

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

FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2005

Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from _____ to _____

Commission file number 1-8086

General DataComm Industries, Inc.

(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware

06-0853856

(State of Other Jurisdiction of
Incorporation or Organization)

I.R.S. employer
Identification No.)

6 Rubber Avenue, Naugatuck, CT 06770

(Address of Principal Executive Officers)

203-729-0271

(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed
Since Last Report)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN
BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12,13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUER

State the number of shares outstanding of each of the issuer's classes of common equity, as of April 29, 2005:

3,328,872 shares of Common Stock
664,978 shares of Class B Stock

Transitional Small Business Disclosure Format (check one): Yes No

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GENERAL DATACOMM INDUSTRIES, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

General DataComm Industries, Inc.
Condensed Consolidated Balance Sheets
(in thousands except shares)

<TABLE>
<CAPTION>

	March 31, 2005 (Unaudited)	September 30, 2004*
<S>	<C>	<C>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 933	\$ 586
Accounts receivable, less allowance for doubtful accounts of \$641 at March 31, 2005 and \$586 at September 30, 2004	1,575	2,136
Note receivable	2,748	11
Inventories	3,279	4,110
Other current assets	516	216
Total current assets	9,051	7,059
Property, plant and equipment, net	4,112	4,205
Total Assets	\$ 13,163	\$ 11,264
Liabilities and Stockholders' Deficit:		
Current liabilities:		
Current portion of long-term debt (\$1,600 owed to related parties)	\$ 35,666	\$ 37,281
Accounts payable	1,622	1,662
Accrued payroll and payroll-related costs	371	271
Accrued interest	4,114	2,777
Other current liabilities	5,481	6,006
Total current liabilities	47,254	47,997
Long-term debt, less current portion	--	--
Other liabilities	999	1,301
Total Liabilities	48,253	49,298
Commitments and contingencies	--	--
Stockholders' deficit:		
Preferred stock, par value \$1.00 per share, 2,000,000 shares authorized, none outstanding	--	--
9% Preferred stock, par value \$1.00 per share, 800,000 shares authorized, 787,900 shares issued and outstanding; \$28.1 million liquidation preference at March 31, 2005	788	788
Class B common stock, par value \$.01 per share, 5,000,000 shares authorized; 664,978 shares issued and outstanding	7	7
Common stock, par value \$.01 per share, 25,000,000 shares authorized 3,328,872 shares issued	33	33
Capital in excess of par value	198,433	198,433
Accumulated deficit	(234,206)	(237,150)
Common stock held in treasury, at cost; 1,961 shares	(145)	(145)
Total Stockholders' Deficit	(35,090)	(38,034)
Total Liabilities and Stockholders' Deficit	\$ 13,163	\$ 11,264

</TABLE>

* Derived from the Company's audited consolidated balance sheet at September 30, 2004.

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

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General DataComm Industries, Inc.
Condensed Consolidated Statements of Operations (Unaudited)
(in thousands except share data)

<TABLE>
<CAPTION>

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>
Revenues	\$ 3,360	\$ 4,094	\$ 7,227	\$ 9,195
Cost of revenues	1,294	1,696	2,875	3,875
Gross margin	2,066	2,398	4,352	5,320
Operating expenses:				
Selling, general and administrative	1,079	1,693	2,335	3,602
Research and product development	534	687	1,080	1,454
	1,613	2,380	3,415	5,056
Operating income	453	18	937	264
Other income (expense):				
Interest expense	(869)	(886)	(1,741)	(1,790)
Gain on sale of minority interest	--	--	300	--
Recovery on note receivable	2,748	--	2,748	--
Other, net	55	41	96	137
	1,934	(845)	1,403	(1,653)
Income (loss) before reorganization items and income taxes	2,387	(827)	2,340	(1,389)
Reorganization items:				
Claims reductions	101	1,330	246	1,330
Income (loss) before income taxes	2,488	503	2,586	(59)
Income tax provision (benefit)	(364)	6	(358)	11
Net income (loss)	2,852	497	2,944	(70)
Less: dividends applicable to preferred stock	(443)	(443)	(886)	(894)
Net income (loss) applicable to common and Class B Stock	\$ 2,409	\$ 54	\$ 2,058	\$ (964)
Earnings (Loss) Per Share:				
Basic - common stock	\$ 0.62	\$ 0.01	\$ 0.53	\$ (0.24)
Basic - Class B stock	\$ 0.56	\$ 0.01	\$ 0.47	\$ (0.24)
Diluted	\$ 0.39	\$ 0.01	\$ 0.35	\$ (0.24)
Weighted average number of common and Class B shares outstanding:				
Basic	3,983,017	3,968,850	3,975,855	3,963,668
Diluted	6,263,582	4,162,687	6,016,963	3,963,668

