ULTRADATA SYSTEMS INC
Form 10KSB
March 17, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004

[ ] 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.)

1240 Dielman Industrial Court, 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 [X] No [ ]

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. [X]

State the issuer's revenues for its most recent fiscal year: $3,970,434

The aggregate market value at March 4, 2005 of the voting stock held by non-affiliates, based on the closing price as reported by the OTC Bulletin Board, was approximately $3,140,992. The aggregate market value has been computed by reference to a share price of $0.49 (the price at which stock was sold, or the average bid or asked price of such stock on March 4, 2005). All directors, officers, and stockholders owning more than five percent of the outstanding common stock 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 March 4, 2005, was 6,410,187

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

DOCUMENTS INCORPORATED BY REFERENCE: None

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 introduce new products to the market, to expand our customer base, to develop products for ease of travel, and to return our company to profitability. These forward-looking statements are a true statement of our present intentions, but are neither predictions of the future nor assurances that any of our intentions will be fulfilled. Many factors beyond our control could act against Ultradata in its efforts to develop and market its products. Among these factors are:

* The fact that our financial resources are minimal and will not sustain us past this year without continued success of the Talking Road Whiz(tm) product line;

* The fact that our lack of capital severely limits our ability to market our products. As a result, the loss of a significant customer could imperil the marketing of an entire product line;

* The difficulty of attracting mass-market retailers to a seasonal product like the Talking Road Whiz(tm).

There may also be factors that we have not foreseen which could interfere with our plans. In addition, changing circumstances may cause us to determine that a change in plans will be in the best interests of Ultradata. For this reason, you should not place undue reliance on any of the forward-looking statements in this report, as there is a significant risk that we will not be able to fulfill our expectations for Ultradata.

PART I

ITEM 1. BUSINESS

Overview

The Company mission is to aid the road traveler with useful information with products easy to use and affordable in price. Since 1987 we have been engaged in the business of manufacturing and marketing handheld computers that provide travel information. The products are based upon a data compression technology that we developed, portions of which we have patented. Recent developments in communications and speech technology have opened up new opportunities for us to integrate our technology and create new products merging these technologies with our own. The Company is completing development of several new products which are based on adding significant features to the successful Talking Road Navigator such as a Spanish-speaking unit and a voice-recognition unit which allows for hands-free operation. These new products are consistent with our goal of improved ease of use by the consumer. The Spanish-speaking unit was completed in 2004 and initial deliveries to customers have been made. The voice-recognition unit should be completed and available for sale in Spring 2005. The voice recognition product is called the Road Genie Audio Navigation System and represents a quantum jump in user convenience. We believe this product will achieve significant success in 2005.

The Company has sold over 3 million of its low-cost handheld travel computers, demonstrating that there is a market for travel information products. To re-awaken that market with an improved product that speaks, the Company has developed a Talking Road Whiz(tm). Significant deliveries of this product began in September of 2003 and, the Company received significant revenue in the last four months of 2003 from sales of this new addition to its product line. Company earnings in the fourth quarter of 2003 were sufficient to offset losses in the first three quarters of 2003. This success continued in the first two quarters of 2004, which have traditionally been weak quarters for Ultradata. Our growth was stalled, however, in the second half of 2004, when our primary distributor and one significant customer both ceased placing orders. We are now engaged in efforts to replace those lost sales.

Each of our consumer products is designed to allow the consumer to access useful information stored in a convenient manner. Our handheld computers generally sell at retail prices between $19.95 and $59.95 per unit. The products have been available in retail mass-market chains, catalogs, credit-card inserts, and other channels.

The goals of the Company's research and development investments are targeted at attaining the right product at the right price. There are over 125 million drivers in the U. S., and there is a great demand for useful, easy-to-access information for convenience and safety on the road. Low-cost products that achieve these benefits have a significant niche in the marketplace. Thus far, Management feels the Company has barely penetrated this huge, largely untapped market. The Company expects to continue to exploit this niche over the next few years by bringing the results of merged technologies to bear on the goals stated above with significant impact on Company sales and profits. Ease of use and low cost are major considerations. With the new voice-recognition unit, we believe we are close to tapping this large market. The introduction of expensive GPS navigation systems has brought more awareness to this category. However, most consumers do not wish to pay over $500 or monthly fees for directions. Our low-cost user-friendly products offer an affordable alternative.

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(tm)." Within the chip that powers a Road Whiz(tm) 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(tm) also contain information about services and attractions within the cities linked by the Interstate Highway System, and some versions include U.S. highways as well as Interstates. The products also provide distances between major U. S. cities, with over 100,000 pre-calculated routes. The service information provided by a Road Whiz(tm) 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.

We have achieved a significant advance in the technology in our product with the introduction of the Talking Road Whiz(tm). The unit speaks in a clear, loud, real voice appropriate prompts for the user's next action as well as the information presented on the display. This technological improvement makes the unit easier to use and more attractive to buy, and paves the way for other applications of this new technology such as the new Road Genie(r) Audio Navigation System. This new product enables the user to operate the unit hands-free with eyes on the road. It will recognize voice commands and respond with appropriate recorded voice responses - not computer-generated voice.

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

Road Whiz(tm) Plus provides complete routing information for over 90 cities, giving driving distances, driving time and detailed directions. A similar product made by Ultradata is sold by one of our major distributors under the name Auto Pilot(tm). Our products are designed to be marketed by mass merchandise retailers.

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

sold through RV magazines and Camping World stores. It contains over 60,000 services and stored routes between 250 cities.

Our 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. Products without the voice feature now generally retail for $19.95 to $29.95. At this price point, we expected 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. We have been successful in reducing the cost of marketing as well as other operating costs. In addition, we successfully increased the volume of sales in 2003 and reached profitability.

In 2004, we expected to have the entire year for Talking Road Whiz(tm) sales as compared with only the last four months of 2003. However, market forces and business problems for some of our biggest customers truncated Talking Road Whiz(tm) sales to those customers in the latter half of the year. We are consequently attempting to broaden the markets for our products in 2005 and are taking on the tasks of promoting the products that traditionally have been performed by our customers. This development will add to our marketing costs in 2005 but should permit us to command a higher margin than we could with customers burdened with these tasks and expenses themselves.

Distribution through mass merchandise channels accounted for almost 75% of our revenue in 2004. We expect that a small group of mass-market channels will continue to be an important source of sales for our handheld computer products. We also expect to increase the share of direct sales as result of these new marketing initiatives mentioned above. The following table identifies the most significant customers on the basis of sales in the past two years as well as other mass-market retailers that carry our products. In 2002, sales emphasis shifted from mass-market retailers to other channels of mass distribution that require far less marketing costs. This approach continued throughout 2003 and 2004.

Channel of Distribution

	2004 Sales	% of Sales	2003 Sales	% of Sales
Media Solutions Services	$ 2,200,642	55.4%	$ 1,608,052	56.2%
Office Max	$ 560,352	14.1%	-	-
QVC	$ 484,219	12.2%	$ 481,619	16.8%
AAA Clubs	$ 162,220	4.1%	$ 118,657	4.1%

Central to the 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. Our 2005 success depends on steering our marketing thrust more to direct sales through TV advertising and to use those inroads to pull sales through retail channels in response to the TV ads.

