ULTRADATA SYSTEMS INC
Form 10-K/A
August 22, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB/A
(Amendment #1)

Annual Report Pursuant
to Section 13 or 15(d) of
the Securities Exchange Act of 1934

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from_____ to_____

Commission File Number: 0-25380

ULTRADATA SYSTEMS, INCORPORATED
(Name of small business issuer in its charter)

Delaware	43-1401158
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

9375 Dielman Industrial Drive, St. Louis, MO. 63132
(Address of principal executive office) (Zip code)

Issuer's telephone number, including area code: (314) 997-2250

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 Par Value
(Title of Class)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes [ ] No [X]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to the Form 10-KSB. [ ]

State the issuer's revenues for its most recent fiscal year: $6,301,236

The aggregate market value at July 19, 2001 of the voting stock held by non-affiliates, based on the closing price as reported by National Quotations Bureau, was approximately $1,234,823. The aggregate market value has been computed by reference to a share price of $0.38 (The price at which stock was sold, or the average bid or asked price of such stock on July 19, 2001). All directors and more than five percent of stockholders of the Registrant have been deemed "affiliates" for the purpose of calculating such aggregate market value.

The number of shares outstanding of the issuer's common stock, as of July 19, 2001, was 3,249,533

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

DOCUMENTS INCORPORATED BY REFERENCE: None

Amendment No. 1

This amendment is being filed to clarify or expand certain disclosure in Management's Discussion and Analysis of Results of Operations and Financial Condition, and in the Statements of Cash Flows for the Years Ended December 31, 2000 and 1999, and in Notes 18, 20 and 21 to the Financial Statements.

YOU SHOULD NOT RELY ON FORWARD LOOKING STATEMENTS

This annual 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 line of products, to introduce Triplink 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 difficulty of attracting mass-market retailers to a seasonal product like the Road Whiz;
* 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.

PART I

ITEM 1. BUSINESS

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 w hich 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 1998 we acquired an 18.9% interest in Talon Research & Development, Ltd., which manufactured GPS (global positioning satellite) antennas that can be combined with our database to create a variety of travel products. We increased our interest in Talon to 24.9% in 1999. In 2000, an Employee Stock Option Plan was instituted at Talon that

increased the total shares outstanding by 10%, which resulted in diluting our holding to 22.6%.

* In 1999 we helped to form a joint venture called Influence Data, LLC, which provides travel services, including directions, over the Internet.

* Early in 2001 we introduced, in joint venture with Rand McNally, the Rand McNally Triplink, a handheld computer that enables the user to download travel information from the Rand McNally Website.

* During the first quarter of 2001 we shipped the first production units of our Travel*Star 24, 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.

* We have begun development of an enhanced version of our GPS product that will include a cellular transceiver to permit the driver to use the product to access the Internet while traveling.

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 the three largest retail mass-market chains in the country plus many other locations. The new TRAVEL*STAR 24 is offered at retail for about $400, which should make it very competitive in the auto aftermarket. Its portability and the fact that it requires no elaborate installation offer advantages over the more expensive in-car systems.

Handheld Travel Computers

The Road Whiz(tm) Line of Products

Our core business is a line (currently 7 products) of hand-held computers that utilize our proprietary data compression technology to provide a library of information in a pocket-size box. Most of the products contain travel information, customized to specific markets, and so the flagship products have carried variations of the trademark "Road Whiz." Within the chip that powers a Road Whiz can be found information regarding over 100,000 services and amenities along the U.S. Interstate Highway System and directions on how to reach the service or amenity of choice. Some versions of the Road Whiz also contain information about services and attractions within the cities linked by the Interstate Highway System. The service information provided by a Road Whiz product includes directions and mileage to gas stations, hotels, motels, hospitals, and 24-hour restaurants, as well as highway patrol emergency numbers. We sell our handheld products through independent sales representatives, mass merchandise retailers, catalog companies, department stores, office supply stores, direct mail promotions, luggage stores and selected television shopping channels.

Among the hand-held products we currently offer are the following:

Road Whiz Plus and Auto Pilot provide complete routing information for over 90 cities, giving driving distances, driving time and detailed directions. Both products are designed to be marketed by mass merchandise retailers, such as Kmart and Kohl's. Ultra Road Whiz has similar capabilities, but is designed primarily for sale on the QVC television network and to Wal-Mart. In addition, we sell a unit containing the Road Whiz database but named Car & Driver as a private label of the Target Stores chain.

The Road Whiz RV Special adds to the standard Road Whiz features useful for an RV owner, such as the location of dump stations and the availability of parking for recreational vehicles at restaurants.

AAA TripWizard is the product of a joint effort between Ultradata and the American Automobile Association (AAA). During 1998, we entered into an agreement with AAA to develop an expanded database to include AAA's diamond-rated restaurants and lodging facilities, AAA-approved auto repair, camp grounds and attractions, as well as the AAA ratings, where available, for the facilities in our proprietary Interstate database. This expanded database has been incorporated into a hand-held travel computer called the TripWizard. TripWizard is being marketed to AAA's affiliates, consisting of 93 clubs, 1,100 offices and over 41 million members in the United States, as well as to specialty retailers and Target.

Our New Marketing Strategy

After our initial public offering of securities in 1995, we were able to commence widespread marketing of the handheld products. We priced them to the upper range gift market ($49 to $129) and focused our marketing efforts on direct sales through television and print ads, as well as through a sales representative network. That strategy was successful in expanding our sales for three years, while the products were new to the market. The expansion of sales, however, did not bring with it a proportionate expansion of profits. Too many of our marketing techniques were only marginally profitable, and as our products lost some of their newness, marketing techniques such as direct mailing produced diminishing returns. For that reason, beginning late in 1998 we revised our marketing strategy. The products now generally retail for $19.95, and marketing is focused on mass market retailers and custom-branded private label units. At this price point, we hope to gain sufficient volume to achieve economies of scale with new low-cost manufacturing methods, permitting us to operate profitably at a lower level of annual sales.

Distribution through mass merchandise channels accounted for over 92% of our revenue in 2000. We expect that a small group of mass-market channels will continue to dominate the market for our handheld computer products. In April 2001 a new major retailer placed its initial orders for our products, informing us that it planned to carry our Road Whiz Plus(tm) in its stores on a plan-o-gram basis, which involves everyday sales and reorders of the product. This brings to 5,000 the number of stores carrying the Road Whiz products. The following table identifies the customers to whom over 10% of our sales were made in either of the past two years as well as other mass market retailers that carry our products.

Channel of Distribution	2000 Sales	% of Sales	1999 Sales	% of Sales
Media Syndication Global	$2,449,300	38.9%	$ -	-%
Preferred Customer's Guild	$2,111,625	33.5%	$ -	-%
Kmart	$ 454,270	7.2%	$ 672,927	12.4%
Target	$ 602,420	9.6%	$ 267,388	4.9%
QVC	$ -	-%	$ 1,102,246	20.3%
United Marketing Group	$ -	-%	$ 582,260	10.7%
Kohl's	$ -	-%	$ 575,184	10.6%

Central to the new marketing strategy is our effort to develop a variety of distribution paths, so as to maximize our penetration of the potential market for our products. To date, in addition to our sales to retailers, the following types of distribution have been put in place:

* Private Branding. The leading example of the private label marketing strategy was the introduction in 1998 of the AAA TripWizard as a joint venture with the American Automobile Association.

* Direct Response Marketing. Our largest customers during 2000 were Media

Syndication Global and Preferred Customer's Guild. These distributors specialize in multi-media direct response marketing and have resources and expertise that can achieve high sales effectiveness at relatively low promotional cost.

If our new marketing strategy is successful, the result will be an increase in sales revenue with a significant reduction in selling and administrative expense, as the costs attendant to direct retail marketing are reduced. Even though the exponential growth rate that we achieved in 1996 and 1997 is unlikely to be replicated, stabilization of our core business at even a modest level of profitability would provide a foundation on which we could pursue dynamic growth through our entry into the GPS and Internet markets.

Manufacturing

We do not manufacture any of our products. We retain assemblers to manufacture the products. We procure the microprocessors and memory chips and other unique items, and supply them to the assembler.

To date, there are two manufacturers to whom we have contracted most of our assembly work. Once each year, these manufacturers quote prices to us based upon estimated annual quantities. Then we place individual purchase orders for production. Our arrangements with these manufacturers - up to the point of a purchase order - are terminable at will by either party. If either or both of the manufacturers became unavailable to us, alternate sources would be readily available. Nevertheless, the sudden loss of one of the manufacturers or unanticipated interruptions or delays from present manufacturers would likely result in a temporary interruption to our planned operations.

Backlog

As of March 31, 2001 our total backlog was approximately $37,390, compared to backlog of approximately $110,805 on March 31, 2000. First quarter backlog is typically low due to the seasonality of the business and is not indicative of the year as a whole.

Patents

We own two patents that are utilized in our Road Whiz products. They provide us a technological advantage which, to date, has prevented any similar product from appearing. One patent covers our method of compressing data relating to travel information. This compression technology permits our travel products to store more data on smaller and less expensive memory devices. The second patent covers the methodology that enables our travel devices to account for changes that occur when the traveler crosses a state border.

Database Research

A broad and accurate database is essential to the success of our products. For this reason, we have developed a systematic approach to updating our ROAD WHIZ database. At our corporate headquarters we employ three full-time database research specialists, who survey and digest publicly available geographic and demographic data provided, primarily, by travel services and Chambers of Commerce across the country. In addition, a significant part of the ROAD WHIZ(database is gathered and verified by our team of over 50 "Road Helpers." Road Helpers are generally retirees and others that travel extensively and report to us regarding the facilities they encounter. The data provided by the Road Helpers is, in turn, reviewed and augmented by our database specialists.

Competition

To date, we have not faced significant competition in selling our handheld computer products. The primary reasons for the lack of competition are:

* Our patented data compression technology permits the storage of unusually large volumes of information in low-cost devices.

* Our database is unique, and it would be time-consuming to replicate it.

* We have fourteen years of experience in developing this line of products, which gives us insight into the needs and desires of the traveling consumer.

* We have a simple, low-cost design for our products, which employs a minimum of parts.

* We have developed low-cost, but high quality manufacturing sources.

* The devices that perform functions similar to those performed by our handheld products are considerably more expensive, and often lack the data quality of our products.

These several factors have, thus far, served as a barrier to any effective competition with our handheld products.

GPS Products

Talon Research & Development, Ltd.

We own 22.6% of Talon Research & Development, Ltd., a privately-held enterprise located in Auckland, New Zealand. Talon manufactures and markets electronic components and marine instruments that incorporate Global Positioning Satellite ("GPS") receiver units. Among Talon's products are the GPS receiver and antenna used in our Travel*Star 24(tm). Talon sells these antennas to Ultradata at the lowest price it offers to any customer.

The prospects for significant growth at Talon appear promising. In February of 2000, Talon was chosen to replace Magellan as the GPS hardware supplier for certain models of the Palm Pilot, which opened a major sales channel as well as marking a significant shift in market power toward Talon. Talon also received an order in 2000 from Rand McNally for antennas for 30,000 GPS Palm Pilots. Finally, Talon has been expanding the international distribution of its marine electronics products beyond its European base to South America, South Africa, and China, and is projecting significant growth in its marine electronics business as well as its OEM GPS receiver business. As a result of all these events, Talon's sales in 2000 grew by 49% compared with 1999.

Travel*Star 24 GPS Auto Navigational System

Taking advantage of our access to the Talon GPS receiver/antenna, we have developed a low cost, portable navigation unit for the automotive after-market, which we will market as the "Travel*Star 24." The Travel*Star 24 utilizes the Talon GPS receiver and antenna to pinpoint the longitude and latitude of the moving vehicle. The unit is capable of calculating a route, displaying visual directions and distance as well as audible turn-by-turn prompts and warnings when the driver strays from the route. The Travel*Star 24 also includes an expanded version of the proprietary and unique Road Whiz database, providing the driver directions to over 200,000 services across the

U.S.A. As the driver travels, the GPS signals are referenced to the service database, so that the driver can instantly find businesses, hotels, service stations, rest stops, restaurants, hospitals, tourist attractions, airports, etc. in more than 250 metropolitan areas, as well as directions to over 12,000 smaller cities and towns.

While there are a wealth of potential users for a GPS-based navigation system, we intend to target the Travel*Star 24 to the 12-volt automotive after-market, which currently consists of over 150 million vehicles and grows by 15 million vehicles annually.

Currently, between 600,000 and 1,000,000 GPS-based navigation systems are sold annually. These include installed original equipment such as "Neverlost" and "Visteon", which is generally priced in the $2,000 range; low-end hand-held units of very limited capability (generally approximately $200); and middle market units priced in the $600 to $1000 range. Examples across this middle range can be found in the lines of Magellan, Garmin and Lowrance. Travel*Star 24 will compete in this range, as we expect it to have an initial retail price under $400. But the Travel*Star 24 should have several competitive advantages over the middle market competitors:

* Travel*Star 24 provides audible prompts, whereas the competitors use a "moving map" that requires the driver to take his eyes off the road;

* No other product in the middle price range can compute routes - the routes must be entered by the user;

* Travel*Star 24 can plan a route to 12,000 towns and cities;

* Travel*Star 24 can be equipped with a low cost ($49.95) regional cartridge that is expected to provide block-to-block navigation; and

* Travel*Star 24 incorporates Ultradata's proprietary data compression technology to provide directions to over 200,000 services, a functionality for which the competition offers nothing comparable.

