ULTRADATA SYSTEMS INC
Form 10KSB
March 29, 2004

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, 2003

[ ] 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: $2,863,258

The aggregate market value at March 7, 2004 of the voting stock held by non-affiliates, based on the closing price as reported by the OTC Bulletin Board, was approximately $3,567,240. The aggregate market value has been computed by reference to a share price of $0.90 (the price at which stock was sold, or the average bid or asked price of such stock on March 7, 2004). 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 7, 2004, was 6,057,746

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 WhizTM product line;

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

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

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

Since 1987 we have been engaged in the business of manufacturing and marketing handheld computers that provide travel information. The products are based upon a data compression technology that we developed, portions of which we have patented. Recent developments in communications technology have opened up new opportunities for us to use our technology.

The Company has sold over 3 million of its low-cost handheld travel computers, demonstrating that there is a market for travel information products. To re-awaken that market with an improved product that speaks, the Company has developed a Talking Road WhizTM. 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. It has substantial purchase orders in hand for delivery in the first quarter of

2004.

Each of our consumer products is designed to allow the consumer to access useful information stored in a convenient manner. Our handheld computers generally sell at retail prices between $19.95 and $49.95 per unit. The products have been in retail mass-market chains plus many other locations. The new TRAVEL*STAR 24 is expected to be offered at retail for under $300, which should make it very competitive in the auto aftermarket. Its portability and the fact that it requires no elaborate installation offer advantages over the more expensive in-car systems.

Handheld Travel Computers

The Road WhizTM Line of Products

Our core business is a line (currently 7 products) of hand-held computers that utilize our proprietary data compression technology to provide a library of information in a pocket-size box. Most of the products contain travel information, customized to specific markets, and so the flagship products have carried variations of the trademark "Road Whiz". Within the chip that powers a Road WhizTM 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 Whiztm 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 Whiztm 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 WhizTM. 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.

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

Road WhizTM 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 PilotTM. Our products are designed to be marketed by mass merchandise retailers.

The Road WhizTM RV Special adds to the standard Road WhizTM 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.

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

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 will strive to broaden the markets for our products and further increase our sales volume as a consequence. We will have the entire year for Talking Road WhizTM sales as compared with only the last four months of 2003.

Distribution through mass merchandise channels accounted for over 75% of our revenue in 2003. We expect that a small group of mass-market channels will continue to dominate the market for our handheld computer products. 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.

Channel of Distribution

	2003 Sales	% of Sales	2002 Sales	% of Sales
Media Solutions Services	$ 1,608,052	56.2%	$ 634,339	36.4%
QVC	$ 481,619	16.8%	$ 177,552	10.2%
AAA Clubs	$ 118,657	4.1%	$ 35,442	2.0%
Target	$ 63,508	2.2%	$ -	-%

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. To date, in addition to our sales to retailers, the following types of distribution have been put in place:

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

* Direct Response Marketing. Our largest customer during 2003 was Media Solutions Services. This distributor specializes in multi-media direct-response marketing and has resources and expertise that can achieve high sales effectiveness at relatively low promotional

cost. We have received first-quarter 2004 orders from Media Solutions Services amounting to $1,939,406 and expect significant additional sales from this customer in 2004.

The objective of this marketing strategy is an increase in sales revenue with a significant reduction in selling and administrative expense, as the costs associated with direct retail marketing are reduced. With expected product success, the lean, efficient operation we now have in place should enable a return to profitability. If the fourth quarter results of 2003 and backlog for 2004 are any indication of future results, we can reasonably expect to achieve profits during each quarter of 2004, and will be aggressively marketing our products with that objective in mind. We expect 2004 sales and earnings will exceed those of 2003.

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 2003. 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 7, 2004 our total backlog was $973,865 as compared to $96,266 on March 7, 2003.

Patents

We own four patents - two that are utilized in our present Road WhizTM 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.

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 WHIZTM database. A significant part of the ROAD WHIZTM 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.

GPS Products

Travel*Star 24TM GPS Auto Navigational System

We have developed a low cost, portable navigation unit for the automotive after-market, which we will market as the "Travel*Star 24TM." The Travel*Star 24TM utilizes the Talon GPS receiver and antenna to pinpoint the longitude and latitude of the moving vehicle. The unit is capable of calculating a route, displaying visual directions and distance as well as providing audible turn-by-turn prompts and warnings when the driver strays from the route. The Travel*Star 24TM also includes an expanded version of the proprietary and unique Road WhizTM database, providing the driver directions to over 200,000 services across the U.S.A. As the driver travels, the GPS signals are referenced to the service database, so that the driver can instantly find businesses, hotels, service stations, rest stops, restaurants, hospitals, tourist attractions, airports, etc. in more than 250 metropolitan areas, as well as directions to over 12,000 smaller cities and towns.

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

Currently, millions of GPS-based navigation systems are sold annually. These include installed original equipment, which are generally priced in the $2,000 range; low-end hand-held units of very limited capability (generally approximately $200); and middle market units priced in the $400 to $1000 range. Examples across this middle range can be found in the lines of Magellan, Garmin and Lowrance. Travel*Star 24TM will compete in this range, as we expect it to have an initial retail price under $300.

