

US DATAWORKS INC

FORM 10KSB

(Annual Report (Small Business Issuers))

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Sector	Technology
Fiscal Year	03/31

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C., 20549

Form 10-KSB

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2007
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period to

Commission file number: 001-15385

US Dataworks, Inc.

(Name of small business issuer in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

5301 Hollister Road, Suite 250
Houston, Texas
(Address of principal executive offices)

84-1290152
(I.R.S. employer
identification number)

77040
(Zip Code)

Issuer's telephone number: (713) 934-3855

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
Common Stock, par value \$0.0001 per share American Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). YES
NO

Issuer's revenue for fiscal year ended March 31, 2007: \$7,069,575

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the price of such common equity as of June 20, 2007 as reported on the American Stock Exchange is \$18,313,421. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

Number of shares of Common Stock outstanding as of June 20, 2007: 31,300,462.

DOCUMENTS INCORPORATED BY REFERENCE

Items 9 (as to directors, audit committee, audit committee financial expert and Section 16(a) Beneficial Ownership Reporting Compliance), 10, 11 (as to Beneficial Ownership), 12 and 14 of Part III of this Annual Report on Form 10-KSB incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended March 31, 2007, in connection with the solicitation of proxies for the registrant's 2007 Annual Meeting of Stockholders.

Transitional Small Business Disclosure Format: Yes No



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PART I

When used in this Report, the words “expects,” “anticipates,” “believes,” “plans,” “will” and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include, but are not limited to, statements regarding our critical accounting policies, our operating expenses, our strategic opportunities, adequacy of capital resources, our potential professional services contracts and the related benefits, demand for software and professional services, demand for our solutions, expectations regarding net losses, expectations regarding cash flow and sources of revenue, benefits of our relationship with an MSP and Hyundai, statements regarding our growth and profitability, investments in marketing and promotion, fluctuations in our operating results, our need for future financing, effects of accounting standards on our financial statements, our investment in strategic partnerships, development of customer base and our infrastructure, our dependence on establishing relationships with leading customers in the ATM market, our dependence on our strategic partners, our dependence on personnel, our disclosure controls and procedures, our ability to respond to rapid technological change, expansion of our technologies and products, benefits of our products, our competitive position, statements regarding future acquisitions or investments, our legal proceedings, our dividend policy and our transaction with Hyundai. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, those discussed below, as well as risks related to our ability to develop and timely introduce products that address market demand, the impact of alternative technological advances and competitive products, market fluctuations, our ability to obtain future financing, our ability to close our transaction with Hyundai, performance under the Hyundai agreement, and the risks set forth below under “Factors That May Affect Our Results.” These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

All references to “US Dataworks,” “we,” “us,” or “our” means US Dataworks, Inc.

MICRworks™, Clearingworks®, Returnworks™, and Remitworks™ are trademarks of US Dataworks. Other trademarks referenced herein are the property of their respective owners.

Item 1. Description of Business

General

US Dataworks is a developer of payment processing software, serving several of the top 25 banking institutions, top 10 credit card issuers, major retailers and the United States Government. We generate revenue from the licensing, system integration and maintenance of our core product, Clearingworks, and its component subsystems, ClearingworksACH, ClearingworksCHECK21, ClearingworksPAYMENTS and ClearingworksSECURE. Our software is designed to enable organizations to transition from traditional paper-based payment and billing processes to electronic payment solutions. Our products include check processing, point-of-purchase transactions and turnkey Automated Clearing House (ACH) payments. ACH payments are highly reliable and efficient electronic fund transfers among participating depository financial institutions including the Federal Reserve, the central bank of the United States. Our products are designed to provide organizations with an in-house solution that will complement and enhance such organizations’ existing technologies, systems and operational workflow. Our strategy is to identify, design and develop products that fill specific niches in the payment processing industry.

In the fourth quarter of 2007, through our strategic partnership with Hyundai Syscomm Corp., a California corporation, we entered the automated teller machine (ATM) market. Under our resale agreement with Hyundai Syscomm, we have exclusive rights to resell or lease Hyundai Syscomm’s ATMs/teller kiosks, enhanced by our proprietary Clearingworks software, in North America and India. We expect to generate revenue through the resale or lease of these ATMs and expand our revenue generation opportunities for Clearingworks.

Background

US Dataworks was incorporated in the state of Colorado as JLQ, Inc. in December 1994, and we changed our name to New World Publishing in October 1997. In May 1999, we acquired Communications Television, Inc., a California corporation, and changed our business to an Internet marketing and technology infrastructure company specializing in supporting cost effective business-to-business and business-to-consumer revenue based marketing initiatives. We changed our name to Sonicport.com, Inc. in October 1999 and in February 2000, changed our state of incorporation from Colorado to Nevada. In February 2001, we changed our name to Sonicport, Inc.

We acquired US Dataworks, Inc., a Delaware corporation, in April 2001. Following the acquisition, we focused our business on developing electronic check processing software. In March 2002, we changed our name to US Dataworks, Inc.

Products

Clearingworks is our transaction processing platform that provides a fully automated, end-to-end solution for electronic payment processing. Clearingworks technology includes state-of-the-art decision-making functionality that determines “best-fit clearing” and “least-cost routing” of payments. Clearingworks incorporates our industry-leading functionality in an easily configurable processing stream designed to give customers the scalability and flexibility needed to handle all of their payment transactions. We distribute our products and services by aligning ourselves with key strategic partners and by direct marketing by our in-house personnel.

ClearingworksACH:

ClearingworksACH is an integrated ACH payment management tool that handles all major National Automated Clearing House, or NACHA, Standard Entry Class codes. ClearingworksACH can receive data from several capture devices, such as point-of-sale, web, telephone or remittance processing systems, and can determine the best-fit clearing and least-cost routing. ClearingworksACH contains our industry-leading MICR parsing technology, which is designed to provide unsurpassed levels of accuracy and consistency for check conversion. It will support both centralized and distributed payment models and is integrated with most third party payment processing platforms such as PEP+, Wausau Financial Systems, J&B Software, BancTec and others.

ClearingworksCHECK21:

As part of the Clearingworks transaction processing platform, ClearingworksCHECK21 delivers an end-to-end solution for converting paper checks to substitute checks for banks and other payment processors. ClearingworksCHECK21 smart routing capability allows images to be routed to only those institutions that are equipped to receive image exchange transmissions. It provides an infrastructure through which these electronic transmissions will be received, downloaded, printed and delivered to the paying bank.

ClearingworksPAYMENTS:

ClearingworksPAYMENTS brings new innovation to problem solving in a traditional remittance environment. Conventional remittance processing requires an additional encoding pass to create a paper-based cash letter deposit. ClearingworksPAYMENTS, however, creates electronic cash letter deposits using ACH and Check 21 networks for a complete electronic solution. Express batching allows items to be processed independently from their physical capture batch, while a robust web architecture allows payments to be keyed in and processed from anywhere at any time.

ClearingworksSECURE:

ClearingworksSECURE is designed to provide broad protection to the customers’ data, including issues such as compliance, information assurance, privacy, business continuity, fraud, and disaster recovery.

Customers

US Dataworks' customers include five of the top 25 banking institutions in the United States, four of the top 10 credit card issuers in the United States, major retailers and two United States Government agencies. Four of our customers, American Express, Federal Reserve Bank, Hyundai Syscomm and Citibank, accounted for 24%, 18%, 14%, and 11%, respectively, of our net revenue for the year ended March 31, 2007. Two of our customers, American Express and the Federal Reserve Bank, accounted for 51% and 20%, respectively, of our net revenue for the year ended March 31, 2006. Two of our strategic resellers, BancTec and Computer Sciences Corporation, accounted for an aggregate of 3% of our net revenue for the year ended March 31, 2007. BancTec and Computer Science Corp. accounted for an aggregate of 8% of our net revenue for the year ended March 31, 2006.

Strategic Business Relationships

We believe that, in addition to growth from organic sales, aligning ourselves with key strategic partners to sell and distribute our software products will accelerate our revenue growth and capture of market share. Further, we expect that these strategic business relationships, among other factors, will help us achieve positive cash flow in the near future. As of June 20, 2007, we have aligned ourselves with several strategic partners as a core component of our sales and distribution strategy, including Hyundai Syscomm.

We also have a key strategic alliance with Accuity, a unit of Thomson Corporation, to incorporate its EPICWare database into our products. We plan to continue pursuing additional strategic alliances to help increase market share.

Competition

Our competitors in the financial services market include E-Funds, Equifax, Wausau Financial Systems, J&B Software and Telecheck. The services offered by these competitors include electronic billing and payment, electronic funds transfer, payment solutions, reconciliation, checks by phone and recurring billing, as well as value-added services such as strategy consulting, marketing and technology infrastructure. The majority of these offerings are on an out-sourced basis, while our products offer an in-house solution. Our competitors in the ATM market include Diebold, NCR, Wincor Nixdorf GmbH & Co., Triton and Itaotec. The services offered by these competitors include ATMs, cash dispensers and software solutions, and incorporate advanced features such as cash deposits, automated check cashing/deposit, web enablement, bill payment and the dispensing of non-cash items.

We believe that the principal competitive factors determining success in these markets include:

- reputation for reliability and service;
- breadth and quality of services;
- technological innovation and understanding client strategies and needs;
- creative design and systems engineering expertise;
- easy-to-use software;
- effective customer support;
- processing speed and accuracy; and
- pricing.

We believe we compete favorably with respect to these factors. However, the market for payment processing software and ATM equipment is highly competitive, rapidly evolving and subject to significant technological change. As these markets grow, we expect competition to increase. Increased competition may result in price reductions and reduced margins.

We may not have the financial resources, technical expertise or marketing, distribution or support capabilities to compete successfully. If we fail to compete successfully, we may fail to gain market share or lose existing market share and our financial condition, operating results and business could be adversely affected.

Patents and Trademarks

US Dataworks has obtained trademarks on the names of our premier products and services, including Clearingworks, and a currently unlicensed developed product, ZeroPass. We also have applied for a patent on ImageKey, which is currently in development, and this application is pending. Our efforts to protect our intellectual property rights may not prevent the misappropriation of our intellectual property.

Government Regulation

As a processor of ACH payments, we must comply with federal laws governing the processing of electronic transactions. We are in compliance with all federal laws and work closely with NACHA to ensure our systems remain both compliant with the laws and regulations, as well as NACHA guidelines.

Employees

As of June 20, 2007, we have 47 employees, all of whom are full-time employees. We are not a party to any collective bargaining agreement with our employees. We believe our employee relations to be good.

Research and Development

For fiscal 2007 and 2006 we spent approximately \$357,241 and \$339,421, respectively, on research and development activities.

Item 2. Description of Property

Our principal executive offices, currently consisting of 15,354 square feet of office space, are located at 5301 Hollister Road, Suite 250, Houston, Texas 77040, which is leased through July 2007. On June 25, 2007 we entered into a new lease for our principal executive offices consisting of 18,790 square feet of office space located at One Sugar Creek Center Blvd., Suite 500 Sugar Land, Texas 77478. This new lease is effective August 2007 and runs through July 2012.

Item 3. Legal Proceedings

From time to time, we are involved in various legal and other proceedings that are incidental to the conduct of our business. We believe that none of these proceedings, if adversely determined, would have a material effect on our financial condition, results of operations or cash flows.

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

None.

Executive Officers

As of June 20, 2007, the following persons were our executive officers:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Charles E. Ramey	66	Chief Executive Officer and Director
Terry Stepanik	56	President, Chief Operating Officer and Director
John T. McLaughlin	52	Chief Accounting Officer
John J. Figone	46	Vice President of Business Operations and General Counsel
Mario Villarreal	36	Senior Vice President and Chief Technology Officer

Charles E. Ramey has served as a director since July 2001 and became our Chief Executive Officer in December 2001. Prior to joining US Dataworks, Mr. Ramey was a private investor from December 1998 through July 2001 and was President and co-founder of PaymentNet Inc., now Signio Inc., an outsourced e-commerce payment processing company, from April 1996 to December 1998.

Terry Stepanik has served as a director since September 2002 and our President and Chief Operating Officer since April 2001. Mr. Stepanik also served as our Interim Chief Financial Officer from September

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2002 to March 2003. In November 1997, Mr. Stepanik co-founder of US Dataworks, Inc., a Delaware corporation, which we acquired in April 2001, and served as its President from November 1997 to April 2001. From April 1994 to November 1997, Mr. Stepanik was the Senior Project Manager for TeleCheck Services, Inc., a provider of paper and electronic check services.

John T. McLaughlin has served as our Chief Accounting Officer since March 2006, and as our Controller from February 2005 to March 2006. Prior to joining us, Mr. McLaughlin was self employed as a financial consultant to companies involved in wholesale and retail distribution. From 1995 through 2000, he served in various accounting and finance roles with companies involved in manufacturing and distribution of computer and office equipment. Mr. McLaughlin's earlier experience included internal audit activities for a publicly traded oil and gas services company

John J. Figone has served as of Vice President of Business Operations and General Counsel since September 2003. Prior to joining us, Mr. Figone served as an attorney at the law firm of Pillsbury Winthrop Shaw Pittman LLP from 2000 to September 2003, as well as at the law firm of Ferrari, Olsen, Ottoboni & Bebb LLP from 1998 to 2000. Mr. Figone worked for the City and County of San Francisco where he was in charge of Special Projects from 1994 to 1998. In 1994, Mr. Figone became Senior Negotiator for the City and County of San Francisco.

Mario Villarreal has served as our Vice President and Chief Technology Officer since April 2001. In April 2004, he was named Senior Vice President. In November 1997, Mr. Villarreal co-founded US Dataworks, Inc., a Delaware corporation, and served as its Vice President from November 1997 to April 2001. From June 1991 to May 1997, Mr. Villarreal served as Manager of Systems Architecture Group at TeleCheck Services, Inc.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

Our common stock is traded on the American Stock Exchange under the symbol “UDW.” The following table indicates the high and low sale prices as reported by the American Stock Exchange for the periods presented.

	<u>High</u>	<u>Low</u>
Fiscal 2007		
First Quarter	\$0.91	\$0.41
Second Quarter	0.83	0.49
Third Quarter	0.71	0.45
Fourth Quarter	0.64	0.39
Fiscal 2006		
First Quarter	\$0.71	\$0.41
Second Quarter	0.73	0.38
Third Quarter	0.64	0.44
Fourth Quarter	0.49	0.34

 Holders

As of June 20, 2007, our common stock was held by 318 stockholders of record. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial owners represented by these stockholders of record.