* Door-to-door, turn-by-turn directions from one address to another can be downloaded from a website through a PC to the Travel*Star 24 as an added capability designed into the unit.

The Travel*Star 24 can easily fit into a briefcase or purse; so it is portable to any rental vehicle. Beta testing has been ongoing since December 2000, and we shipped the first production units in the first quarter of 2001. A date for full market launch has not yet been set.

Patents

We hold two additional patents that have potential utility in the GPS market. Patent 5,943,653 was awarded in August, 1999 and covers the delivery of electronic coupons in a handheld computer for discounts of services. The technology can be combined with the GPS locational function to cause time and site-specific coupons to be delivered to the driver offering, for example, a discount at the upcoming hotel. We would, of course, receive a fee for each customer that the hotel gained in this fashion.

The other related patent, which was awarded in May of 1999, covers a method of integrating a GPS receiver into a radar detection device. By use of this patented technology, it becomes practical to eliminate many false radar detection alarms, as well as to provide audible warnings of speed zones.

Internet-Based Navigation

The Rand McNally Triplink(tm)

In June of this year we will begin marketing, in joint venture with Rand McNally, an Internet appliance that provides textual driving directions downloaded from the Rand McNally Website. Door-to-door driving directions to and from a multitude of locations can be downloaded and stored in the handheld unit, and later displayed by the unit one segment at a time, as needed. New data can displace old data any time the unit is reconnected to the computer. Thus, prior to each trip, the user can update his unit.

The premium unit in our TRIPLINK product line, the Rand McNally TRIPLINK, includes the ROAD WHIZ Interstate services database in pre-programmed memory as well as the download capability. The other unit in this line, the Rand McNally POCKET TRIPLINK, is smaller and simpler, as it contains only the driving directions. This product family provides a low-cost, easy-to-use Internet appliance for Internet-connected computer users who travel.

www.DriveThere.com

In May of 1999 we formed a joint venture with Influence Incubator, LLC ("Influence") to create a vertical interest portal on the Web for travelers. The joint venture, of which we own 33%, launched its Website, www.DriveThere.com, in October, 1999. By creating affiliations with a large number of major content providers, the joint venture was able to load the Website with a wealth of travel-usable content, including driving directions, travel suggestions, weather reports, information on products and services for travelers (e.g. insurance, tires), a forum for auto sales, and contacts for emergency roadside assistance. In addition, the shopping function on the Website was a virtual department store for travelers, offering products ranging from educational toys to amuse traveling children to the Road Whiz to enlighten traveling parents.

In 2000, Influence withdraw operational support from Influence Data, LLC as a result of difficulties in sustaining its commitments to a number of operations in the dot.com sector. We have, therefore, written off the balance of our equity in the joint venture on our balance sheet. Nevertheless, we retain an interest in the brand equity in DriveThere.com, pending joint discussions with Influence as to methods to exploit that asset.

GPS/Internet Auto Navigation and Tracking System

For some time we have been planning an effort to exploit the synergy between the communications capabilities of the Internet and the locational capabilities of a GPS antenna. If and when the capital resources become available, we expect to commence development of a GPS/Internet auto navigation and tracking system. The utility of the product will be to create a rich link between the driver and a stationary source of communications, be it a family member on a home PC or a hotel chain soliciting the driver's business.

The system is conceptually simple. We plan to modify the Travel*Star 24 to incorporate a cellular transceiver into the existing housing. Information in the vehicle would originate in and be displayed on the Travel*Star 24, which has a four-line text display and a menu-driven "soft key" user interface. The Travel*Star 24 also has a built-in GPS receiver, and can generate the necessary geo-coordinates to identify the vehicle's location. The vehicle's identity, its geo-coordinates, and any outgoing messages would be passed to the cellular transceiver for broadcast to the local phone cell, then transferred via the Internet to the "Home Base" PC.

At the "Home Base", mapping software would be installed, which can translate the geo-coordinates into a position display on a map. The person at home could thus track the location and progress of the vehicle, using the connectivity provided by the Internet. The same "Windows"-based software can receive and display incoming messages, and generate pre-formatted outbound messages and position queries. Similarly, pre-formatted messages can be sent from the vehicle to the Internet site, where the messages are available to friends and family.

The GPS/Internet System is in the planning stage only. There are a number of technical tasks required to make the system operational, and we have no certainty that we can accomplish these tasks. We will also require additional capital resources or partners before we can undertake this project in earnest.

Research and Development

Ultradata performs ongoing research and development, seeking to improve existing products and to develop new products. These activities are primarily conducted at our corporate headquarters, although we periodically engage outside computer system design consultants to expedite the completion of the development and test stages.

In 2000, the Company incurred $371,554 in research and development costs compared to $358,357 in 1999. Research activities for 2000 were primarily focused on continued development of TRAVEL*STAR 24 and the Triplink handheld product. In addition, the Company capitalized $143,689 of costs incurred in developing the software tools required to provide the database for the TRAVEL*STAR 24. The capitalized amount was included in "Property, Plant and Equipment" on our balance sheet.

Employees

The Company currently has 17 full-time employees, including six officers, all of whom are located at the Company's headquarters in St. Louis, Missouri. The Company employs four people in sales, customer service and shipping, two people in database research, four people in executive management and administration, four people in product development, one person in inventory management, a president, and a chief executive officer. None of the Company's employees belong to a collective bargaining union. In addition, a number of part-time consultants are retained for database research, website development and maintenance, and software development. The Company has not experienced a work stoppage and believes that its employee relations are good.

Item 2. PROPERTIES

Our headquarters, principal administrative offices, and research and development facilities are located in approximately 12,500 square feet of leased office space in an industrial building located at 9375 Dielman Industrial Drive, St. Louis, Missouri. The Company pays a monthly rent plus 31% of all building expenses under an operating lease that expires October 31, 2001. The Company maintains no manufacturing operations on site and employs outside contractors to perform all of its manufacturing requirements.

Aggregate rental expense totaled $109,678 for 2000, compared to $114,247 in 1999. The Company believes that its facilities are adequate for the Company's present and foreseeable requirements.

Item 3. LEGAL PROCEEDINGS

Legal proceedings have been filed by the Company against SmartTime to recover funds loaned that SmartTime has refused to repay. These papers have been served and court proceedings are pending to decide the outcome of the dispute. The Company carries $150,000 on the balance sheet as an estimate of the minimum net value to be recovered from SmartTime.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information

The following table sets forth the prices for the Company's Common Stock (NASDAQ: ULTR) as quoted on the NASDAQ National Market for the eight quarters starting January 1, 1999 and ending December 31, 2000. Until June 27, 2001, the Company's common stock was listed on the Nasdaq SmallCap Market. Since that date, the stock has been quoted on the Pink Sheets.

	Bid	
Quarter Ending	High	Low
March 31, 1999	$ 2.75	$ 1.31
June 30, 1999	$ 2.63	$ 0.88
September 30, 1999	$ 2.44	$ 1.00
December 31, 1999	$ 2.06	$ 0.94
March 31, 2000	$ 7.00	$ 4.75
June 30, 2000	$ 2.63	$ 2.50
September 29, 2000	$ 1.75	$ 1.75
December 31, 2000	$ 1.38	$ 1.06

(b) Shareholders

At June 30, 2001, there were 104 registered stockholders of record of the Company's Common Stock. Based upon information from nominee holders, the Company believes the number of owners of its Common Stock exceeds 4,000.

(c) Dividends

The Company has never paid or declared any cash dividends on its Common Stock and does not foresee doing so in the foreseeable future. The Company's line of credit agreement precludes the payment of cash dividends. The financing received from the sale of preferred stock in May of 2000 involved the computation of imputed dividends provided in the form of warrants, options, and stock as inducements associated with the preferred stock offering. These dividends do not affect the earnings from operations of the Company but are included in the earnings-per-share computation on the Income Statement. The Company intends to retain any future earnings for the operation and expansion of the business. Any decision as to future payment of dividends will depend on the available earnings, the capital requirements of the Company, its general financial condition, and other factors deemed pertinent by the Board of Directors.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Overview

One factor has been dominant in causing our poor financial results over the past two years: our inability to sustain the high level of sales of the hand-held products at upscale retail prices that we realized in 1996 and 1997. Beginning in 1998, we have been transforming our marketing efforts away from a primary focus on the "upscale" market. Initially we devoted a large portion of our effort to direct marketing through magazines, mailers and bill inserts, as well as by televised appearances on the QVC Shopping Network. This strategy generally proved to be a mistake, as the cost of the marketing effort often exceeded the revenue we obtained from it. The one exception was our on-going relationship with QVC, which was the source of over 19% of our revenue in 1999. We expect QVC to again be a significant source of revenue in 2001.

In 1999, therefore, we again shifted our focus, this time to mass market retailing, of the sort you associate with Kmart, Kohl's, and Target Stores, to name three of our new mass market customers. The reduction of our prices to mass market levels required major adjustments to our cost structure. So during the second half of 1999 and into 2000 we made the cuts and performed the streamlining. That effort, however, was frustrated, in part, by the worldwide shortage in read-only memory (ROM) chips during 2000, the result of which was a $767,400 increase in our payments for chips. Nevertheless, our overall results for 2000 indicate that we are heading in the right direction, as we significantly reduced operating loss despite the increased chip expense. Our plan, therefore, is to continue to pursue mass market outlets for our handheld travel computers, with the expectation the reorientation of our marketing focus and the ancillary restructuring of our cost structure will eventually stabilize our handheld travel computers as a profitable line of business. Once we have re-established the handheld units as a stable foundation for our business, we can then devote our financial resources to our development projects without fear of being left without adequate resources to sustain operations.

Results of Operations

Sales. Sales for 2000 increased by $875,475, or 16.1%, to $6,301,236 from $5,425,761 in 1999. Over 92% of 2000 sales were attributable to mass-market retailers, compared with 54% in 1999. Our plan is to pursue additional mass-market outlets, and so continue the growth of sales in this fashion. To this end, in April 2001 we added one more major retailer to our customer list, bringing to 5,000 the number of stores carrying the Ultradata products. Sales in 2001 should also be aided by our Triplink(tm) joint venture with Rand McNally, although the full market program will not commence until September. On the other hand, the fact that a small number of customers accounts for nearly all of our sales puts us at the risk that loss of a customer could reduce or reverse sales growth

Gross Profit. We have made considerable improvements in the efficiency of manufacturing operations during the past two years. Nevertheless, our gross margin in 2000 fell to 28.3% of sales, compared to 41.9% of sales in 1999, resulting in a $490,450 reduction in gross profit. The reasons for the reduction were:

* The worldwide shortage of read-only memory (ROM) chips caused us to pay $767,400 more for chips than we would have paid at 1999 prices. Indeed, if the price of chips had remained stable, our gross margin for 2000 would have been 40.5%, an insignificant reduction from 1999.

* The fact that 72% of our sales were attributable to high-volume syndicators, who market at relatively low margins.

* The write-off of $112,556 in bad debt owed by a single customer. Early in 2001 the customer advised us that it had experienced a severe financial setback during the 4th quarter of 2000, and that its

ability to pay its debt to Ultradata was in doubt. Prior to that correspondence, we had considered the customer to be fully capable of paying the receivable.

* The write-off of $150,000 in excess obsolete inventory in the last quarter over and above our allocation of $11,000 per month. Management decided in the fourth quarter to discontinue the Ultrafinder product, rendering parts inventory specific to that product at Eastek obsolete. For the year we recorded $264,717 in reserves against obsolescence, including $238,303 due to the discontinuance of product lines (Ultrafinder, Sears Pathfinder, Road Mate, Road Whiz(tm) Companion, etc.) By comparison, in 1999 we recorded $202,705 in reserves against obsolescence, including $135,568 due to the discontinuance of product lines (POIS, Greensfinder, etc.).

We expect sales during 2001 to be spread among a wider number of customers than in 2000. Moreover, chip prices for 2001 are expected to approach 1999 levels. Therefore, we expect a gross margin of 40% to be achievable.

Selling Expense. During 2000, we incurred $612,428 in advertising, promotion, and marketing program expenses, as compared to $1,671,659 in 1999. The result was an overall reduction of $1,059,231 in selling expense, despite the 16.1% increase in sales. The primary reason for the reduction was the fact that during 1999 we moved from our expensive direct mail and advertising programs to a strategy of employing joint advertising strategies with our mass-market customers. The transition was not effective until the latter part of 1999, producing the dramatic reduction in selling expense that we realized during 2000.

During 2000, we altered our method of accounting for advertising allowances and slotting fees, as required by EITF Issue Number 00-25. The effect of the change was to reduce revenues by the amount of these allowances and fees, where we had previously accounted for them as selling expenses. The resulting change affected revenues and gross margins but has no effect on net earnings. For 2000, $184,166 was subtracted from revenue, gross margin and selling expenses as compared to $140,865 for 1999. Our Statements of Operations for both 2000 and 1999 reflect this change, in order to present valid comparisons of results.

