2003, as compared to 2004, had the burden of \$31,457 in non-cash interest expense, primarily due to our issuance of common stock as an inducement for loans at the beginning of 2003.

As a result of the foregoing, the Company posted a net profit of \$524,295, or \$0.09 per basic common share and \$0.08 per diluted common share, for the three-month period ended March 31, 2004, compared to a net loss of (\$162,808), or (\$0.04) per basic and diluted common share, for the three-month period ended March 31, 2003.

FINANCIAL CONDITION AND LIQUIDITY

The Company's financial status has improved significantly over the past two quarters. In the quarter ended March 31, 2004, the Company's net income of \$524,295 resulted in cash-flow from operations of \$180,954 after accounting for an increase in accounts receivable of \$389,114 and other small additions and subtractions.

Financing activities used a net of \$39,171 after paying down notes payable in the amount of \$211,202 and taking out a short-term loan of \$165,000, which was paid off in April out of operational cash flow. The Company had

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\$144,709 in cash on March 31, 2004 with accounts receivable of over \$1 million.

The Company's current ratio at March 31, 2004 was 1.73:1 and its working capital was \$528,159.

ITEM 3. Controls and Procedures

Monte Ross, our Chief Executive Officer, and Ernest Clarke, our Chief Financial Officer, performed an evaluation of the Company's disclosure controls and procedures as of March 31, 2004. Based on their evaluation, they concluded that the controls and procedures in place are sufficient to assure that material information concerning the Company which could affect the disclosures in the Company's quarterly and annual reports is made known to them by the other officers and employees of the Company, and that the communications occur with promptness sufficient to assure the inclusion of the information in the then-current report.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date on which Messrs. Ross and Clarke performed their evaluation.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings:

None

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

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31. Rule 13a-14(a) Certification

32. Rule 13a-14(b) Certification

Reports on Form 8-K:

Report dated January 9, 2004 including press release containing financial information.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 5, 2004

/s/ Monte Ross

Monte Ross, CEO
(Chief executive officer)

/s/ Ernest S. Clarke

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

* * * * *

EXHIBIT 31: Rule 13a-14(a) CERTIFICATION

I, Monte Ross, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Ultradata Systems, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to

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ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting.

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.

Date: May 5, 2004

/s/ Monte Ross

Monte Ross, Chief Executive Officer

I, Ernest Clarke, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Ultradata Systems, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the small business issuer's

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disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting.

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 5, 2004

/s/ Ernest S. Clarke

Ernest Clarke, Chief Financial Officer

EXHIBIT 32: Rule 13a-14(b) CERTIFICATION

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 Ultradata Systems Incorporated.

A signed original of this written statement required by Section 906 has been provided to Ultradata Systems, Incorporated and will be retained by Ultradata Systems, Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

May 5, 2004

/s/ Monte Ross

Monte Ross
(Chief executive officer)

/s/ Ernest S. Clarke

Ernest S. Clarke
(Chief financial officer)