 Dividend Policy

We have never paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to fund the development and growth of our business.

 Securities Authorized for Issuance under Equity Compensation Plans

The information required by this Item is included under Item 11 of Part III of this Annual Report on Form 10-KSB.

Item 6. Management’s Discussion and Analysis or Plan of Operation

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Report.

 Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate these estimates, including those related to revenue recognition and concentration of credit risk. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that of the significant accounting policies used in the preparation of our financial statements (see Note 2 to the Financial Statements), the following are critical accounting policies, which may involve a higher degree of judgment, complexity and estimates.

Revenue Recognition

We recognize revenues associated with our software products in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position 97-2, "Software Revenue Recognition." We license our software products under non-exclusive, non-transferable license agreements. These arrangements do not require significant production, modification or customization, therefore revenue is recognized when the license agreement has been signed, delivery of the software product has occurred, the related fee is fixed or determinable and collectibility is probable.

In certain instances, we license our software on a transactional fee basis in lieu of an up-front licensing fee. In these arrangements, the customer is charged a fee based upon the number of items processed by the software and we recognize revenue as these transactions occur. The transaction fee also includes the provision of standard maintenance and support services as well as product upgrades should such upgrades become available.

If professional services are provided in conjunction with the installation of the software licensed, revenue is recognized when those services have been provided.

For license agreements that include a separately identifiable fee for contracted maintenance services, such revenues are recognized on a straight-line basis over the life of the maintenance agreement noted in the license agreement, but following any installation period of the software.

We recognize revenues associated with the resale of ATMs in accordance with the provisions of the Statement of Financial Accounting Standards (SFAS) No. 48. Our sale price is fixed and determinable at the date of sale and we have no obligation to directly bring about the resale of the product. In addition, the buyer's obligation to pay us is not contingent upon release of the product and our sale price is not adjusted if the product is lost or damaged. The buyer has economic substance apart from us and we can reasonably estimate the amount of returns at the time of sale. Therefore revenue is recognized at the time of sale.

Concentrations of Credit Risk

We extend credit to our customers and perform ongoing credit evaluations of our customers. We do not obtain collateral from our customers to secure our accounts receivables. We evaluate our accounts receivable on a regular basis for collectibility and provide for an allowance for potential credit losses as deemed necessary.

Four of our customers, American Express, Federal Reserve Bank, Hyundai Syscomm and Citibank, accounted for 24%, 18%, 14%, and 11%, respectively, of our net revenue for the year ended March 31, 2007. Two of our customers, American Express and the Federal Reserve Bank, accounted for 51% and 20%, respectively, of our net revenue for the year ended March 31, 2006. Two of our strategic resellers, BancTec and Computer Sciences Corporation, accounted for an aggregate of 3% of our net revenue for the year ended March 31, 2007. BancTec and Computer Science Corp. accounted for an aggregate of 8% of our net revenue for the year ended March 31, 2006.

At March 31, 2007, amounts due from three customers, accounted for 41%, 31%, and 9% of accounts receivable.

At March 31, 2006, amounts due from three customers, accounted for 66%, 18% and 7% of accounts receivable.

Results of Operations

The results of operations reflected in this discussion include the operations of US Dataworks for the past two years.

Revenue

We generate revenues from (a) licensing software with fees due at the initial term of the license, (b) licensing and supporting software with fees due on a transactional basis, (c) providing maintenance, enhancement and support for previously licensed products, (d) providing professional services and (e) ATM equipment resales and leases.

	For Year Ended March 31,		Change
	2007	2006	
	(In 000's)		
Software licensing revenues	\$ 689	\$2,681	-74.3%
Software transactional revenues	1,495	908	64.7%
Software maintenance revenues	439	432	1.6%
Professional service revenues	3,446	2,952	16.7%
ATM equipment revenues	<u>1,000</u>	<u>—</u>	<u>—</u>
Total revenues	<u>\$7,069</u>	<u>\$6,975</u>	<u>1.4%</u>

Revenues increased by 1.4% in fiscal 2007, as compared to fiscal 2006. Transactional revenue and professional services revenues increased 64.7% and 16.7%, respectively, in fiscal 2007, as compared to fiscal 2006. The increase in transactional revenue was primarily attributable to new customers added during the year and a steady growth of transactions processed by our existing customers. Professional services revenue increased in large part due to additional service revenues recorded in connection with our consulting agreement with American Express, which we signed in June 2005. In connection with this consulting agreement, we received a purchase order for \$1,521,250 in professional services in September 2006, of which we recorded \$1,193,581 in fiscal 2007. In addition, under our agreement with Online Resources Corporation, which we signed in June 2006, we recorded \$355,969 in fiscal 2007. In the fourth quarter of fiscal 2007, we began generating revenue under our resale agreement with Hyundai Syscomm, which accounted for our ATM equipment revenues.

These increases were partially offset by a decrease in our licensing revenues by 74.3% in fiscal 2007, as compared to fiscal 2006. This decrease was primarily due to \$1,532,000 of revenue recorded on a percentage of completion, in the prior year associated with amending our licensing agreement with American Express, a significant customer, in August 2005. During fiscal 2007, we recorded \$119,000 of license revenue under this agreement. As of March 31, 2007, no license revenues remained to be recorded under this agreement.

Cost of Sales

Cost of sales principally include the costs of our personnel who perform the services associated with our software maintenance, support, training and installation activities, the cost of third party software sold in conjunction with licenses of our software to convert electronic data into acceptable formats utilized by the Nation's banking system, and equipment costs associated with the sale of ATM equipment. Total cost of sales increased by \$1,303,287, or 84%, from \$1,555,776 in fiscal 2006 to \$2,859,063 in fiscal 2007. Cost of sales as a percentage of combined maintenance and services revenues for the current year was 74%, as compared to 46% in the prior year. The increase in the dollar amount of cost of sales is principally the result of an increase in personnel expenses associated with the installation activities in support of the integrated license maintenance and service agreement with one of the country's largest credit card and financial service companies and approximately \$740,000 associated with ATM equipment costs.

Operating Expenses

Total operating expenses increased by \$1,346,572, or 23%, from \$5,828,766 in fiscal 2006 to \$7,175,338 in fiscal 2007. The increase in operating expenses was principally attributable to an increase of \$304,000 in legal expenses primarily related to our investigation of potential acquisition targets, \$449,000 in outside consultants and recruitment fees to supplement and increase key software developmental personnel, and \$647,000 in stock based compensation expense, partially offset by a reduction of \$268,000 in salary expense.

We anticipate that our operating expenses will continue to increase going forward as we expect to continue to add to staff, engage outside consulting services when needed and pursue any strategic opportunities as they become available.

Other Expenses

Total other expenses, including interest expense and financing costs, decreased \$67,609, or 17%, from \$408,792 in fiscal 2006 to \$341,183 in fiscal 2007. The decrease is principally due to a decrease of financing costs of \$113,800, a decrease of interest expense of \$115,600, a decrease of \$206,000 related to the loss on extinguishment of debt, which occurred in the prior year and a decrease of \$445,200 related to the reversal of a contingent loss liability from the prior year. The decrease in these costs and expenses was partially offset by a \$769,161 increase or loss on derivatives associated with the debt feature of the convertible promissory note of June 16, 2005, a \$22,000 increase in interest expense related to Mr. Ramey's note payable, and a \$22,000 decrease in other income.

Net Loss

Net loss increased by \$2,487,852, or 304%, from a net loss of \$818,157 in fiscal 2006 to a net loss of \$3,306,009 in fiscal 2007.

Liquidity and Capital Resources

We have incurred significant losses and negative cash flows from operations for the last two fiscal years. We have obtained our required cash resources through the sale of debt and equity securities. We may not operate profitably in the future and may be required to continue the sale of debt and equity securities to finance our operations.

We have specific plans to address our financial situation as follows:

- We believe that the demand for our software and professional services will continue to expand as the United States market adopts the new payment processing opportunities available under changing regulations such as the Check Clearing Act for the 21st Century, and NACHA's back office conversion, which allows the conversion of paper checks in the back offices of retail merchants and government. We believe that increased demand for our solutions, including our recently introduced Clearingworks product, will lead to increased cash flows from up-front license fees, transaction-based contract fees and increases in professional services revenues.
- We have entered into a strategic alliance with one of the largest merchant service providers (MSP), which will allow this MSP to sell Clearingworks as part of its ARC and back office conversion services. Though no exact dollar amounts have been forecast at the time, we expect that this alliance will positively affect our profitability.
- Our alliance with Hyundai will allow us to resell ATMs enhanced with our software. We expect this alliance to positively affect our profitability.

There can be no assurance that our planned activities will be successful or that we will ultimately attain profitability. Our long term viability depends on our ability to obtain adequate sources of debt or equity funding to fund the continuation of our business operations and to ultimately achieve adequate profitability and cash flows to sustain our operations. We will need to increase revenues from software licenses, transaction-based software license contracts and professional services agreements to become profitable.

Cash and cash equivalents decreased by \$1,150,162 from \$1,290,438 at March 31, 2006 to \$140,276 at March 31, 2007. Cash used for operating activities was \$1,383,029 in fiscal 2006 compared to \$886,264 in fiscal 2007.

Cash used for investing activities for fiscal 2006 and 2007 consisted of the purchase of property and equipment and repayments to our affiliates totaling \$162,369 and \$149,098, respectively.

Financing activities provided cash of \$625,944 in fiscal 2007, and included \$740,744 in proceeds from stock sales, \$500,000 in proceeds from a related party loan, partially offset by \$614,800 repayment of convertible promissory notes.

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Financing activities provided cash of \$1,310,450 in fiscal 2006, and included \$600,000 in proceeds from stock sales, \$25,000 from the exercise of warrants and options and \$700,000 from proceeds from issue of convertible promissory notes.

As a result of our recent capital raising transactions, our increased level of transactional revenues achieved in fiscal 2007, and the expected increase in revenues to be received from recently received and contemplated contracts, we believe we currently have adequate capital resources to fund our anticipated cash needs through March 31, 2008 and beyond. However, an adverse business or legal development could require us to raise additional financing sooner than anticipated. We recognize that we may be required to raise such additional capital, at times and in amounts, which are uncertain, especially under the current capital market conditions. If we are unable to acquire additional capital or are required to raise it on terms that are less satisfactory than we desire, it may have a material adverse effect on our financial condition. In the event we raise additional equity, these financings may result in dilution to existing shareholders.

Our contractual obligations, which are described elsewhere in our financial statements, have been summarized in the table below:

<u>Contractual Obligations</u>	<u>Balance as of March 31, 2007</u>	<u>2008</u>	<u>Payments 2009</u>	<u>Due in 2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Current Operating Lease	\$ 96,688	\$ 96,688					
New Operating Lease	\$ 1,742,772	\$225,480	\$344,483	\$347,615	\$350,747	\$355,444	\$119,003

Recently Issued Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement replaces Accounting Principle Bulletin (APB) Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This Statement is effective for fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to have a material impact on our financial position or results of operations.

In February 2006, the FASB issued SFAS 155, “Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140.” SFAS 155 resolves issues addressed in SFAS 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.” The requirements in SFAS 155 are effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The adoption of this pronouncement is not expected to have an impact on our consolidated financial position, results of operations, or cash flows.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109” (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires an entity to recognize the impact of a tax position in its financial statements if that position is more likely than not to be sustained on audit based on the technical merits of the position. The provisions of FIN 48 are effective for us as of the beginning of fiscal 2008, with earlier application encouraged. Any cumulative effect of the change in accounting principle will be recorded as an adjustment to the opening accumulated deficit balance. The adoption of this pronouncement is not expected to have an impact on our consolidated financial position, results of operations, or cash flows.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. SFAS 157 is effective for the Company as of the beginning of fiscal 2009, with earlier application encouraged. Any cumulative effect will be recorded as an adjustment to the opening accumulated deficit balance, or other appropriate component of equity. The adoption of this pronouncement is not expected to have an impact on the Company’s consolidated financial position, results of operations, or cash flows.

Factors That May Affect Our Results

We have a general history of losses and may not operate profitably in the future.

We have incurred losses for the last three fiscal years. Our net losses and negative cash flow may continue for the foreseeable future. As of March 31, 2007, our accumulated deficit was \$50,416,347. We believe that our planned growth and profitability will depend in large part on our ability to promote our brand name and gain clients and expand our relationships with clients for whom we would provide licensing agreements and system integration. Accordingly, we intend to invest heavily in marketing, strategic partnership, development of our client base and development of our marketing technology and operating infrastructure. If we are not successful in promoting our brand name and expanding our client base, it will have a material adverse effect on our financial condition and our ability to continue to operate our business.

Our ability to continue as a going concern may be contingent upon our ability to secure capital from prospective investors or lenders.

The accompanying consolidated financial statements have been prepared assuming we will continue on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We believe we currently have adequate cash to fund anticipated cash needs through March 31, 2008. However, we may need to raise additional capital in the future. Any equity financing may be dilutive to shareholders, and debt financing, if available, will increase expenses and may involve restrictive covenants. We may be required to raise additional capital, at times and in amounts that are uncertain, especially under the current capital market conditions. These factors raise substantial doubt about our ability to continue as a going concern. Under these circumstances, if we are unable to obtain additional capital or are required to raise it on undesirable terms, it may have a material adverse effect on our financial condition, which could require us to:

- curtail our operations significantly;
- sell significant assets;
- seek arrangements with strategic partners or other parties that may require us to relinquish significant rights to products, technologies or markets; or
- explore other strategic alternatives including a merger or sale of US Dataworks.

Our financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should we be unable to continue as a going concern.

Our operating results are subject to fluctuations caused by many factors that could cause us to fail to achieve our revenue or profitability expectations, which in turn could cause our stock price to decline.

Our operating results can vary significantly depending upon a number of factors, many of which are outside our control. Factors that may affect our quarterly operating results include:

- market acceptance of and changes in demand for our products and services;
- gain or loss of clients or strategic relationships;
- announcement or introduction of new software, services and products by us or by our competitors;
- our ability to build brand recognition;
- timing of sales to customers;
- price competition;
- our ability to upgrade and develop systems and infrastructure to accommodate growth;
- our ability to attract and integrate new personnel in a timely and effective manner;
- our ability to introduce and market products and services in accordance with market demand;
- changes in governmental regulation;
- reduction in or delay of capital spending by our clients due to the effects of terrorism, war and political instability; and

- general economic conditions, including economic conditions specific to the financial services industry.