General and Administrative Expense. General and Administrative expenses increased 10.5% from 1999 to 2000, trailing the 16.1% increase in sales. General and administrative expenses had been increased at the end of 1999, however, by adjustments totaling $58,234 (consisting of a $46,614 write-off of a prepaid commission, an accrual of $45,077 in vacation expense due to a change in our employee vacation policy, and an adjustment of $6,543 to equity-based compensation, which were offset in part by a credit of $40,000 due to the cancellation of a consulting agreement and reversal of the related expense accrual). But, for those one-time adjustments, the increase in general and administrative expense from 1999 to 2000 would have been 13.7%.

Research and Development Expense. Our research and development expense in 2000 was not significantly different than in 1999. Our R&D efforts were increased, however, in the second half of the year, utilizing for this purpose the proceeds of our sale of preferred stock in May 2000. The increased activity is reflected in our capitalization of $143,689 of costs in 2000 for the internally developed software tools necessary for TRAVEL*STAR 24. This brought the total capitalization balance to $274,604, to be amortized over 5 years starting in 2001.

Other Income (Expense). During 2000, Talon Research and Development Company, Ltd. ("Talon") achieved a 55% increase in sales and a 40% increase in earnings compared to 1999. Talon management have advised us that they anticipate continued growth in 2001, albeit at a reduced rate due to market conditions. At the same time, however, Talon adopted an Employee Stock Ownership Plan (ESOP) during 2000. The issuance of shares to the ESOP resulted in a reduction of our share of Talon's equity to 22.6% from 24.9%. Therefore, our share of Talon's earnings for the year was offset, in part, by the amortization of goodwill that followed from the reduction in our equity in Talon. Talon, therefore, contributed $46,273 toward reducing our "Equity in losses of unconsolidated affiliates" in 2000, compared to a loss of ($9,585) in 1999. The loss in 1999 had been the result, in part, of offsetting our share of Talon's earnings by an amortization expense of $71,082.

The financial results that Talon reports cannot be directly reflected in our financial statements, but must be adjusted to comply with U.S. accounting rules. The most significant adjustment arises from the fact that research and development expenses of the type incurred by Talon may be capitalized under New Zealand GAAP, but must be expensed under U.S. GAAP. Among the adjustments recorded to reflect our equity in Talon's results for 1999 was an adjustment to reflect differences in U.S. and New Zealand accounting principles, most of which was recorded in the fourth quarter in the amount of $186,620. This adjustment offset Talon's earnings, and resulted in the loss recorded in 1999 from our interest in Talon.

Near the end of 2000 our joint venture partner in Influence Data, LLC, declared that it was unable to support the operations of DriveThere.com, as the partner's overall business had been seriously impaired by the collapse of the "dot com" market. We are reviewing with the partner possible avenues for realizing value from the Website. In the meantime, however, we have written the book value of our equity in Influence Data, LLC down to zero. The net effect of our interest in the joint venture, therefore, was an expense during 2000 of ($286,610) included in "Equity in losses of unconsolidated affiliates" and a one-time write-off of ($225,039) shown as "Impairment of investment". During 1999, by comparison, the fourth quarter adjustments that we recorded as a result of our interest in Influence Data, LLC included $60,386 representing our share of Influence Data's loss for 1999 and $11,147 representing amortization of our investment.

Total other expense amounted to ($232,348) for 2000, as compared to other income of $191,301 for the year ended December 31, 1999. Besides the effect of our loss in equity in Influence Data, LLC, the year-to-year comparison was affected by $127,473 in royalty income realized in 1999 from a promotion by Idea Village in connection with Radio Shack, which was not repeated in 2000.

Net Loss. Our net loss for 2000 was ($1,712,503), or ($0.54) per share, basic and diluted, compared with ($1,997,250), or ($0.64) per basic and diluted share in 1999. However, in 2000, we were required to record an imputed dividend of $1,456,625 during 2000 as a result of our sale of Series A redeemable convertible preferred stock in May 2000 (see Note 20). For that reason, we have recorded a "net loss available to common shareholders" of ($3,169,128), or ($1.00) per basic and diluted common share.

LIQUIDITY AND CAPITAL RESOURCES

Our operating losses over the past three years have had an adverse effect on our working capital. Nevertheless, at December 31, 2000 we still had over $4.9 million in working capital, which we believe to be substantially greater than most companies of our size. So we do 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.

Our cash position was aided in 2000 by the sale of Series A Preferred Stock in May 2000 to two investment funds. In addition, despite the significant operating loss we incurred, our operations consumed only $188,281, primarily because our efforts to control accounts receivable led to a $687,791 reduction in year-end receivables. At the same time, however, $378,683 was used in investing activities, including $200,000 that we contributed to Influence Data LLC, and $168,638 that we spent on capital investments, primarily to develop software tools for compressing roadmap topology into a format suitable for Travel*Star 24(tm). This latter amount was capitalized, and will be amortized over five years. We expect our capital expenditures during 2001 to be less than in 2000.

Our liabilities were reduced during 2000, and were equivalent to less than nine percent of our current assets at year-end. Since we rely on outside vendors for all of our manufacturing, our operations do not require substantial capital expenditures other than for the periodic purchase of tooling, test equipment, and fixtures. Currently we have no material capital spending commitments outstanding.

The Company recently reached an agreement in principle with the holders of the Series A Preferred Stock, and is presently preparing the definitive agreements. The agreements will provide that the Series A shares will be exchanged for convertible secured debt instruments with a face value equal to the current conversion value of the Series A shares (i.e., face value plus 11.25% accrual since date of issue) plus 10% of the face value. The debt instruments will provide that the Company will pay $70,000 per month through October 2001 and $90,000 thereafter until the debt is fully satisfied. The debtholders will retain the right to convert the outstanding debt, except that the number of shares they may acquire on conversion will be limited to 20% of the trading volume for the quarter preceding conversion. The Company has made this arrangement in order to relieve the threat of massive dilution that the Preferred Stock presently poses to potential investors in the Company's common stock. Management does not expect that the payments will significantly affect the Company's ability to finance its ongoing business.

Because the Company has stabilized the cash requirements of our handheld business, its working capital and cash reserves appear to be sufficient to sustain over the coming year the level of business during 2000. There remains one near-term liquidity issue: the cash needed for development of new products. During 1999, the Company negotiated a lending agreement with Southwest Bank of Missouri that provides a credit facility of $1 million. The credit is secured by accounts receivable, inventories and equipment, with an interest rate of 1% over Prime Rate. The credit facility expires on July 1, 2001. Management has obtained a replacement facility with KBK Financial, an asset based lender, to finance the purchase orders expected for the fourth quarter.

Impact of Accounting Pronouncements

In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). FAS 133 requires derivatives to be recognized as assets or liabilities on the balance sheet and measured at fair value. Changes in the fair value of derivatives should be recognized in either net income or other comprehensive income, depending on the designated purpose of the derivative. This statement, as amended, is effective for the Company on January 1, 2001, and the Company has not yet determined the effects this statement will have on its financial position or results of operations.

Item 7. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

FINANCIAL DISCLOSURE

See Current Report on Form 8-K dated April 6, 2001.

Item 8. FINANCIAL STATEMENTS

The financial statements of Ultradata Systems, Incorporated, together with notes and the Report of Independent Certified Public Accountants, are set forth immediately following Item 13 of this Form 10-KSB.

PART III

Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The following table lists certain information regarding the officers and directors of the Company as of May 31, 2001:

NAME	AGE	POSITION
Monte Ross	69	Chief Executive Officer, Director
Ernest Clarke	61	President & Chief Financial Officer, Director
Mark L. Peterson	44	Vice President-Engineering, Secretary, Director
Leonard Missler	55	Vice President-Software Development
Duane Crofts	64	Vice President-Advanced Products
Donald Rattner	68	Director
H. Krollfeifer, Jr.	61	Director

Directors hold office until the annual meeting of the Company's stockholders and the election and qualification of their successors. Officers hold office, subject to removal at any time by the Board, until the meeting of directors immediately following the annual meeting of stockholders and until their successors are appointed and qualified.

Background of Directors and Executive Officers:

- Monte Ross founded the Company in 1986 and has served as its Chief Executive Officer and Chairman since inception. He also served as President until April 2001. For over 20 years prior to founding the Company, Mr. Ross was employed by McDonnell Douglas Corporation in a variety of positions. When he left McDonnell Douglas, Mr. Ross was Director of Laser Systems, responsible for the group of approximately 400 employees, which developed the first laser space communication system and first space laser radar. Mr. Ross is a Fellow of the Institute of Electrical and Electronic Engineers and the past President of the International Laser Communication Society. Mr. Ross was awarded a Master of Science degree in Electrical Engineering by Northwestern University in 1962. He is the father-in-law of Mark L. Peterson, the Company's Vice President-Engineering.

- Ernest Clarke has been a Director of the Company since it was founded in 1986. He was elevated to President in April 2001. He had served as Company's Vice President - Controller since June of 1999. From August 1990 to June 1999 he was Vice President - Government Programs. For over 20 years prior to joining Ultradata, Mr. Clarke was employed by McDonnell Douglas Corporation in a variety of positions. When he left McDonnell Douglas, Mr. Clarke was its Laser Product Development Manager with r esponsibility to supervise over 40 engineers. Mr. Clarke was awarded a Master of Science degree in Electrical Engineering by Stanford University in 1966.

- Mark L. Peterson has been a Director of the Company since it was founded in 1986. He has served as the Company's Vice President of Engineering since 1988. He is responsible for the design of the Company's hand-held products. During the four years prior to joining the Company, Mr. Peterson was employed by McDonnell Douglas Corporation as an electronics engineer for fiber optic products and satellite laser cross-link programs. Mr. Peterson was awarded a Master of Science degree in Electrical Engineering by Washington University in 1980. He is the son-in-law of Monte Ross.

- Leonard Missler has served as Vice President - Software Development for the Company since 1990. His primary responsibility has been the development of software for the Company's hand-held products. For over 20 years prior to joining Ultradata, Mr. Missler was employed in software and electronics development and management by Microterm, Inc., Magpower, Magnavox, and Interface Technology. At Microterm, his most recent employer before joining the Company, Mr. Missler was the Director of Operations. Mr. Missler was awarded a Master of Science degree in Electrical Engineering by Washington University in 1970.

- Duane Crofts joined the Company as Vice President - Advanced Products in 1994. Prior to joining the Company, Mr. Crofts served for over five years as a Program Director with McDonnell Douglas Corporation. In that role he was responsible for engineering management, production management, subcontract management, and program management. Mr. Crofts most recently was manager of a multi-million dollar electro-optic development program. Mr. Crofts was awarded a Bachelor of Science degree in Mechanical Engineering by the University of Missouri at Rolla.

- Donald Rattner joined the Company in 1999 to serve as a member of the Board of Directors. Mr. Rattner is a member/partner in BrookWeiner, LLC, a Chicago-based accounting firm, and a member of the American Institute of Certified Public Accountants and the Illinois CPA Society. He has served on the boards of several corporations.

- H. Krollfeifer, Jr. joined the Company in 2000 to serve as a member of the Board of Directors. Mr. Krollfeifer is retired after 35 years in the equipment leasing and financing industry. He has worked closely with The American Association of Equipment Lessors (AAEL), an industry trade group for which he served as a speaker, lecturer, and teacher for various educational programs starting in 1986. That organization evolved into The Equipment Leasing Association of America (ELA), and Mr. Krollfeifer was added to their training faculty in January 2000 where he continues to serve on a part-time basis.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

None of the directors, officers, or beneficial owners of more than 10% of Ultradata's common stock failed to file on a timely basis reports required during 2000 by Section 16(a) of the Exchange Act.

Item 10. EXECUTIVE COMPENSATION

The following table sets forth all compensation awarded to, earned by, or paid by Ultradata to Monte Ross for services rendered in all capacities to Ultradata during each of the fiscal years ended December 31, 2000, 1999, and 1998. There was no other executive officer whose total salary and bonus for the fiscal year ended December 31, 2000 exceeded $100,000.

Name & Position	Year	Annual Compensation Salary	Bonus	Long-term Compensation Other (1)	Options
Monte Ross,	2000	$ 156,278	$ -	$ 6,000	(2)
Chief Executive Officer	1999	$ 142,588	$ -	$ 6,000	(3)
	1998	$ 154,999	$ -	$ 6,000	(4)

(1) Includes premium payments for a life insurance policy on Mr. Ross, with his estate as beneficiary.
(2) During 2000 the Board's Stock Option Committee awarded Mr. Ross options to purchase an additional 7,000 shares of Common Stock at an exercise price of $1.50.
(3) During 1999 the Board's Stock Option Committee awarded Mr. Ross options to purchase an additional 10,000 shares of Common Stock at an exercise price of $2.00.
(4) During 1998 the Board's Stock Option Committee awarded Mr. Ross options to purchase an additional 6,000 shares of Common Stock at an exercise price of $3.00.