The Travel*Star 24TM can easily fit into a briefcase or purse; so it is portable to any rental vehicle. Testing has been ongoing and has uncovered several software issues, some of which have been resolved. Additional development and testing is required. Market introduction will occur when the product has been adequately tested and has passed the requisite test.

Travel*Star 24TM has taken much longer to complete than originally planned because the tasks and approach were much more difficult than anticipated. Nonetheless, Management feels that the result is a product that outstrips the competition in performance for the price. This assessment is derived from discussions with contacts in the retail markets at trade shows and elsewhere. We are, therefore, anticipating a positive reception when the product finally reaches the market.

Patents

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

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

GPS/Internet Auto Navigation and Tracking System

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

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

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

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

Research and Development

Ultradata performs ongoing research and development, seeking to improve existing products and to develop new products. These activities are primarily conducted at our corporate headquarters, although we periodically engage outside computer system design consultants to expedite the completion of the development and test stages. The success of the Talking Road WhizTM 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 2003, the Company incurred $63,156 in research and development costs compared to $251,609 in 2002. Research activities for 2003 were primarily focused on continued development of Travel*Star 24TM and the Talking Road WhizTM products.

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 three people in sales, customer service and shipping, three people in executive management and administration, one person in product development, and one person in inventory management. None of the Company's employees belong to a collective bargaining union. In addition, a number of part-time consultants are retained for database research, website development and maintenance, and software development. The Company has not experienced a work stoppage and believes that its employee relations are good.

Item 2. PROPERTIES

Our headquarters, principal administrative offices, and research and development facilities are located in approximately 5,000 square feet of leased office space in an industrial building located at 1240 Dielman Industrial Court, St. Louis, Missouri. The Company reduced the space occupied when its previous lease expired on October 31, 2001 from 12,500 square feet to the 5,000 square feet identified above. The Company pays a monthly rent plus 31% 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 $47,299 for 2003, compared to $58,829 in 2002. The Company believes that its facilities are adequate for the Company's present and foreseeable requirements.

Item 3. LEGAL PROCEEDINGS

During the 4th Quarter of 2002 the Company's action against SmartTime (now known as E-tegral) resulted in a judgment awarding $861,000 to the Company. Efforts to collect the judgment are underway, but it is unknown to what extent, if any, we will be successful in collecting the judgment.

During 2003, the Company settled an arbitration action it had commenced against BDO Seidman, LLP. The Company received $127,000 in the settlement.

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, 2002 and ending December 31, 2003. Since August 29, 2001 the Common Stock has been quoted on the OTC Bulletin Board.

	Bid	
Quarter Ending	High	Low
March 31, 2002	0.24	0.20
June 30, 2002	0.20	0.11
September 30, 2002	0.15	0.08
December 31, 2002	0.27	0.20
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

(b) Shareholders

At March 7, 2003, there were 128 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 2003 that were not registered under the Securities Act. Sales of unregistered securities earlier in the year were reported in the Company's Quarterly Reports on Form 10-QSB.

(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 2003.

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

FINANCIAL CONDITION

Overview

One factor has been dominant in causing our poor financial results over the past several years: our inability to sustain the high level of sales of the hand-held products at upscale retail prices that we realized in 1996 and 1997. With lower prices, our margins shrank, and, combined with expenses related to new-product development and marketing, losses resulted.

The downward sales trend has been reversed in 2003 due to the successful introduction of the Talking Road WhizTM 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. Because of our present lean operation, profitability can take place at a lower level of sales than in previous years.

In 2001 and 2002 sales in the poor economy became difficult. Our major customer in 2000 had excess inventory that was not eliminated until the end of 2001. Other customers were nervous about the holiday seasons and acquired less product inventory than they would have otherwise. The failure to achieve another successful product line besides the Road Whiz line also constrained sales. Specifically, the delay of Travel*Star 24TM has been a serious issue for the Company, as the development effort places demands on our financial and managerial resources while not producing revenues. Completion of the Talking Road WhizTM product enabled sales to be elevated in 2003 over 2002 levels. We believe the Talking Road WhizTM is rejuvenating the niche market we are in of handheld travel computers and is leading the Company back to positive operating earnings, given our reduction in overhead and other costs.

Results of Operations

Sales. Sales for 2003 increased 64.4% to $2,863,258 from $1,741,557 in 2002 due to the success of the Talking Road WhizTM in the latter four months of 2003. 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. Our present sales came primarily from non-retail-store business such as TV ads, shopping catalogs, magazine ads, and credit-card inserts, leaving retail channels open for exploitation.

Gross Profit. Because of the increase in sales of new products, our gross profit in 2003 was $1,376,716, or 48.1% of sales, compared to a negative margin in 2002 of ($146,212), or (8.4%) of sales, in 2002. Margin was negative in 2002 due to the lower volume of sales as well as an inventory write-down in that year.

Selling Expenses. During 2003, we incurred $253,564, or 8.9% of sales, in advertising, promotion, and marketing program expenses, as compared to $219,259, or 12.6% of sales, in 2002. The reduced percentage is primarily due to the increased sales base. Our 2004 plan expects similar selling costs on the order of 10% with the advent of retail channels and the costs associated with reaching that increased base.