In addition, each quarter we derive a significant portion of our revenue from agreements signed at the end of the quarter. Our operating results could suffer if the timing of these agreements is delayed. Depending on the type of agreements we enter into, we may not be able to recognize revenue under these agreements in the quarter in which they are signed. Some of all of these factors could negatively affect demand for our products and services, and our future operating results.

Most of our operating expenses are relatively fixed in the short-term. We may be unable to adjust spending rapidly to compensate for any unexpected sales shortfall, which could harm our quarterly operating results. Because of the emerging nature of the markets in which we compete, we do not have the ability to predict future operating results with any certainty. Because of the above factors, you should not rely on period-to-period comparisons of results of operation as an indication of future performances.

We are entering into a new market that is highly competitive with well established competitors.

As a result of our recent strategic partnership with Hyundai Syscomm, we are entering into a new market and we may need to invest a significant amount of resources to compete successfully. This new market is highly competitive and has put increased pressure on companies to develop new products and services. For example, well-established ATM equipment companies, include Diebold, NCR, Wincor Nixdorf GmbH & Co., Triton and Itaotec. As a new entrant into this market, we believe that our success depends on our ability to establish relationships with leading customers and our ability to introduce and market new services for ATM's which utilize our proprietary software products. Our failure to do so could harm our ability to successfully compete in this new market and could adversely affect our operating results.

We may not be able to maintain our relationships with strategic partners, which may cause our cash flow to decline.

We may not be able to maintain our relationships with strategic partners, such as BancTec and Computer Sciences Corporation. These strategic relationships are a core component of our sales and distribution strategy. The loss of a strategic partner could harm our financial results.

Because a small number of customers have historically accounted for and may in future periods account for substantial portions of our revenue, our revenue could decline because of delays of customer orders or the failure to retain customers.

We have a small number of customers that account for a significant portion of our revenue. Our revenue could decline because of a delay in signing agreements with a single customer or the failure to retain an existing customer. We may not obtain additional customers. The failure to obtain additional customers and the failure to retain existing customers will harm our operating results.

If general economic and business conditions do not improve, we may experience decreased revenue or lower growth rates.

The revenue growth and profitability of our business depends on the overall demand for computer software and services in the product segments in which we compete. Because our sales are primarily to major banking and government customers, our business also depends on general economic and business conditions. A softening of demand caused by a weakening of the economy may result in decreased revenue or lower growth rates. As a result, we may not be able to effectively promote future license revenue growth in our application business.

We may not be able to attract, retain or integrate key personnel, which may prevent us from successfully operating our business.

We may not be able to retain our key personnel or attract other qualified personnel in the future. Our success will depend upon the continued service of key management personnel. The loss of services of any of the key members of our management team or our failure to attract and retain other key personnel could disrupt operations and have a negative effect on employee productivity and morale and harm our financial results.

We operate in markets that are intensely and increasingly competitive, and if we are unable to compete successfully, our revenue could decline and we may be unable to gain market share.

The markets for financial services software and ATM equipment are highly competitive. Our future success will depend on our ability to adapt to rapidly changing technologies, evolving industry standards, product offerings and evolving demands of the marketplace.

Some of our competitors have:

- longer operating histories;
- larger installed customer bases;
- greater name recognition and longer relationships with clients; and
- significantly greater financial, technical, marketing and public relations resources than US Dataworks.

Our competitors may also be better positioned to address technological and market developments or may react more favorably to technological changes. We compete on the basis of a number of factors, including:

- the breadth and quality of services;
- creative design and systems engineering expertise;
- pricing;
- technological innovation; and
- understanding clients' strategies and needs.

Competitors may develop or offer strategic services that provide significant technological, creative, performance, price or other advantages over the services we offer. If we fail to gain market share or lose existing market share, our financial condition, operating results and business could be adversely affected and the value of the investment in us could be reduced significantly. We may not have the financial resources, technical expertise or marketing, distribution or support capabilities to compete successfully.

We may be responsible for maintaining the confidentiality of our client's sensitive information, and any unauthorized use or disclosure could result in substantial damages and harm our reputation.

The services we provide for our clients may grant us access to confidential or proprietary client information. Any unauthorized disclosure or use could result in a claim against us for substantial damages and could harm our reputation. Our contractual provisions attempting to limit these damages may not be enforceable in all instances or may otherwise fail to adequately protect us from liability for damages.

If we do not adequately protect our intellectual property, our business may suffer, we may lose revenue or we may be required to spend significant time and resources to defend our intellectual property rights.

We rely on a combination of patent, trademark, trade secrets, confidentiality procedures and contractual procedures to protect our intellectual property rights. If we are unable to adequately protect our intellectual property, our business may suffer from the piracy of our technology and the associated loss in revenue. Any patents that we may hold may not sufficiently protect our intellectual property and may be challenged by third parties. Our efforts to protect our intellectual property rights, may not prevent the misappropriation of our intellectual property. These infringement claims or any future claims could cause us to spend significant time and money to defend our intellectual property rights, redesign our products or develop or license a substitute technology. We may be unsuccessful in acquiring or developing substitute technology and any required license may be unavailable on commercially reasonable terms, if at all. In the event of litigation to determine the validity of any third party claims or claims by us against such third party, such litigation, whether or not determined in our favor, could result in significant expense and divert the efforts of our technical and management personnel, regardless of the outcome of such litigation. Furthermore, other parties may also independently develop similar or competing products that do not infringe upon our intellectual property rights.

We may be unable to consummate future potential acquisitions or investments or successfully integrate acquired businesses or investments or foreign operations with our business, which may disrupt our

business, divert management's attention and slow our ability to expand the range of our technologies and products.

We intend to continue to expand the range of our technologies and products, and we may acquire or make investments in additional complementary businesses, technologies or products, if appropriate opportunities arise. We may be unable to identify suitable acquisition or investment candidates at reasonable prices or on reasonable terms, or consummate future acquisitions or investments, each of which could slow our growth strategy. We have no prior history or experience in investing in or acquiring and integrating complementary businesses and therefore may have difficulties completing such transactions or realizing the benefits of such transactions, or they may have a negative effect on our business. Such investments or acquisitions could require us to devote a substantial amount of time and resources and could place a significant strain on our management and personnel. To finance any acquisitions, we may choose to issue shares of our common stock, which would dilute your interest in us. Any future acquisitions by us also could result in significant write-offs or the incurrence of debt and contingent liabilities, any of which could harm our operating results.

Item 7. *Financial Statements*

US DATAWORKS, INC.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
US Dataworks, Inc.

We have audited the accompanying balance sheet of US Dataworks, Inc. as of March 31, 2007, and the related statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended March 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of US Dataworks, Inc. as of March 31, 2007, and the results of its operations and its cash flows for each of the two years in the period ended March 31, 2007 in conformity with U.S. generally accepted accounting principles.

/s/ Ham, Langston & Brezina, LLP

Houston, Texas

June 28, 2007

US DATAWORKS, INC.

BALANCE SHEET

March 31, 2007

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 140,276
Accounts receivable, Net allowance for doubtful accounts of \$250,000	2,180,029
Prepaid expenses and other current assets	131,913
Total current assets	2,452,218
Property and equipment, net	480,483
Goodwill, net	14,133,629
Other assets	30,334
Total assets	<u>\$ 17,096,664</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Notes payable — related parties	\$ 539,000
Current portion of convertible promissory notes	256,066
Deferred revenue	643,895
Accounts payable	920,110
Accrued expenses	999,897
Interest payable	13,932
Interest payable — related parties	4,926
Derivative — Warrants	75,255
Total current liabilities	3,453,081
Total liabilities	<u>\$ 3,453,081</u>
Commitments and Contingencies	
Stockholders' Equity:	
Convertible Series B preferred stock, \$0.0001 par value; 700,000 shares authorized; 109,933 shares issued and outstanding; \$3.75 liquidation preference, dividends of \$252,238 in arrears	55
Common stock, \$0.0001 par value; 90,000,000 shares authorized; 37,400,462 shares issued and 31,300,462 outstanding	3,740
Additional paid-in capital	64,056,135
Accumulated deficit	(50,416,347)
Total stockholders' equity	13,643,583
Total liabilities and stockholders' equity	<u>\$ 17,096,664</u>

The accompanying notes are an integral part of these financial statements.

US DATAWORKS, INC.

STATEMENTS OF OPERATIONS
for the years ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
Software licensing revenues	\$ 689,425	\$ 2,681,478
Software transactional revenues	1,495,617	908,040
Software maintenance revenues	438,803	432,878
Professional services revenues	3,445,730	2,952,781
ATM equipment revenue	1,000,000	—
Total revenues	<u>7,069,575</u>	<u>6,975,177</u>
Cost of Sales	<u>2,859,063</u>	<u>1,555,776</u>
Gross Profit	<u>4,210,512</u>	<u>5,419,401</u>
Operating expenses:		
General and administrative	7,031,224	5,466,735
Depreciation and amortization	144,114	362,031
Total operating expenses	<u>7,175,338</u>	<u>5,828,766</u>
Loss from operations	<u>(2,964,826)</u>	<u>(409,365)</u>
Other income (expense):		
Financing costs	(46,200)	(160,001)
Interest expense	(226,820)	(342,462)
Interest expense — related parties	(21,875)	—
Loss on extinguishment of debt	—	(206,000)
Litigation settlements	222,600	(222,600)
Other income (expense)	10,490	32,488
Gain on derivative liabilities	(279,378)	489,783
Total other income (expense)	<u>(341,183)</u>	<u>(408,792)</u>
Loss before provision for income taxes	<u>(3,306,009)</u>	<u>(818,157)</u>
Provision for income taxes	—	—
Net loss	<u>\$ (3,306,009)</u>	<u>\$ (818,157)</u>
Basic and diluted loss per share	<u>\$ (0.11)</u>	<u>\$ (0.03)</u>
Basic and diluted weighted-average shares outstanding	<u>30,717,707</u>	<u>27,773,954</u>

The accompanying notes are an integral part of these financial statements.

US DATAWORKS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
for the years ended March 31, 2007 and 2006

	Preferred Stock Convertible Series		Common Stock		Additional			Total
	B		Shares	Amount	Paid-In Capital	Deferred Compensation	Accumulated Deficit	
	Shares	Amount						
Balance, March 31, 2005	549,667	\$ 55	28,778,366	\$ 2,878	\$61,676,629	\$ (12,198)	\$(46,292,181)	\$15,375,183
Options granted to third parties	—	—	—	—	58,450	—	—	58,450
Warrants issued for extinguishment of debt	—	—	—	—	206,000	—	—	206,000
Warrants issued in connection with waiver of certain rights held by an investor	—	—	—	—	185,000	—	—	185,000
Amortization of deferred compensation	—	—	—	—	—	12,198	—	12,198
Common stock issued for:								
Cash, less cost of offering (14,550)	—	—	1,258,654	\$ 126	585,324	—	—	585,450
Issued for conversion of convertible debenture	—	—	89,744	\$ 9	51,324	—	—	51,333
Current Period profit/loss	—	—	—	—	—	—	(818,157)	(818,157)
Balance at March 31, 2006	<u>549,667</u>	<u>\$ 55</u>	<u>30,126,764</u>	<u>\$ 3,013</u>	<u>\$62,762,727</u>	<u>\$ —</u>	<u>\$(47,110,338)</u>	<u>\$15,655,457</u>

The accompanying notes are an integral part of these financial statements.

US DATAWORKS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
for the years ended March 31, 2007 and 2006

	Preferred Stock Convertible		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Series B Shares	Amount	Shares	Amount			
Balance, March 31, 2006	549,667	\$ 55	30,126,764	\$ 3013	\$62,762,727	\$(47,110,338)	\$15,655,457
Common stock issued for conversion of convertible debenture	—	—	1,173,698	117	646,631	—	646,748
Common stock issued to escrow	—	—	6,100,000	610	(610)	—	—
Stock based compensation	—	—	—	—	647,387	—	647,387
Current Period profit/loss	—	—	—	—	—	(3,306,009)	(3,306,009)
Balance at March 31, 2007	<u>549,667</u>	<u>\$ 55</u>	<u>37,400,462</u>	<u>\$ 3,740</u>	<u>\$64,056,135</u>	<u>\$(50,416,347)</u>	<u>\$13,643,582</u>

The accompanying notes are an integral part of these financial statements.

US DATAWORKS, INC.
STATEMENTS OF CASH FLOWS
for the years ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net loss from continuing operations	\$(3,306,009)	\$ (818,157)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	144,115	362,031
Interest associated with creation of derivative liability	—	21,029
Allowance for doubtful accounts, AR	250,000	
Loss on extinguishment of debt	—	206,000
Loss on disposition of furniture and equipment	—	5,512
Gain on fixed asset disposition	(3,394)	—
Amortization of note discount on convertible promissory note	176,059	240,655
Amortization of deferred compensation expense	—	(9,302)
Issuance of options to 3rd parties for services	—	58,450
Issuance of warrants in exchange for waiver	—	160,000
Stock based compensation	647,386	—
Gain on derivatives	228,045	(489,783)
Changes in operating assets and liabilities:		
Accounts receivable	(938,341)	(652,398)
Costs and estimated earnings in excess of billings on uncompleted contracts	238,000	(238,000)
Prepaid expenses and other current assets	34,601	(70,786)
Other assets	12,890	569
Deferred revenue	427,141	(287,282)
Accounts payable	688,698	(7,835)
Accrued expenses	537,359	136,268
Interest payable	(22,814)	—
Net cash used in operating activities	<u>(886,264)</u>	<u>(1,383,029)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(157,098)	(166,851)
Sales of fixed assets	8,000	4,482
Net cash used in investing activities	<u>(149,098)</u>	<u>(162,369)</u>
Cash flows from financing activities:		
Proceeds from related party note	500,000	—
Proceeds from convertible promissory notes	—	700,000
Repayment of convertible promissory notes	(614,800)	—
Proceeds from stock sale	—	600,000
Stock issuance costs	—	(14,550)
Proceeds from issuance of warrants to lender in exchange for waiver	—	25,000
Net cash provided by financing activities	<u>(114,800)</u>	<u>1,310,450</u>
Net (decrease) increase in cash and cash equivalents	(1,150,162)	(234,948)
Cash and cash equivalents, beginning of year	1,290,438	1,525,386
Cash and cash equivalents, end of year	<u>\$ 140,276</u>	<u>\$ 1,290,438</u>
Supplemental disclosures of cash flow information		
Interest paid	<u>\$ 95,451</u>	<u>\$ 76,820</u>

The accompanying notes are an integral part of these financial statements.