Employment Agreements; Royalty Agreement

Messrs. Ross, Peterson, and Clarke have individual employment agreements with Ultradata beginning September 1, 1994. Except as noted herein, the terms of the employment agreements are substantially identical. The agreements were extended in 1997 by action of the Board of Directors to October 31, 2000, and again in 2000 to October 31, 2003. The agreements provide for base salaries, which are adjusted annually by the Board of Directors. If the majority of the Board cannot agree as to a level of salary adjustment, the salary will increase by 10% for Mr. Clarke and Mr. Peterson and 5% for Mr. Ross. The employment agreements restrict each officer from competing with Ultradata for one year after the termination of his employment unless that employee establishes that his employment by a competitor will not involve the use of any information considered confidential by Ultradata.

Leonard Missler, Vice President - Software Development, has a Royalty Agreement with Ultradata dated September 14, 1989. The Agreement terminates on September 13, 2009. Mr. Missler specifies in the Agreement that he will keep confidential all of Ultradata's information regarding its technology and products. In exchange, the Agreement provides that Ultradata will pay Mr. Missler a royalty equal to 1% of net sales of Ultradata's ROAD WHIZ products and 0.5% of net sales of other products incorporating the ROAD WHIZ database. During the two years ended December 31, 2000 and 1999, royalty expense totaling $60,645 and $39,820, respectively, was recognized.

STOCK OPTION AWARDS

The following tables set forth certain information regarding the stock options acquired by the Company's Chief Executive Officer during the year ended December 31, 2000 and those options held by him on December 31, 2000:

OPTION GRANTS IN CURRENT FISCAL YEAR

Number of Securities Underlying Option	Percent of total options Granted to Employees in fiscal	Exercise Price	Expiration	Potential realizable value at assumed annual rates of Appreciation for option term

Name	Granted	Year	($/share)	Date	5%	10%
Monte Ross	7,000	22.0%	$ 1.50	12/31/05	$ 5,526	$ 12,210

AGGREGATED FISCAL YEAR OPTION VALUES

Name	Number of securities underlying Unexercised options at fiscal Year-end (#)(All Exercisable)	Value of unexercised in-the-money Options at fiscal year end (all exercisable)
Monte Ross	80,500	$ -

Stock Option Plans

We have two stock option plans: the 1994 Incentive Stock Option Plan and the 1996 Incentive Stock Option Plan. The material terms of the Plans are identical. Our shareholders have approved the issuance of options for 500,000 shares under the Plans. So far, options for 471,348 shares have been issued under the Plans, not including options that were issued and then terminated when the employees left Ultradata. Of the 471,348, options have been exercised to purchase 94,523 shares of common stock. Options to purchase 334,025 remain outstanding.

The Plans give the Board of Directors the authority to grant stock options. All of our employees, as well as our Directors and consultants who perform services for us are eligible to receive options. Some of these options may qualify under Section 422 of the Internal Revenue Code, which gives tax advantages to options that meet the qualifications. Stock options designed to qualify under Section 422 are referred to as "incentive stock options." All other stock options are referred to as "non-qualified stock options." The most important provisions of the Plans are the following:

* The Board of Directors will determine the number of shares that an employee may purchase and all other terms and conditions of each option.

* No option will have a term of more than 10 years.

* Every incentive stock option granted to a shareholder who owns 10% or more of the voting power in Ultradata, will expire not later than five years after the grant.

* The employee who holds an option may not transfer it, except by will or through the laws of inheritance.

* The Plan limits the Board's authority to grant incentive stock options to a single individual by requiring that the aggregate exercise price of all stock options, incentive and otherwise, vesting in one employee in any single calendar year may not exceed $100,000.

* There is no limit on vesting of non-qualified stock options.

* The exercise price for non-qualified stock options may not be less than eighty-five percent (85%) of the fair market value of the shares on the date of grant.

* The exercise price of an incentive stock option must be at least 100% of the market price of a common share on the date the stock option is

granted.

* The exercise price of an incentive stock option granted to an employee who owns 10% or more of the voting power in Ultradata may not be less than 110% of the market price of a common share on the date the stock option is granted.

* The Board may permit an employee to exercise an option and make payment by giving a personal note.

During 2000 the Company issued additional incentive stock options to purchase 36,043 shares of Common Stock at an exercise price between $1.50 and $5.56. The following officers have received a cumulative total number of options shown below since the inception of the plans at the weighted-average exercise price given:

NAME	Number of Shares	Average Exercise Price
Monte Ross	80,500	$ 3.46
Mark L. Peterson	62,000	$ 3.13
Ernest Clarke	38,500	$ 3.32
Leonard Missler	26,500	$ 3.38
Duane Crofts	30,000	$ 3.28

REMUNERATION OF DIRECTORS

Outside Directors receive $500 per meeting and are reimbursed for out-of-pocket expenses incurred on the Company's behalf.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information known to us with respect to the beneficial ownership of our common stock by the following:

* each shareholder known by us to own beneficially more than 5% of our common stock;
* Monte Ross;
* each of our directors; and
* all directors and executive officers as a group.

There are 3,215,571 shares of our common stock outstanding. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed below have sole voting power and investment power with respect to their shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percent ownership of that person, we include:

* shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days, and
* shares of common stock that would be issued today if the Series A Preferred Stock held by that person were exercised today.

We do not, however, include these "issuable" shares in the outstanding shares when we compute the percent ownership of any other person.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percentage of Outstanding Shares (8)

Monte Ross	434,500(2)	13.18%
Mark L. Peterson	162,282(3)	4.95%
Ernest Clarke	169,352(4)	5.20%
Donald Rattner	29,000	0.90%
H. Krollfeifer, Jr.	10,000	0.31%
All officers and directors as a group (7 persons)	870,873(5)	25.22%
BH Capital Investments, L.P. 175 Bloor St. East, 7th Floor Toronto, Ontario Canada M4W3R8	258,653(6)	7.44%
Excalibur Limited Partnership 33 Prince Arthur Avenue Toronto, Ontario Canada M5R1B2	258,653(6)	7.44%
Influence Incubator, LLC 9666 Olive Street Road St. Louis, Missouri 63132	300,000(7)	8.53%

(1) Unless otherwise indicated, the address of each of these shareholders is c/o Ultradata Systems, Incorporated, 9375 Dielman Industrial Drive, St. Louis, Missouri 63132

(2) Includes 224,000 shares owned by Monte Ross, 100,000 shares owned by Harriet Ross, and 30,000 shares owned by the Monte Ross and Harriet J. Ross Living Trust. Mr. Ross and his wife share investment control over the trust; they may revoke it or amend it at will; and they receive all income from the trust during the life of either of them. Also includes options to purchase 80,500 shares.

(3) Includes 91,964 shares owned by the Mark L. Peterson and Ryia Peterson Living Trust and 8,318 owned by Ryia Peterson. Mr. Peterson and his wife share investment control over the trust; they may revoke it or amend it at will; and they receive all income from the trust during the life of either of them. Also includes options for 62,000 shares.

(4) Includes options for 38,500 shares.

(5) Includes options for 237,500 shares.

(6) Represents for each shareholder: (a) 19,400 shares of Common Stock which could have been acquired on June 12, 2001 on conversion of Series A Convertible Preferred Stock (conversion being limited through December 31, 2001, to 10% of the trading volume for the 22 trading days preceding conversion), plus (b) warrants to purchase 239,253 shares. After December 31, 2001, conversion and exercise will be subject to a limit that on conversion and exercise each shareholder may not acquire more than 9.99% of the outstanding common stock. The limit may be waived by the shareholder on 75 days notice to Ultradata, in which event the number of shares into which the Preferred Stock is convertible will depend on the market price at the time of conversion. The Company has reached an agreement in principle with the holders of the Preferred Stock that will limit the number of shares that can be issued on conversion of the Preferred Stock to 20% of the trading volume for the preceding quarter.

(7) Represents options to purchase 300,000 shares.

(8) In determining the percentage of outstanding shares, all presently exercisable options owned by the shareholder or the group are treated as

having been exercised.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In 1994 five of our officers and four employees purchased shares of our common stock and gave us promissory notes in payment. On June 11, 1999 three of the officers surrendered a portion of the shares they had purchased, and we forgave a portion of their notes in exchange for the shares. The Board of Directors agreed with the officers that they would value the surrendered shares at the weighted average market price for the 30 trading days preceding June 11, 1999. The table below shows data concerning the 1994 purchase and 1999 surrender of shares.

	Shares Purchased			Shares Surrendered		
	Total	Price	Average	Total	Price	Average
Monte Ross	155,734	$254,500	$1.63	100,000	$215,000	$2.145
Mark Peterson	38,725	$ 63,375	$1.64	37,423	$ 80,459	$2.145
Leonard Missler	17,676	$ 21,250	$1.20	12,548	$ 26,978	$2.145

We have a written agreement with Leonard Missler, our Vice President - Software Development. The agreement provides that, until September 13, 2009, we will pay Mr. Missler a 1% royalty on all net sales of ROAD WHIZ products and 1/2% on net sales of other products incorporating the ROAD WHIZ database. Because of this agreement, we paid $60,645 in royalties to Mr. Missler in 2000 and $39,820 in 1999.

Steven H. Akre, Esquire, who was a member of our Board of Directors until April 2001, performed legal services as general counsel for Ultradata since it was founded. During 2000 we paid Mr. Akre $42,907 for legal services, and during 1999 we paid the law firm with which Mr. Akre was then associated $108,411 for legal services.

Item 13. EXHIBITS, LIST, AND REPORTS

(a) Financial Statements
List of Financial Statements Under Item 7 of this Report:

Report of Independent Certified Public Accountants

Balance Sheet as of December 31, 2000.

Statements of Operations for each year in the two-year period ended December 31, 2000.

Statements of Stockholders' Equity for each year in the two-year period ended December 31, 2000.

Statements of Cash Flows for each year in the two-year period ended December 31, 2000.

Notes to Financial Statements for each year in the two-year period ended December 31, 2000.

(b) Exhibits Index

Exhibit Number

3-a. Articles of Incorporation, and 1989 amendment (1)

3-a(1) Amendment to Articles of Incorporation dated March 4, 1991, March 22, 1994, and November 18, 1994 (1)

3-a(2) Certification of Correction of Articles of Incorporation (1)

3-a(3) Amendment to Articles of Incorporation dated July 26, 1996 (2)

3-b. By-laws (1)

4-a. Specimen of Common Stock Certificate (1)

10-a. Lease dated May 23, 1990, as amended on November 31, 1993, for premises at 9375 Dielman Industrial Drive, St. Louis, Missouri (1)

10-a(1) Lease Addendum dated October 17, 1995, for premises at 9375 Dielman Industrial Drive, St. Louis, Missouri (1)

10-b. 1994 Stock Option Plan (1)

10-c Amended and Restated 1996 Stock Option Plan - filed as an Exhibit to the Company's Registration Statement on Form S-8 (333-32098) and incorporated herein by reference.

10-d. Employment Agreement with Monte Ross (1)

10-d(1) Extended Employment Agreement between the Company and Monte Ross (2)

10-e. Employment Agreement with Mark L. Peterson (1)

10-e(1) Extended Employment Agreement between the Company and Mark L. Peterson (2)

10-f. Employment Agreement with Ernest Clarke (1)

10-f(1) Extended Employment Agreement between the Company and Ernest Clarke (2)

10-g. Royalty Agreement dated September 14, 1989, between the Company and Leonard Missler.(1)

10-g(1) Modification Agreement dated November 4, 1995, to Royalty Agreement dated September 14, 1989, between the Company and Leonard Missler. (1)

10-h Convertible Preferred Stock and Warrants Purchase Agreement dated May 10, 2000 - filed as an exhibit to the Company's Current Report on Form 8-K dated May 16, 2000 and incorporated herein by reference.

10-h(1) Certificate of Amendment of the Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock (4)

10-i Option Agreement between the Company and Influence Incubator, L.L.C. dated May 30, 2000 - filed as an exhibit to the Company's Current Report on Form 8-K dated May 30, 2000 and incorporated herein by reference.

10-j Share Issue and Option Agreement dated March 23, 1998 among the Company, Talon Research & Development Co., Limited, and certain shareholders of Talon. (3)

10-k Variation of Option Deed dated August 27, 1998 between Talon Research & Development Co., Limited, certain shareholders of Talon, and the Company. (3)

10-l Deed made in 1999 relating to Variation of Option Deed between Talon Research & Development Co., Limited, certain shareholders of Talon, and the Company. (3)

16 Current Report on Form 8-K/A dated April 6, 2001

21 Subsidiaries - None.

(1) Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (33-85218 C) and incorporated herein by reference.
(2) Previously filed as an Exhibit to Form 10-KSB for the year ended December 31, 1997, and incorporated herein by reference.
(3) Previously filed as an Exhibit to Form 10-QSB for the quarter ended March 31, 2000, and incorporated herein by reference.
(4) Filed herewith.