The objective of this marketing strategy is an increase in sales revenue and gross margin with attendant increases in selling expenses. With expected success of existing proven products as well as new products soon to be available in the marketplace, we expect to continue the profitability begun in 2003 and exhibited in 2004.

Manufacturing

We do not manufacture any of our products. We retain assemblers to manufacture the products. At present, there is one manufacturer to whom we contracted all of our assembly work in 2004. Each year, the manufacturer quotes prices to us based upon estimated annual quantities. Exact pricing is usually good for 90 days. Significant changes in chip prices result in similar changes from our manufacturer. Then we place individual purchase orders for production. Our arrangements with this manufacturer - up to the point of a purchase order - are terminable at will by either party. If the manufacturer becomes unavailable to us, alternate sources would be readily available. Nevertheless, the sudden loss of our manufacturer or unanticipated interruptions or delays from our present manufacturer would likely result in a temporary interruption to our planned operations.

Backlog

As of March 4, 2005 our total backlog was $68,147, as compared to $973,865 on March 7, 2004.

Patents

We own four patents - two that are utilized in our present Road Whiz(tm) 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. We have another patent involving electronic coupons while traveling that we believe would be valuable for future use in up-scale travel information products.

We hold two additional patents that have potential utility in the road navigation 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 a location 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.

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. A significant part of the ROAD WHIZ database is gathered and verified by "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 at our corporate headquarters along with use of publicly available information from chains and states on businesses and facilities.

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.

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. The success of the Talking Road Whiz(tm) came directly from our R&D efforts, and we plan to carry the product line to the next level of voice recognition. This feature promises to further simplify product use and attract a wider market by requiring less of the user to access valuable information.

In 2004, the Company incurred $140,507 in research and development costs compared to $63,156 in 2003. Research activities for 2004 were primarily focused on continued development of the Talking Road Whiz(tm) products and the Road Genie(tm) Audio Navigation System. In 2005, we plan to add features to the Road Genie(tm) which will enhance its usefulness to the road traveler. We plan to develop a digital voice recorder feature to be added in late 2005. Further, we have been developing a cell-phone application that would make our software and database available to a cell-phone user who opts to subscribe to this service thought his service provider. We see this channel as a new opportunity for revenue from our patents. Thus, two different paths to enhance profitability will be advanced in 2005: the voice-activated Road Genie(tm) with a digital voice recorder and the cell-phone Road Whiz application.

Employees

The Company currently has 8 full-time employees, including four officers, all of whom are located at the Company's headquarters in St. Louis, Missouri. The Company employs two people in sales, customer service and shipping, two people in executive management and administration, two people in product development, and two people in inventory management and accounting. None of the Company's employees belongs 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 5,000 square feet of leased office space in an industrial building located at 1240 Dielman Industrial Court, St. Louis, Missouri. The Company pays a monthly rent plus 16% of all building expenses under a new lease that expires October 31, 2005. The Company maintains no manufacturing operations on site and employs outside contractors to perform all of its manufacturing requirements.

Aggregate rental expense totaled $45,500 for 2004, compared to

$47,299 in 2003. The Company believes that its facilities are adequate for the Company's present and foreseeable requirements.

Item 3. LEGAL PROCEEDINGS

On February 14, 2005, Ultradata filed suit against Office Max, Inc., in the Circuit Court of St. Louis County, State of Missouri, for the collection of $190,320 outstanding on deliveries for Purchase Orders placed with the Company plus 9% per annum interest from July 18, 2004.

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

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information

The following table sets forth the prices for the Company's Common Stock (OTC Bulletin Board: ULTR) for the eight quarters starting January 1, 2003 and ending December 31, 2004. Since August 29, 2001 the Common Stock has been quoted on the OTC Bulletin Board. The bid prices quoted reflect inter-dealer prices without retail mark-up, mark-down or commission, and may not represent actual transactions.

	Bid	
Quarter Ending	High	Low
March 31, 2003	0.30	0.13
June 30, 2003	0.16	0.05
September 30, 2003	0.16	0.10
December 31, 2003	0.17	0.12
March 31, 2004	1.52	0.15
June 30, 2004	2.09	1.47
September 30, 2004	1.50	0.57
December 31, 2004	0.91	0.41

(b) Shareholders

At January 31, 2005, there were 124 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 3,000.

(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 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.

(d) Sale of Unregistered Securities

The Company did not sell any securities during the 4th quarter of 2004 that were not registered under the Securities Act.

(e) Repurchase of Equity Securities

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Act during the 4th quarter of 2004.

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

Overview

The downward sales trend was reversed in 2003 due to the successful introduction of the Talking Road Whiz(tm) in the third quarter of 2003. The success of this new product enabled the Company to overcome losses in the first three quarters of the year with a superb fourth quarter and be profitable for the year. In 2004, this trend continued through the first two quarters of the year. In the second half of the year, sale declined due to internal problems at two of our major customers. We are working to rectify that situation in 2005 by expanding our channels of distribution and introducing new attractive products. Because of our present lean operation, profitability can take place at a lower level of sales than in previous years.

Results of Operations

SALES. Sales for 2004 increased 38.7% to $3,970,434 from $2,863,258 in 2003 due to the success of the Talking Road Whiz(tm) in the first half of 2004. Our plan is to continue to pursue mass-market outlets for both our traditional products as well as new products and to grow sales in this fashion. In addition, we have engaged the services of new representative organizations in an effort to reach new retail sales channels with which they have significant contacts.

GROSS PROFIT. Because of the increase in sales of new products, our gross profit in 2004 was $1,943,678, or 49.0% of sales, compared to $1,376,716, or 48.1% of sales, in 2003.

SELLING EXPENSES. During 2004, we incurred $329,137, or 8.3% of sales, in advertising, promotion, and marketing program expenses, as compared to $253,564, or 8.9% of sales, in 2003. The reduced percentage is primarily due to the increased sales base. Our 2005 plan expects an increase in similar selling costs on the order of 12% in pursuit of direct channels and the costs associated with reaching that market.

RESEARCH AND DEVELOPMENT EXPENSES. Our research and development expenses in 2004 were $140,507 as compared with $63,156 in 2003, an increase of $77,351, or 122.5%. The primary reason for the increase was the fact that an additional engineer was hired to develop the software for the Road Genie(tm), the Spanish Talking Road Navigator, and for other R&D activities. We will continue to perform research and development in our own niche market, leading to improved products. R&D work in early 2005 will be devoted to completing the Road Genie,pursuing other applications of this new speech-recognition technology, and developing the cell-phone Road Whiz.

GENERAL AND ADMINISTRATIVE EXPENSES. Our G&A expenses were $1,151,439 in 2004 as compared to $876,528 in 2003, representing an increase of $274,911, or 31.4%. This increase is primarily due to the recognition an unexpected bad-debt expense of $170,000 that we are continuing to pursue through legal action. Another source of increased expense is the resumption of our employee matching savings plan that we had suspended throughout most of 2003.

OTHER EXPENSE. During 2004, other expense was ($4,773) compared to ($73,773) in 2003, a decrease of $69,000, or 93.5%. This reduction was due to the elimination of most of the interest-bearing debt that had burdened this item in 2003.