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Business

General

US Dataworks, Inc. (the “Company”), a Nevada corporation, develops, markets, and supports payment processing software for the financial services industry. Its customer base includes many of the largest financial institutions as well as credit card companies, government institutions, and high-volume merchants in the United States. The Company was formerly known as Sonicport, Inc.

2. Summary of Significant Accounting Policies

Revenue Recognition

The Company recognizes revenues associated with our software services in accordance with the provisions of the American Institute of Certified Public Accountants’ Statement of Position 97-2, “Software Revenue Recognition” (“SOP 97-2”). The Company licenses its software products under nonexclusive, nontransferable license agreements. These arrangements do not require significant production, modification, or customization. Therefore, revenue is recognized when such a license agreement has been signed, delivery of the software product has occurred, the related fee is fixed or determinable, and collectibility is probable.

In certain instances, the Company licenses its software on a transactional fee basis in lieu of an up-front licensing fee. In these arrangements, the customer is charged a fee based upon the number of items processed by the software and the Company recognizes revenue as these transactions occur. The transaction fee also includes the provision of standard maintenance and support services as well as product upgrades should such upgrades become available.

If professional services were provided in conjunction with the installation of the software licensed, revenue is recognized when these services have been provided.

For license agreements that include a separately identifiable fee for contracted maintenance services, such maintenance revenues are recognized on a straight-line basis over the life of the maintenance agreement noted in the agreement, but following any installation period of the software.

The Company recognizes revenues associated with the resale of ATMs in accordance with the provisions of the Statement of Financial Accounting Standards (“SFAS”) No. 48. The Company’s sale price is fixed and determinable at the date of sale and it has no obligation to directly bring about the resale of the product. In addition, the buyer’s obligation to pay the Company is not contingent upon release of the product and its sale price is not adjusted if the product is lost or damaged. The buyer has economic substance apart from the Company and it can reasonably estimate the amount of returns at the time of sale. Therefore revenue is recognized at the time of sale.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over estimated useful lives as follows:

Automobiles	3 years
Furniture and fixtures	5 years
Telephone equipment	5 to 10 years
Computer equipment	5 years
Computer software	5 years
Leasehold improvements	Shorter of initial lease period or useful life of asset

Maintenance and minor replacements are charged to expense as incurred. Gains and losses on disposals are included in the results of operations.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets.

Goodwill

Effective January 1, 2002, the Company adopted SFAS No. 142 “Goodwill and Other Intangible Assets,” which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all goodwill amortization ceased effective January 1, 2002.

The goodwill recorded on the Company’s books is from the acquisition of US Dataworks, Inc. in fiscal year 2001 which remains the Company’s single reporting unit. SFAS 142 requires goodwill for each reporting unit of an entity be tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for each reportable unit. On an ongoing basis, absent any impairment indicators, the Company performs impairment tests annually during the fourth quarter.

SFAS 142 requires goodwill to be tested annually and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of the reportable unit below its carrying amount. The Company did not have an impairment of goodwill to record for the years ended March 31, 2007 or March 31, 2006.

Fair Value of Financial Instruments

The Company measures its financial assets and liabilities in accordance with generally accepted accounting principles. For certain of the Company’s financial instruments, including cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued expenses, the carrying amounts approximate fair value due to their short maturities. The amounts shown for convertible promissory note payable and notes payable — related parties also approximate fair value because current interest rates offered to the Company for debt of similar maturities are substantially the same or the difference is immaterial.

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Convertible Debt Financing — Derivative Liabilities

The Company reviews the terms of convertible debt and equity instruments issued to determine whether there are embedded derivative instruments, including embedded conversion options, that are required to be bifurcated and accounted for separately as a derivative financial instrument. In circumstances where the convertible instrument contains more than one embedded derivative instrument, including the conversion option, that is required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument. Also, in connection with the sale of convertible debt and equity instruments, the Company may issue freestanding options or warrants that may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity.

In accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended, the convertible debt holder’s conversion right provision, interest rate adjustment provision, interest rate adjustment provision, liquidated damages clause, cash premium option, and the redemption option (collectively, the debt features) contained in the terms governing the convertible notes are not clearly and closely related to the characteristics of the notes. Accordingly, the features qualify as embedded derivative instruments at issuance and, because they do not qualify for any scope exception within SFAS 133, they are required by SFAS 133 to be accounted for separately from the debt instrument and recorded as derivative instrument liabilities.

Stock Options

Effective April 1, 2006, the Company adopted the SFAS No. 123 (revised 2004), Share-Based Payment (“SFAS 123R”), which require the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. The Company adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard as of April 1, 2006, the first day of the Company’s fiscal year 2007. The Company’s financial statements as of and for the year ended March 31, 2007 reflect the impact of SFAS 123R. In accordance with the modified prospective transition method, the Company’s financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. Stock-based compensation expense recognized under SFAS 123R for the year ended March 31, 2007 was \$647,387, which consists of stock-based compensation expense related to employee and director stock options and restricted stock issuances.

SFAS 123R requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company’s statement of operations. Prior to the adoption of SFAS 123R, the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with Accounting Principles Bulletin Opinion No. 25, “Accounting for Stock Issued to Employees,” as allowed under SFAS No. 123, Accounting for Stock-Based Compensation,. Under the intrinsic value method, no share-based compensation expense had been recognized in the Company’s Statement of Operations prior to April 1, 2006 because the exercise price of the Company’s stock options granted to employees and directors was equal to or greater than the fair market value of the underlying stock at the date of grant.

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

For purposes of proforma disclosure, the estimated fair value of the options is included in expense over the option's vesting period or expected life. The Company's proforma information for the years ended March 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Net loss as reported	\$(3,306,009)	\$ (818,157)
Add stock— based employee compensation expense included in net earnings (loss) as reported, net of related tax effects	647,387	—
Deduct stock— based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	—	(2,449,998)
Net loss, pro forma	\$(2,658,622)	\$(3,268,155)
Basic and diluted loss per share, as reported	\$ (0.11)	\$ (0.03)
Basic and diluted loss per share, pro forma	\$ (0.08)	\$ (0.11)

The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for the years ended March 31, 2007 and 2006: dividend yields of 0% and 0%, respectively; expected volatility of 79% and 89%, respectively; risk-free interest rates of 4.85% and 4.01%, respectively; and expected lives of 3.0 and 3.0 years, respectively. The per-share weighted average fair values of stock options granted during the years ended March 31, 2007 and 2006 were \$0.58 and \$0.58, respectively.

Advertising Expense

Advertising costs are charged to expense as incurred. For the years ended March 31, 2007 and 2006, the Company recorded advertising expense of \$55,861 and \$23,342 respectively.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes, if applicable, represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

Loss per Share

The Company calculates loss per share in accordance with SFAS No. 128, "Earnings per Share." Basic loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common stock equivalents had been issued and if the additional common shares were dilutive.

The following potential common stock equivalents have been excluded from the computation of diluted net loss per share for the periods presented because the effect would have been anti-dilutive (Options and

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Warrants typically convert on a one for one basis, see conversion details of the preferred stock stated below for the common stock shares issuable upon conversion):

	<u>Year Ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
Options outstanding under the Company's stock option plans	6,565,349	3,499,115
Options granted outside the Company's stock option plans	1,160,000	1,160,000
Warrants issued in conjunction with private placements(b)	5,438,683	5,839,933
Warrants issued as a financing cost for notes payable and convertible notes payable	1,691,250	2,098,783
Warrants issued for services rendered and litigation settlement	180,769	360,769
Warrants issued as part of the April 2001 acquisition	—	67,200
Convertible Series B preferred stock(a)	109,933	109,933

- (a) The Series B preferred stock is convertible into shares of common stock at a conversion price of \$3.75 per share.
- (b) In connection with the Stock Purchase agreement of December 29, 2006, as amended on February 13, 2007 and later amended on March 22, 2007, and subject to shareholder approval the Company has agreed to issue Hyundai Syscomm a warrant for 14,300,000 shares of common stock upon the closing of the stock purchase transaction.

Reclassifications

Certain amounts included in the prior year financial statements have been reclassified to conform with the current year presentation. Such reclassification did not have any effect on reported net loss.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

The Company sells its products throughout the United States and extends credit to its customers. It also performs ongoing credit evaluations of such customers. The Company does not obtain collateral to secure its accounts receivable. The Company evaluates its accounts receivable on a regular basis for collectibility and provides for an allowance for potential credit losses as deemed necessary.

Four of our customers, American Express, Federal Reserve Bank, Hyundai Syscomm, and Citibank, accounted for 24%, 18%, 14%, and 11% respectively of our net revenue for the year ended March 31, 2007. Two of our customers, American Express and the Federal Reserve Bank, accounted for 51% and 20% respectively of our net revenue for the year ended March 31, 2006. Two of our strategic resellers, BancTec and Computer Sciences Corporation, accounted for an aggregate of 3% of our net revenue for the year ended March 31, 2007. BancTec and Computer Science Corp. accounted for an aggregate of 8% of our net revenue for the year ended March 31, 2006.

At March 31, 2007, amounts due from three customers, accounted for 41%, 31%, and 9% of accounts receivable.

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

At March 31, 2006, amounts due from three customers, accounted for 66%, 18% and 7% of accounts receivable.

Recently Issued Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This Statement is effective for fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to have a material impact on the Company's financial position or results of operations.

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140". SFAS 155 resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." The requirements in SFAS 155 are effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of this pronouncement is not expected to have an impact on the Company's consolidated financial position, results of operations, or cash flows.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires an entity to recognize the impact of a tax position in its financial statements if that position is more likely than not to be sustained on audit based on the technical merits of the position. The provisions of FIN 48 are effective for the Company as of the beginning of fiscal 2008, with earlier application encouraged. Any cumulative effect of the change in accounting principle will be recorded as an adjustment to the opening accumulated deficit balance. The adoption of this pronouncement is not expected to have an impact on the Company's consolidated financial position, results of operations, or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. SFAS 157 is effective for the Company as of the beginning of fiscal 2009, with earlier application encouraged. Any cumulative effect will be recorded as an adjustment to the opening accumulated deficit balance, or other appropriate component of equity. The adoption of this pronouncement is not expected to have an impact on the Company's consolidated financial position, results of operations, or cash flows.

US DATAWORKS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

3. Property and Equipment

Property and equipment at March 31, 2007 consisted of the following:

Furniture and fixtures	77,559
Telephone equipment	92,795
Computer equipment	693,552
Computer Software	1,271,098
Leasehold improvements	62,997
	<u>2,198,001</u>
Less accumulated depreciation and amortization	<u>(1,717,517)</u>
Total	<u>\$ 480,484</u>

Depreciation and amortization expense for the years ended March 31, 2007 and 2006 was \$144,116 and \$362,031, respectively.

4. Notes Payable — Related Parties

On September 26, 2006, the Company entered into a note payable with its Chief Executive Officer for \$500,000. The note bears an 8.75% per annum interest rate, is unsecured and is due September 25, 2007. As of March 31, 2007 the outstanding balance on the note payable is \$500,000.

5. Convertible Promissory Notes

Convertible promissory notes at March 31, 2007 consisted of the following:

Convertible promissory note, interest at 10% per annum, unsecured, \$256,066 due September 15, 2007	\$ 256,066
	<u>256,066</u>
Less current portion	<u>(256,066)</u>
Long-term portion	<u>\$ —</u>

Convertible promissory note with interest at 10% per annum

This note is an amendment and restatement of a note in the same principal amount originally dated September 15, 2004. The original note was issued effective September 15, 2004 in connection with the November 2004 settlement of a lawsuit brought by an investor in December 2003. The amended note is convertible at any time, at the holder's election, into shares of the Company's common stock at a per share conversion price of \$1.10, subject to standard anti dilution provisions.

The amended note is effective September 15, 2005 and extended the principal payment of \$256,066 originally due September 15, 2005 for one year. The final principal payment of \$256,066 is due on September 15, 2007. In consideration of this amendment, the Company issued the holder a common stock purchase warrant to purchase up to 650,000 shares of the Company's common stock at an exercise price of \$0.59 per share. The warrant will expire on September 15, 2008.

The changes to this debt caused the accounting treatment to be an extinguishment of the old debt and issuance of new debt instead of being treated as modification of debt. Therefore, the excess of the fair value of the note and warrants over the carrying amount of the debt is \$206,000 and has been recorded as a loss on extinguishment for the year ended March 31, 2006.

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

In connection with the November 2004 settlement, the Company also issued a warrant to purchase 160,000 shares of the Company's common stock at a purchase price of \$0.75 per share, which warrant will expire on November 10, 2006.

Using the Black-Scholes pricing model the Company has determined the value of the warrants issued in connection with the settlement to be \$126,000. This amount, together with the value of the convertible promissory note, the value of the plaintiff's legal expense reimbursement and the Company's legal costs incurred in connection with the settlement totaled \$924,200 and has been recorded as Investor litigation settlement expense for the year ended March 31, 2005.