(c) Reports on Form 8-K

None during the fourth quarter 2000.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of:
Ultradata Systems Incorporated

We have audited the accompanying balance sheet of Ultradata Systems Incorporated as of December 31, 2000 and the related statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Ultradata Systems Incorporated as of December 31, 1999 were audited by other auditors whose report dated March 2, 2000 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ultradata Systems Incorporated as of December 31, 2000 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1(X) to the financial statement, the Company has had recurring losses and a loss from current operations of $1,712,503 and a negative cash flow from operations of $188,281. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WEINBERG & COMPANY, P.A.

Boca Raton, Florida
June 5, 2001 (Except for Note 21(b)
as to which the date is July 3, 2001)

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
Ultradata Systems, Incorporated

We have audited the accompanying statements of operations, stockholders' equity and cash flows of Ultradata Systems, Incorporated, for the year ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurances about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of Ultradata Systems, Incorporated for the year ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America.

March 2, 2000
St. Louis, Missouri
(signed) BDO Seidman, LLP

ULTRADATA SYSTEMS, INCORPORATED
BALANCE SHEET
DECEMBER 31, 2000

ASSETS

CURRENT ASSETS

Cash and cash equivalents	$ 1,842,983
Restricted cash	767,724
Trade accounts receivable, net of allowance for doubtful accounts of $117,556 and return reserve of $94,357	673,475
Inventories	1,780,255
Prepaid expenses and other current assets	229,637
Total Current Assets	5,294,074
PROPERTY AND EQUIPMENT - NET	617,794
OTHER ASSETS	
Deferred compensation trust investments, available for sale	84,605
Investment in Talon Research and Development, Ltd.	825,757
Investment in Influence Data, LLC	-
Advances to affiliates	150,000
Advertising credits	62,421
Other assets	8,594
Total Other Assets	1,131,377
TOTAL ASSETS	$ 7,043,245
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	$ 164,319
Accrued expenses and other liabilities	218,996
Total Current Liabilities	383,315
LONG TERM LIABILITIES	
Deferred rent	6,220
Deferred compensation liability	87,329
Total Long Term Liabilities	93,549
TOTAL LIABILITIES	476,864
STOCKHOLDERS' EQUITY	
Preferred stock, $0.01 par value, 4,996,680 shares authorized, none issued and outstanding	-
Series A convertible preferred stock, 3,320 shares authorized, 1,616 shares outstanding with a stated value of $1,000	1,616,000
Common stock, $0.01 par value, 10,000,000 shares authorized, 3,519,586 issued and outstanding	35,196
Additional paid-in capital	9,861,970
Accumulated deficit	(3,737,190)
Treasury stock (326,171 shares at cost)	(942,311)
Notes receivable issued for purchase of common stock	(205,819)
Accumulated other comprehensive (loss) income, net	(61,465)
TOTAL STOCKHOLDERS' EQUITY	6,566,381

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$7,043,245

See accompanying notes to financial statements.

ULTRADATA SYSTEMS INCORPORATED
STATEMENTS OF OPERATIONS
AS OF DECEMBER 31, 2000 AND 1999

	2000	1999
NET SALES	$ 6,301,236	$ 5,425,762
COST OF SALES	4,516,970	3,151,046
GROSS PROFIT	1,784,266	2,274,716
OPERATING EXPENSES		
Selling expense	612,428	1,671,659
General and administrative expenses	2,280,439	2,063,016
Research and development expense	371,554	358,357
Total Operating Expenses	3,264,421	4,093,032
OPERATING LOSS	(1,480,155)	(1,818,316)
OTHER INCOME (EXPENSE)		
Interest and dividend income	179,941	93,848
Equity in losses of unconsolidated affiliates	(240,337)	(81,118)
Impairment of investment	(225,039)	-
Royalty income	-	127,473
Loss on disposal of fixed assets	(8,695)	(6,969)
Realized gain on sale of securities	10,601	22,602
Other, net	51,181	35,466
Total Other Income (Expense)	(232,348)	191,302
LOSS BEFORE INCOME TAX EXPENSE	(1,712,503)	(1,627,014)
Income tax expense	-	370,236
NET LOSS	$(1,712,503)	$(1,997,250)
LOSS PER SHARE		
Net loss	$(1,712,503)	$(1,997,250)
Preferred stock dividends	(1,456,625)	-
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$(3,169,128)	$(1,997,250)
Loss per share - basic and diluted	$ (1.00)	$ (0.64)
Weighted average shares outstanding - basic and diluted	3,168,186	3,122,138

See accompanying notes to financial statements.

ULTRADATA SYSTEMS, INCORPORATED
STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital	Notes Receivable For Common Stock	Treasury Stock Shares	Treasury Stock Amount	Other Compre Income
Balance, January 1, 1999	3,410,000	$34,100	-	$ -	$9,799,936	$(505,549)	255,200	$(900,281)	$ 86
Purchase of 1,000 shares of treasury stock at cost	-	-	-	-	-	-	1,000	(2,125)	
Issuance of 80,000 shares of treasury stock for investment in Influence Data, LLC	-	-	-	-	45,418	-	(80,000)	281,782	
Redemption of 149,971 shares of common stock to reduce notes receivable	-	-	-	-	-	321,687	149,971	(321,687)	
Accrued interest on notes receivable issued for purchase of common stock	-	-	-	-	-	(13,255)	-	-	
Issuance of stock options to non-employee for services performed	-	-	-	-	6,540	-	-	-	
Other comprehensive loss on available for sale trust securities	-	-	-	-	-	-	-	-	(48
Net loss, 1999	-	-	-	-	-	-	-	-	
Total Comprehensive Loss	-	-	-	-	-	-	-	-	
Balance, December 31, 1999	3,410,000	34,100	-	-	9,851,894	(197,117)	326,171	(942,311)	37
Exercise of 94,523 employee stock options	94,523	945	-	-	313,680	-	-	-	
Issuance of common stock for services	5,500	55	-	-	11,633	-	-	-	
Issuance of stock options for Investment in Influence Data, LLC	-	-	-	-	55,981	-	-	-	
Accrued interest on									

notes receivable issued for purchase of common stock	-	-	-	-	-	(8,702)	-	-	
Issuance of preferred stock net of direct offering costs	-	-	1,600	1,600,000	(359,625)	-	-	-	
Issuance of stock options to non-employee for services performed	-	-	-	-	4,503	-	-	-	
Issuance of common stock in connection with preferred stock offering	9,563	96	-	-	(96)	-	-	-	
Issuance of preferred stock in connection with preferred stock offering	-	-	16	16,000	(16,000)	-	-	-	
Other comprehensive loss	-	-	-	-	-	-	-	-	(99
Net loss, 2000	-	-	-	-	-	-	-	-	
Total Comprehensive Income	-	-	-	-	-	-	-	-	
BALANCE, DECEMBER 31, 2000	3,519,586	$35,196	1,616	$1,616,000	$9,861,970	$(205,819)	326,171	$(942,311)	$(61

See accompanying notes to financial statements.

ULTRADATA SYSTEMS, INCORPORATED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,712,503)	$ (1,997,250)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income tax provision	-	476,149
Depreciation and amortization	226,083	259,870
Provision for inventory obsolescence	264,717	202,705
Equity in losses of unconsolidated affiliates	240,337	81,118
Realized (gain) loss on investments	(10,601)	(22,602)
Non-cash compensation expense	16,191	6,540
Bad debt expense on advances to affiliates	122,683	31,000
Loss on disposal of property and equipment	8,695	6,969
Provision for doubtful accounts	121,001	-
Loss on investment impairment	225,039	-
Increase (decrease) in assets and liabilities:		
Trade accounts receivable, net	687,791	1,621,698
Costs and estimated earnings on long-term		

contracts	-	95,534
Inventories	(389,549)	1,013,191
Prepaid expenses and other current assets	84,053	696,834
Accounts payable	8,106	(784,008)
Accrued expenses and other liabilities	(43,467)	(1,358,867)
Tax benefit receivable	-	231,227
Deferred rent	(7,464)	(7,464)
Deferred compensation trust liability	(29,393)	(33,980)
Net Cash (Used In) Provided By Operating Activities	(188,281)	518,664
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in affiliated company	(200,000)	(66,813)
Deferred compensation trust investments	(19,045)	30,158
Capital expenditures	(168,638)	(115,468)
Restricted cash	(356,836)	(398,373)
Net Cash Used In Investing Activities	(744,519)	(550,496)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock at cost	-	(2,125)
Proceeds from issuance of redeemable preferred stock and common stock warrants	1,240,375	-
Exercise of employee stock options	315,274	-
Net Cash Provided By Financing Activities	1,555,649	(2,125)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	622,849	(33,957)
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	1,220,134	1,254,091
CASH AND CASH EQUIVALENTS-END OF YEAR	$ 1,842,983	$ 1,220,134

See accompanying notes to financial statements.

ULTRADATA SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2000 AND 1999

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Presentation

The financial statements include the equity in earnings of unconsolidated affiliates Talon Research & Development Co., Ltd. (Talon) of Auckland New Zealand, and Influence Data, LLC. The investments in Talon and Influence Data, LLC are accounted for using the equity method. The Company has a 22.6% interest in Talon and a 33.3% interest in Influence Data, LLC (See Note 16).

(B) 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.

(C) Cash and Cash Equivalents

For financial statement presentation purposes, cash and cash equivalents include deposits with initial maturities of less than three months, including money market accounts with investments in marketable securities.

(D) Restricted Cash

Restricted cash includes a deposit maintained in conjunction with the Company's agreement to guarantee Talon credit with the Bank of New Zealand ($765,000) and money-market funds related to the deferred compensation trust. The cash amounts are restricted from use in operational activities of the Company. The Talon guarantee expires on August 31, 2001 and the restriction will be released.

(E) Revenue Recognition

Net sales are recognized when products are shipped. The Company has established programs, which, under specified conditions, enable customers to return product. The Company establishes liabilities for estimated returns at time of shipment. In addition accruals for customer discounts and rebates are recorded when revenues are recognized.

Revenue under the Company's long-term contract is recognized on the percentage of completion method based upon incurred costs compared to total estimated costs under the contract. Revisions to assumptions and estimates, primarily in contract value and estimated costs, used for recording sales and earnings are reflected in the accounting period in which the facts become known.

Royalties are earned based on sale of products.

(F) 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.

(G) Property and Equipment

Property and equipment are stated at cost. Maintenance and repairs are expensed as incurred. Major improvements, which materially extend useful lives, are capitalized. The Company capitalizes certain software development costs in accordance with the American Institute of Certified Public Accountants Statement of Position No. 98-1, "Accounting for the Costs of Software Developed or Obtained for Internal Use." Costs incurred for the Company's own personnel who are directly associated with software development are capitalized. Capitalized software costs will be amortized over an estimated useful life of five years. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, generally five years. Leasehold improvements are amortized over the shorter of the term of the related lease or its useful life. The Company continually reviews property and equipment to determine that the carrying values are not impaired.

(H) Long-Lived Assets

In accordance with SFAS 121, long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets. The

Company reviews long-lived assets to determine that carrying values are not impaired. The Company recognized an impairment loss of $225,039 on its investment in Influence Data, LLC during 2000 (See Note 16).

(I) Operating Lease

Lease expense on the corporate facilities is recognized on a straight-line basis over the primary term of the lease. The lease provides for accelerating rent over the lease term. Accordingly, deferred rent has been recorded in the Company's balance sheet (See Note 7).

(J) Advertising

The Company expenses the production costs of advertising the first time advertising takes place, except for direct response advertising, which is capitalized and amortized over its expected period of future benefits. The Company accounts for barter transactions under APB 29 "Accounting for Nonmonetary Transactions". During 1999, the Company exchanged slow moving inventory having a fair value of $249,685 after a write-down for obsolescence, for advertising credits. The credits have no expiration date and can only be used by the Company or an affiliate. The Company did not use any of these advertising credits and as such has not recorded any advertising expenses related to these credits during the year ended December 31, 2000. At December 31, 2000, the Company has included in prepaid expenses and other non current assets the unused advertising credits of $249,685.

Advertising expense totaled $202,705 and $1,446,225 for fiscal years ended December 31, 2000 and 1999.

(K) Goodwill

The excess of the purchase price of net assets acquired in equity investments over their fair value is being amortized on a straight-line basis not to exceed 10 years.

(L) Fair Value of Financial Instruments

FAS 107 "Disclosure About Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. Cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of the instruments.

(M) Research and Development Costs

Research and development costs consist primarily of expenditures incurred bringing a new product to market or significantly enhancing existing products. The Company expenses all research and development costs as they are incurred unless they are associated with the development of tools or processes for production used in-house rather than for product delivered to a customer.

(N) Deferred Compensation Trust Investments

Investments are stated at the estimated fair value in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and consist of investments in U.S. government agency securities or corporate stocks. The deferred compensation trust represents contributions made by the Company to a Rabbi trust. The amounts are restricted from use for operational purposes, and investment decisions are made by the trust beneficiary.

Available-for-sale securities, which include any security for which the beneficiary has no immediate plan to sell but which may be sold in the future, are valued at fair value. Realized gains and losses, based on the amortized cost of the specific security, are included in other income as investment gains (losses). Unrealized gains and losses are recorded, net of related income tax effects, as a separate component of equity.