</TABLE>

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

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General DataComm Industries, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

<TABLE>
<CAPTION>

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>
Cash flows from operating activities:				
Net income (loss)	\$ 2,852	\$ 497	\$ 2,944	\$ (70)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	52	49	120	94
Gain on claim reductions	(101)	(1,330)	(246)	(1,330)
Reduction in note receivable reserve	(2,748)	--	(2,748)	--
Reduction in reserve for foreign income taxes	(369)	--	(369)	--
Changes in:				
Accounts receivable	856	313	561	(281)
Inventories	185	86	831	164
Accounts payable	124	159	67	109
Accrued payroll and payroll-related costs	3	(185)	100	(360)
Other net current liabilities	(89)	(285)	875	1
Other net long-term assets	39	643	(157)	928
Net cash provided (used) by operating activities	804	(53)	1,978	(745)
Cash flows from investing activities:				
Acquisition of property, plant and equipment, net	(12)	(14)	(12)	(29)
Note receivable collections	--	--	11	111
Net cash provided (used) by investing activities	(12)	(14)	(1)	82
Cash flows from financing activities:				
Proceeds from notes payable to related parties	--	500	--	1,100
Proceeds from notes payable	214	--	214	--
Principal payments on term obligation	(794)	(823)	(1,844)	(1,877)
Net cash used by financing activities	(580)	(323)	(1,630)	(777)
Net increase (decrease) in cash and cash equivalents	212	(390)	347	(1,440)
Cash and cash equivalents, beginning of period	721	1,388	586	2,438
Cash and cash equivalents, end of period	933	\$ 998	\$ 933	\$ 998
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	\$ 189	\$ 244	\$ 424	\$ 501
Income and franchise taxes	\$ 42	\$ 1	\$ 45	\$ 17
Reorganization items	\$ 17	\$ 160	\$ 230	\$ 413

</TABLE>

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

GENERAL DATACOMM INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation and Liquidity

The accompanying unaudited interim condensed consolidated financial statements of General DataComm Industries, Inc. (the "Company" or "GDC") have been prepared on a going concern basis, in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for year end financial statements. In the opinion of management, these statements include all adjustments, consisting of normal and recurring adjustments, considered necessary for a fair presentation of the results for the periods presented. The results of operations for the periods presented are not necessarily indicative of results which may be achieved for the entire fiscal year ending September 30, 2005. The unaudited interim condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2004 as filed with the Securities and Exchange Commission.

On November 2, 2001, General DataComm Industries, Inc. and its domestic subsidiaries ("the Debtors") filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Company continued in possession of its properties and the management of its business as debtors in possession.

Leading up to its Chapter 11 Bankruptcy filing on November 2, 2001, the Company had experienced financial losses and resulting covenant defaults on its secured loans. In addition, the Company had sold three divisions comprising a significant portion of its business, in an effort to improve its debt and liquidity position. However, because of a general economic downturn and a depressed demand for high-technology products and businesses in particular, and defaults in payments by the purchasers, the Company was unable to realize a level of immediate proceeds in order to satisfy its secured lenders and provide adequate liquidity to fund continuing operations. Therefore, the Company sought protection from its creditors with its bankruptcy filing.

During the fiscal year ended September 30, 2002, and in the aftermath of the sales of its business units, the Company consolidated its remaining operations into its owned facility in Naugatuck, Connecticut and downsized its staff and operating assets to more properly reflect its reduced operating requirements.