NET INCOME. As a result of the foregoing, net income for 2004 was $317,822 as compared to $109,695 for 2003. Net income available to common stockholders for 2004 was $317,822, or $0.05 per basic and diluted share, compared with $104,505, or $0.02 per basic and diluted share in 2003, including $5,190 of preferred dividends.

Liquidity and Capital Resources

The Company has achieved a significant increase in its cash position during the year. Cash provided by operations more than offset the cash used in capital expenditures and paying off remaining debt, such that a surplus of $383,040 was added to the cash assets of the Company.

Disappointing sales in the latter half of 2004 and difficulty collecting a key receivable has put pressure on our cash reserves going into 2005. As a result, we have entered into an agreement with Golden Gate Investors to provide needed working capital in 2005 in order to promote the Road Genie(tm) and other new products. The specific terms of the arrangement are set forth in Note 15 to our financial statements. The agreement contemplates that Golden Gate Investors will provide us $90,000 per month by purchasing our common stock at a discount to the market price, commencing when the Securities and Exchange Commission declares effective a prospectus that will permit Golden Gate Investors to resell the shares to the public. The transaction, which may involve up to $3,300,000 in additional capital, is likely to put pressure on the market price of our common stock. Without the transaction, however, we would be unable to fund the introduction of Road Genie(tm). Since we are optimistic about the prospects of the Road Genie(tm) to lead the Company to a profitable 2005 and beyond, we believe that the transaction with Golden Gate Investors is in the best interests of Ultradata.

Impact of Accounting Pronouncements

Critical Accounting Policies and Estimates

In preparing our financial statements we are required to formulate working policies regarding valuation of our assets and liabilities and to develop estimates of those values. In our preparation of the financial statements for 2004, there were estimates made which were (a) subject to a high degree of uncertainty and (b) material to our results. Those were

* Estimating returns and allowances

* Estimating allowance for doubtful accounts

* Estimating reserve for excess and obsolete inventory

* Estimating a tax asset valuation allowance

(1) our determination, detailed in Note 11 to the Financial Statements, that we should record a valuation allowance for the full value of the deferred tax asset created by our net operating loss carryforward. The primary reason for the determination was our lack of certainty as to whether Ultradata would carry on profitable operations in the future, and (2) the reserving of a receivable that has required the Company to file a collection suit. The aging of the receivable from a company undergoing some business problems has led us to be in significant doubt as to its collectibility.

We made no material changes to our critical accounting policies in connection with the preparation of financial statements for 2004.

Estimating returns and allowances

Net revenue consists of product revenue reduced by estimated sales returns and allowances. To estimate sales returns and allowances, we analyze, both when we initially establish the reserve, and then each quarter when we review the adequacy of the reserve, the following factors: historical returns, current economic trends, levels of inventories of our products held by our customers, and changes in customer demand and acceptance of our products. This reserve represents a reserve of the gross margin on estimated future returns and is reflected as a reduction to accounts receivable in the accompanying consolidated balance sheet. Increases to the reserve are recorded as a reduction to net revenue equal to the expected customer credit memo and a corresponding credit is made to cost of sales equal to the estimated cost of the returned product. The net difference, or gross margin, is recorded as an addition to the reserve. Because the reserve for sales returns and allowances is based on our judgments and estimates, particularly as to future customer demand and acceptance of our products, our reserves may not be adequate to cover actual sales returns and other allowances. If our reserves are not adequate, our future net revenues could be adversely affected.

Estimating allowance for doubtful accounts

As needed based on specific customers' circumstances affecting his probability of payment, we reserve an allowance for losses we may incur as a result of our customers' inability to make required payments. Any increase in the allowance results in a corresponding increase in our general and administrative expenses. In establishing this allowance, and then evaluating the adequacy of the allowance for doubtful accounts each quarter, we analyze historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms. If the financial condition of one or more of our customers deteriorates, resulting in their inability to make payments, or if we otherwise underestimate the losses we incur as a result of our customers' inability to pay us, we could be required to increase our allowance for doubtful accounts which could adversely affect our operating results. We have a case whereby the aging of the receivable from a company undergoing some business problems has led us to be in significant doubt as to its collectibility and has caused us to institute legal proceedings for collection. This situation has caused the allowance to be unusually large in the present financial statements.

Estimating reserve for excess and obsolete inventory

We identify excess and obsolete products and analyze historical usage, forecasted production based on demand forecasts, current economic trends, and historical write-offs when evaluating the adequacy of the reserve for excess and obsolete inventory. This reserve is reflected as a reduction to inventory in the accompanying consolidated balance sheet, and an increase in cost of revenues. If actual market conditions are less favorable than our assumptions, we may be required to take additional reserves, which could adversely impact our cost of revenues and operating results.

Estimating a tax asset valuation allowance

Note 11 to the Financial Statements details our determination that we should record a valuation allowance for the full value of the deferred tax asset created by our net operating loss carryforward. The primary reason for the determination was our lack of certainty as to whether Ultradata would carry on profitable operations in the future.

We made no material changes to our critical accounting policies in connection with the preparation of financial statements for 2004.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

There were no recent accounting pronouncements that have had or are likely to have a material effect on the Company's financial position or results of operations.

Item 7. 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 14 of this Form 10-KSB.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 8A. Controls and Procedures

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

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

PART III

Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table lists certain information regarding the officers and directors of the Company as of March 10, 2004:

NAME	AGE	POSITION
Monte Ross	72	Chief Executive Officer, Director
Ernest Clarke	65	President & Chief Financial Officer, Director
Mark L. Peterson	48	Vice President-Engineering, Secretary, Director
Donald Rattner	72	Director
H. Krollfeifer, Jr.	64	Director
Matthew Klapman	35	Director

Directors hold office until the election and qualification of their successors at a meeting of the Company's stockholders. Officers hold office, subject to removal at any time by the Board, 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 (now Boeing) 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 space laser 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. From August 1990 to June 1999 he served as Vice President - Government Programs. He then served as Company's Vice President - Controller from June of 1999 until April 2001. He was elevated to President in April 2001. For over 20 years prior to joining Ultradata, Mr. Clarke was employed by McDonnell Douglas Corporation (now Boeing) in a variety of positions. When he left McDonnell Douglas, Mr. Clarke was its Laser Product Development Manager with responsibility 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.

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.

Matthew Klapman joined the Company in 2002 to serve as a member of the Board of Directors. Mr. Klapman is the CEO of Future Vision Technologies, Inc., which he co-founded 1990. He has maintained a strong career in technological innovation, business strategy, negotiation, and

team management. He has invented and developed a myriad of products in the video, 3-D graphics, and communication fields. As a Director at Motorola, he developed the computer graphics and marketing strategy for its corporate strategy office and broadband wireless communications sector. In addition, as Director of Research and Development for Motorola's Personal Communications Sector, he spearheaded the creation of the new user interface platform that is the basis for all of Motorola's cellular phones. He has developed products and designs that have earned several industry awards. He received a B.S. in Computer Engineering and a J.D. from the University of Illinois at Urbana. He holds 4 issued and 7 pending patents.