(O) Royalty Expense

Royalty expense is recognized on a pro rata basis as units are sold.

(P) Income Taxes

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 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(Q) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) for the period by the weighted average number of shares of common stock outstanding during the period. The assumed exercise of stock options and warrants is included in the calculation of diluted earnings per share, if dilutive.

(R) Stock-based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price greater than or equal to the fair value of the shares at the date of grant. The Company accounts for stock options in accordance with Accounting Principles Board Opinion No. 25 (APB Opinion No. 25) "Accounting for Stock Issued to Employees." The Opinion requires that compensation cost related to fixed stock option plans be recognized only to the extent that the fair value of the shares at the date of grant exceeds the exercise price. Accordingly the Company recognizes no compensation expense for its stock option grants.

In October 1995, the Financial Accounting Standards Board (FASB) issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 allows companies to continue to account for their stock option plans in accordance with APB No. 25, but encourages the adoption of a new accounting method based on the estimated fair value of employee stock options. Pro forma net income and income per share, determined as if the Company had applied SFAS No. 123, are discussed with Note 13.

(S) Reclassifications

Certain 1999 balances have been reclassified to conform to the 2000 presentation. During 2000, the Company changed the way they account for certain sales incentives, in accordance with EITF Issue No. 00-25 Accordingly, the Company has restated the 1999 financial statements to reflect this change. The Company reduced sales and selling expense by $140,865.

(T) Impact of Recent Accounting Pronouncements

In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FAS No. 133). FAS No. 133 requires as derivatives to be recognized as assets or liabilities on the balance sheet and measured at fair value. Changes in the fair value of derivatives should be recognized in either net income or other comprehensive income, depending on the designated purpose of the derivative. This statement, as amended by FAS No. 137 and 138, is effective on January 1, 2001, and will not have a material effect on the Company's financial position or results of operations.

(U) Significant Customers

For the year ended December 31, 2000, the company relied on four customers for approximately 39%, 34%, 10%, and 7% of consumer product sales. Accounts receivable from those customers totaled $0, $0, $257,860, and $138,258, respectively, at December 31, 2000.

For the year ended December 31, 1999, the customer relied on four customers for approximately 20.3%, 12.4%, 10.7% and 10.6% of consumer product sales, respectively.

(V) Concentrations of Credit Risk from Deposits in Excess of Insured Limits

The Company maintains its cash balances at one financial institution in Missouri. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At December 31, 2000 the Company's uninsured cash balances were approximately $2,719,200.

(W) Business Segments

The Company applies Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information". The Company operates in one segment and therefore segment information is not presented.

(X) Going Concern

As shown in the accompanying financial statements, the Company incurred a net loss of $1,712,503 for the year ended December 31, 2000 and a negative cash flow from operations of $188,281. These factors raise substantial doubt about the company's ability to continue as a going concern.

The Company has continued its product design and development efforts to introduce new products during 2001. The Company also continues to expand into mass market retailers. In addition, the Company is pursuing asset based financing to finance its expansion plans. Management believes that actions presently taken to obtain additional funding provide the opportunity for the Company to continue as a going concern.

NOTE 2 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. The Company sells the products in the United States through direct marketing and through independent sales representatives, mail order catalogs and mass market retailers.

NOTE 3 INVENTORIES

Inventories (net) at December 31, 2000 consist of the following:

Raw materials	$ 746,572
Work in process	57,393
Finished goods	976,290

	$1,780,255
	=========

At December 31, 2000, the Company has reserved $560,761 for obsolete inventory.

NOTE 4 PREPAID EXPENSES

Prepaid expenses at December 31, 2000 consist of the following:

Prepaid advertising	$ 201,225
Other prepaid expenses	28,412

	$ 229,637
	=======

NOTE 5 PROPERTY AND EQUIPMENT

Property, plant and equipment, as of December 31, 2000 consisted of:

Research and development equipment	$ 160,890
Production equipment	45,051
Tooling and test equipment	779,616
Office furniture and equipment	400,341
Sales displays	52,101
Leasehold improvements	141,671
Construction in progress-software	274,604

	1,854,274
Less accumulated depreciation and amortization	1,236,480

	$ 617,794
	=========

Depreciation and amortization expense for the years ended December 31, 2000 and 1999 totaled $226,083 and $259,870, respectively. Estimated costs to complete construction in progress for TRAVEL*STAR 24(software development tools at December 31, 2000 was $30,000. The Company plans to begin amortization of these costs in June 2001 as production activities and shipments to customers begin in earnest. The Company also plans to capitalize similar software tools for future versions of the TRAVEL*STAR product starting in 2001 and spend approximately $75,000 for this effort during the year.

NOTE 6 COMPREHENSIVE INCOME (LOSS)

The Company follows SFAS No. 130, "Reporting Comprehensive Income". This statement establishes standards for reporting and display of comprehensive income and its components.

The components of other comprehensive income (loss), net, are as follows:

	2000	1999
Unrealized loss on deferred compensation investments:		
Unrealized losses arising during the period, net	$ (50,874)	$ (62,661)
Reclassification adjustment for gains realized in net loss	-	14,014

Foreign currency translation loss	(48,420)	-
Other comprehensive loss	$ (99,294)	$ (48,647)

NOTE 7 LEASES

The Company amended and expanded its corporate facilities lease as of November 1, 1995. The lease is an operating lease, which expires October 31, 2001. The Company pays monthly rent plus 31% of all building expenses. Rental expense totaled approximately $109,678 and $114,247 for the years ended December 31, 2000 and 1999, respectively.

Future minimum lease payments and the related totals to be expensed for financial reporting under the operating lease consist of the following:

	Cash Payments	Expense To Be Recognized
Year Ending December 31, 2001	$ 89,153	$ 82,933

NOTE 8 ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities at December 31, 2000 consist of the following:

Accrued sales commissions and royalties	$ 14,758
Accrued payroll	42,294
Accrued vacation	82,990
Accrued advertising	1,563
Other	77,391
	$ 218,996

NOTE 9 DEFERRED COMPENSATION

Deferred compensation represents the market value of investments made by the Company in conjunction with a deferred compensation arrangement with the Company's CEO for services provided prior to 1991. Five annual payments of $12,800 were paid through December 31, 1995 to a Rabbi trust for the benefit of the Company's CEO. A distribution to the beneficiary of $36,850 was made during 1999. The amortized cost and unrealized gain on the investments were $74,465 and $10,140, respectively, at December 31, 2000.

NOTE 10 LINE OF CREDIT

In April 1999, the Company negotiated a lending agreement with Southwest Bank of St. Louis that provided a credit facility of $1 million, secured by the Company's accounts receivable and inventories, which expires on July 1, 2001. The Bank reserved against this line of credit a Standby Letter of Credit related to the guarantee of Talon's line of credit discussed below (See Note 16). There were no borrowings at December 31, 2000. As of May 1, 2001, the Company was in default of certain covenants and agreed not to take any draws on the line of credit.

The Company has renewed and increased its agreement to be guarantor on a line of credit in the original amount of $400,000 issued to Talon GPS, LLC, by a commercial bank in Hong Kong. The new amount that will be guaranteed is $765,000, in accordance with an agreement whereby the Company is a guarantor of Talon's line of credit in proportion to the Company's ownership share in Talon. In connection with the Company's guarantee agreement with Talon, the Company is contingently liable for an irrevocable letter of credit in favor of a Hong Kong bank for an aggregate amount not to exceed $765,000. This letter of credit is due to expire on August 31, 2001 (See Note 1 (D)). The agreement also states that should the Company elect not to renew the Standby Letter of Credit, Talon will have the right to repurchase its shares or any portion thereof from the Company at the fair market value determined by an appropriate expert.

NOTE 11 NOTES RECEIVABLE ISSUED FOR PURCHASE OF COMMON STOCK

Notes receivable issued for purchase of common stock represent unsecured advances made by the Company to various employees for stock options exercised. The notes bear interest at 6% per annum and are due, together with accrued interest, on demand on either the termination of employment or the sale of underlying stock, whichever comes first. During 2000, the notes earned $9,352 in interest.

NOTE 12 EARNINGS (LOSS) PER SHARE

A reconciliation of the numerator and denominator of the loss per share calculations is provided for all periods presented. The numerator for basic and diluted loss per share is net loss for all periods presented. The denominator for basic and diluted loss per share for 2000 and 1999, as follows:

	For The Twelve Months Ended December 31, 2000 (a)	1999 (b)
Numerator:		
Net earnings (loss)	$ (1,712,503)	$ (1,997,250)
Preferred Stock Dividend (c)	(1,456,625)	-
Numerator for basic and diluted loss per share - weighted average shares (d)	$ (3,169,128)	$ (1,997,250)
Denominator:		
Denominator for basic and diluted loss per share - weighted average shares (d)	3,168,186	3,122,138
Basic and diluted loss per share	(1.00)	(0.64)

(a) Options to purchase 759,450 shares of common stock at prices between $1.50 and $7.39 per share were outstanding at December 31, 2000, but were not included in the computation of diluted loss per share because they are anti-dilutive.
(b) Options to purchase 412,430 shares of common stock at prices between $1.44 and $7.39 per share were outstanding at December 31, 1999, but were not included in the computation of diluted loss per share because they were anti-dilutive.

(c) See Note 20.

(d) Conversion of the preferred stock was not included in the weighted-average shares and computation of diluted loss per share because the effect of the preferred stock dividend was anti-dilutive.

NOTE 13 INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2000 and 1999 consist of:

	2000 Current	2000 Deferred	2000 Total
Federal	$ -	$ -	$ -
State	-	-	-
	$ -	$ -	$ -

	1999 Current	1999 Deferred	1999 Total
Federal	$(105,913)	$ 426,028	$ 320,115
State	-	50,121	50,121
	$(105,913)	$ 476,149	$ 370,236

Income tax expense for the years ended December 31, 2000 and 1999 differed from amounts computed by applying the statutory U. S. federal corporate income tax rate of 34% to income before income tax benefit as a result of the following:

	2000	1999
Expected income tax (benefit) expense	$ (581,908)	$ (553,185)
Increase (decrease) in income taxes resulting from:		
Valuation allowance increase	311,772	962,937
State income taxes, net of federal expense (benefit)	(16,884)	33,080
Nondeductible expenses for federal income tax purposes	1,204	2,458
Foreign operations	106,813	3,642
Other, net	179,003	(78,696)
Income tax expense (benefit)	$ -	$ 370,236

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2000 include the following:

	2000
Deferred tax assets:	
Net operating loss carryforward	$ 1,895,332
Note receivable reserved for financial reporting purposes	202,283
Notes and accounts receivable reserves	72,050
Inventory reserves, principally due to accruals for financial reporting purposes and basis differences	190,658
Other	24,925
Total deferred tax assets	$ 2,385,248
Deferred tax liabilities	
Prepaid advertising	(4,747)

Property, plant and equipment, principally due to differences in depreciation basis		(34,133)
Unrealized gain on deferred compensation trust investments		(3,448)
Total deferred tax liabilities		(42,328)
Gross deferred tax asset		2,342,920
Valuation allowance		(2,342,920)
Net deferred tax asset	$	-

During 1999, the Company received tax refunds for carryback of net operating losses of $337,140. A valuation allowance has been provided for those net operating loss carryforwards and temporary differences in view of the Company's continuing losses in 2000. The net operating loss carryforward of approximately $5,500,000 will expire through 2021.

NOTE 14 EMPLOYEE BENEFIT PLANS

(a) Employee Saving and Retirement Plan (Section 401-k plan)

Effective January 1, 1998, the Board of Director's approved a savings and retirement plan covering all full-time employees. Subject to approval by the Board of Directors, the Company fully matches employee contributions up to 3% of total compensation paid to participating employees and one-third of one percent is matched for each percentage of participating employee contributions between 4% and 6% of total compensation. Expense attributable to Company contributions totaled $40,586 and $43,015 during the years ended December 31, 2000 and 1999, respectively.

(b) Incentive Stock Option Plans

At December 31, 2000, the Company has two fixed stock option plans, which are described below. The Company applies APB Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans. Had compensation cost for the Company's two fixed stock option plans been determined consistent with SFAS No. 123, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	2000	1999
Net loss available to common shareholders		
As Reported	$ (3,169,128)	$ (1,997,250)
Pro Forma	$ (3,192,372)	$ (2,163,741)
Basic and diluted loss per share		
As Reported	$ (1.00)	$ (0.64)
Pro Forma	$ (1.01)	$ (0.69)

Under the 1994 Incentive Stock Option Plan, the Company may grant incentive stock options to its employees, officers, directors, and consultants of the Company to purchase up to 175,000 shares of common stock. Under the 1996 Incentive Stock Option Plan the Company may grant incentive stock options to its employees, officers, directors, and consultants of the Company to purchase up to 175,000 shares of common stock. In December 1998, the Board of Directors approved an extension of the 1996 Incentive Stock Options plan to provide for 100,000 additional shares to be made available for future grant. Under both plans, the exercise price of each option equals the market price of the Company's stock on the date of grant, and the options' maximum term is five years. Options are granted at various times and are exercisable immediately.