The Company emerged from Chapter 11 effective on September 15, 2003 pursuant to a court-approved plan of reorganization. Under this plan, the Company intends to pay all creditors 100% of their allowed claims based upon a five year business plan. However, the Company cannot assure its investors that it will be able to obtain new customers or to generate the increase in revenues required to meet its business plan objectives. The Company has generally experienced declining revenues since emerging from Chapter 11.

The Company has virtually no current ability to borrow additional funds. It must, therefore, fund operations from cash balances and cash generated from operating activities. The Company has significant short term obligations including payment of bankruptcy-related and other professional fees, delinquent property taxes and monthly payments of principal and interest (currently such monthly principal and interest totals approximately \$290,000) under its senior loan agreement. In fiscal 2004 the Company borrowed \$1.6 million from related

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parties in order to meet its current payment obligations (see Note 4). Furthermore, the Company has significant outstanding future obligations as shown in the accompanying condensed consolidated balance sheet at March 31, 2005. In order to meet these and other future payments the Company must achieve revenue growth while at the same time limiting investments in inventories and capital assets.

The Company's failure to make required payments under its loan agreement would constitute an event of default. In addition, the Company is required to maintain a minimum level of EBITDA (earnings before interest, taxes, depreciation and amortization) each quarter to avoid an event of default (see Note 4) and was required to obtain a waiver for the period ended September 30, 2004 in order to avoid an event of default. The Company's quarterly operating results are subject to fluctuation due to a number of factors resulting in more variability and less predictability in the Company's quarter-to-quarter sales and operating results. Such factors include (but are not limited to): dependence on a small number of customers, short delivery times, dependence on subcontract manufacturers, low order backlog, ability to timely develop new products and market acceptance of new products. As mentioned above, the Company did not meet the EBITDA financial covenant for the period ended September 30, 2004 and received a waiver for such period. The Company's calculations for the subsequent periods ended December 31, 2004 and March 31, 2005 show that the Company was in compliance with the financial covenant and management anticipates that the Company will remain in compliance in the June 30, 2005 quarter and beyond. However, there can be no assurance that the Company will be able to avoid an event of default on the loan agreement. If there is such a default, the senior secured lenders may accelerate payment of the outstanding debt (\$12.0 million at March 31, 2005) and exercise their security interests, which likely would require the Company to again file for bankruptcy protection. An acceleration by the senior secured lenders would also result in a default and acceleration by the debenture holders (\$21.9 million of principal outstanding at March 31, 2005). Based on the covenant violation that was waived for the quarter ended September 30, 2004 and the uncertainty that the Company could comply with the EBITDA covenant in future quarterly periods over the next year, the Company's long-term debt has been classified as current liabilities in the accompanying consolidated balance sheets at both March 31, 2005 and September 30, 2004.

At March 31, 2005, the Company had a stockholders' deficit of approximately \$35.1 million. In addition, the Company's principal source of liquidity includes cash and cash equivalents of approximately \$0.9 million and it had a working capital deficit of approximately \$38.2 million. The large negative working capital reflects the classification of all long-term secured debt as current liabilities.

Because operating results can fluctuate significantly due to decreases in customer demand or decreases in the acceptance of future products, the Company, during fiscal 2004, was not, and may not be in the future able to generate positive cash flow from operations. Should the need arise, it may become necessary to borrow additional funds or otherwise raise additional capital. However, since the Company does not have any source of additional funds or capital in place, any such requirement could have a material adverse effect on the Company.

The potential liquidity and cash flow risks described above raise substantial doubt about the Company's ability to continue as a going concern. The Company's independent auditors have expressed uncertainty about the Company's ability to continue as a going concern in their opinion on the Company's fiscal 2004 financial statements.