AUDIT COMMITTEE

The Board of Directors has appointed an Audit Committee of the Board. The present members of the Audit Committee are Donald Rattner and H. Krollfeifer, Jr. The Board of Directors has determined that Donald Rattner is qualified to serve as an "audit committee financial expert", as defined in the Regulations of the Securities and Exchange Commission. Mr. Rattner is an "independent director", as defined in the Regulations of the Securities and Exchange Commission.

CODE OF ETHICS

The Company has adopted a "Code of Business Ethics for Ultradata Systems, Inc." The Code is applicable to all employees of the Company, including its principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions. The Company will provide a copy of the Code of Ethics, without charge, to any person who submits a request in writing to the President of the Company.

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 2004 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 executives for services rendered in all capacities to Ultradata during each of the last three fiscal years. There was no other executive officer whose total salary and bonus for the fiscal year ended December 31, 2004 exceeded $100,000.

	Annual Compensation		Long-term Compensation		
Name & Position	Year	Salary	Bonus	Other	Options
Monte Ross,	2004	$ 167,880	$ -	$ -	(3)
Chief Executive Officer	2003	$ 157,367	$ -	$ -	
	2002	$ 152,938	$ -	$ -	(1)
Ernest Clarke	2004	$ 111,040	$ -	$ -	(4)
President	2003	$ 103,695	$ -	$ -	
	2002	$ 103,783	$ -	$ -	(2)
Mark Peterson	2004	$ 101,152	$ -	$ -	(6)
Vice President-Engineering	2003	$ 93,101	$ -	$ -	
	2002	$ 97,877	$ -	$ -	(5)

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(1) During 2002 the Board's Stock Option Committee awarded Mr. Ross options to purchase 121,813 shares of Common Stock at an exercise price of $.07.

(2) During 2002 the Board's Stock Option Committee awarded Mr. Clarke options to purchase 66,423 shares of Common Stock at an exercise price of $.07.

(3) During 2004 the Board's Stock Option Committee awarded Mr. Ross options to purchase 25,000 shares of Common Stock at an exercise price of $.72.

(4) During 2004 the Board's Stock Option Committee awarded Mr. Clarke options to purchase 25,000 shares of Common Stock at an exercise price of $.72.

(5) During 2002 the Board's Stock Option Committee awarded Mr. Peterson options to purchase 87,511 shares of Common Stock at an exercise price of $.07.

(6) During 2004 the Board's Stock Option Committee awarded Mr. Peterson options to purchase 30,000 shares of Common Stock at an exercise price of $.72.

Employment Agreements

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, again in 2000 to October 31, 2003, and again in 2003 to October 1, 2005. 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.

Stock Option Awards

The following tables set forth certain information regarding the stock options acquired by the Company's Chief Executive Officer and Chief Financial Officer during the year ended December 31, 2004 and those options held by each of them on December 31, 2004.

Option Grants in the Last Fiscal Year

Name	Number of securities underlying option granted	Percent of total options granted to employees in fiscal year	Exercise Price ($/share)	Expiration Date
M. Ross	25,000	25	$.72	12/11/2014
E. Clarke	25,000	25	$.72	12/11/2014

Aggregated Fiscal Year-End Option Values

Name	Number of securities underlying unexercised in-the-money options at fiscal year-end ($) (All exercisable)	Value of unexercised options at fiscal year-end (#) (All exercisable)
M. Ross	146,813	$43,853
E. Clarke	91,423	$23,912

Remuneration of Directors

Outside Directors receive $500 per meeting and are reimbursed for out-of-pocket expenses incurred on the Company's behalf. From time to time they are granted stock and options as recommended and approved by the

inside directors. During 2004, the outside directors each received 4,000 options for Ultradata common stock with a strike price of $.72 that are exercisable within ten years.

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 and Ernest Clarke;

* each of our other directors; and

* all directors and executive officers as a group.

There are 6,410,187 shares of our common stock outstanding at March 4, 2005. 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

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 (12)
Monte Ross	485,813(2)	7.4%
Ernest Clarke	222,275(3)	3.4%
Mark Peterson	254,893(4)	3.9%
Donald Rattner	66,000(5)	1.1%
H. Krollfeifer, Jr.	32,000(6)	0.5%
Matthew Klapman	16,500(7)	0.3%
All officers and directors as a group (6 persons)	1,077,481(8)	15.9%
Harley Brixey 4389 Winding Oaks Drive, Mulberry, FL 33860	1,385,000(9)	21.6%

(1) Unless otherwise indicated, the address of each of these shareholders is c/o Ultradata Systems, Incorporated, 1240 Dielman Industrial Court, St. Louis, Missouri 63132

(2) Includes 100,000 shares owned by the Harriet Ross Revocable Trust, and 174,000 shares owned by the Monte Ross Revocable Trust. Also includes options to purchase 146,813 shares.

(3) All shares are owned jointly with Mr. Clarke's spouse. Also includes options for 91,423 shares.

(4) Includes options for 62,000 shares.

(5) Includes options for 29,000 shares.

(6) Includes 24,000 shares owned by D&H Enterprises, Inc., of which Mr. Krollfeifer is a principal. Also includes options for 4,000 shares.

(7) Includes options for 4,000 shares.

(8) Includes options for 371,747 shares.

(9) As reflected on a Form 144 filed on January 2, 2004.

Stock Option Plans

The information set forth in the table below regarding equity compensation plans (which includes individual compensation arrangements) was determined as of December 31, 2004.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders............	280,747	$.14	0
Equity compensation plans not approved by security holders............	116,000*	$.72	-
Total....................	427,663	$.17	0

* Represents non-qualified stock options given to the Company's outside directors and employees in 2004. The options expire on December 11, 2014.

We have two stock option plans: the 1994 Incentive Stock Option Plan and the 1996 Incentive Stock Option Plan, both of which were approved by our shareholders. The material terms of the Plans are identical. In aggregate, the Plan authorize the issuance of options for 500,000 shares, all of which have been issued. Of those, options have been exercised to purchase 94,523 shares of common stock. These plans have now expired.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

Item 13. EXHIBITS, LIST, AND REPORTS

(a) Financial Statements

List of Financial Statements Under Item 7 of this Report:

Report of Independent Registered Public Accounting Firm

Balance Sheet as of December 31, 2004.

Statements of Operations for each year in the two-year period ended December 31, 2004.

Statements of Stockholders' Equity for each year in the two-year period ended December 31, 2004.

Statements of Cash Flows for each year in the two-year period ended December 31, 2004.

Notes to Financial Statements for each year in the two-year period ended December 31, 2004.

(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-a(2) Lease Addendum dated October 5, 2001, for premises at 1240-1244 Dielman Industrial Court, St. Louis, Missouri - filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2002 and incorporated herein by reference.

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 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-i Securities Purchase Agreement dated February 14, 2005 between Ultradata Systems and Golden Gate Investors, Inc. (3)

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10-j 63/4% Convertible Debenture dated February 14, 2005 issued to Golden Gate Investors, Inc. (3)

10-k Warrant to Purchase Common Stock dated February 14, 2005 issued to Golden Gate Investors, Inc. (3)

10-l Addendum to Convertible Debenture and Securities Purchase Agreement (3)

21. Subsidiaries - None.

31. Rule 13a-14(a) Certification

32. Rule 13a-14(b) Certification

(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 the Current Report on Form 8-K dated February 17, 2005 and incorporated herein by reference.