During 1999, the Company cancelled incentive stock options to purchase 17,300 shares of common stock at exercise prices ranging from $3.00 to $4.00 per share.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2000 and 1999, respectively: dividend yield of zero for all years; expected volatility of 77.25% and 68%; risk-free interest rates of 5.79% and 6.30%; expected lives of five years for both plans.

A summary of the status of Company's two fixed stock option plans as of December 31, 2000 and 1999, and the changes during the years then ended is presented below:

	2000		1999	
Fixed Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	412,430	$ 3.70	326,192	$ 4.25
Granted (including repriced options)	36,403	$ 3.73	103,538	$ 1.98
Forfeit	(23,860)	$ 3.39	(17,300)	$ 3.73
Exercised	(94,523)	$ 3.33	-	$ -
Outstanding at end of year	330,450	$ 3.69	412,430	$ 3.70
Option exercisable at year end	330,450		412,430	
Weighted average fair value of options granted to employees during the year	$1.00		$0.65	

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2000	Weighted Average Exercise Price
$1.00 - 1.99	34,385	4.9	$ 1.51	34,385	$ 1.51
2.00 - 2.99	56,965	3.9	2.00	56,965	2.00
3.00 - 3.99	32,550	2.9	3.00	32,550	3.00
4.00 - 4.99	194,892	3.5	4.00	194,892	4.00
5.00 - 5.99	1,658	4.5	5.01	1,658	5.01
7.00 - 7.39	10,000	0.7	7.39	10,000	7.39
	330,450			330,450	

NOTE 15 COMMITMENTS AND CONTINGENCIES

On September 14, 1989, the Company entered into a royalty agreement relating to its ROAD WHIZ product. After 20,000 ROAD WHIZ units are sold, the agreement provides for a 1% royalty payment on net sales of the ROAD WHIZ product and 0.5% on the Company's other products, which incorporate the ROAD WHIZ database. Royalty payments are made quarterly until September 13, 2009. During the years ended December 31, 2000 and 1999, royalty expense totaled $60,645 and $39,820, respectively.

On December 29, 1998, the Company entered into a three-year royalty agreement with a consultant with regard to the AAA TripWizard for 1% of sales to customers other than their own, for which they earn their normal independent sales representative commissions. During the years ended December 31, 2000 and 1999, expense totaled $10,958 and $950, respectively.

On September 15, 1998, the Company entered into a three-year royalty agreement with AAA related to the AAA TripWizard. The terms are automatically renewable for one year and amount to 10% of the wholesale price on sales other than through AAA stores and $1.00 per unit on AAA sales. This agreement recognizes the benefit of the AAA logo and data and their promotion of the product through their travel stores. During the year ending December 31, 2000 royalty expenses totaled $55,320 compared to $33,250 for 1999.

NOTE 16 INVESTMENT IN AFFILIATES

In May 1999, the Company formed a joint venture with Influence Content, LLC, a website developer, to form Influence Data, LLC. The Company issued 80,000 shares of common stock (at quoted market price) from the treasury and options (valued at market upon the Black-Scholes method) to purchase 160,000 shares of common stock for a one-third interest in Influence Data, LLC. The original value of the investment, based on the consideration given to form the joint venture was $327,200.

On May 30, 2000 the Company entered into a new agreement with Influence Content, LLC, to cancel the option agreement dated May 4, 1999, which issued options for 160,000 common shares, and issue new options for 300,000 common shares of the Company. In addition, the Company was required to pay $200,000 as additional capital contributions in connection with this agreement. The additional capital contribution contained the following provisions: the capital contribution shall not increase the Company capital account in Influence Data, LLC, nor be included for purposes of maintenance of the capital account. Furthermore, such capital contribution shall not serve to relieve or reduce the capital contribution obligations, if any, of the Company under the terms of the Influence Data, LLC, Operating Agreement. The Company has recorded an additional amount of $255,982 in goodwill in addition to the original $327,000 investment value recorded by the Company during the year ended December 31, 1999. The $255,982 is comprised of the $200,000 in cash paid by the Company and $55,982 additional cost value of the options issued as a result of the May 30, 2000 agreement. The fair value of the common stock options are estimated on the date of the grant using the Black Scholes option model with the following weighted average assumptions: dividend yield of zero, expected volatility of 40.0%, risk-free interest rate of 5.74%, and an expected life of five years.

The Company's 33% interest in Influence Data, LLC is accounted for using the equity method of accounting and is stated at amortized cost plus equity in undistributed earnings since acquisition. The equity in earnings of Influence Data, LLC is adjusted for the annual amortization of the difference between the acquisition cost and the Company's proportionate share of Influence Data, LLC's members' equity net assets. Amortization is computed on a straight-line basis over ten years. The unamortized difference between the investment cost and the Company's proportionate share of Influence Data, LLC is $156,053 at December 31, 1999. The Company's share of the losses for 1999 totaled $60,386. As discussed above, the losses were increased by $11,147 to bring the equity in loss of affiliate to $71,533 for 1999. During 2000, the Company's proportionate share of losses through September 30, 2000 was $227,226. During the fourth quarter of 2000, the Company was notified that Influence Data, LLC was having funding problems and ceasing operations. The Company also recognized an impairment loss on its investment of $225,039.

On March 23, 1998, the Company acquired an 18.9% interest in Talon for $282,500. In August 1998, the Company acquired an option to purchase additional shares in Talon for $312,147. During 1999, the option to purchase additional shares was amended, and the above amount was utilized to purchase an additional 6% interest in Talon. Legal and consulting costs associated with the acquisition and option to purchase additional shares are capitalized as part of the cost of the investment, and totaled $124,108 during December 31, 1999.

The Company's 22.6% interest in Talon is accounted for using the equity method of accounting and is stated at amortized cost plus equity in undistributed earnings since acquisition. The Company's interest decreased from 24.9% based on a 10% increase in Talon's outstanding shares due to incorporation of an employee stock option plan for Talon employees in 2000. The equity in earnings of Talon is adjusted for the annual amortization of the difference between acquisition cost and the Company's proportionate share of Talons' net assets. Amortization is computed on a straight-line basis over nine years. The unamortized difference between the investment cost and the Company's proportionate share of talon is $487,458 and $568,655 at December 31, 2000 and 1999, respectively. The Company's share of the earnings for 2000 and 1999 were $173,383 and $61,496 after accounting for the differences between New Zealand GAAP and US GAAP. As discussed above, the earnings were further reduced by amortization of $90,488 and $71,081 and a write-down of goodwill of $32,794 associated with the change in ownership during 2000, bringing the equity in (loss) gain of affiliate to $46,273 and $(9,585) for the years 2000 and 1999, respectively. The Company's equity in earnings of affiliate from inception was $165,008 as of December 31, 2000 (See Note 10).

In addition to the above transactions, the Company has purchased certain electronic components, including parts for TRAVEL*STAR 24, which have been sold to Talon at cost. These sales totaled $0 and $3,530 for the years ended December 31, 2000 and 1999, respectively. A net balance of $70,144 was receivable from Talon by the Company at December 31, 2000 and is included in trade accounts receivable.

NOTE 17 ADVANCES TO AFFILIATES

On July 1, 1998, the Company entered into a joint development and marketing agreement with a privately held company based in McLean, Virginia. The Company transferred certain software and documentation of its' service software in exchange for a promissory note bearing interest at prime rate of $400,000. In addition, the Company leased computer equipment to the affiliate at favorable rates. The Company advanced $50,000 in a promissory note, due June 30, 2000 with interest at 6.36% to expand equipment capabilities to support the proposed network. The agreement also includes a provision for the Company to advance to the affiliate up to $400,000 in additional funds to complete network development, of which $200,000 was advanced as of December 31, 2000. These advances were incorporated in a promissory note due January 1, 2002, which provides for the Company to be entitled to one-half, (50%), of the operating revenue of SmartTime Networks (excluding only non-reoccurring engineering services provided by the affiliate). The agreement also provides for the optional conversion of the loan into a 10% equity interest in the privately held company, at the Company's sole discretion. The Company has reserved $594,950 at December 31, 2000. The remaining receivable balance is $150,000 at December 31, 2000.

NOTE 18 SIGNIFICANT FOURTH QUARTER ADJUSTMENTS

In the fourth quarter of 2000, the Company recorded adjustments that increased net loss by approximately $466,500. These adjustments included $225,000 related to the write-off of Influence Data, LLC, $138,500 for an increase in the inventory reserve for obsolescence and write-off of a bad debt from a customer, and $103,000 of other various expenses related to overseas manufacture and import. These adjustments compare to $450,000 of adjustments in the fourth quarter of 1999.

In the fourth quarter of 1999, the Company recorded adjustments that increased net loss by approximately $450,000. These adjustments included $330,000 related to the investments in Influence Data, LLC and Talon, $40,000 for an increase in the inventory reserve for obsolescence, and $80,000 of various other expenses.

NOTE 19 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental non-cash investing and financing activities were as follows:

Year ended December 31, 2000

The Company issued 300,000 common stock options to Influence data, LLC with an aggregate fair value of $55,982.

Year ended December 31, 1999

The Company issued 80,000 shares of treasury stock and options to purchase 160,000 shares of its common stock, with an aggregate fair value of $327,200, for a one-third ownership interest in Influence Data, LLC.

The Company redeemed 149,971 shares of common stock in exchange for related notes receivable of $321,688.

The Company exchanged slow-moving inventory for advertising credits from a third party valued at $249,685.

NOTE 20 CONVERTIBLE PREFERRED STOCK

On May 16, 2000, the Company received from two investors gross proceeds of $1,600,000 for Series A Convertible Preferred Shares (the "Preferred Shares") and Common Stock Purchase Warrants ("Warrants"). The Preferred Shares have no voting rights, except as to matters which directly affect the rights of holders of Preferred Shares. The holders of Preferred Shares are not entitled to any cash dividends. However, they accrue an additional 11.25% per annum (or 22.5% if the Common Stock is delisted by NASDAQ) for purposes of conversion, redemption, and liquidation ($113,625 at December 31, 2000). Among the rights attendant to the Preferred Shares are:

1. The Preferred Shares have a liquidation preference, upon the liquidation of Ultradata or its bankruptcy or certain other events, equal to their face value plus an accrued amount equal to 11.25% from the date of their issuance (22.5% if the Common Stock is delisted by NASDAQ).

2. The Preferred Shares, combined with the additional 11.25% per annum, may be converted into Common Stock at any time at the option of the holders. If not previously converted, the Preferred Shares will automatically convert into Common Stock on May 15, 2003. The conversion rate will be the lower of $3.50 or 75% of the 5-day average closing bid

price, subject to certain anti-dilution rights and to the Floor. The "Floor" was initially $2.50 and has since adjusted to $2.00. It applies only during the first 18 months after issuance of the Preferred Shares. Moreover, if the conversion price for any 20 trading days during months 13 through 18 after issuance less than $2.00 for the Floor, the Floor will reduce to $1.50. The intrinsic value of this beneficial conversion feature has resulted in deemed dividends of $811,189.

3. At the time the shares were issued, Ultradata undertook to obtain shareholder approval of the conversion of the new securities and to register the underlying common stock for public resale. If Ultradata had not satisfied those conditions, the Investors had a right to require Ultradata to repurchase any Preferred Shares that could not be converted into free-trading common stock due to that limitation. The redemption price would have been the greater of (a) 130% of face value plus 11.25% of face value from date of issuance or (b) the difference between the conversion price of the unconvertible share and the 5-day average closing asked price. The conditions were satisfied in July 2000 and August 2000, respectively, and the Preferred Shares are no longer redeemable.

The Warrants will permit the Investors to each purchase up to 239,253 shares of Common Stock (a total of 478,506 shares) for a price of $5.00 per share until May 15, 2003. The Company has recorded the estimated fair value of the Warrants, $284,089, as additional paid-in capital and included as a dividend to preferred stockholders.

The placement was arranged by a consultant. In compensation for their services, The Company paid $202,000 to the consultant, 12% of the gross proceeds of the placement, and issued to the consultant (a) an option to purchase, on the same terms as the Investors, 160 Preferred Shares, equal to ten percent of those sold to Investors, and (b) an option to purchase 128,000 common shares. The value of the options was credited to additional paid-in capital. The Company also paid another consultant in connection with the placement a fee of 9,570 shares of the Company's common stock with an estimated fair value of $31,868 and included as a dividend to preferred stockholders.

The fair value of the warrants and common stock options is estimated on the day of the grant using the Black-Scholes option model with the following weighted-average assumptions: dividend yield of zero, expected volatility of 40.0%, risk-free interest rate of 5.4%, and expected lives of between 2.5 and 3.0 years.

The Company made a number of covenants to the Investors in the Agreement, which included the following:

1. Until November 16, 2000, Ultradata will not issue any securities for the purpose of financing itself without the approval of the Investors.
2. The Investors will have a right of first refusal on any sale of securities by Ultradata until May 10, 2001.

The two Investors have committed to purchase additional preferred stock and warrants in certain circumstances as of the date of this report, both covenants have expired.