Research and Development Expenses. Our research and development expenses in 2003 were $63,156, reduced from $251,609 in 2002, a decrease of $188,453, or 74.9%. The primary reasons for the reduction was lack of capital resources in 2003 and completion of the development of the Talking Road WhizTM in early 2003. We will continue to perform research and development in our own niche market, leading to improved products. R&D work in 2004 will be oriented around improved features of the Talking unit, including voice recognition.

General and Administrative Expenses. Our G&A expenses were $876,528 in 2003 as compared to $1,159,158 in 2002, representing a reduction of $282,630, or 24.4%. This reduction reflects the continued effort in cost cutting that began in late 2001. We do not believe that the expected increase in sales in 2004 will require a significant increase in G&A expense.

Other Expense. During 2003, other expense was ($73,773) compared to ($261,495) in 2002, a decrease of $187,772, or 71.8%. Although interest expense was increased due to short-term loans added to debt servicing, the settlement of our dispute with BDO Seidman, offset by a loss on the early payment of notes from our sale of Talon in 2000, resulted in an overall significant reduction in this category. For 2004, we would expect these expenses to be low, since we have retired our convertible debt with the healthy fourth-quarter cash flow from increased sales, as discussed more fully under "Liquidity and Capital Resources" below.

Net Income. As a result of the foregoing, net income for 2003 was $109,695 as compared to a net loss of ($2,037,733) for 2002. Net income available to common stockholders for 2003 was $104,505, or $0.02 per basic and diluted share, when $5,190 of preferred stock dividends are taken into account, compared with ($2,041,333), or ($0.59) per basic and diluted share in 2002, including $3,600 of preferred dividends.

Liquidity and Capital Resources

Fourth-quarter 2003 cash from sales of our Talking Road WhizTM allowed the Company to pay off in the 4th quarter the notes the Company sold earlier in the year. Cash from 4th quarter sales also permitted the Company to retire its convertible debt in early January 2004.

The Company had an insignificant change in its cash position during the year. Cash used in operations and a net deficit in cash from financing activities was nearly offset by cash provided by investing activities, specifically the Company's agreement to accept a discounted payment in cancellation of the notes it had received on sale of its interest in Talon in 2001. The Company ended the year with a small amount of cash on hand, as it made a significant payment to convertible debt-holders in late December 2003. However, a large receivable was paid in early January 2004, providing cash for 1st quarter operations. Management expects that funds from the first-quarter 2004 backlog will be sufficient to support operations for the balance of 2004 and that other sales expected during the year will add to those resources.

Because the Company has reduced its costs of doing business and has excellent prospects for increased sales in 2004, Management expects to continue the trend begun with the return to profitability in 2003 and the backlog thus far in 2004.

Impact of Accounting Pronouncements

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

See Current Report on Form 8-K dated October 21, 2003 regarding dismissal of Weinberg & Co., P.A. and retention of Webb & Company, P.A.

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, 2003. 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 Companys 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, 2003:

NAME	AGE	POSITION
Monte Ross	71	Chief Executive Officer, Director
Ernest Clarke	64	President & Chief Financial Officer, Director
Mark L. Peterson	47	Vice President-Engineering, Secretary, Director
Duane Crofts	66	Vice President-Sales & Advanced Products
Donald Rattner	70	Director
H. Krollfeifer, Jr.	63	Director
Matthew Klapman	34	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.

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

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

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

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 2003 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, 2003 exceeded $100,000.

	Annual Compensation			Long-term Compensation	
Name & Position	Year	Salary	Bonus	Other (1)	Options
Monte Ross,	2003	$ 146,789	$ -	$ -	
Chief Executive Officer	2002	$ 152,938	$ -	$ -	(2)
	2001	$ 156,278	$ -	$ 6,000	
Ernest Clarke	2003	$ 103,238	$ -	$ -	
President	2002	$ 103,783 (3)			
	2001	$ 107,691			

(1) Included premium payments for a life insurance policy on Mr. Ross, with his estate as beneficiary, discontinued in 2001.
(2) During 2002 the Board's Stock Option Committee awarded Mr. Ross options to purchase 80,500 shares of Common Stock at an exercise price of $.07.
(3) During 2002 the Board's Stock Option Committee awarded Mr. Clarke options to purchase 38,500 shares of Common Stock at an exercise price of $.07.

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

No executive officer was granted or exercised any options during 2003.

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, 2003 and those options held by each of them on December 31, 2003.

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	0	N.A.	N.A.	N.A.
E. Clarke	0	N.A.	N.A.	N.A.

Aggregated Fiscal Year-End Option Values

Name	Number of securities underlying unexercised options at fiscal year end (#) (All exercisable)	Value of unexercised in-the-money options at fiscal year-end ($) (All exercisable)
M. Ross	80,500	$8,050
E. Clarke	38,500	$3,850

Remuneration of Directors

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

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

* each shareholder known by us to own beneficially more than 5% of our common stock;

* Monte Ross and Ernest Clarke;

* each of our other directors; and

* all directors and executive officers as a group.