Reports on Form 8-K:

None

Item 14. Principal Accountant Fees and Services

Audit Fees

Webb & Company, P.A. billed $15,117.00 to the Company for professional services rendered for the audit of our 2004 financial statements and review of the financial statements included in our 2004 10-QSB filings. Webb & Company, P.A. billed $8,900.00 to the Company for professional services rendered for the audit of our 2003 financial statements and review of the financial statements included in our 3rd quarter 10-QSB.

Audit-Related Fees

Webb & Company, P.A. billed $397.00 to the Company in 2004 for assurance and related services that are reasonably related to the performance of the 2004 audit or review of the quarterly financial statements. Webb & Company, P.A. billed $0.00 to the Company in 2003 for assurance and related services that are reasonably related to the performance of the 2003 audit or review of the quarterly financial statements.

Tax Fees

Webb & Company, P.A. billed $700.00 to the Company in 2004 for professional services rendered for tax compliance, tax advice and tax planning. Webb & Company, P.A. billed $0.00 to the Company in 2003 for professional services rendered for tax compliance, tax advice and tax planning.

All Other Fees

Webb & Company, P.A. billed $0.00 to the Company in 2003 for services not described above.

It is the policy of the Company's Audit Committee that all services other than audit, review or attest services, must be pre-approved by the Audit Committee. All of the services described above were approved by the Audit Committee.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of:
Ultradata Systems, Inc.

We have audited the accompanying balance sheet of Ultradata Systems, Inc. as of December 31, 2004, and the related statements of operations, changes in stockholders' equity (deficiency) and cash flows for the years ended December 31, 2004 and 2003. 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits provide 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, Inc. as of December 31, 2004 and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 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 13 to the financial statements, a major customer of the Company has experienced deteriorating operations during 2004 and during the second quarter ceased ordering products from the Company. This customer accounted for 55.4% of sales during 2004. In addition the Company terminated its agreements with AAA for the sale of its products using the AAA logo to AAA retail locations. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans concerning this matter are also described in Note 13. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WEBB & COMPANY, P.A.

Boynton Beach, Florida
March 5, 2005

ULTRADATA SYSTEMS, INCORPORATED
BALANCE SHEET
AS OF DECEMBER 31, 2004

ASSETS	
CURRENT ASSETS	
Cash	$ 385,966
Trade accounts receivable, net of allowance for doubtful accounts of $179,575	38,459
Inventories, net	89,890
Prepaid expenses	41,515
Total Current Assets	555,830
PROPERTY AND EQUIPMENT - NET	30,458
OTHER ASSETS	5,444
TOTAL ASSETS	$ 591,732
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	$ 126,019
Accrued liabilities	55,967
TOTAL CURRENT LIABILITIES	181,986
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, none issued and outstanding	-
Common stock, $0.01 par value, 10,000,000 shares authorized, 6,410,187 issued and outstanding	64,102
Additional paid-in capital	9,121,022
Accumulated deficit	(8,659,418)
Deferred stock compensation	(115,960)
TOTAL STOCKHOLDERS' EQUITY	409,746
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 591,732

See accompanying notes to financial statements.

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ULTRADATA SYSTEMS, INCORPORATED
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
NET SALES	$ 3,970,434	$ 2,863,258
COST OF SALES	2,026,756	1,486,542
GROSS PROFIT	1,943,678	1,376,716
OPERATING EXPENSES		
Selling	329,137	253,564
General and administrative	1,151,439	876,528
Research and development	140,507	63,156
Total Operating Expenses	1,621,083	1,193,248
OPERATING INCOME	322,595	183,468
OTHER INCOME (EXPENSE)		
Interest and dividend income	1,620	6,402
Interest expense	(6,408)	(155,801)
Loss on early retirement of note receivable	-	(57,813)
Settlement of legal dispute	-	127,000
Other, net	15	6,439
Total Other Income (Expense)	(4,773)	(73,773)
INCOME BEFORE INCOME TAX EXPENSE	317,822	109,695
Income tax expense	-	-
NET INCOME	$ 317,822	$ 109,695
INCOME PER SHARE		
Net income	$ 317,822	$ 109,695
Preferred stock dividends	-	(5,190)

NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 317,822	$ 104,505
Income per share - basic and diluted	$ 0.05	$ 0.02
Weighted average shares outstanding - basic and diluted	6,225,304	4,872,026

See accompanying notes to financial statements.

ULTRADATA SYSTEMS, INCORPORATED
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Notes Receivable for Common Stock	Treasury Stock Shares	Treasury Stock Amount	Accumu Defici
Balance at December 31, 2002	16	$ 16,000	4,224,456	$42,244	$9,631,750	$(102,369)	326,171	$(942,311)	$(9,
Conversion of preferred stock to note payable	(16)	(16,000)	(8,790)						
Conversion of notes payable to common stock			1,372,555	13,726	141,494				
Issuance of common stock to non-employee for services performed			30,000	300	4,200				
Exercise of employee stock options			3,000	30	180				
Stock issued as part of short-term loan offering			480,000	4,800	86,900				
Payments on notes receivable to purchase common stock						102,369			
Retirement of									

treasure shares			(326,171)	(3,262)	(939,049)		(326,171)	942,311	
Net income, 2003									
Balance at December 31, 2003	-	-	5,783,840	57,838	8,916,685	-	-	-	(8,
Conversion of notes payable to common stock			273,906	2,739	24,861				
Issuance of common stock to non-employee for services performed			223,000	2,230	171,710				
Exercise of employee stock options			100,441	1,005	6,026				
Exercise of director stock options			29,000	290	1740				
Net income, 2004									
Balance at December 31, 2004	-	$ -	6,410,187	$64,102	$9,121,022	$ -	-	$ -	$(8,

See accompanying notes to financial statements FS-4

ULTRADATA SYSTEMS, INCORPORATED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 317,822	$ 109,695
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,976	32,308
Write-down of inventory	30,457	17,673
Stock issued for services	57,980	4,500
Loss on early settlement of notes receivable	-	57,813
Provision for doubtful accounts	176,848	(693)
Non-cash accrued interest receivable	-	(12,397)
Changes in assets and liabilities:		
Trade accounts receivable, net	412,182	(485,198)
Inventories	(64,752)	29,219

Prepaid expenses and other assets	(36,349)	(604)
Accounts payable	(334,682)	182,872
Accrued liabilities	(34,826)	(98,032)
Net Cash Provided By (Used In) Operating Activities	539,656	(162,844)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from early settlement of notes receivable	-	202,517
Capital expenditures	(19,475)	(12,834)
Net Cash (Used In) Provided By Investing Activities	(19,475)	189,683
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercising stock options	9,061	-
Payments on notes payable	(311,202)	(338,844)
Dividends paid to preferred stockholders	-	(8,790)
Proceeds from notes payable	165,000	91,600
Proceeds from sale of common stock	-	91,910
Payments received on subscriptions, net	-	102,369
Net Cash Used In Financing Activities	(137,141)	(61,755)
NET INCREASE (DECREASE) IN CASH	383,040	(34,916)
CASH - BEGINNING OF YEAR	2,926	37,842
CASH - END OF YEAR	$ 385,966	$ 2,926
SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION		
Interest paid during the year	$ 6,408	$ 48,204

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ULTRADATA SYSTEMS, INCORPORATED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

During 2004, a portion of the notes payable in the amount of $27,600 was converted to 273,906 shares of common stock.