Management has responded to such risks as part of an ongoing strategy, by restructuring the sales force, increasing factory shutdown time, containing expenses, reducing employee salaries and wages and reducing the size of the employee workforce. In addition, in fiscal 2004 the Company obtained \$1.6 million from loans from related parties to be used primarily for replacement of senior indebtedness being repaid with the proceeds. (see Note 4). The Company

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also is actively marketing for sale or lease its land and building and pursuing other asset recoveries, the proceeds of which would be used to reduce senior secured debt and related interest. On May 5, 2005, the Company received \$2.7 million in recovery on a note receivable and used the proceeds to pay down senior secured debt (see note 5).

While the Company is aggressively pursuing opportunities and corrective actions, there can be no assurance that the Company will be successful in its efforts to generate sufficient cash from operations or obtain additional funding sources. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that may result from the outcome of these uncertainties.

2. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income available to common stockholders by the weighted average number of common and Class B shares outstanding during the period. Diluted earnings per share gives effect to all potential dilutive common shares outstanding during the period. In computing diluted earnings per share, the average price of the Company's common stock for the period is used in determining the number of shares assumed to be purchased from exercise of stock options. Dividends applicable to preferred stock represent accumulating dividends that are not declared or accrued. The following table sets forth the computation of basic and diluted earnings (loss) applicable to common and Class B stock for the three and six months ended March 31, 2005 and 2004 (in thousands, except shares and per share data):

Basic earnings (loss) per share:

<TABLE>

<CAPTION>

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004

<S>	<C>	<C>	<C>	<C>
Net income (loss)	\$ 2,852	\$ 497	\$ 2,944	\$ (70)
Less: dividends applicable to preferred stock	(443)	(443)	(886)	(894)

Net income (loss) applicable to common and Class B stock	\$ 2,409	\$ 54	\$ 2,058	\$ (964)

Weighted average number of common and Class B shares outstanding:	3,983,017	3,958,850	3,975,855	3,963,668

Basic earnings (loss) per common share	\$ 0.62	\$ 0.01	\$ 0.53	\$ (0.24)
Basic earnings (loss) per Class B share	\$ 0.56	\$ 0.01	\$ 0.47	\$ (0.24)
=====				

</TABLE>

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Diluted earnings (loss) per share:

<TABLE>
<CAPTION>

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>
Net income (loss)	\$ 2,852	\$ 497	\$ 2,944	\$ (70)
Less: dividends applicable to preferred stock	(443)	(443)	(886)	(894)
Plus: convertible note interest	33	--	66	--
Net income (loss) applicable to common and Class B stock	\$ 2,442	\$ 54	\$ 2,124	\$ (964)
Weighted average number of common and Class B shares outstanding:	6,263,582	4,162,687	6,016,963	3,963,668
Diluted earnings (loss) per common and Class B share:	\$ 0.39	\$ 0.01	\$ 0.35	\$ (0.24)
Number of shares subject to option excluded from computation of diluted earnings per share because their effect is anti-dilutive	81,104	87,260	81,104	281,490

</TABLE>

The Company's computation of diluted earnings per share for the three and six months ended March 31, 2005 include the potential dilutive effect of 668,565 and 429,108 of stock options and warrants, respectively and the potential dilutive effect of the conversion of notes payable to related parties into 1,612,000 shares of common stock. The Company's computation of diluted earnings per share for the quarter and six months ended March 31, 2005 do not include the effect of 81,104 stock options and warrants, and the assumed conversion of preferred stock into 144,000 shares of common stock because the effect would be anti-dilutive. Contingent warrants granted to secured lenders which are issuable only in the event of default or if certain payment terms are not met are excluded from the computation of earnings per share because the contingency defined in the loan agreement has not taken place (for further discussion of these items, see Notes 7, 9 and 12 in Item 8 of the Company's annual report on Form 10-K for the fiscal year ended September 30, 2004 as filed with the Securities and Exchange Commission and Note 4 below).

3. Inventories

Inventories consist of (in thousands):

	March 31, 2005	September 30, 2004
Raw materials	\$ 834	\$ 1,124
Work-in-process	1,166	1,323
Finished goods	1,279	1,663
	\$ 3,279	\$ 4,110

Inventories are stated at the lower of cost or market using a first-in, first out method. Reserves in the amount of \$2,553,000 and \$2,563,000 were recorded at March 31, 2005 and September 30, 2004, respectively, for excess and obsolete inventories. In addition, the Company continues to hold inventories of a former division that was sold in 2001 and ascribes no value to such inventories.