There are 6,057,746 shares of our common stock outstanding at March 7, 2004. 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	444,500(2)	7.4%
Ernest Clarke	219,352(3)	3.6%
Mark Peterson	203,964(4)	3.3%
Donald Rattner	66,000(5)	1.1%
H. Krollfeifer, Jr.	32,000(6)	0.7%
Matthew Klapman	12,500	0.2%
All officers and directors as a group (7 persons)	1,069,726(7)	16.9%
Harley Brixey 3 Friendship Court Troy, MO 63379	1,385,000(8)	22.9%

(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 214,000 shares owned by the Monte Ross Revocable Trust. Also includes options to purchase 80,500 shares.
(3) All shares are owned jointly with Mr. Clarke's spouse. Also includes options for 38,500 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 269,171 shares.
(8) 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, 2003.

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 plan
Equity compensation plans approved by security holders	405,477	$.18	0
Equity compensation plans not approved by security holders	22,186*	$.07	-
Total	427,663	$.17	0

* Represents non-qualified stock options given to the Company's outside directors. The options expire on November 18, 2007.

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.

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:

Independent Auditors' Report

Balance Sheet as of December 31, 2003.

Statements of Operations for each year in the two-year period ended December 31, 2003.

Statements of Stockholders' Equity for each year in the two-year period ended December 31, 2003.

Statements of Cash Flows for each year in the two-year period ended December 31, 2003.

Notes to Financial Statements for each year in the two-year period ended December 31, 2003.

(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.

21. Subsidiaries - None.

31. Rule 13a-14(a) Certification

32. Rule 13a-14(b) Certification

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(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.

Reports on Form 8-K:

Report dated October 21, 2003 regarding a change in independent accountants.

Item 14. Principal Accountant Fees and Services

Audit Fees

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 $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 $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.

INDEPENDENT AUDITORS' REPORT

To the Audit Committee of:
Ultradata Systems, Inc.

We have audited the accompanying balance sheet of Ultradata Systems, Inc. as of December 31, 2003, and the related statements of operations, changes in stockholders' deficiency and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Ultradata Systems, Inc. as of

December 31, 2002 were audited by other auditors whose report dated February 7, 2003 included a paragraph describing conditions that raised substantial doubt about the Company's ability to continue as a going concern.

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

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Ultradata Systems, Inc. as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

WEBB & COMPANY, P.A.

Boynton Beach, Florida
February 20, 2004

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ultradata Systems, Inc.

We have audited the accompanying statements of operation, changes in stockholders' equity (deficiency) and cash flows of Ultradata Systems, Inc. (the "Company") for the year ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the results of operations and cash flows of Ultradata Systems, Inc. for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the

United States of America.

WEINBERG & COMPANY, P.A.

Boca Raton, Florida
February 7, 2003

ULTRADATA SYSTEMS, INCORPORATED
BALANCE SHEET
DECEMBER 31, 2003

ASSETS		
CURRENT ASSETS		
Cash	$	2,926
Trade accounts receivable, net of allowance for doubtful accounts of $14,703		627,490
Inventories, net		55,594
Prepaid expenses		5,166
Total Current Assets		691,176
PROPERTY AND EQUIPMENT - NET		25,958
OTHER ASSETS		5,444
TOTAL ASSETS	$	722,578
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Accounts payable	$	460,701
Accrued liabilities		90,792
Notes payable - current		173,802
TOTAL CURRENT LIABILITIES		725,295
STOCKHOLDERS' DEFICIENCY		
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 with a stated value of $1,000		-
Common stock, $0.01 par value, 10,000,000 shares authorized, 5,783,840 issued and outstanding		57,838
Additional paid-in capital		8,916,685
Accumulated deficit		(8,977,240)

TOTAL STOCKHOLDERS' DEFICIENCY	(2,717)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 722,578

See accompanying notes to financial statements.

ULTRADATA SYSTEMS, INCORPORATED
STATEMENTS OF OPERATIONS
AS OF DECEMBER 31, 2003 AND 2002

	2003	2002
NET SALES	$ 2,863,258	$ 1,741,557
COST OF SALES	1,486,542	1,887,769
GROSS PROFIT (LOSS)	1,376,716	(146,212)
OPERATING EXPENSES		
Selling	253,564	219,259
General and administrative	876,528	1,159,158
Research and development	63,156	251,609
Total Operating Expenses	1,193,248	1,630,026
OPERATING INCOME (LOSS)	183,468	(1,776,238)
OTHER INCOME (EXPENSE)		
Interest and dividend income	6,402	30,698
Interest expense	(155,801)	(76,216)
Loss on early retirement of note receivable	(57,813)	-
Settlement of legal dispute	127,000	-
Impairment of development tools	-	(198,764)
Loss on disposal of fixed assets	-	(17,440)
Other, net	6,439	227
Total Other Income (Expense)	(73,773)	(261,495)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	109,695	(2,037,733)
Income tax expense	-	-
NET INCOME (LOSS)	$ 109,695	$(2,037,733)
INCOME (LOSS) PER SHARE		
Net income (loss)	$ 109,695	$(2,037,733)
Preferred stock dividends	(5,190)	(3,600)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ 104,505	$(2,041,333)

Income (loss) per share - basic and diluted	$ 0.02	$ (0.59)
Weighted average shares outstanding - basic and diluted	4,872,026	3,444,312

See accompanying notes to financial statements.