During 2003, a portion of the notes payable in the amount of $155,220 was converted to 1,312,535 shares of common stock.

During 2003, the Company retired 326,171 shares of Treasury Stock with a cost of $942,311.

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ULTRADATA SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2004 AND 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Nature of Operations

Ultradata Systems, Incorporated (the "Company") was incorporated in the State of Missouri in March 1986 under the name of Laser Data Technology, Inc. The Company subsequently merged into its wholly owned subsidiary, Ultradata Systems, Incorporated, incorporated in the State of Delaware, and Laser Data was dissolved. The principal business activity of the Company, located in St. Louis, is the design, manufacture, and sale of hand-held electronic information products. The Company sells the products in the United States through direct marketing, independent sales representatives, mail order catalogs, and mass market retailers.

(B) Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and assumptions by management, with consideration given to materiality. Actual results could vary from those estimates.

(C) Cash and Cash Equivalents

Cash includes deposits at financial institutions with maturities of three months or less. The Company at times has cash in banks in excess of FDIC insurance limits and places its temporary cash investments with high credit quality financial institutions. At December 31, 2004, the Company had approximately $285,800 in cash balances at financial institutions which were in excess of the FDIC insured limits.

(D) 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.

(E) 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.

(F) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. 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." Depreciation is provided using 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 their useful life. Expenditures for maintenance and repairs are charged to expense as incurred. The Company continually reviews property and equipment to determine that the carrying values are not impaired.

AS OF DECEMBER 31, 2004 AND 2003

(G) Long-Lived Assets

The Company accounts for long-lived assets under the Statements of Financial Accounting Standards Nos. 142 and 144 "Accounting for Goodwill and Other Intangible Assets" and "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS No. 142 and 144"). In accordance with SFAS No. 142 and 144, long-lived assets, goodwill 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, goodwill and intangible assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets.

(H) 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. Advertising expense totaled $95,664 and $60,950 for the years ended December 31, 2004 and 2003, respectively.

(I) Reclassification

Certain amounts from prior periods have been reclassified to conform to the current year presentation.

(J) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosure About Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. Trade 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.

(K) 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.

(L) Royalty Expense

Royalty expense is recognized on a pro rata basis as units are sold during the same period in which the related unit sales were recognized.

(M) Income Taxes

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(N) Income Per Share

Basic and diluted income per share is calculated by dividing net income for the period (plus preferred stock dividends) by the weighted average number of shares of common stock outstanding during the period. The assumed exercise of stock options and warrants is only included in the calculation of diluted earnings per share, if dilutive (see Note 10).

(O) Stock-Based Compensation

In accordance with Statement of Financial Accounting Standards No. 123 (SFAS No. 123), the Company has elected to account for stock options issued to employees under Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25") and related interpretations. The Company accounts for stock options issued to consultants and for other services in accordance with SFAS No. 123.

(P) New Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4"" SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67," SFAS No. 153, "Exchanges of Non-monetary Assets - an amendment of APB Opinion No. 29," and SFAS No. 123 (revised 2004), "Share-Based Payment," were recently issued. SFAS No. 151, 152, 153 and 123 (revised 2004) have no current applicability to the Company and have no effect on the financial statements.

(Q) 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.

NOTE 2 INVENTORIES

Inventories (net) at December 31, 2004 consist of the following:

Raw materials	$ 4,966
Finished goods	84,924
	$ 89,890

At December 31, 2004, the Company has reserved $738,826 for obsolete inventory. During 2004 and 2003, the Company recognized an impairment of $30,456 and $17,673 respectively.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2004 consist of the following:

Research and development equipment	$ 39,997
Tooling and test equipment	86,112
Office furniture and equipment	219,025
Sales displays	52,101
Leasehold improvements	29,989
	427,224
Less accumulated depreciation and amortization	(396,766)
	$ 30,458

Depreciation and amortization expense for the years ended December 31, 2004 and 2003 totaled $14,976 and $32,308, respectively.

NOTE 4 ACCRUED LIABILITIES

Accrued liabilities at December 31, 2004 consist of the following:

Accrued payroll and related expenses	$ 10,961
Accrued vacation	24,224
Accrued expenses	19,818
Other accrued liabilities	964
	$ 55,967

NOTE 5 NOTES PAYABLE

On January 8, 2004, all remaining convertible debt was retired by payment in full of the outstanding balance including all accrued interest. Between January 1, 2004, and January 8, 2004, a portion of the notes payable in the amount of $27,600 was converted to 273,906 shares of common stock. (See Note 8).

On January 7, 2004, the Company issued a nine-month note payable in the amount of $150,000. The note earned interest at 12% APR and is unsecured. The note was fully repaid during 2004.

During 2004, the Company received a loan of $15,000 from its Chief Executive Officer to fund operations with no interest. The outstanding balance of the loan was paid in full as of March 31, 2004.

Interest expense for the years ended December 31, 2004 and 2003 was $6,408 and $155,801, respectively.

NOTE 6 COMMITMENTS AND CONTINGENCIES

(A) Operating Lease

The Company renewed its operating lease whereby it reduced the size of its corporate facilities as of November 1, 2001. The lease is an operating lease, which expires October 31, 2005. The Company pays monthly rent of $3,779, plus 16% of all building expenses.

Future minimum lease payments under the operating lease at December 31, 2004, consist of the following:

Year	Amount
2005	$ 37,790

Rent expense totaled $45,500 and $47,299 for the years ended December 31, 2004 and 2003, respectively.

(B) Royalty Agreements

On September 14, 1989, the Company entered into a twenty-year royalty agreement relating to its ROAD WHIZ product. After the sale of 20,000 ROAD WHIZ units, the agreement thereafter provides for a 1% royalty payment on net sales of the ROAD WHIZ product and 0.5% on the Company's other products that incorporate the ROAD WHIZ database. Royalty payments are made quarterly until September 13, 2009. During the years ended December 31, 2004 and 2003, royalty expense totaled $35,799 and $26,693, 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. On July 1, 2002, the agreement was amended to provide a royalty of $1 per unit on all sales of the unit.

In August of 2003, the Company entered into a royalty agreement with AAA for use of the AAA brand on the Company's Talking Road Navigator. This agreement is similar to the above agreement with regard to sales through AAA stores and royalties for other sales. Prior review and approval by AAA of the use of AAA brands in TV and other media are a part of the agreement.

In January 2004, the Company reached an agreement with AAA National to terminate the existing agreement for private branding of the AAA Talking Road Navigator(tm) as of March 27, 2004. This termination occurred at the request of AAA National for internal business reasons and not for cause or non-performance by the Company, in accordance with the terms for cancellation of the agreement by either party.

In May 2004, AAA notified the Company that it does not intend to renew the marketing agreement on the AAA TripWizard. The Company, per terms of the agreement, can continue to market the product and divest itself of its inventory during 2005.

During the years ended December 31, 2004 and 2003, AAA royalty expense for both products totaled $45,837 and $39,821, respectively.