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4. Long-Term Debt

<TABLE>

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Long-term debt consists of (in thousands):

	March 31, 2005	September 30, 2004
<S>	<C>	<C>
Term Obligation	\$ 9,539	\$ 11,398
PIK Obligation	2,500	2,500
Notes Payable to Related Parties, net of debt discount of \$91 at March 31, 2005 and \$121 at September 30, 2004	1,509	1,479
Debentures	21,904	21,904
Note Payable	214	0
	35,666	37,281
Less current portion	35,666	37,281
	\$ 0	\$ 0

</TABLE>

For the quarter ended September 30, 2004, the Company would have been in default of the financial covenant in its loan agreement with its senior secured lenders had it not obtained a waiver. Since the waiver does not extend to future financial covenant calculations, which are performed quarterly, the senior secured debt (the Term Obligation and PIK Obligation) and the Debentures and Notes Payable to Related Parties, which contain cross default provisions, are classified as current liabilities on the accompanying balance sheets at March 31, 2005 and September 30, 2004 (see Note 1). Interest on the PIK Obligation and Debentures is not required to be paid currently, and interest payments on Notes Payable to Related Parties have been deferred under agreement with the note holders. Accrued interest on these items amounted to \$3,987,000 and \$2,692,000, at March 31, 2005 and September 30, 2004, respectively, and is classified as a current liability along with the corresponding debt.

Long-term debt matures in amounts totaling \$3,119,000 in fiscal 2005, \$4,163,000 in fiscal 2006, \$3,348,000 in fiscal 2007, and \$25,036,000 in fiscal 2008, assuming that there is no acceleration in the future due to an event of default that is not waived by the senior secured lenders.

In conjunction with the issuance of a note payable to a related party on September 30, 2004, the Company issued a warrant, the value of which was recorded as debt discount. See "Notes Payable to Related Parties" below.

Term Obligation, PIK Obligation and Debentures

Under the terms of the loan and security agreement which became effective September 15, 2003, minimum principal payments under the Term Obligation are \$250,000 per month. Interest was payable monthly at the annual rate of 7.25% through December 31, 2003, and thereafter at the greater of (i) 7.25% and (ii) the prime rate plus 2.5% (the prime rate was 5.75% on March 31, 2005). In addition, proceeds from the potential sales of non-core assets and certain other proceeds must be used to reduce the Term Obligation. See note 5, "Subsequent Event: Recovery on Note Receivable from Ahead Communication Systems, Inc." for discussion of a \$2,747,848 reduction in the Term Obligation on May 5, 2005.

The Company also entered into a loan in the original principal amount of \$5.0 million, subject to adjustment, due December 31, 2007 (the "PIK Obligation"). Interest accrues at the same rates as the Term Obligation. Principal in the amount of \$2.5 million and accrued interest thereon were forgiven under certain terms which expired on December 31, 2004. The amount owing under the PIK Obligation may be adjusted downward by the Bankruptcy Court.

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Debentures with principal and interest due in fiscal 2008 were issued to unsecured creditors as part of the Company's Plan of Reorganization.

For further details of the loan and security agreement and a description of the Term Obligation, PIK Obligation and Debentures, see Note 4, "Reorganization Plan and Emergence from Chapter 11" included in Item 8 of the Company's annual report on Form 10-K for the year ended September 30, 2004 as filed with the Securities and Exchange Commission.