ULTRADATA SYSTEMS, INCORPORATED
STATEMENTS OF STOCKHOLDERS' DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Preferred Stock		Common Stock		Additional paid-in capital	Note Receivable for Common Stock	Tresury Stock	
	Shares	Amount	Shares	Amount			Shares	Amoun
Balance at December 31, 2001	16	$ 16,000	3,698,350	$ 36,983	$9,573,281	(186,668)	326,171	$(942,
Conversion of notes payable to common stock			515,106	5,151	57,809			
Issuance of common stock to directors for serv. perf.			11,000	110	660			
Payments on notes receivable to purchase common stock						84,299		
Net loss, 2002								
Balance at December 31, 2002	16	16,000	4,224,456	42,244	9,631,750	(102,369)	326,171	(942,
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,
Net income, 2003								
Balance at December 31, 2003	-	-	5,783,840	57,838	8,916,685	-	-	

See accompanying notes to financial statements.

ULTRADATA SYSTEMS, INCORPORATED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 109,695	$(2,037,733)

Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	32,308	157,256
Write-down of inventory	17,673	813,094
Stock issued for services	4,500	770
Loss on early settlement of notes receivable	57,813	-
Loss on disposal of property and equipment	-	17,440
Provision for doubtful accounts	(693)	(64,086)
Loss on asset impairment	-	198,764
Non-cash accrued interest receivable	(12,397)	(22,539)
Changes in assets and liabilities:		
Trade accounts receivable, net	(485,198)	298,916
Inventories	29,219	430,912
Prepaid expenses and other assets	(604)	7,087
Accounts payable	182,872	181,695
Accrued liabilities	(98,032)	(83,321)
Net Cash Used In Operating Activities	(162,844)	(101,745)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from early settlement of notes receivable	202,517	-
Capital expenditures	(12,834)	(5,622)
Net Cash (Used In) Provided By Investing Activities	189,683	(5,622)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(338,844)	(103,772)
Dividends paid to preferred stockholders	(8,790)	-
Proceeds from notes payable	91,600	-
Proceeds from sale of common stock	91,910	-
Payments received on subscriptions, net	102,369	84,299
Net Cash Used In Financing Activities	(61,755)	(19,473)
NET DECREASE IN CASH	(34,916)	(126,840)
CASH - BEGINNING OF YEAR	37,842	164,682
CASH - END OF YEAR	$ 2,926	$ 37,842

SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION

Interest paid during the year	$ 48,204	$ 74,290

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

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.

During 2002, a portion of the notes payable in the amount of $62,960 was converted to 515,106 shares of common stock.

See accompanying notes to financial statements.

ULTRADATA SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002

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

Cash includes deposits at financial institutions.

(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." Costs incurred for the Company's own personnel who are directly associated with software development are capitalized. Capitalized software costs will be amortized over an estimated useful life of five years. Depreciation is provided 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.

(G) Long-Lived Assets

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets. The Company reviews long-lived assets to determine that carrying values are not impaired. During 2002, the Company recognized an impairment on capitalized software costs (See Notes 3 and 13).

(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 $60,950 and $109,189 for the years ended December 31, 2003 and 2002, 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. Long-term notes receivable that do not bear interest are discounted by an interest rate commensurate to the Company's estimated incremental borrowing rate.

(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 (Loss) Per Share

Basic and diluted income (loss) per share is calculated by dividing net income (loss) 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.

(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

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities (FIN 46)", and, in December 2003, issued a revision to FIN 46. FIN 46 is an effort to expand upon and strengthen existing accounting guidance as to when a company should consolidate the financial results of another entity. Interpretation 46 requires "variable interest entities" as defined to be consolidated by a company if that company is subject to a majority of expected losses of the entity or is entitled to receive a majority of expected residual returns of the entity, or both. The company that is required to consolidate a variable interest entity is referred to as the entity's primary beneficiary. The interpretation also requires certain disclosures about variable interest entities that a company is not required to consolidate, but in which it has significant variable interest.

The consolidation and disclosure requirements apply immediately to variable interest entities created after January 31, 2003. For all variable interest entities created prior to February 1, 2003, FIN 46 is effective for periods ending after March 15, 2004, except for entities that are considered Special Purpose Entities, to which the provisions apply as of December 31, 2003. The adoption of this pronouncement will not have any effect on the Company.

(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, 2003 consist of the following:

Raw materials	$ 3,738
Work in process	-
Finished goods	51,856
	$ 55,594

At December 31, 2003, the Company has reserved $816,150 for obsolete inventory.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2003 consist of the following:

Research and development equipment	$ 39,997
Tooling and test equipment	86,112
Office furniture and equipment	236,803
Sales displays	52,101
Leasehold improvements	29,989
	445,002
Less accumulated depreciation and amortization	(419,044)
	$ 25,958

Depreciation and amortization expense for the years ended December 31, 2003 and 2002 totaled $32,308 and $157,256, respectively.

During 2001, the Company began amortizing the capitalized costs of the Travel*Star24TM when shipments to customers commenced. Sales of the Travel*Star24TM were suspended later in the year when it was discovered that the units contained errors that required additional work to correct. The costs incurred to correct the errors are being expensed as incurred. The Company cannot thus far be certain all of these errors have been discovered and corrected without further testing, which is ongoing. Accordingly, the entire Travel*Star24TM inventory and related capitalized software costs were written off in 2002 (See Note 13).