Preferred stock dividends are comprised of the following:

Value of common shares issued	$ 31,868
Value of warrants issued	284,089
Value of options issued	215,854
Beneficial conversion feature of	

preferred stock	811,189
Cumulative preferred stock dividend	113,625
Total	$ 1,456,625

See Note 21 regarding the exchange of 1408 shares of Series A Preferred Stock for Convertible Promissory Notes.

NOTE 21 SUBSEQUENT EVENTS

(A) Conversion of Preferred Stock

During March 2001, preferred shareholders converted 28 shares of preferred stock into 56,118 shares of common stock.

(B) Factoring Agreement

On July 3, 2001, the Company entered into an accounts receivable factoring agreement for a maximum facility of $500,000. Under the agreement, the factor advances 80% of the face value of the receivables sold by the Company. The Company is charged a variable percentage fee based upon the length of the collection period. All of the Company's accounts receivable, contracts, inventories, and intangibles are pledged as collateral under this agreement.

(C) Exchange of Preferred Stock for Notes

In August 2001, we exchanged 11.25% convertible promissory notes with a face value of $1,748,120 for 1408 preferred shares. The Company will satisfy the interest and principal on the notes with payments of $140,000 in Septemer, $70,000 in October, and $90,000 per month thereafter. The notes are convertible into common stock on the same terms as the Series A Preferred Stock, except that the cumulative conversions are limited to 20% of the trading volume for the 66 trading days preceeding the conversion.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Ultradata Systems, Incorporated
By:
/s/ Monte Ross
Monte Ross, Chairman

In accordance with the Exchange Act, this report has been signed below by the following persons, on behalf of the registrant and in the capacities and on the dates indicated.

August 21, 2001

/s/ Monte Ross
Monte Ross
Chief Executive Officer and Chairman of the Board

August 21, 2001

/s/ Ernest Clarke
Ernest Clarke
Chief Financial and Accounting Officer, Director

August 21, 2001
/s/ Mark L. Peterson
Mark L. Peterson
Director

August 21, 2001
/s/ Donald Rattner
Donald Rattner
Director

August 21, 2001
/s/ H. Krollfeifer, Jr.
H. Krollfeifer, Jr.
Director

* * * * * * * * * * * *

EXHIBIT 10-h(1)

CERTIFICATE OF AMENDMENT OF
CERTIFICATE OF DESIGNATIONS,
PREFERENCES AND RIGHTS OF
SERIES A CONVERTIBLE PREFERRED STOCK OF
ULTRADATA SYSTEMS, INCORPORATED
Pursuant to Section 242 of the General
Corporation Law of the State of Delaware

The undersigned officer of Ultradata Systems, Incorporated, a Delaware corporation (the "Corporation"), pursuant to the provisions of Section 242 of the General Corporation Law of the State of Delaware, does hereby make this Certificate of Amendment of the Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock, originally filed with the office of the Secretary of State of the State of Delaware on May 12, 2000, (the "Series A Certificate of Designations"), and does hereby state and certify that pursuant to the authority expressly vested in the Board of Directors of the Corporation by its Certificate of Incorporation, as amended, originally filed with the office of the Secretary of State of the State of Delaware on January 9, 1989, the Board of Directors of the Corporation duly adopted a resolution proposing and declaring advisable the following amendment to the Series A Certificate of Designations:

RESOLVED, that the Series A Certificate of Designations is hereby amended as follows:

(1) by striking out the definition of "Conversion Price" appearing at the end of Section 5(b) in its entirety and substituting the following: "Conversion Price" means, as of any Conversion Date or other date of determination, the lower of (x) the Base Price and (y) 75% of the average of the Closing Bid Prices on the Principal Market of the Common Stock in the five (5) Trading Days immediately preceding such date; provided, however, that the Conversion Price will be reduced an additional 5% if the securities of the Corporation are not listed on

the Principal Market, each in effect as of such date and subject to adjustment as provided herein.

(2) by striking out the definition of "Floor Price" appearing at the end of Section 5(b) in its entirety.

(3) by adding a new Section 5(j) as follows:

(j) Conversion Cap. Except as otherwise provided herein, beginning on the date of this amendment and ending December 31, 2001, the Corporation shall not be required to issue any shares of Common Stock upon conversion of the Series A Convertible Preferred Stock in any rolling 30-calendar day period, collectively and in the aggregate, in excess of 10% of the cumulative trading volume of the Corporation's Common Stock for the twenty two (22) trading days prior to and including the date of conversion as reported by Bloomberg (the "Conversion Cap"). Provided, further, that any portion of the Conversion Cap not utilized during any 30-day period shall not be carried forward to any subsequent periods.

Through December 2001, no Investor shall be issued, upon conversion of Series A Convertible Preferred Stock, shares of Common Stock in an amount greater than the product of (x) the Conversion Cap amount multiplied by (y) a fraction, the numerator of which is the number of shares of Series A Convertible Preferred Stock issued to such Investor pursuant to the Securities Purchase Agreement and the denominator of which is the aggregate amount of all the Series A Convertible Preferred Stock issued to the Investors pursuant to the Securities Purchase Agreement (the "30-Day Cap Allocation Amount"). In the event that any Investor shall sell or otherwise transfer any of such Investor's Series A Convertible Preferred Stock, the transferee shall be allocated a pro rata portion of such Investor's 30-Day Cap Allocation Amount. In the event that any holder of Series A Convertible Preferred Stock shall convert all of such holder's Series A Convertible Preferred Stock into a number of shares of Common Stock that, in the aggregate, is less than such holder's 30-Day Cap Allocation Amount, then the difference between such holder's 30-Day Cap Allocation Amount and the number of shares of Common Stock actually issued to such holder shall be allocated to the respective 30-Day Cap Allocation Amounts of the remaining holders of Series A Convertible Preferred Stock on a pro rata basis in proportion to the number of Series A Convertible Preferred Stock then held by each such holder. In no event shall this Section 5(j) limit the Investors' mandatory redemption rights under Section 6 hereof.

The aforesaid Resolution was duly adopted by the written consent of the holders of more than sixty-six and two-thirds percent (66b%) of the outstanding shares of Series A Convertible Preferred Stock, in accordance with Section 242 of the General Corporation Law of the State of Delaware and Section 20 of the Series A Certificate of Designations.

IN WITNESS WHEREOF, Monte Ross, Chief Executive Officer of the Corporation, under penalties of perjury, does hereby declare and certify that this is the act and deed of the Corporation and the facts stated herein are true and accordingly has signed this Certificate of Amendment of Certificate of Designations as of this 9th day of March 2001.

ULTRADATA SYSTEMS, INCORPORATED

By: /s/ Monte Ross
Name: Monte Ross
Title: Chief Executive Officer

* * * * * * * * * * * *

EXHIBIT 16

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

Amendment No. 1

Current Report
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) April 6, 2001

ULTRADATA SYSTEMS, INCORPORATED
(Exact name of Registrant as Specified in its Charter)

Delaware	0-25380	43-1401158
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

9375 Dielmann Industrial Drive, St. Louis, MO 63132
(Address of principal executive offices)

(314) 997-2250
Registrant's Telephone Number

Amendment No. 1

This amendment is being filed to include Exhibit 1 and to respond to the statement in the last paragraph of Exhibit 1.

Item 4. Change in Registrant's Certifying Accountant

On April 6, 2001, BDO Seidman, LLP ("BDO Seidman"), Ultradata's principal independent accountant, resigned from its engagement to audit Ultradata's financial statements for the year ended December 31, 2000.

The report of BDO Seidman on Ultradata's financial statements for the year ended December 31, 1999 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

Ultradata and BDO Seidman have not, in connection with the audits of Ultradata's financial statements for the years ended December 31, 2000 or December 31, 1999, had any disagreement on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to BDO Seidman's satisfaction, would have caused BDO Seidman to make reference to the subject matter of the disagreement in connection with its reports.

Advice regarding management during 2000 audit

During the audit of Ultradata's financial statements for the year 2000, BDO Seidman informed the Audit Committee of Ultradata's Board of Directors that information had come to its attention which it believed indicated that members of Ultradata's management, including its Chief Executive Officer, had attempted to mislead one of Ultradata's customers. Based on that information, BDO Seidman orally advised the Audit Committee that it was unwilling to rely on the representations of Ultradata's Chief Executive Officer.

On April 5, 2001, Ultradata's Board of Directors met to review the evidence regarding the conduct of its Chief Executive Officer and to consider BDO Seidman's statement that it could not rely on the Chief Executive Officer's representations. As a result of that review, the Board of Directors adopted a number of internal controls procedures, including the preparation of a code of business ethics, the appointment of an ombudsman to facilitate implementation of the code of business ethics, and the separation of the office of Chief Executive Officer from the office of President. The Board determined, however, that further remedial action was not warranted by the facts presented, having concluded (1) that there has never been an allegation of wrongdoing by the Chief Executive Officer other than this one event; (2) that the type of conduct in which the Chief Executive Officer engaged was not uncommon in wholesale marketing, and (3) that the customer which was the subject of this event had been fully informed of the relevant facts in writing on two occasions and had stated its intent to remain a customer of Ultradata. On April 6, 2001, Ultradata reported to BDO Seidman the actions taken by the Board of Directors, and BDO Seidman resigned from its engagement.

Advice regarding likelihood of a modification of opinion on 2000 financials

On February 9, 2001, BDO Seidman orally advised the Audit Committee that it would require Ultradata's management to make representations that would support a determination that Ultradata is able to continue as a going concern. Because BDO Seidman subsequently determined that it was unwilling to rely on management's representations, there was no determination made as to Ultradata's ability to continue as a going concern. At no time did BDO Seidman advise the Audit Committee that it was likely to modify its opinion to reflect substantial doubt as to Ultradata's ability to continue as a going concern.

Advice regarding internal controls during 1999 audit

In a report to the Board of Directors dated April 29, 2000, BDO Seidman advised the Board that Ultradata personnel had not received sufficient training regarding accounting issues or SEC reporting, as a result of which said personnel were unable to provide the information necessary to adequately determine the proper accounting on a timely basis. In response to this advice and after further discussion with BDO Seidman, Ultradata retained a consultant to assist in preparation of its reports to the SEC.

In the same report dated April 29, 2000, BDO Seidman advised the Board that Ultradata did not perform certain quarter-end and year-end closing procedures necessary to insure the accuracy of its general ledger, including the coordination of the receipt of audited financial statements from Ultradata's significant equity investees. In response to this advice, Ultradata's one remaining significant equity investee has accelerated the preparation of its audited financial statements.

Advice regarding internal controls during review of March, 2000 quarterly

report

In a letter to the Audit Committee of Ultradata's Board of Directors dated July 31, 2000, BDO Seidman advised that Ultradata's procedures in the first quarter of 2000 with respect to incorporation of financial information from a significant equity investee into Ultradata's quarterly report had been inadequate. In response to this advice, Ultradata filed an amendment to the quarterly report.

Ultradata has authorized BDO Seidman to respond fully to inquiries from the successor accountant concerning the subject matter discussed in this report.

On April 12, 2001, Ultradata retained the firm of Weinberg & Company, P.A., C.P.A. to audit Ultradata's financial statements for the year ended December 31, 2000. At no time during the past two fiscal years or any subsequent period did Ultradata consult with Weinberg & Company, P.A., C.P.A. regarding either the application of accounting principles to a specified transaction or the type of audit opinion which might be rendered on Ultradata's financial statements or any matter of the sort described above with reference to BDO Seidman.

EXHIBITS

1. Letter from BDO Seidman, LLP. (A portion of this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidentiality under Rule 24b-2).

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 hereunto duly authorized.

ULTRADATA SYSTEMS, INCORPORATED

Dated: April 25, 2001   By:/s/ Monte Ross
Monte Ross
Chief Executive Officer

*   *   *   *   *

Exhibit 1

NOTE: CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR A PORTION OF THIS EXHIBIT. THAT PORTION HAS BEEN REMOVED FROM THIS FILING, AND HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24-b-2. THE PLACE WHERE THE PORTION HAS BEEN REMOVED IS INDICATED THUS: * * * (Confidential Treatment) * * *

April 17, 2001

Securities and Exchange Commission
450 Fifth Street N.W.
Washington, DC 20549

Dear Sir or Madam:

We have been furnished with a copy of the response to Item 4 of Form 8-K for the event that occurred on April 6, 2001 which has been filed April 13, 2001, by our former client Ultradata Systems, Inc. We agree with the statements made in response to that item insofar as they relate to our firm, except as follows:

We were advised by the Audit Committee of the results of an independent counsel's investigation undertaken to determine the legality of actions by management * * * (Confidential Treatment) * * * . The Audit Committee developed a series of recommended actions to be voted upon at the April 5, 2001 Board meeting. Upon learning of the Board's decision to reject the Committee's recommendations regarding a management member, we notified the Company and the Audit Committee of our resignation on April 6, 2001, indicating that we had determined we could no longer rely upon management representations.

We had previously advised the Audit Committee that had we been able to issue our report on the annual financial statements for the year ended December 31, 2000, that opinion would have likely been modified to reflect substantial doubt as to the registrant's ability to continue as a going concern.

Very truly yours,

/s/ BDO Seidman, LLP