Notes Payable to Related Parties

Pursuant to authorization by the Board of Directors and amendments to the loan agreement with the Company's senior lenders, the Company has borrowed an aggregate of \$1,600,000 in a series of loans during the period December 30, 2003 through September 30, 2004 from Howard S. Modlin, Chairman of the Board, who has loaned an aggregate of \$1,050,000 and John L. Segall, a Director, who has loaned an aggregate of \$550,000. The loans were made primarily for replacement of senior indebtedness being repaid with the proceeds. The loans are each for two years and bear interest accruing from the date of issue, at the rate of 10% per annum, payable monthly commencing three full months after the date of the loan. The noteholders have agreed to defer the payment of interest. The notes are secured by all of the assets of the Company subordinate to the first lien of the Company's senior lenders who hold the Term and PIK Obligations, and are convertible into common stock at the option of the holder. The conversion price of the notes was in excess of the quoted market price of the Company's common stock on the dates the loans were made. The first such loans aggregate \$600,000 and were made on December 30, 2003 with a conversion price of \$2.12 per share, and were made equally by Messrs. Modlin and Segall, or \$300,000 each. The second such loans aggregated \$250,000 and were made on March 1, 2004 with a conversion price of \$.8625 per share and were made equally by them, or \$125,000 each. The third such loans were made on March 31, 2004 with a conversion price of \$.5625 per share and were made equally by them, or \$125,000 each. The fourth such loan was made on June 30, 2004 by Mr. Modlin for \$250,000 and is convertible at \$.42 per share. The fifth such loan was made on September 30, 2004 by Mr. Modlin for \$250,000 with half due on September 30, 2005 and the balance due on September 30, 2006, and, in connection with the loan, the Company issued to Mr. Modlin a five year warrant to purchase 761,614 shares of common stock for \$.32825 per share. Any shares issued on conversion or exercise of the warrant will not be registered and must be held for investment without a view to distribution. The warrant was valued at \$121,000 utilizing the Black-Scholes method and resulted in the related loan being recorded at a corresponding discount.

5. Subsequent Event: Recovery on Note Receivable from Ahead Communications Systems, Inc.

In August 2001, the Company received a note in the amount of \$17.0 million as partial consideration for the sale of its Broadband Systems division and retained a security interest in the underlying assets sold. Shortly thereafter, the Company, the purchaser (Ahead Communications Systems, Inc.) and the purchaser's parent Company in Austria (Ahead Communications Systems AG) which had guaranteed payment of the note, all filed for bankruptcy protections, purchaser defaulted on the note payment and disputes arose relating to the division sale agreements. As a result, the Company established a valuation reserve for a substantial portion of the note and recorded a related loss in fiscal 2001. The note is currently fully reserved so that any recoveries now and in the future will result in recording a gain.

On May 4, 2005 the Company received a payment of \$2,747,848 in partial satisfaction of the note, as a result of the liquidation of the purchaser's parent company in Austria. Such payment was used to reduce senior secured debt as required under the Company's Plan of Reorganization, which was approved when it emerged from Chapter 11 bankruptcy on September 15, 2003, and the loan agreement entered into as part of the Plan of Reorganization.

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For financial reporting purposes, the Company recorded a gain in the amount of \$2,747,848 in the quarter-ended March 31, 2005 due to the adjustment to the note valuation reserve required as a result of the recovery under the note.

6. Liquidation of UK Subsidiary

In July 2002, the Company's inactive subsidiary, General DataComm Limited (UK), was turned over to liquidators for the purpose of finalizing the accounts. At that time, the subsidiary's estimated income tax liability was \$375,000 and amounts due other creditors totaled \$338,000 and such amounts were reflected as liabilities in the Company's consolidated financial statements.

The liquidators have now advised the Company that the income tax liability in the amount of \$5,806 has been agreed with the local authorities. Therefore the Company has recorded a reduction in income tax reserves and a corresponding credit in the income tax provision in the amount of \$369,194 reflecting this lower liability.

Furthermore, although all claims and recoveries have not been finalized, the liquidators have advised that there have been recoveries which will be used to pay off a portion or all creditor claims. The Company intends to record such recoveries as income when it receives a final accounting from the subsidiary's liquidators.

7. Accounting for Stock-Based Compensation

As permitted under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company has elected to continue to measure costs for its employee stock compensation plans by using the accounting methods prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", which allows that no compensation cost be recognized provided the exercise price of options granted is equal to or greater than fair market value of the Company's stock at date of grant.