Convertible promissory note issued June 16, 2005 with \$70,000 Original Issue Discount

On June 16, 2005, the Company entered into a Securities Purchase Agreement with an institutional investor (the "Debtenture Agreement") for the sale of a convertible debenture with a principal amount of \$770,000 and an original issue discount of \$70,000 for gross proceeds of \$700,000. The debenture is convertible at anytime at the discretion of the holder at a price per share of \$0.572 into 1,346,154 shares of the Company's common stock. The convertible debenture is to be repaid in 15 monthly installments of \$51,333.33 beginning April 15, 2006. The Company may also elect, upon proper notice, to pay any monthly installment in shares of the Company's common stock based on a conversion price equal to the lesser of (i) the then applicable conversion price, or (ii) 90% of the volume weighted average price of the Company's common stock for the 10 trading days immediately preceding the payment; provided, that, such conversion price must be at least equal to the conversion floor of \$0.23, or such monthly installment must be paid in cash. This convertible debenture was amended on March 9, 2006, pursuant to which the Company must, within 25 calendar days prior to each monthly payment, deliver 89,744 shares of its common stock to the holders, which represents the monthly installment amount divided by the then conversion price with the first monthly payment becoming due on April 17, 2006. In connection with the Debtenture Agreement, the Company issued two groups of warrants, Short Term Warrants and Long Term Warrants to the institutional investor. The Short Term Warrants allow the institutional investor to purchase an aggregate of 407,926 shares of the Company's common stock with an exercise price of \$0.572 per share exercisable for a period of 180 days at any time after the later of (i) the effective date of the registration statement (as described below) or (ii) December 16, 2005. The Long Term Warrants allow the institutional investor to purchase an aggregate of 471,154 shares of the Company's common stock with an exercise price of \$0.572 per share exercisable at anytime from December 16, 2005 through December 16, 2008; provided, however, the institutional investor will not be permitted to exercise a warrant to the extent that the number of shares of the Company's common stock beneficially owned by such institutional investor taken together with the number of shares to be issued upon exercise of the warrant equals or exceeds 4.999% of the Company's then issued and outstanding shares of common stock. The warrants also contain trading market restrictions that preclude the Company from issuing shares of common stock upon exercise thereof if such issuance, when aggregated with other issuances of the Company's common stock pursuant to the warrants, would exceed 19.999% of the Company's then issued and outstanding shares of common stock, unless the Company has previously obtained the required shareholder approval. Pursuant to a Registration Rights Agreement dated June 16, 2005 between the Company and the institutional investor, the Company agreed to file a registration statement for the resale of the shares of the Company's common stock that may be issued to the institutional investor upon the conversion of the convertible debenture and the exercise of the Short Term Warrants and the Long Term Warrants. The registration statement covering these securities was effective on September 1, 2005.

In accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", the debt features contained in the terms governing the notes are not clearly and closely related to the characteristics of the notes. Accordingly, the debt features qualify as embedded derivative instruments at issuance and, because they did not qualify for any scope exception within SFAS 133, they were required to be accounted for separately from the debt instrument and recorded as derivative financial instruments.

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

At the date of issuance, the embedded debt feature had an estimated initial fair value of \$449,089, which was recorded as a discount to the convertible notes and derivative liability on our balance sheet. In subsequent periods, if the price of the security changes, the embedded derivative financial instrument related to the debt features will be adjusted to the fair value with the corresponding charge or credit to other income/(expense). The estimated fair value of the debt features was determined using the probability weighted averaged expected cash flows / Lattice Model with a closing price of \$0.65, a conversion price as defined in the respective note agreement and a period of two years. Concerning the debt features, the model uses several assumptions including: historical stock price volatility, approximate risk-free interest rate (3.5%), remaining term to maturity, and the closing price of the company's common stock to determine the estimated fair value of the derivative liability. For the year ended March 31, 2007, due in part to a fluctuations in the market value of the Company's common stock, the Company recorded an other income item on the statement of operations for the change in fair value of the embedded debt feature of approximately \$118,416.

As per the terms of the convertible note, the Company at any time, with 30 day prior notice may pay off the note subject to an early payment penalty of 30% on any outstanding balance. Accordingly, the Company elected to pay off the remaining balance of \$154,000 and incurred an additional \$46,200 in prepayment penalties both of which were paid on March 21, 2007. As of March 21, 2007 the company no longer had any obligation related to this convertible note.

The recorded value of the embedded debt feature related to this debt can fluctuate significantly based on fluctuations in the fair value of the Company's common stock.

The warrants included with this note for purchase of the Company's common stock had an initial value of \$271,940. This amount has been classified as a derivative financial instrument and recorded as a liability on our consolidated balance sheet in accordance with SFAS 133. The estimated fair value of the warrants at the date of issuance was determined using the Black-Scholes option-pricing model with a closing price of \$1.14, the respective exercise price of the warrants, a 2 year term, and a 90% volatility factor relative to the date of issuance. The model uses several assumptions including: historical stock price volatility, approximate risk-free interest rate (3.50%), remaining term to maturity, and the closing price of the company's common stock to determine the estimated fair value of the derivative liability. In accordance with the provisions of SFAS 133, the Company is required to adjust the carrying value of the instrument to its fair value at each balance sheet date and recognize any change since the prior balance sheet date as a component of other income/ (expense) on its statement of operations. The warrant derivative liability at March 31, 2007, increased to a fair value of \$75,255, due in part to a increase in the market value of the company's common stock, which resulted in an other income item of \$37,575.

The recorded value of the warrants can fluctuate significantly based on fluctuations in the market value of the underlying securities of the issuer of the warrants, as well as in the volatility of the stock price during the term used for observation and the term remaining for the warrants.

Due to changes in value upon the conversion of this debt when shares were issued for required principal payments, additional losses were incurred amounting to \$435,369. This loss is the result of differences in the settlement method and the assumptions that were used in the original derivative valuation.

6. Accounts Receivable Facility

On September 27, 2006, the Company entered into a Purchase and Sale Agreement with Catalyst Finance, L.P. ("Catalyst") for sale of certain of its accounts receivables. The Company's borrowing costs under this Agreement range from 1.25% to 20% of the gross amount of the receivables sold to Catalyst based on the timing of collection. The maximum funds available under the agreement are all available accounts receivables as agreed to by Catalyst and the Company. The agreement allows for Catalyst to request repurchase of an account receivable under certain conditions. For the year ended March 31, 2007, Catalyst has not requested

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

repurchase of an account receivable. To date, the Company has sold \$444,150 in receivables under the agreement, which yielded a loss on the sale of these receivables of \$8,353. The Agreement will continue in effect until terminated by either party.

7. Commitments and Contingencies***Leases***

The Company leases an office in Houston, Texas under an operating lease agreement that expires in July 2007. Rent expense was \$353,350 and \$363,690 for the years ended March 31, 2007 and 2006, respectively.

Future minimum lease payments under operating leases at March 31, 2007 were as follows:

Year Ended March 31,	Operating Lease
2008	<u>96,688</u>
	<u>\$96,688</u>

Subsequent to March 31, 2007 the Company entered into a new lease. Future minimum lease payments related to that lease were as follows:

Year Ended March 31,	Operating Lease
2008	225,480
2009	344,483
2010	347,615
2011	350,747
2012	355,444
2013	119,003
	<u>\$1,742,772</u>

Employment Agreements

On April 3, 2006, the Company entered into an employment agreement with each of its President, Payment Products Division and Vice Chairman, Sr. Vice President and Chief Technology Officer, and Vice President of Business Development and General Counsel, for a term of three years with automatic renewal for successive one-year terms unless either party gives timely notice of non-renewal.

Annual base salary for the President, Payment Products Division and Vice Chairman of the Company is \$190,000 and pursuant to the terms of the agreement he is entitled to receive an option to purchase 550,000 shares of the Company's common stock. This option vests over a 3 year period with 150,000 shares vesting on April 3, 2006 and 200,000 shares vesting on each of April 3, 2007 and 2008. In addition the President, Payment Products Division and Vice Chairman is entitled to receive a bonus of \$48,125 for year end 2006.

Annual base salary for the Senior Vice President and Chief Technology Officer of the Company is \$185,000 and pursuant to the terms of the agreement he is entitled to receive 200,000 shares of restricted common stock. The restricted shares vest over a 3 year period with 25,000 shares vesting on April 3, 2006 and 87,500 shares vesting on each of April 3, 2007 and 2008. The Senior Vice President and Chief Technology Officer is also eligible to receive a quarterly bonus of equal to 3.5% of the increase in the Company's revenue from fiscal year quarter to fiscal year quarter and to receive a bonus of \$78,750 for fiscal year 2006.

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Annual base salary for the Vice President of Business Development and General Counsel of the Company is \$175,000, and pursuant to the terms of the agreement he is entitled to receive an option to purchase 700,000 shares of the Company's common stock. This option vests over a 3 year period with 300,000 shares vesting on April 3, 2006 and 200,000 shares vesting on each of April 3, 2007 and 2008. The Vice President of Business Development and General Counsel is also eligible to receive a quarterly bonus based upon the Company's future acquisitions or mergers.

On May 23, 2006, the Company entered into an employment agreement with its Chairman of the Board and Chief Executive Officer. The agreement has a 2 year term with automatic renewal for successive one year terms unless either party gives timely notice of non-renewal. His annual base salary is \$220,000 and he is entitled to receive 100,000 shares of restricted common stock that vest immediately and is entitled to receive an option to purchase 600,000 shares of the Company's common stock. This option vests as to 300,000 shares on each of May 22, 2007 and 2008.

Litigation

In June 2005, two of our former employees initiated arbitration against the company alleging wrongful termination and sought severance pay. Arbitration was held on March 28, 2006 and on June 19, 2006, the arbitration ruled that each employee was entitled to \$90,000 in severance pay, as well as costs and interest. These amounts were included in accrued liabilities at March 31, 2006. On August 25, 2006 all severance pay, as well as costs and interest due each employee was paid. These amounts were removed from accrued liabilities at September 30, 2006. .

8. Stockholders' Equity

Preferred Stock

The Company has 10,000,000 authorized shares of \$0.0001 par value preferred stock. The preferred stock may be issued in series, from time to time, with such designations, rights, preferences, and limitations as the Board of Directors may determine by resolution.

Convertible Series B Preferred Stock

The Company has 700,000 authorized shares of \$0.0001 par value convertible Series B preferred stock.

In August and October 2000, the Company issued 101,867 and 26,733 units respectively, in a private placement for gross proceeds of \$382,000 and \$100,250, respectively. Each unit consisted of one share of its voting convertible Series B preferred stock (the "Series B") and a warrant to purchase one share of the Company's common stock. The Series B has a liquidation preference of \$3.75 per share and carries a 10% cumulative dividend payable on each March 1 and September 1. The Company has the right to redeem the Series B at any time after issuance at a redemption price of \$4.15 per share, plus any accrued but unpaid dividends. The Series B is convertible upon issuance into common stock at \$3.75 per share. The warrant entitles the holder to purchase one share of the Company's common stock at \$6.25 per share, which represents 115% of the market value of the Company's stock at the closing date.

In May 2001, an investor in the Company's convertible Series B preferred stock rescinded its acquisition and returned 2,667 shares and warrants for the purchase of 533 shares of common stock to the Company in exchange for the return of its investment of \$10,000.

In August 2004, an investor in the Series B elected to convert his 16,000 shares and accordingly was issued 3,200 shares of the Company's common stock.

At March 31, 2007, there were accumulated, undeclared dividends in arrears of \$252,238 or \$0.46 per share.

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Common Stock and Warrants

During the year ended March 31, 2006, the Company completed the following:

Non-Cash Financing

In the quarter ended June 30, 2006, the Company issued 303,116 shares of common stock with a value of \$154,000 to pay down debt associated with the convertible promissory note issued June 16, 2005.

In the quarter ended September 30, 2006, the Company issued 287,173 shares of common stock with a value of \$154,000 to pay down debt associated with the convertible promissory note issued June 16, 2005.

In the quarter ended December 31, 2006, the Company issued 314,253 shares of common stock with a value of \$154,000 to pay down debt associated with the convertible promissory note issued June 16, 2005.

In the quarter ended March 31, 2007, the Company issued 261,159 shares of common stock with a value of \$154,000 to pay down debt associated with the convertible promissory note issued June 16, 2005.

Sale of Common Stock and Warrants

On December 29, 2006, the Company entered into a stock purchase agreement (the "Purchase Agreement"), with Hyundai Syscomm Corp., a California corporation ("Hyundai"), pursuant to which the Company agreed to issue to Hyundai an aggregate of 6,100,000 shares of the Company's common stock, \$0.0001 par value (the "Common Stock"), for an aggregate purchase price of \$1,500,000 ("Purchase Shares"). In connection with the Purchase Agreement, and subject to shareholder approval, the Company also agreed to issue to Hyundai a warrant (the "Warrant") to purchase up to an aggregate of 14,300,000 shares of Common Stock (the "Warrant Shares"); provided, however, in no event shall the aggregate of Hyundai's Warrant Shares and Purchased Shares exceed 39.9% of the Company's total outstanding shares. Under no condition will Warrant Shares become issuable hereunder unless and until the Company secures the necessary vote from its shareholders in favor of the issuance of this Warrant. The Warrant will vest as to one million shares of Common Stock for each \$1 million in gross profits allocated to Hyundai under the Resale Agreement. At Hyundai's option, it may elect to apply its allocation of gross profits to the payment of the exercise price of the exercise of any of the Warrant Shares. The exercise price will be \$0.01 per share and it will have term of 10 years. The fair value of the shares and the warrant will be recorded on the Company's books at the time all of the conditions of the Stock Purchase Agreement as amended have been met. The warrants will be valued at fair value and going forward will be valued mark to market in accordance with the requirements of FASB 133. The Purchase Shares and Warrant are being held in escrow pending the Closing.

On February 13, 2007, the Company and Hyundai amended the Purchase Agreement and related escrow agreement, pursuant to which the parties agreed to postpone the closing until March 2007, at which time the Company would issue the Purchased Shares and the Warrant, subject to shareholder approval.

On March 22, 2007, the Company and Hyundai further amended the Purchase Agreement, pursuant to which the parties agreed that the Company will retain all of the Gross Profits, as defined in the Purchase Agreement, until an aggregate amount of \$1,500,000 is received, which will constitute payment in full for the Purchased Shares. Following receipt of the \$1,500,000 the Purchased Shares and Warrant, subject to shareholder approval, will be issued to Hyundai.

During the year ended March 31, 2006, the Company completed the following:

Sale of Common Stock and Warrants

Effective June 16, 2005, the Company entered into definitive agreements with nine accredited investors for the sale of 1,258,654 shares of the Company's common stock for gross proceeds of \$600,000. The

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

agreements also provide that the Company will issue warrants, exercisable over a three year period, to purchase up to 314,664 shares of the Company's common stock at an exercise price of \$0.715 per share and an additional 314,664 shares of the Company's common stock at an exercise price of \$0.812 per share. In July 2005, upon receipt of approval of the American Stock Exchange for issuance of the shares of the Company's common stock, the agreements were completed and the investors were issued the shares of the Company's common stock and warrants.