NOTE 4 NOTES RECEIVABLE

As part of the sale of the investment in Talon, a $150,000 face value unsecured promissory note was received from each of two principals of Talon for aggregate notes receivable of $300,000. Since the notes do not bear interest for the first three years, the notes were discounted by 10% per year for three years to an aggregate net present value of $225,394. An aggregate of $22,539 of interest income was accrued on the notes during 2002. During years four and five, the notes bear 5% simple interest per year. The notes are payable on the earlier of (1) December 11, 2006, at which date $330,000 would be payable or (2) the date on which a signer sells 20% of his Talon interest or (3) the date on which Talon is acquired by or merged into another entity or (4) the date on which Talon sells equity to the public.

In July 2003 the Company offered the noteholders a premium for early payment in order to address the Company's severe shortage of cash from operations. Accordingly, the Company accepted payment in full of $202,517 for both notes, representing a loss of $57,813 on the present value of the notes.

NOTE 5 ACCRUED LIABILITIES

Accrued liabilities at December 31, 2003 consist of the following:

Accrued sales commissions and royalties	$ 27,045
Accrued payroll and related expenses	13,016
Accrued vacation	32,615
Accrued expenses	15,681
Other accrued liabilities	2,435
	$ 90,792

NOTE 6 NOTES PAYABLE

On August 13, 2001, the Company entered into an exchange agreement whereby 1,408 of the remaining Preferred Shares (all but 16 of the Preferred Shares) were exchanged for two identical (except for the holder) 11.25% senior secured convertible promissory notes whose principal amount equals the sum of (1) the stated value of the Preferred Shares ($1,408,000), (2) cumulative dividends since issuance ($199,320), and (3) a premium (deemed an additional dividend) equal to 10% of the stated value of the Preferred Shares ($140,800) for an aggregate amount of $1,748,120. Each of the two notes called for three monthly payments of $35,000 followed by monthly payments of $45,000 thereafter until the notes were satisfied. Under the payment terms, the Company made payments totaling $140,000 in September 2001, but suspended payments due to limited cash flow pending a resolution of the negotiations regarding the sale of its investment in Talon. The agreement also provided for a 10% interest accrual on any principal outstanding on June 1, 2002. The conversion cap of the Preferred Shares was also amended to limit the number of common shares into which the Preferred Shares could be converted during 2001 to 20% of the cumulative trading volume for the 66 trading days preceding conversion. In the same transaction, the exercise price of the warrants was reduced from $5.00 to $1.50 per share. The warrants have since expired.

On December 11, 2001, the Company amended its agreement with the note holders. The amendment provided that the Company would instruct the buyer of its investment in Talon to transfer the $930,000 proceeds directly to the note holders in order to reduce the Company's liability under the notes. The amendment also (1) reduced the aggregate monthly obligation under the notes from $90,000 to $15,000 per month, (2) eliminated the 10% interest accrual that had been scheduled for June 1, 2002, (3) eliminated the Company's obligation to register with the SEC the shares underlying the notes, and (4) raised the conversion cap of the notes to 28% of the cumulative trading volume for the 66 trading days preceding conversion. Finally, the exercise price of the warrants held by the note holders was reduced from $1.50 to $.50 and have since expired. (See Note 15).

Notes payable at December 31, 2003 consist of the following:

Notes payable in monthly installments of $15,000, including interest at 11.25%, secured by substantially all of the Company's assets	$ 173,802
Less: current portion	(173,802)
	$ -

Interest expense for the years ended December 31, 2003 and 2002 was $46,278 and $76,216, respectively.

NOTE 7 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 22% of all building expenses. Until November 1, 2002, the Company also occupied adjoining warehouse space on a month-to-month basis at a rate of $1,275 per month.

Future minimum lease payments under the operating lease at December 31, 2003, consist of the following:

Year	Amount
2004	$ 45,348
2005	$ 37,790
Total	$ 83,138

Rent expense totaled $47,299 and $58,829 for the years ended December 31, 2003 and 2002, respectively.

(B) Royalty Agreements

On September 14, 1989, the Company entered into a twenty-year royalty agreement relating to its ROAD WHIZTM product. After 20,000 ROAD WHIZTM had been sold, the agreement thereafter provides for a 1% royalty payment on net sales of the ROAD WHIZTM product and 0.5% on the Company's other products that incorporate the ROAD WHIZTM database. Royalty payments are made quarterly until September 13, 2009. During the years ended December 31, 2003 and 2002, royalty expense totaled $26,693 and $15,936, respectively.

On September 15, 1998, the Company entered into a three-year royalty agreement with AAA related to the AAA TripWizardTM. 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. During the years ended December 31, 2003 and 2002, royalty expense totaled $39,821 and $25,964, respectively. On September 15, 2003, this agreement automatically renewed for an additional year.

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. (See Note 15)

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. During the years ended December 31, 2003 and 2002, royalty expense totaled $138 and $4,892, respectively.

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.

(C) Exclusive Distribution Agreement

In November 2002, the Company entered into an exclusive distribution agreement with a major distributor for a branded version of its Talking Road Whiz product. The initial term of the agreement is for the calendar year 2003 and is contingent upon a commitment for 150,000 units with a scheduled delivery date not later than September 30, 2003. The agreement provides for automatic renewal rights if 300,000 or more units are distributed during the initial term. The terms of this agreement couldn't be met, so it has expired and has no effect on the financial statements.