Proforma results, representative of financial results which would have been reported by the Company if it had adopted the fair value based method of accounting for stock-based compensation under SFAS No. 123, are summarized below (amounts in thousands, except per share data):

<TABLE>
<CAPTION>

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Net income (loss), as reported	\$ 2,852	\$ 497	\$ 2,944	\$ (70)
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards	(46)	(22)	(55)	(45)
Proforma net income (loss)	2,806	475	2,889	(115)
Dividends applicable to preferred stock	(443)	(443)	(886)	(894)
Proforma net income (loss) applicable to common and Class B stock	\$ 2,363	\$ 32	\$ 2,003	\$ (1,009)
Proforma earnings (loss) per share				
Basic earnings (loss) per common share	\$ 0.62	\$ 0.01	\$ 0.53	\$ (0.24)
Basic earnings (loss) per Class B share	\$ 0.56	\$ 0.01	\$ 0.47	\$ (0.24)
Diluted	\$ 0.38	\$ 0.01	\$ 0.33	\$ (0.24)

</TABLE>

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The Black-Scholes method was used to compute the proforma amounts presented above, utilizing the weighted average assumptions summarized below. No stock-based compensation was granted in fiscal 2004.

	2005	2004
	----	----
Risk-free interest rate	3.69	N/A
Volatility (%)	319%	N/A

Expected life (in years)	5.00	N/A
Dividend yield rate	nil	N/A

8. Gain on Sale of Minority Interest

On November 30, 2004, the Corporation sold its 25% minority interest in Grupo GDC de Mexico, S.A. de C.V., which had previously been fully reserved, for \$300,000. The proceeds were applied to the Company's outstanding loans with its senior lenders. In addition, the Company entered into a twelve-month trademark license agreement with the former Mexican subsidiary for an aggregate license fee of \$150,000, to be amortized in equal monthly installments.

9. 2005 Stock and Bonus Plan

On January 26, 2005, the Board of Directors adopted a new 2005 Stock and Bonus Plan ("Plan") covering 1,200,000 shares of Common Stock, and the Stock Option Committee authorized certain options pursuant to the new Plan. The Plan is similar to the 2003 Stock and Bonus Plan. No shares of Class B common stock are authorized under the Plan.

Pursuant to the Plan, the Committee granted to Howard S. Modlin, Chief Executive Officer, a stock option to purchase 551,121 shares at \$.61 per share and granted to each of Lee Paschall, Aletta Richards and John L. Segall, Directors, stock options to purchase 30,000 shares at \$.55 per share, of the Corporation's Common Stock. The Committee also granted an aggregate of 212,050 options to 75 employees to purchase the Corporation's Common stock at an option price of \$.55 per share, including 30,000 options to each of George Best, Vice President, Sales and Marketing, William G. Henry, Vice President, Finance and Administration and Principal Financial Officer, and George Gray, Vice President, Operations and Chief Technology Officer. The options vest in increments of 20% one, two, three, four and five years after grant and expire ten years after grant. The shares issuable under such options are not registered under the Securities Act of 1933 and must be held for investment unless so registered or an exemption from registration exists. The Corporation plans to register the shares before the first options are exercisable.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Notice Concerning Forward-Looking Statements

THE FOLLOWING DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND THE RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND RELATED NOTES APPEARING ELSEWHERE IN THIS QUARTERLY REPORT ON FORM 10-QSB AND IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 2004 AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

THIS QUARTERLY REPORT ON FORM 10-QSB CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

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FOR THIS PURPOSE, STATEMENTS CONTAINED HEREIN THAT ARE NOT STATEMENTS OF HISTORICAL FACT MAY BE DEEMED TO BE FORWARD-LOOKING STATEMENTS. WITHOUT LIMITING THE FOREGOING, THE WORDS "BELIEVES", "ANTICIPATES", "PLANS", "EXPECTS" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES AND ARE NOT GUARANTEES OF FUTURE PERFORMANCE. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE INDICATED IN SUCH FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH UNDER THE HEADING "RISK FACTORS" BELOW. UNLESS REQUIRED BY LAW, THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS OR REASONS WHY ACTUAL RESULTS MAY DIFFER.