Amendment of Convertible Promissory Note and Issuance of Warrant

On October 13, 2005, the Company amended and restated its 10% convertible debenture effective September 15, 2005 in the principal amount of \$768,199.24, issued by the Company for the benefit of an accredited individual investor. This convertible debenture, originally dated September 15, 2004, was amended to extend the payment of the principal due and payable on September 15, 2005 until September 15, 2006. In consideration of this amendment, the Company issued to the individual investor a common stock purchase warrant to purchase up to 650,000 shares of its common stock at an exercise price of \$0.59 per share. The warrant will expire on September 15, 2008.

Sale of Warrants

Additionally in June 2005, the Company sold to an institutional investor a convertible debenture with a principal amount of \$770,000 and an original issue discount of \$70,000 for gross proceeds of \$700,000. The debenture is convertible at anytime at the discretion of the holder at a price per share of \$0.572 into 1,346,154 shares of the Company's common stock. The convertible debenture is to be repaid in 15 monthly installments of \$51,333.33 beginning April 15, 2006. In connection with the sale of the debenture, the Company issued the investor two groups of warrants, Short Term and Long Term warrants. The Short Term warrants allow the purchase of up to 407,926 shares of the Company's common stock with an exercise price of \$0.572 per share that may be exercised for a period of 180 days at any time after the later of (i) the effective date of the registration statement covering the conversion and warrant shares or (ii) December 16, 2005. The Long Term warrants allow the purchase of up to 471,154 shares of the Company's common stock with an exercise price of \$0.572 per share that may be exercised at anytime from December 16, 2005 through December 16, 2008.

On November 22, 2005, the Company entered into an agreement with the institutional investor owning the \$770,000 convertible debenture issued June 16, 2005 whereby the investor agreed to (i) pay the Company \$25,000 and (ii) waive all rights the institutional investor may have related to the Company's September 15, 2005 amended note agreement with an individual investor (see Note 5) in exchange for a common stock purchase warrant to purchase up to 650,000 shares of the Company's common stock at an exercise price of \$0.59 per share, which warrant will expire on November 22, 2008. Using the Black-Scholes pricing model the Company has determined the value of the warrants issued in connection with this November 22, 2005 agreement to be \$185,000. This amount, less the \$25,000 proceeds received, has been recorded as Financing costs expense for the year ended March 31, 2006.

Stock Options

In August 1999, the Company implemented its 1999 Stock Option Plan (the "1999 Plan"). In August 2000, the Company's Board of Directors approved the 2000 Stock Option Plan (the "2000 Plan"), which amends and restates the 1999 Plan. In September 2006, shareholders approved an amendment to the 2000 Plan to increase the maximum aggregate number of shares available for issuance thereunder from 6,000,000 to 7,500,000. Under the 2000 Plan, the exercise price must not be less than the fair market value on the date of grant of the option. The options vest in varying increments over varying periods and expire 10 years from the date of vesting. In the case of incentive stock options granted to any 10% owners of the Company, the exercise

US DATAWORKS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

price must not be less than 100% of the fair market value on the date of grant. Such incentive stock options vest in varying increments and expire five years from the date of vesting.

During the years ended March 31, 2007 and 2006, the Company granted 3,219,500 and 1,174,400 stock options, respectively, to certain employees that may be exercised at prices ranging between \$0.82 and \$0.45, and between \$.65 and \$0.44, respectively.

The following table summarizes certain information relative to stock options:

	<u>2000 Stock Option Plan</u>		<u>Outside of Plan</u>	
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding, March 31, 2005	3,926,783	\$ 1.60	1,163,000	\$ 1.07
Granted	1,174,400	\$ 0.58	—	\$ —
Forfeited/cancelled	1,602,068	\$ 2.35	3,000	\$ 21.72
Outstanding, March 31, 2006	3,499,115	\$ 0.94	1,160,000	\$ 1.02
Granted	3,219,500	\$ 0.58	—	\$ —
Forfeited/cancelled	153,266	\$ 1.40	—	\$ —
Outstanding, March 31, 2007	6,565,349	\$ 0.74	1,160,000	\$ 1.02
Exercisable, March 31, 2007	3,795,849	\$ 0.84	1,160,000	\$ 1.02

The weighted-average remaining life and the weighted-average exercise price of all of the options outstanding at March 31, 2007 were 7.93 years and \$0.78, respectively. The exercise prices for the options outstanding at March 31, 2007 ranged from \$0.43 to \$6.25, and information relating to these options is as follows:

<u>Range of Exercise Prices</u>	<u>Stock Options Outstanding</u>	<u>Stock Options Exercisable</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Exercise Price of Options Exercisable</u>
\$0.43 - 0.80	5,143,513	2,749,013	8.30 years	\$ 0.56	\$ 0.55
\$0.81 - 1.35	1,837,836	1,462,836	7.31 years	\$ 0.93	\$ 0.96
\$1.36 - 6.25	744,000	744,000	6.85 years	\$ 1.96	\$ 1.96
	7,725,349	4,955,849			

US DATAWORKS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

9. Income Taxes

The tax effects of temporary differences that give rise to deferred taxes at March 31, 2007 were as follows:

Deferred tax assets:	
United States federal net operating loss carryforwards	\$ 9,302,322
Effect of state net operating loss carryforwards	820,793
Deferred Salaries	(3442)
Allowance for doubtful accounts	80,202
Accrued liabilities	24,444
Stock based compensation	239,533
Total deferred tax assets	10,463,852
Valuation allowance	(10,459,146)
Deferred tax assets	4,706
Deferred tax liability — Basis of property and equipment	(4,706)
Net deferred tax assets	\$ —

The valuation allowance increased by \$609,103 during the year ended March 31, 2007 and increased by \$159,194 during the year ended March 31, 2006. At March 31, 2007, the Company had approximately \$27,200,000 of federal net operating loss carryforwards attributable to losses incurred since the Company's inception that may be offset against future taxable income through 2026. Because United States tax laws and the tax laws of most states limit the time during which NOL carryforwards may be applied against future taxable income, the Company may be unable to take full advantage of its NOL for federal income tax purposes should the Company generate taxable income. Based on such limitations, the Company has significant NOL carryforwards for which realization of tax benefits is uncertain. Further, the benefit from utilization of NOL carryforwards could be subject to limitations if material ownership changes occur in the Company. For the years ended March 31, 2007 and 2006, the Company recognized revisions to deferred tax assets with offsetting revisions to the valuation allowance that resulted in an insignificant net change in the aggregate of total deferred tax assets less the valuation allowance.

Income tax expense differs from the amounts computed by applying the United States federal income tax rate of 34% to loss before income taxes as follows:

	<u>2007</u>	<u>2006</u>
Income tax benefit at federal statutory rate	34.0%	34.0%
Non-deductible interest expense from beneficial conversion feature and issuance of common stock and stock warrants	(2.1)	(7.2)
Non-deductible compensation and other expense arising from issuance of common stock and stock warrants	(7.2)	(2.6)
Change in allowance for doubtful accounts	(2.3)	
Change in the beginning-of-the-year balance of the valuation allowance for deferred tax assets allocated to income tax expense	(25.1)	(26.0)
State income taxes	3.0	3.0
Other	(0.3)	(1.2)
Total	<u>—%</u>	<u>—%</u>

10. Subsequent Events

Subsequent to the fiscal year end 2007 the Company entered into a lease agreement with Parkway Properties LP. The Company will move its executive offices to One Sugar Creek Center Blvd. Suite 500 Sugar Land, Texas, 77478. The Company will lease 18,790 square feet of office space starting in August 2007 and running through July 2012.

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

None.

Item 8A. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures* . We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-KSB, our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, have concluded that, as of that date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) *Changes in internal control over financial reporting* . There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with management’s evaluation during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 8B. Other Information

None.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16 (a) of the Exchange Act.

The information required by this Item 9 regarding our directors is incorporated by reference to the information contained in the section captioned “Election of Directors” in the Company’s definitive proxy statement for its 2007 annual meeting of stockholders that will be filed within 120 days of its year ended March 31, 2007, or the Proxy Statement.

The information required by this Item 9 regarding executive officers is incorporated by reference from the information contained in the section captioned “Executive Officers” included in Part I of this Annual Report on Form 10-KSB.

The information required by this Item 9 regarding our audit committee and audit committee financial expert is incorporated by reference from the information contained in the Proxy Statement.

The information required by this Item 9 regarding Section 16(a) Beneficial Ownership Reporting Compliance is incorporated by reference from the information contained in the section captioned “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement.

Code of Ethics

In April 2003, our Board of Directors adopted a Code of Business Conduct and Ethics governing all our officers, directors and employees. Our Code of Business Conduct and Ethics is available on our corporate website at <http://www.usdataworks.com> on the “Investor Relations” page under “Code of Business Conduct and Ethics.” We intend to disclose on our website any waivers or amendments to our Code of Business Conduct and Ethics within five business days of such action.

Item 10. Executive Compensation

The information required by this Item 10 is incorporated by reference from the sections captioned “Executive Compensation” in the Proxy Statement. The information required by this Item 10 regarding compensation of directors is incorporated by reference from the information contained in the section captioned “Director Compensation” in the Proxy Statement.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 11 is incorporated by reference from the information contained in the section captioned “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

Equity Compensation Plan Information

The following table sets forth certain information as to our equity compensation plans for fiscal 2007. All share amounts have been adjusted to reflect the one-for-five reverse stock split effective on September 29, 2003.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by the stockholders	6,565,349	\$ 0.74	1,034,651
Equity compensation plans not approved by the stockholders	1,160,000	\$ 1.02	—
Total	7,725,349	\$ 0.78	1,034,651

The Amended and Restated 2000 Stock Option Plan is our only equity compensation plan that has been approved by the stockholders. We have also granted non-statutory stock options to purchase shares of our common stock pursuant to stock option agreements. These grants were made outside of our 2000 Stock Option Plan. The exercise prices of these options were equal to the fair market value of our common stock on the

date of grant. These options vest over periods up to three years from the date of grant and have a duration of ten years (1,160,000). The exercise price may be paid in cash or by a net issuance.

Item 12. *Certain Relationships and Related Transactions*

The information required by this Item 12 is incorporated by reference from the information contained in the sections captioned “Certain Relationships and Related Transactions” and “Election of Directors” in the Proxy Statement.

Item 13. *Exhibits*

The exhibits listed below are required by Item 601 of Regulation S-B. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-KSB has been identified.

<u>Exhibit Number</u>	<u>Description of Document</u>
3(i).1	Articles of Incorporation of Sonicport.com, Inc. (incorporated by reference to Exhibit 3(i).1 to the Registrant’s Annual Report on Form 10-KSB for the year ended March 31, 2002).
3(i).2	Certificate of Designation of Series A Convertible Preferred Stock of Sonicport.com, Inc. (incorporated by reference to Exhibit 3.1(g) to the Registrant’s Annual Report on Form 10-KSB for the year ended March 31, 2000).
3(i).3	Certificate of Designation of Series B Convertible Preferred Stock of Sonicport.com, Inc. (incorporated by reference to Exhibit 3(1).3 to the Registrant’s Annual Report on Form 10-KSB for the year ended March 31, 2002).
3(i).4	Certificate of Amendment to Articles of Incorporation of Sonicport.com, Inc. (incorporated by reference to Exhibit 3.1(h) to the Registrant’s Annual Report on Form 10-KSB for the year ended March 31, 2001).
3(i).5	Certificate of Amendment to Articles of Incorporation of Sonicport, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant’s registration statement on Form S-3 filed May 14, 2002).
3(ii)	Amended and Restated Bylaws. (incorporated by reference to Exhibit 3(ii) to the Registrant’s Quarterly Report on Form 10-QSB for the quarter ended December 31, 2002).
4.1	Specimen common stock certificate. (incorporated by reference to Exhibit 4.1 to the Registrant’s Annual Report on Form 10-KSB for the year ended March 31, 2002).
4.2	Registration Rights Agreement dated as of June 30, 2003 between the Registrant and Icon Investors Ltd. (incorporated by reference to Exhibit 4.1 to the Registrant’s Current Report on Form 8-K, filed with the SEC on July 10, 2003).
4.3	Finder’s Fee and Piggyback Registration Rights Agreement dated June 30, 2003 between the Registrant and Bridgewater Capital (incorporated by reference to Exhibit 4.1 to the Registrant’s Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003.)
4.4	Registration Agreement dated September 30, 2003 between the Registrant and ACI Communications Holdings, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant’s Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).
4.5	1% Convertible Debenture (incorporated by reference to Exhibit 4.1 to the Registrant’s Current Report on Form 8-K filed October 9, 2003).
4.6	Form of Common Stock Purchase Agreement (incorporated by reference to Exhibit 4.2 to the Registrant’s Current Report on Form 8-K, filed with the SEC on October 9, 2003).
4.7	Registration Rights Agreement, dated as of October 2, 2003, by and among the Registrant and the signatories thereto (incorporated by reference to Exhibit 4.3 to the Registrant’s Current Report on Form 8-K, filed with the SEC on October 9, 2003).
4.8	Registration Rights Agreement, dated as of April 16, 2004, by and among the Registrant and the signatories thereto (incorporated by reference to Exhibit 4.1 to the Registrant’s Current Report on Form 8-K, filed with the SEC on May 20, 2004).
4.9	Registration Agreement dated as of November 12, 2004, between the Registrant and Peter Simons (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-3 (File No. 333-121951) filed by the Registrant on January 11, 2005).