On April 19, 2001, the Company entered into a three-year royalty agreement with Rand McNally. The agreement renews automatically for one-year periods up to a maximum of five additional years unless terminated earlier. The agreement calls for the Company to pay a royalty of 10% of net sales of the TripLink and Pocket TripLink devices that contain the Rand McNally logo or $1.50 for each device sold, whichever is greater. For the first year of the agreement, the Company guarantees a minimum payment of $150,000, and must pay an additional $50,000 if 50,000 or more devices are sold. The guaranteed annual minimum for each subsequent

anniversary year increases to 115% of the amount of the royalties due (inclusive of the guaranteed annual minimum) for the previous year. In addition to the per unit royalty, the Company must pay (1) a royalty of $.01 to $.02 for each route created by authorized users of the services provided by the agreement, (2) a royalty of $0.48 to $0.62 for each Pocket Road Atlas ordered from Rand McNally, and (3) a $0.12 license fee for each Pocket Road Atlas shipped to customers.

On February 21, 2002, the royalty agreement with Rand McNally was amended as follows: (1) beginning December 16, 2002, either party may terminate the agreement with sixty days written notice, (2) the Company may begin using the Rand McNally logo on additional products, (3) beginning March 1, 2002, the Company shall pay twelve monthly installments of $8,333 to the remaining balance of $100,000 owed to Rand McNally for the first year minimum, and (4) the Company shall sell its TripLink device to Rand McNally for $7.50 per unit below the normal selling price, and this discount shall be used as a credit against the monthly payment in (3) above.

In February 2003, the agreement with Rand McNally was further amended to provide a new payment schedule and basis for the TripLink royalties. The Company agreed to pay the remaining balance for the TripLink Program in accordance with the following terms:

The beginning balance of $52,251 on January 1, 2003, shall bear interest at the rate of 6% APR. The payment schedule shall consist of $2,000 upon signing of the amendment and $2,000 on the 15th of each month commencing March 15, 2003. On or before August 31, 2003, a final balloon payment is required equal to the sum of the outstanding balance and any accrued unpaid interest, less any credits resulting from TripLink sales in the interim. The agreement was signed and the initial payment of $2,000 was made in February 2003.

In 2003, the Company paid $20,000, including $2,341 in interest, to Rand McNally and reduced the balance to $27,045 on December 31, 2003, when credits are also taken into account. Since the Company was unable to retire the balance by August 31, 2003 as planned, the Company continued monthly payments and accrual of interest.

In 2004, the Company paid $510 in interest, accrued $855 in credits, and retired the balance of $26,802 in May 2004.

During the years ended December 31, 2004 and 2003, royalty expense totaled $8 and $138, respectively.

(D) Stanton Walker Consulting Agreement

In September 2004, the Company signed a business advisory and consulting services agreement with New York-based Stanton Walker & Company. Stanton Walker will assist in the development of certain strategic initiatives of the Company. These initiatives include opening discussions with several companies regarding licensing arrangements, joint ventures or distribution arrangements. Stanton

Walker's work will include due diligence, structuring transaction terms and providing consulting services throughout the process. Stanton Walker will also seek potential acquisition candidate companies that fit Ultradata Systems' business objectives.

Stanton Walker & Company provides a full range of strategic operational, marketing, financial advisory and M & A services to public companies. While they provide assistance in a wide array of industries, Stanton Walker is especially interested in working with companies where their products and/or services appear to offer the company's stakeholders an opportunity for a significant return.

Stanton Walker were issued 223,000 shares of Ultradata Common Stock with a prevailing market value on the date of the agreement of $173,940 in payment for their services. The Company is amortizing the compensation expense over the 12-month life of the agreement. As of December 31, 2004, the Company recognized $57,980 of the consulting expense related to the agreement and recorded deferred consulting fees of $115,960.

NOTE 7 STOCKHOLDERS' EQUITY (DEFICIENCY)

(A) Common Stock Issuances

During 2003, a portion of the notes payable in the amount of $155,220 was converted to 1,372,555 shares of common stock. No gain or loss was recognized on this transaction.

During 2003, an aggregate of 30,000 shares of common stock having a fair value of $4,500 were issued to a consultant for services rendered during the year. The shares were valued based on the prevailing market price on the grant date.

During 2003, an aggregate of 480,000 shares of common stock were issued for cash of $91,700 to holders of short-term notes.

During 2003, a director exercised 3,000 common stock options for cash of $210.

During 2004, a portion of the notes payable in the amount of $27,600 was converted to 273,906 shares of common stock. No gain or loss was recognized on this transaction.

During 2004, a director exercised 29,000 common stock options for cash of $2,030.

During 2004, 223,000 shares were issued to a consultant for services rendered (see Note 6).
During 2004, employees exercised 100,441 common stock options for cash of $7,031.

(B) Convertible Preferred Stock

(i) Original Terms

On May 16, 2000, the Company issued 16 Series A Convertible Preferred Shares to a consultant as a commission. These shares have no voting rights. The holder of the shares is not entitled to any cash dividends. However, they accrue an additional 11.25% per annum (or 22.5% if the Common Stock is de-listed by NASDAQ) for purposes of conversion, redemption, and liquidation ($6,529 at December 31, 2002). The main points of the Preferred Shares were as follows:

1. The Preferred Shares have a liquidation preference, upon the liquidation of the Company or its bankruptcy or certain other events, equal to their $1,000 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 originally $2.50 and applies only during the first 18 months after issuance of the Preferred Shares. Under the terms of the Preferred Shares, the floor price was initially adjusted to $2.00, then to $1.50. In March 2001, the floor was eliminated.

In May of 2003, the Company and the shareholder reached a mutually satisfactory agreement to convert the shares to a note of $24,870 rather than converting in accordance with the formula above. This note was paid off completely by September 30, 2003.

NOTE 8 STOCK OPTIONS AND WARRANTS

(A) Stock Options Issued Under Qualified Stock Option Plans

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 July 2000, the Company's shareholders approved an extension of the 1996 Incentive Stock Options plan to provide for 150,000 additional shares to be made available for future grant. Under both plans, the exercise price of each option equals or exceeds 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 the year ended December 31, 2004, the Company granted 112,000 stock options to certain employees and directors. The Company

applies APB Opinion No. 25 and related interpretations in accounting for stock options issued to employees. Accordingly, no compensation cost has been recognized for options issued to employees. Had compensation cost been determined based on the fair market value at the grant date, consistent with SFAS 123, the Company's net income would have changed to the pro-forma amounts indicated below.