NOTE 8 STOCKHOLDERS' 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 and aggregate of 480,000 shares of common stock were issued for cash of $91,910 to holders of short-term notes.

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

During 2002, a portion of the notes payable in the amount of $62,960 was converted to 515,106 shares of common stock. No gain or loss was recognized on this transaction.

During 2002, an aggregate of 11,000 shares of common stock having a fair value of $770 were issued to directors for services rendered during the year. The shares were valued based on the prevailing market price on the grant date.

(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 9 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 first quarter of 2002, the Company cancelled incentive stock options to purchase 227,950 shares of common stock at exercise prices ranging from $1.50 to $4.00 per share.

During November 2002, the Company granted 390,002 stock options to certain employees during the year ended December 31, 2002. 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 (loss) would have changed to the pro-forma amounts indicated below.

		2003	2002
Net income (loss) available to common shareholders	As Reported	$104,505	$(2,041,333)
	Pro Forma	$104,505	$(2,066,456)
Basic and diluted income (loss) per share	As Reported	$ 0.02	$ (0.59)
	Pro Forma	$ 0.02	$ (0.60)

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 2002: 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, 2003 and 2002, and the changes during the years then ended is presented below:

Fixed Options	2003 Shares	2003 Weighted Average Exercise Price	2002 Shares	2002 Weighted Average Exercise Price
Outstanding at beginning of year	405,477	$ 0.18	243,425	$ 3.29
Cancelled	-	$ -	(227,950)	$ 3.31
Granted	-	$ -	390,002	$ 0.07
Forfeited	-	$ -	-	$ -
Expired	(5,692)	$ 4.00	-	$ -
Exercised	-	$ -	-	$ -
Outstanding at end of year	399,785	$ 0.18	405,477	$ 0.18
Options exercisable at year end	399,785		405,477	
Weighted average fair value of options granted to employees during the year	$ -		$ 0.06	

	Options Outstanding			Options Exercisable	
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	390,002	4.0	$ 0.07	390,002	$ 0.07
1.00 - 1.99	5,160	2.0	1.56	5,160	1.56
2.00 - 2.99	2,965	0.8	2.13	2,965	2.13
3.00 - 3.99	-	-	-	-	-
4.00 - 4.99	-	-	-	-	-
5.00 - 5.56	1,658	1.3	5.56	1,658	5.56
	399,785	3.94	0.18	399,785	0.18

	Options Outstanding			Options Exercisable	
Range of	Number Outstanding	Weighted Average Remaining	Weighted Average	Number Exercisable	Weighted Average

Exercise Price	at December 31, 2002	Contractual Life	Exercise Price	at December 31, 2002	Exercise Price
$0.00 - 0.99	390,002	5.0	$ 0.07	390,002	$ 0.07
1.00 - 1.99	5,160	3.0	1.56	5,160	1.56
2.00 - 2.99	2,965	1.8	2.13	2,965	2.13
3.00 - 3.99	-	-	-	-	-
4.00 - 4.99	5,692	0.3	4.00	5,692	4.00
5.00 - 5.56	1,658	2.3	5.56	1,658	5.56
	405,477	4.87	0.18	405,477	0.18

(B) Non-Qualified Stock Options Issued and Outstanding

	2003	2002
Stock options issued to a consultant that arranged the placement of preferred stock. The term of the option is three years expiring May 16, 2003. The options are exercisable at $2.50 per share.	-	128,000
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.	19,186	22,186
Total	319,186	450,186

(C) Stock Warrants

In conjunction with the issuance of preferred stock on May 16, 2000, the Company issued warrants to purchase an aggregate of 478,506 shares of the Company's common stock at an exercise price of $5.00 per share. The warrants are exercisable immediately until expiration on May 16, 2003. In an exchange agreement effective August 13, 2001, the exercise price of the warrants was reduced from $5.00 to $1.50 per share. In an amendment to the exchange agreement effective December 11, 2001, the exercise price of the warrants was further reduced from $1.50 to $0.50 per share. As of December 31, 2002 and 2003, none of the warrants had been exercised, and the warrants have expired.

NOTE 10 INCOME (LOSS) PER SHARE

A reconciliation of the numerator and denominator of the income (loss) per share calculations is provided for all periods presented. The numerator and denominator for basic and diluted income (loss) per share for the years ended December 31, 2003 and 2002, is as follows:

Basic	2003	2002
Numerator:		
Net income (loss)	$ 109,695	$ (2,037,733)
Preferred Stock Dividends (a)	(5,190)	(3,600)
Numerator for basic and diluted income (loss) per share	$ 104,505	$ (2,041,333)
Denominator:		
Weighted average common shares	4,872,026	3,444,312
Common stock equivalents (b)	-	-
Denominator for basic and diluted income (loss) per share	4,872,026	3,444,312