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.10	Common Stock Purchase Warrant to purchase up to 160,000 shares of the Registrant Common Stock issued to Peter Simons (incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 (File No. 333-121951) filed by the Registrant on January 11, 2005).
4.11	Amended and Restated 10% Convertible Debenture issued by the Registrant for the benefit of Peter Simons dated effective September 15, 2006 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 17, 2005).
4.12	Common Stock Purchase Warrant to purchase up to 650,000 shares of the Registrant's Common Stock issued to Peter Simons (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on October 17, 2005).
4.13	Registration Agreement, dated as of September 15, 2005, between the Registrant and Peter Simons (incorporated by reference to Exhibit 4.3 the Registrant's Current Report on Form 8-K filed with the SEC on October 17, 2005).
4.14	Convertible Debenture issued by the Registrant for the benefit of Crescent International Ltd. dated June 17, 2005 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on June 22, 2005).
4.15	Short-Term Common Stock Purchase Warrant to purchase up to 407,926 shares of the Registrant's Common Stock issued to Crescent International Ltd. (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed with the SEC on June 22, 2005).
4.16	Long-Term Common Stock Purchase Warrant to purchase up to 471,154 shares of the Registrant's Common Stock issued to Crescent International Ltd. (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed with the SEC on June 22, 2005).
4.17	Registration Rights Agreement, dated as of June 17, 2005, by and between the Registrant and Crescent International Ltd. (incorporated by reference to Exhibit 4.5 to the Registrant's Current Report on Form 8-K filed with the SEC on June 22, 2005).
4.18	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on June 21, 2005).
4.19	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed with the SEC on June 21, 2005).
4.20	Registration Rights Agreement, dated June 16, 2005, by and among the Registrant and the signatories thereto (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed with the SEC on June 21, 2005).
4.21	Amendment to Convertible Debenture issued by the Registrant for the benefit of Crescent International Ltd. dated March 9, 2006 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 20, 2006).
4.22	Rights Agreement, dated July 24, 2003, by and between the Registrant and Corporate Stock Transfer (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on July 25, 2003).
4.23	Amendment No. 1 to Rights Agreement, dated December 29, 2006, by and between the Registrant and American Stock Transfer & Trust (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 5, 2007).
4.24	Stock Purchase Warrant issued on December 29, 2006 by and between the Registrant to the benefit of Hyundai Syscomm Corp. (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 5, 2007).
4.25	Registration Rights Agreement, dated December 29, 2006, by and between the Registrant and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on filed with the SEC on January 5, 2007).
10.1†	Amended and Restated 2000 Stock Option Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-102840)).
10.2†	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2003).

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.3	Lease Agreement dated as of November 18, 1997, by and between Allstate Dataworks, LLC and 5301 Hollister, L.P. (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.4	Second Addendum to Lease Contract dated as of October 28, 2000, by and between US Dataworks, Inc., a Delaware corporation, and 5301 Hollister, L.P. (incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.5	Fourth Amendment to Lease Agreement dated as of May 14, 2002 by and between the Registrant and MLCV Hollister LP. (incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.6	Form of Warrant Agreement between the Registrant and each of Messrs. Cooper, Shapiro, Stepanik and Villarreal (incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.7	Form of Warrant Agreement. (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.8	Form of Convertible Promissory Note (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.9	Warrant Agreement for Common Stock of Sonicport, Inc. dated as of January 21, 2002, by and between the Registrant and Red Rock Bridge Fund, L.L.C. (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.10	Convertible Secured Promissory Note dated as of January 21, 2002, by and between the Registrant and Red Rock Bridge Fund, L.L.C. (incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.11	Form of Promissory Note between the Registrant and each of David Baeza and Stanton Dodson. (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.12†	Form of Stock Option Agreement (incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S — 8 (File No. 333-102842)).
10.13†	Form of Director Stock Option Agreement (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2003).
10.14	Note and Warrant Purchase Agreement by and among the Registrant, Charles E. Ramey and LaJolla Cove LA Investors, Inc., dated June 6, 2003 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.15	Form of Warrant Agreement between the Registrant and La Jolla Cove LA Investors, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.16	Convertible Debenture and Warrant Agreement dated June 30, 2003 by and between the Registrant and Societe Financiere Privee, S.A. (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.17	Warrant Agreement dated June 30, 2003 between the Registrant and Societe Financiere Privee, S.A. (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.18	Warrant Agreement dated July 10, 2003 between the Registrant and Charles E. Ramey (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.19	Subordinated Convertible Note and Warrant Agreement dated July 10, 2003 between the Registrant and Charles E. Ramey (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.20	Venison Warrant Agreement dated June 25, 2003 between the Registrant and Barry Venison (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.21	Voting Agreement dated June 30, 2003 between the Registrant and Societe Financiere Privee, S.A. (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.22	Form of 8% Subordinated Promissory Note dated June 6, 2003 between the Registrant and La Jolla Cove Investors, Inc. (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.23	5% Convertible Debenture between the Registrant and Societe Financiere Privee, S.A. (incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.24	Convertible Subordinated Promissory Note dated July 10, 2003 between the Registrant and Charles Ramey. (incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.25	8% Convertible Promissory Note between the Registrant and Barry Venison. (incorporated by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.26	Form of Note and Warrant Conversion Agreement dated June 25, 2003 between the Registrant and Barry Venison, Brad Friedel, John Barnes and Darren Ridge (incorporated by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.27	Form of replacement Warrant Agreement between the Registrant and each of Barry Venison, Brad Friedel, John Barnes and Darren Ridge. (incorporated by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.28	Promissory Note dated December 31, 2002 between the Registrant and ACI Communications holdings, Inc. f/k/a/ AllState Communications, Inc. . (incorporated by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.29	Amendment No. 1 to Settlement Agreement dated December 31, 2002 between the Registrant, Frank Montelione, Russel Leventhal, ACI Communications Holdings, Inc. f/k/a/AllState Communications, Inc. (incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.30	Security Agreement dated December 31, 2002 between the Registrant and ACI Communications Holdings, Inc. f/k/a/ AllState Communications Inc. (incorporated by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.31†	Nonstatutory Stock Option Agreement dated May 21, 2003 between the Registrant and Mario Villarreal. (incorporated by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.32†	Nonstatutory Stock Option Agreement dated May 21, 2003 between the Registrant and Terry E. Stepanik. (incorporated by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.33†	Employment Agreement dated April 2, 2003 between the Registrant and Terry Stepanik (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly report on Form 10-QSB for the quarter ended September 30, 2003).
10.34†	Employment Agreement dated April 2, 2003 between the Registrant and Mario Villarreal (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly report on Form 10-QSB for the quarter ended September 30, 2003).
10.35†	Employment Agreement dated May 13, 2003 between the Registrant and Charles E. Ramey (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly report on Form 10-QSB for the quarter ended September 30, 2003).
10.36†	Employment Agreement dated April 2, 2003 between the Registrant and John J. Figone (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly report on Form 10-QSB for the quarter ended September 30, 2003).
10.37†	Form of Nonstatutory Stock Option Agreement (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.38	Common Stock Purchase and Warrant Agreement dated September 30, 2003 between the Registrant and ACI Communications Holdings, Inc. (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).
10.39	Form of Common Stock Purchase and Warrant Agreement between the Registrant and ACI Communications Holdings, Inc. (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).
10.40	Advisory Agreement dated June 6, 2003 between the Registrant and Merriman Curhan Ford & Co. (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).
10.41	Advisory Agreement dated July 2, 2003 between the Registrant and Merriman Curhan Ford & Co. (incorporated by reference to Exhibit 10.42 to the Registrant's Registration Statement on Form SB-2/A filed November 26, 2003 (File No. 333-108536)).
10.42	Common Stock Purchase and Warrant Agreement dated as of October 2, 2003 between the Registrant and the signatories thereto (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed October 9, 2003).
10.43	Convertible Debenture and Warrant Agreement dated as of October 2, 2003 between the Registrant and John Winfield IRA (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed October 9, 2003).
10.44	Securities Purchase Agreement, dated as of April 16, 2004, by and among the Registrant and the signatories thereto (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 20, 2004).
10.45	Form of Series A Common Stock Purchase Warrant (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 20, 2004).
10.46	Form of Series B Common Stock Purchase Warrant (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 20, 2004).
10.47	Settlement & Release Agreement, dated as of April 26, 2004, by and between the Registrant and Icon Investors, Ltd. (incorporated by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 20, 2004).
10.48†	Additional Compensation Agreement made and effective as of April 12, 2004, by and between the Company and John S. Reiland (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004).
10.49	Settlement Agreement and Mutual Release dated November 12, 2004, by and between the Registrant and Peter Simons (incorporated by reference to Exhibit 99.1 to Registration Statement on Form S-3 (File No. 333-121951) filed by the Registrant on January 11, 2005).
10.50	Amended Warrants Agreement dated December 6, 2004 (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on December 8, 2004).
10.51	First Amendment to Amended Warrants Agreement dated December 9, 2004 (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on December 13, 2004).
10.52	Schedule Number 1 to Master License Agreement, dated July 22, 2005, by and between the Registrant and American Express Travel Related Services Company (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2007).
10.53	Master License Agreement, effective as of October 15, 1999, by and between the Registrant and American Express Travel Related Services Company (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2007).
10.54	Amendment Agreement, dated as of December 28, 2006, by and between the Registrant and Crescent International Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2006).
10.55	Stock Purchase Agreement, dated December 29, 2006, by and between the Registrant and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 5, 2007).

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.56	First Amendment to the Stock Purchase Agreement and the Escrow Agreement, dated February 13, 2007, by and between the Company and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on February 20, 2007).
10.57	Second Amendment to the Stock Purchase Agreement and the Escrow Agreement, dated March 22, 2007, by and between the Company and Hyundai Syscomm Corp.
10.58	Software Integration and Resale Agreement, dated December 29, 2006, by and between the Registrant and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 5, 2007).
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on signature page).
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer or person performing similar functions.
32.1	Section 906 Certification of Chief Executive Officer.
32.2	Section 906 Certification of Chief Financial Officer or person performing similar functions.

† Indicates management contract or compensatory plan or arrangement.

Item 14. *Principal Accountant Fees and Services*

The information required by this Item 14 is incorporated by reference from the information contained in the section captioned "Principal Accounting Fees and Services" and "Audit Committee Pre-Approval Policies" in the Proxy Statement.

SIGNATURES

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

US DATAWORKS, INC.

By: /s/ CHARLES E. RAMEY

 Charles E. Ramey
 Chief Executive Officer

Date: June 29, 2007

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Charles E. Ramey and John McLaughlin, and each of them, his true and lawful attorneys-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any amendments to this report on KSB and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
/s/ CHARLES E. RAMEY _____ Charles E. Ramey	Chief Executive Officer (Principal Executive Officer) and Director	June 29, 2007
/s/ JOHN T. McLAUGHLIN _____ John T. McLaughlin	Chief Accounting Officer (Principal Accounting Officer)	June 29, 2007
/s/ JOE ABRELL _____ Joe Abrell	Director	June 29, 2007
/s/ J. PATRICK MILLINOR _____ J. Patrick Millinor	Director	June 29, 2007
/s/ JOHN L. NICHOLSON, M.D. _____ John L. Nicholson, M.D.	Director	June 29, 2007
/s/ TERRY STEPANIK _____ Terry Stepanik	Director	June 29, 2007
/s/ HAYDEN D. WATSON _____ Hayden D. Watson	Director	June 29, 2007
/s/ THOMAS L. WEST, JR. _____ Thomas L. West, Jr.	Director	June 29, 2007

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>
3(i).1	Articles of Incorporation of Sonicport.com, Inc. (incorporated by reference to Exhibit 3(i).1 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
3(i).2	Certificate of Designation of Series A Convertible Preferred Stock of Sonicport.com, Inc. (incorporated by reference to Exhibit 3.1(g) to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2000).
3(i).3	Certificate of Designation of Series B Convertible Preferred Stock of Sonicport.com, Inc. (incorporated by reference to Exhibit 3(1).3 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
3(i).4	Certificate of Amendment to Articles of Incorporation of Sonicport.com, Inc. (incorporated by reference to Exhibit 3.1(h) to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2001).
3(i).5	Certificate of Amendment to Articles of Incorporation of Sonicport, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's registration statement on Form S-3 filed May 14, 2002).
3(ii)	Amended and Restated Bylaws. (incorporated by reference to Exhibit 3(ii) to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2002).
4.1	Specimen common stock certificate. (incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
4.2	Registration Rights Agreement dated as of June 30, 2003 between the Registrant and Icon Investors Ltd. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on July 10, 2003).
4.3	Finder's Fee and Piggyback Registration Rights Agreement dated June 30, 2003 between the Registrant and Bridgewater Capital (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003.)
4.4	Registration Agreement dated September 30, 2003 between the Registrant and ACI Communications Holdings, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).
4.5	1% Convertible Debenture (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed October 9, 2003).
4.6	Form of Common Stock Purchase Agreement (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on October 9, 2003).
4.7	Registration Rights Agreement, dated as of October 2, 2003, by and among the Registrant and the signatories thereto (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K, filed with the SEC on October 9, 2003).
4.8	Registration Rights Agreement, dated as of April 16, 2004, by and among the Registrant and the signatories thereto (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 20, 2004).
4.9	Registration Agreement dated as of November 12, 2004, between the Registrant and Peter Simons (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-3 (File No. 333-121951) filed by the Registrant on January 11, 2005).
4.10	Common Stock Purchase Warrant to purchase up to 160,000 shares of the Registrant Common Stock issued to Peter Simons (incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 (File No. 333-121951) filed by the Registrant on January 11, 2005).
4.11	Amended and Restated 10% Convertible Debenture issued by the Registrant for the benefit of Peter Simons dated effective September 15, 2006 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 17, 2005).
4.12	Common Stock Purchase Warrant to purchase up to 650,000 shares of the Registrant's Common Stock issued to Peter Simons (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on October 17, 2005).
4.13	Registration Agreement, dated as of September 15, 2005, between the Registrant and Peter Simons (incorporated by reference to Exhibit 4.3 the Registrant's Current Report on Form 8-K filed with the SEC on October 17, 2005).