		2004	2003
Net income available to common shareholders			
	As Reported	$ 317,822	$ 104,505
	Pro Forma	$ 239,552	$ 104,505
Basic and diluted income per share			
	As Reported	$ 0.05	$ 0.02
	Pro Forma	$ 0.04	$ 0.02

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 2004: dividend yield of zero; expected volatility of 132%, risk-free interest rate of 5.40%; 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, 2004 and 2003, and the changes during the years then ended is presented below:

	2004		2003	
Fixed Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	392,188	$0.14	392,188	$0.14
Cancelled	-	-	-	-
Granted	-	$ -	-	$ -
Forfeited	-	$ -	-	$ -
Expired	(11,000)	$2.00	-	$ -
Exercised	(100,414)	$ .07	-	$ -
Outstanding at end of year	280,747	$0.10	392,188	$0.14
Options exercisable at year end	282,405		399,785	
Weighted average fair value of options granted to employees during the year	$ -		$ -	

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	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2004	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2004	Weighted Average Exercise Price
$0.00 - 0.99	275,747	2.5	$0.07	275,747	$0.07
1.00 - 1.99	5,000	1.0	1.50	5,000	1.50
2.00 - 2.99	-	-	-	-	-
3.00 - 3.99	-	-	-	-	-
4.00 - 4.99	-	-	-	-	-
5.00 - 5.56	-	-	-	1,658	-
	280,405	2.47	0.10	280,405	0.10

Range of Exercise Price	Number Outstanding at December 31, 2003	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2003	Weighted Average Exercise Price
$0.00 - 0.99	376,161	4.0	$ 0.07	376,161	$0.07
1.00 - 1.99	5,000	2.0	1.50	5,000	1.50
2.00 - 2.99	11,000	0.8	2.00	11,000	2.00
3.00 - 3.99	-	-	-	-	-
4.00 - 4.99	-	-	-	-	-
5.00 - 5.56	-	-	-	-	-
	392,188	3.88	0.18	405,477	0.14

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(B) Non-Qualified Stock Options Issued and Outstanding

	2004	2003

Stock options issued to a technical consultant at various times in the past. The term of the options is five years expiring in 2005 and 2006. The options are exercisable at an average price of $2.53 per share.	6,818	6,818
Stock options issued to a former affiliate. The term of the option is five years expiring May 9, 2005. The options are exercisable at $4.00 and $5.00 per share.	300,000	300,000
Stock options issued to directors for services rendered. The term of the options is five years expiring November 18, 2007. The options are exercisable at $0.07 per share.	4,000	33,000
Stock options issued to directors for services rendered. The term of the options is five years expiring December 11, 2009. The options are exercisable at $0.72 per share.	12,000	-
Stock options issued to employees. The term of the options is ten years expiring December 11, 2014. The options are exercisable at $0.72 per share.	100,000	-
Total	422,818	339,818

NOTE 9 INCOME PER SHARE

A reconciliation of the numerator and denominator of the income per share calculations is provided for all periods presented. The numerator and denominator for basic and diluted income per share for the years ended December 31, 2004 and 2003, is as follows:

Basic and fully diluted	2004	2003
Numerator:		
Net income	$ 317,822	$ 109,695
Preferred Stock Dividends (a)	-	(5,190)
Numerator for basic and diluted income per share	$ 317,822	$ 104,505
Denominator:		
Weighted average common shares	6,225,304	4,872,026
Denominator for basic and diluted income per share	6,225,304	4,872,026
Basic and diluted income per share	$ 0.05	$ 0.02

(a) See Note 7(B)

AS OF DECEMBER 31, 2004 AND 2003

NOTE 10 INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2004 and 2003 consist of the following:

	2004 Current	2004 Deferred	2004 Total
Federal	$ -	$ -	$ -
State	-	-	-
	$ -	$ -	$ -

	2003 Current	2003 Deferred	2003 Total
Federal	$ -	$ -	$ -
State	-	-	-
	$ -	$ -	$ -

Income tax expense for the years ended December 31, 2004 and 2003 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:

	2004	2003
Expected income tax (benefit) expense	$ 108,059	$ 37,296
Increase (decrease) in income taxes resulting from:		
Valuation allowance decrease	(106,804)	(36,880)
Nondeductible expenses for federal income tax purposes	(1,256)	(416)
Income tax expense (benefit)	$ -	$ -

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2004 and 2003 include the following:

	2004	2003
Deferred tax assets:		
Net operating loss carryforward	$ 3,347,346	$ 3,454,150
Note receivable reserved for financial reporting Purposes	-	-

Notes and accounts receivable reserves	5,475	5,475

Inventory reserves, principally due to accruals for financial reporting purposes and basis differences	277,491	277,491
Other	-	-
Total deferred tax assets	3,630,312	3,989,776
Deferred tax liabilities		
Property, plant and equipment, principally due to differences in depreciation basis	(10,837)	(12,385)
Total deferred tax liabilities	-	(12,385)
Gross deferred tax asset	3,619,475	3,977,391
Valuation allowance	(3,619,475)	(3,977,391)
Net deferred tax asset	$ -	$ -

At December 31, 2004, the Company had net operating loss carryforwards of $9,845,135 for income tax purposes, available to offset future taxable income expiring on various dates through 2024. The valuation allowance at December 31, 2003 was $10,159,265. The net change in the valuation allowance during the year ended December 31, 2004 was a decrease of $314,130.

NOTE 11 CONCENTRATIONS OF CREDIT RISK

The Company relied on three customers for approximately 82% of sales for the year ended December 31, 2004, and two customers for approximately 70% of sales for the year ended December 31, 2003. At December 31, 2004, accounts receivable, net, from those three customers totaled $2,793.

NOTE 12 EMPLOYEE BENEFIT PLANS

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. Because of the Company's financial condition, the Company contributions were suspended in late 2002 and throughout 2003. Expense attributable to Company contributions totaled $20,906 during the year ended December 31, 2004.

NOTE 13 GOING CONCERN

As reflected in the accompanying financial statements, a major customer of the Company has experienced deteriorating operations during 2004 and during the second quarter ceased ordering products from the Company. This customer accounted 55.4% of sales during

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2004. In addition the Company terminated its agreements with AAA for the sale of its products using the AAA logo to AAA retail locations. Although Management has a plan in place to replace these lost customers, it is not yet clear that the plan will be successful. The ability of the Company to continue as a going concern is dependent on the Company's ability to further implement its business plan, raise capital and generate revenues. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company has continued its product design and development efforts to introduce new products in 2005 and expects to introduce its Road Genie(tm) in 2005. Based on the success of the Talking Road Whiz with direct TV marketing, the Company is proceeding with plans to market Road Genie(tm) by means of similar commercials, with the Company marketing directly to consumers. This new product represents an increase in technology compared to the Talking Road Whiz and, in addition, can be enhanced to include a digital voice recorder for additional value to the customer. The Company is also opening a new source of revenue by developing the cell-phone Road Whiz application. Thus, the Company has two different methods in work to enhance sales revenue. In addition, the Company has obtained a loan and a commitment for additional equity capital for up to $3.3 million (see Note 14). Management believes that actions presently taken to obtain additional funding provide the opportunity for the Company to continue as a going concern.

NOTE 14 SUBSEQUENT EVENTS

Convertible Debenture Financing

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

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

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

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

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

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

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

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

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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.

March 15, 2005

/s/ Monte Ross

Monte Ross
Chief Executive Officer and Chairman of the Board

March 15, 2005

/s/Ernest Clarke

Ernest Clarke,
Chief Financial and Accounting Officer, Director

March 15, 2005
/s/ Mark L. Peterson

Mark L. Peterson,
Director

March 15, 2005
/s/ Donald Rattner

Donald Rattner
Director

March 15, 2005
/s/ H. Krollfeifer, Jr.

H. Krollfeifer, Jr.,
Director

March 15, 2005
/s/ Matthew Klapman

Matthew Klapman
Director