Fully Diluted	2003	2002
Numerator:		
Net income (loss)	$ 109,695	$ (2,037,733)
Preferred Stock Dividends (a)	(5,190)	(3,600)
Numerator for basic and diluted income (loss) per share	$ 104,505	$ (2,041,333)
Denominator:		
Weighted average common shares	4,872,026	3,444,312
Common stock equivalents (b)	299,022	-
Denominator for basic and diluted income (loss) per share	5,171,048	3,444,312
Basic and diluted income (loss) per share	$ 0.02	$ (0.59)

(a) See Note 8(B)

(b) Conversion of the preferred stock was not included in the denominator of the diluted loss per share during 2002 because the effect of the preferred stock conversion was anti-dilutive. Diluted income includes options and warrants that are excluded from basic earnings per share using the Treasury Stock Method to the extent that these securities are not anti-dilutive. For the year ended December 31, 2003, 299,022 equivalent shares related to stock options were included in fully diluted earnings per share. Options and warrants to purchase 1,334,169 shares of common stock at prices between $0.07 and $5.56 per share were outstanding at December 31, 2002, but were not included in the computation of fully diluted loss per share because they were anti-dilutive.

NOTE 11 INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2003 and 2002 consist of the following:

	2003		
	Current	Deferred	Total

Federal	$ -	$ -	$ -
State	-	-	-
	$ -	$ -	$ -

2002

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

Income tax expense for the years ended December 31, 2003 and 2002 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:

	2003	2002
Expected income tax (benefit) expense	$ 37,296	$ (692,829)
Increase (decrease) in income taxes resulting from:		
Valuation allowance increase (decrease)	(36,880)	784,388
Nondeductible expenses for federal income tax purposes	(416)	(91,559)
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, 2003 and 2002 include the following:

	2003	2002
Deferred tax assets:		
Net operating loss carryforward	$ 3,454,150	$ 3,714,245
Note receivable reserved for financial reporting purposes	-	253,283
Notes and accounts receivable reserves	5,475	5,475
Inventory reserves, principally due to accruals for financial reporting purposes and basis differences	277,491	377,632
Other	-	9,604
Total deferred tax assets	3,989,776	4,360,239

Deferred tax liabilities		
Property, plant and equipment, principally due to differences in depreciation basis	(12,385)	(17,179)
Total deferred tax liabilities	(12,385)	(17,179)
Gross deferred tax asset	3,977,391	4,343,060
Valuation allowance	(3,977,391)	(4,343,060)
Net deferred tax asset	$ -	$ -

At December 31, 2003, the Company had net operating loss carryforwards of $10,159,265 for income tax purposes, available to offset future taxable income expiring on various dates through 2023. The valuation allowance at December 31, 2002 was $4,343,060. The net change in the valuation allowance during the year ended December 31, 2003 was a decrease of $365,669.

NOTE 12 CONCENTRATIONS OF CREDIT RISK

The Company relied on two customers for approximately 73% of sales for the year ended December 31, 2003, and two customers for approximately 47% of sales for the year ended December 31, 2002. At December 31, 2003, accounts receivable from those two customers totaled $582,168.

NOTE 13 SIGNIFICANT FOURTH QUARTER ADJUSTMENTS

In the fourth quarter of 2002, the Company recorded significant adjustments that increased the net loss by approximately $812,000. These adjustments included $613,000 related to an increase in the inventory reserve for obsolescence, and $199,000 related to the write-off of the remaining capitalized expense for software tools relating to the TRAVEL*STAR24TM.

NOTE 14 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 totalled $21,949 during the year ended December 31, 2002.

NOTE 15 SUBSEQUENT EVENTS

(A) AAA Agreement Amendment

In January 2004, the Company reached an agreement with AAA National to terminate the existing agreement for private branding of the AAA Talking Road NavigatorTM as of March 27, 2004. This termination occurred at the request of AAA National for internal business reasons and not for cause or non-performance by the Company, in accordance with the terms for cancellation of the agreement by either party. The termination only applies to the 2003 agreement for the Talking Road NavigatorTM and does not affect the agreement with regard to the AAA TripWizardTM. (See Note 7(B))

(B) Retirement of Notes Payable

On January 8, 2004, the 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 6).

(C) Note Payable

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

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 27, 2003

/s/ Monte Ross

Monte Ross
Chief Executive Officer and Chairman of the Board

March 27, 2003

/s/Ernest Clarke

Ernest Clarke
Chief Financial and Accounting Officer, Director

March 27, 2003

/s/ Mark L. Peterson

Mark L. Peterson,
Director

March 27, 2003

/s/ Donald Rattner

Donald Rattner
Director

March 27, 2003

/s/ H. Krollfeifer, Jr.
H. Krollfeifer, Jr.,

Director

March 27, 2003

/s/ Matthew Klapman

Matthew Klapman
Director

* * * * *

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

I, Monte Ross, certify that:

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

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

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

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

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

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

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

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

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

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

Date: March 27, 2003 /s/ Monte Ross

Monte Ross, Chief Executive Officer

I, Ernest Clarke, certify that:

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

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

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

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

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

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

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

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

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

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

Date: March 27, 2003

/s/ Ernest S. Clarke

Ernest Clarke, Chief Financial Officer

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

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

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

March 27, 2003

/s/ Monte Ross

Monte Ross
(Chief executive officer)

/s/ Ernest S. Clarke

Ernest S. Clarke
(Chief financial officer)