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.14	Convertible Debenture issued by the Registrant for the benefit of Crescent International Ltd. dated June 17, 2005 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on June 22, 2005).
4.15	Short-Term Common Stock Purchase Warrant to purchase up to 407,926 shares of the Registrant's Common Stock issued to Crescent International Ltd. (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed with the SEC on June 22, 2005).
4.16	Long-Term Common Stock Purchase Warrant to purchase up to 471,154 shares of the Registrant's Common Stock issued to Crescent International Ltd. (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed with the SEC on June 22, 2005).
4.17	Registration Rights Agreement, dated as of June 17, 2005, by and between the Registrant and Crescent International Ltd. (incorporated by reference to Exhibit 4.5 to the Registrant's Current Report on Form 8-K filed with the SEC on June 22, 2005).
4.18	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on June 21, 2005).
4.19	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed with the SEC on June 21, 2005).
4.20	Registration Rights Agreement, dated June 16, 2005, by and among the Registrant and the signatories thereto (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed with the SEC on June 21, 2005).
4.21	Amendment to Convertible Debenture issued by the Registrant for the benefit of Crescent International Ltd. dated March 9, 2006 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 20, 2006).
4.22	Rights Agreement, dated July 24, 2003, by and between the Registrant and Corporate Stock Transfer (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on July 25, 2003).
4.23	Amendment No. 1 to Rights Agreement, dated December 29, 2006, by and between the Registrant and American Stock Transfer & Trust (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 5, 2007).
4.24	Stock Purchase Warrant issued on December 29, 2006 by and between the Registrant to the benefit of Hyundai Syscomm Corp. (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 5, 2007).
4.25	Registration Rights Agreement, dated December 29, 2006, by and between the Registrant and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on filed with the SEC on January 5, 2007).
10.1†	Amended and Restated 2000 Stock Option Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-102840)).
10.2†	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2003).
10.3	Lease Agreement dated as of November 18, 1997, by and between Allstate Dataworks, LLC and 5301 Hollister, L.P. (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.4	Second Addendum to Lease Contract dated as of October 28, 2000, by and between US Dataworks, Inc., a Delaware corporation, and 5301 Hollister, L.P. (incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.5	Fourth Amendment to Lease Agreement dated as of May 14, 2002 by and between the Registrant and MLCV Hollister LP. (incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.6	Form of Warrant Agreement between the Registrant and each of Messrs. Cooper, Shapiro, Stepanik and Villarreal (incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.7	Form of Warrant Agreement. (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.8	Form of Convertible Promissory Note (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.9	Warrant Agreement for Common Stock of Sonicport, Inc. dated as of January 21, 2002, by and between the Registrant and Red Rock Bridge Fund, L.L.C. (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.10	Convertible Secured Promissory Note dated as of January 21, 2002, by and between the Registrant and Red Rock Bridge Fund, L.L.C. (incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.11	Form of Promissory Note between the Registrant and each of David Baeza and Stanton Dodson. (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2002).
10.12†	Form of Stock Option Agreement (incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S — 8 (File No. 333-102842)).
10.13†	Form of Director Stock Option Agreement (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-KSB for the year ended March 31, 2003).
10.14	Note and Warrant Purchase Agreement by and among the Registrant, Charles E. Ramey and LaJolla Cove LA Investors, Inc., dated June 6, 2003 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.15	Form of Warrant Agreement between the Registrant and La Jolla Cove LA Investors, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.16	Convertible Debenture and Warrant Agreement dated June 30, 2003 by and between the Registrant and Societe Financiere Privee, S.A. (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.17	Warrant Agreement dated June 30, 2003 between the Registrant and Societe Financiere Privee, S.A. (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.18	Warrant Agreement dated July 10, 2003 between the Registrant and Charles E. Ramey (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.19	Subordinated Convertible Note and Warrant Agreement dated July 10, 2003 between the Registrant and Charles E. Ramey (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.20	Venison Warrant Agreement dated June 25, 2003 between the Registrant and Barry Venison (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.21	Voting Agreement dated June 30, 2003 between the Registrant and Societe Financiere Privee, S.A. (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.22	Form of 8% Subordinated Promissory Note dated June 6, 2003 between the Registrant and La Jolla Cove Investors, Inc. (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.23	5% Convertible Debenture between the Registrant and Societe Financiere Privee, S.A. (incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.24	Convertible Subordinated Promissory Note dated July 10, 2003 between the Registrant and Charles Ramey. (incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.25	8% Convertible Promissory Note between the Registrant and Barry Venison. (incorporated by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.26	Form of Note and Warrant Conversion Agreement dated June 25, 2003 between the Registrant and Barry Venison, Brad Friedel, John Barnes and Darren Ridge (incorporated by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.27	Form of replacement Warrant Agreement between the Registrant and each of Barry Venison, Brad Friedel, John Barnes and Darren Ridge. (incorporated by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.28	Promissory Note dated December 31, 2002 between the Registrant and ACI Communications holdings, Inc. f/k/a/ AllState Communications, Inc. . (incorporated by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.29	Amendment No. 1 to Settlement Agreement dated December 31, 2002 between the Registrant, Frank Montelione, Russel Leventhal, ACI Communications Holdings, Inc. f/k/a/AllState Communications, Inc. (incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.30	Security Agreement dated December 31, 2002 between the Registrant and ACI Communications Holdings, Inc. f/k/a/ AllState Communications Inc. (incorporated by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.31†	Nonstatutory Stock Option Agreement dated May 21, 2003 between the Registrant and Mario Villarreal. (incorporated by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.32†	Nonstatutory Stock Option Agreement dated May 21, 2003 between the Registrant and Terry E. Stepanik. (incorporated by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003).
10.33†	Employment Agreement dated April 2, 2003 between the Registrant and Terry Stepanik (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly report on Form 10-QSB for the quarter ended September 30, 2003).
10.34†	Employment Agreement dated April 2, 2003 between the Registrant and Mario Villarreal (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly report on Form 10-QSB for the quarter ended September 30, 2003).
10.35†	Employment Agreement dated May 13, 2003 between the Registrant and Charles E. Ramey (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly report on Form 10-QSB for the quarter ended September 30, 2003).
10.36†	Employment Agreement dated April 2, 2003 between the Registrant and John J. Figone (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly report on Form 10-QSB for the quarter ended September 30, 2003).
10.37†	Form of Nonstatutory Stock Option Agreement (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).
10.38	Common Stock Purchase and Warrant Agreement dated September 30, 2003 between the Registrant and ACI Communications Holdings, Inc. (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).
10.39	Form of Common Stock Purchase and Warrant Agreement between the Registrant and ACI Communications Holdings, Inc. (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).
10.40	Advisory Agreement dated June 6, 2003 between the Registrant and Merriman Curhan Ford & Co. (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).
10.41	Advisory Agreement dated July 2, 2003 between the Registrant and Merriman Curhan Ford & Co. (incorporated by reference to Exhibit 10.42 to the Registrant's Registration Statement on Form SB-2/A filed November 26, 2003 (File No. 333-108536)).
10.42	Common Stock Purchase and Warrant Agreement dated as of October 2, 2003 between the Registrant and the signatories thereto (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed October 9, 2003).

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.43	Convertible Debenture and Warrant Agreement dated as of October 2, 2003 between the Registrant and John Winfield IRA (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed October 9, 2003).
10.44	Securities Purchase Agreement, dated as of April 16, 2004, by and among the Registrant and the signatories thereto (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 20, 2004).
10.45	Form of Series A Common Stock Purchase Warrant (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 20, 2004).
10.46	Form of Series B Common Stock Purchase Warrant (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 20, 2004).
10.47	Settlement & Release Agreement, dated as of April 26, 2004, by and between the Registrant and Icon Investors, Ltd. (incorporated by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 20, 2004).
10.48†	Additional Compensation Agreement made and effective as of April 12, 2004, by and between the Company and John S. Reiland (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004).
10.49	Settlement Agreement and Mutual Release dated November 12, 2004, by and between the Registrant and Peter Simons (incorporated by reference to Exhibit 99.1 to Registration Statement on Form S-3 (File No. 333-121951) filed by the Registrant on January 11, 2005).
10.50	Amended Warrants Agreement dated December 6, 2004 (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on December 8, 2004).
10.51	First Amendment to Amended Warrants Agreement dated December 9, 2004 (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on December 13, 2004).
10.52	Schedule Number 1 to Master License Agreement, dated July 22, 2005, by and between the Registrant and American Express Travel Related Services Company (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2007).
10.53	Master License Agreement, effective as of October 15, 1999, by and between the Registrant and American Express Travel Related Services Company (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2007).
10.54	Amendment Agreement, dated as of December 28, 2006, by and between the Registrant and Crescent International Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2006).
10.55	Stock Purchase Agreement, dated December 29, 2006, by and between the Registrant and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 5, 2007).
10.56	First Amendment to the Stock Purchase Agreement and the Escrow Agreement, dated February 13, 2007, by and between the Company and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on February 20, 2007).
10.57	Second Amendment to the Stock Purchase Agreement and the Escrow Agreement, dated March 22, 2007, by and between the Company and Hyundai Syscomm Corp.
10.58	Software Integration and Resale Agreement, dated December 29, 2006, by and between the Registrant and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 5, 2007).
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on signature page).
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer or person performing similar functions.
32.1	Section 906 Certification of Chief Executive Officer.
32.2	Section 906 Certification of Chief Financial Officer or person performing similar functions.

† Indicates management contract or compensatory plan or arrangement.

Second Amendment to the
Stock Purchase Agreement

THIS AMENDMENT ("Amendment") hereby amends that certain Stock Purchase Agreement, entered by and between Hyundai Syscomm Corp., a California corporation ("Hyundai") and US Dataworks, Inc., a Nevada corporation ("UDW"), dated December 29, 2006, and as amended on February 13, 2007, and all Exhibits and schedules attached thereto (collectively, the "Stock Purchase Agreement"), in the following manner:

- I. In each of Sections 1.3.1, 1.3.3 and 1.3.4, replace "Upon the Escrow Agent's receipt of the Purchase Money, which shall not be later than March 26, 2007" with "Upon the Escrow Agent's receipt the Purchase Money, pursuant to the Stock Purchase Agreement, as amended".
- II. In Section 3 of the Escrow Agreement (as such term is defined in the Stock Purchase Agreement) replace "Not later than March 26, 2007" with "Upon the Escrow Agent's receipt the Purchase Money, pursuant to the Stock Purchase Agreement, as amended".
- III. Exhibit A, Software Integration and Resale Agreement, amend Section 3.1.1 as follows:
 - 3.1.1.1. **The Inaugural Sale of 700 Units.**
 - 3.1.1.1.1. UDW shall sell seven hundred (700) ATM Dispenser units to Hyundai RFmon Corp. ("Buyer"), a wholly-owned subsidiary of Hyundai, for the total sales price of Three Million Five Hundred Thousand Dollars (US \$3,500,000), in accordance with Purchase Order Nr. UDWI 2007 US001, attached hereto as Exhibit 1 (the "Purchase Order").
 - 3.1.1.1.2. UDW and Hyundai hereby agree that the Purchase Money shall be paid not as originally contemplated by Hyundai delivering the Purchase Money to the Escrow Agent on March 26, 2007, but rather by: (i) Hyundai paying US\$740,744 ("Advance Payment") to the manufacturer of the Machines, Hyundai Syscomm, Inc., a South Korea corporation ("Manufacturer"), on behalf of UDW with no obligation of UDW to repay or reimburse Hyundai for such Advance Payment.
 - 3.1.1.1.3. The Advance Payment shall be recognized as a UDW cost of goods sold, for which UDW shall be reimbursed US\$740,744 from the sale proceeds of the Machines, before the calculation of Gross Profits, pursuant to the Stock Purchase Agreement. Further, Hyundai shall forgo the next US\$759,256 of its share of Gross Profits to be received from the Purchase Order, and subsequent purchase orders, until an aggregate amount (including the reimbursed Advance Payment) equaling US\$1,500,000 has been paid to UDW. In other words, in lieu of paying the Purchase Money to the Escrow Agent, Hyundai will not share in any Gross Profits recognized by UDW until UDW: (i) is reimbursed US\$740,744 from the sales proceeds received from the Purchase Order, and (ii) has retained an additional US\$759,256 from what, but for this

Amendment, would have been Hyundai's share of Gross Profits from the sale by UDW of Machines to Buyer under the Purchase Order and from subsequent sales/transactions.

3.1.1.4. For all purposes of the Escrow Agreement and the Purchase Agreement, the receipt by UDW of the US\$1,500,000 benefit contemplated by Section 3.1.1.3 shall constitute receipt by the Escrow Agent of the Purchase Money and disbursement of the Purchase Money to UDW.

3.1.1.5. Upon payment to UDW of an aggregate amount of not less than US\$1,500,000, as provided in subsection 3.1.1.3, the Escrow Agreement shall terminate and the Escrow Agent shall deliver the 6,100,000 Escrow Shares (as defined in the Stock Purchase Agreement) to Hyundai.

3.1.1.6. UDW shall deliver to the Manufacturer a purchase order, substantially in the form attached hereto as Exhibit 2 in the amount of US\$2,592,604, of which US\$740,744 of this amount shall be offset by the Advance Payment.

IV. All other terms and conditions of the Stock Purchase Agreement and the Escrow Agreement shall remain unchanged.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

UDW

Hyundai

US Dataworks, Inc.

Hyundai Syscomm Corp.

By: /s/ Charles E. Ramey
Charles E. Ramey
Chief Executive Officer

By: /s/ Samuel Lee
Samuel Lee
Chairman of the Board

Date: 3/22/07

Date: 3/22/07

Exhibit 1
Buyer Purchase Order

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-132379, 333-126984, 333-121951, 333-116134, 333-114307 and 333-88198) and on Form S-8 (Nos. 333-130986, 333-117740, 333-117731, 333-102840 and 333-102842) of US Dataworks, Inc. of our report dated June 28, 2007 relating to the financial statements as of March 31, 2007 and for each of the two years in the period ended March 31, 2007, which appears in this Form 10-KSB.

/s/ Ham, Langston & Brezina, LLP

Ham, Langston & Brezina, LLP
Houston, Texas

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Charles E. Ramey, certify that:

1. I have reviewed this annual report on Form 10-K of US Dataworks, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation;
 - c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant's ability to record, process, summarize and report financial data; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 29, 2007

/s/ Charles E. Ramey
Charles E. Ramey,
Chief Executive Officer

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John T. McLaughlin, certify that:

1. I have reviewed this annual report on Form 10-KSB of US Dataworks, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation;
 - c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant's ability to record, process, summarize and report financial data; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 29, 2007

/s/ John T. McLaughlin
John T. McLaughlin,
Chief Accounting Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES— OXLEY ACT OF 2002 (18 U.S.C. § 1350)**

I, Charles E. Ramey, of US Dataworks, Inc. certify pursuant to section 906 of the Sarbanes-Oxley Act of 2002 that:

(i) the Annual Report on Form 10-KSB for the fiscal year ended March 31, 2007 (the “Report”), which this statement accompanies fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of US Dataworks, Inc.

Dated: June 29, 2007

/s/ Charles E. Ramey

Charles E. Ramey
Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES— OXLEY ACT OF 2002 (18 U.S.C. § 1350)**

I, John T. McLaughlin, of US Dataworks, Inc. certify pursuant to section 906 of the Sarbanes-Oxley Act of 2002 that:

(i) the Annual Report on Form 10-KSB for the fiscal year ended March 31, 2007 (the "Report"), which this statement accompanies fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of US Dataworks, Inc.

Dated: June 29, 2007

/s/ John T. McLaughlin

John T. McLaughlin
Chief Accounting Officer