Overview

The Company has incurred net losses since 1994 and as of September 30, 2004, the most recent fiscal year end, had an accumulated deficit of \$237.2 million. A significant amount of the Company's operating losses resulted from costs incurred prior to 2002 in developing and marketing Asynchronous Transfer Mode ("ATM") technology in the former Broadband Systems Division ("BSD").

After implementing a number of restructuring and cost reduction programs in an attempt to better align operating cost structure with revenues, in 2001 three of the Company's four business units representing a significant portion of the assets of the Company were actively marketed for sale with the objective of reducing outstanding debt and providing additional liquidity.

Between June and August 2001, these business units were sold, including BSD. However, due to the impact of a general economic downturn and a decline in the telecommunication industry in particular, and defaults in payments by the purchasers, the Company did not realize sufficient proceeds from the sales to satisfy its secured debtors. Revenues of divisions sold constituted 59% of consolidated revenues in fiscal 2001. By the end of fiscal 2001 the number of employees declined to 210 employees from 1,019 at the beginning of the year. Further cost-saving reductions were subsequently implemented which reduced headcount to 75 employees at March 31, 2005.

On November 2, 2001 General DataComm Industries, Inc. and its domestic subsidiaries filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Company continued in possession of its properties and the management of its business as debtors in possession pursuant to the Bankruptcy Code.

During the fiscal year ended September 30, 2002, and in the aftermath of the sales of its business units, the Company consolidated its remaining operations into its owned facility in Naugatuck, Connecticut and downsized its staff and operating assets to more properly reflect its reduced operating requirements.

Pursuant to a reorganization plan approved by the Bankruptcy Court, the Company emerged from Bankruptcy on September 15, 2003.

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RESULTS OF OPERATIONS

Revenues

<TABLE>

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(in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Revenues	\$3,360	\$4,094	\$7,227	\$9,195

</TABLE>

Revenues for the three months ended March 31, 2005 decreased 18% to \$3,360,000 from \$4,094,000 reported for the three months ended March 31, 2004. This decrease is attributable to lower unit sales to large telecommunication carrier channel distributors offset in part by a large shipment to a distributor (Phillips) in Italy. Three customers individually represented more than 10% of revenue in the current quarter: Phillips (Italy) 23%, Bell Canada 18% and Verizon 16%. The shipment to Phillips was comprised of wide-area network multiplexing products whereas Bell Canada and Verizon purchased traditional V.34 data sets, digital service units and other network access products. In the prior year's quarter, the largest customers were Verizon 15%, Sunbelt Telecommunications (distributor to SBC Communications) 15%, Bell Canada 12% and Qwest Communications 10%.

Revenues for the six months ended March 31, 2005 decreased 21% to \$7,227,000 from \$9,195,000 reported for the six months ended March 31, 2004. The decrease also reflected lower unit sales into the large carrier market offset in part by the Phillips (Italy) business. The largest customers in the current six month period were Qwest 17%, Bell Canada 16%, Verizon 11% and Phillips 11%, as compared to Sunbelt 15%, Bell Canada 15% and Verizon 12% in the prior six month period.

A decline in demand for the Company's products began in fiscal 2001 due to economic and industry-wide factors affecting the telecommunications industry, including financial constraints affecting customers and over-capacity in our customers' markets. The Company anticipates that the current reduced capital spending levels by its customers will continue to affect sales until there is an overall recovery in the telecommunications market, which, although there is some evidence of improvement, may not change significantly in 2005. Accordingly, the ability to forecast future revenue trends in the current environment is difficult.

<TABLE>

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Gross Margin

(in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Gross margin	\$ 2,066	\$ 2,398	\$ 4,352	\$ 5,320
Percentage of revenues	61.5%	58.6%	60.2%	57.9%

</TABLE>

Gross margin, as a percentage of sales, in the three months ended March 31, 2005 was 61.5% as compared to 58.6% in the three months ended March 31, 2004, or an increase of 2.9%. A large proportion (26%) of revenue in the current quarter reflected the sale of older inventories that had previously been written off based on the Company's accounting policy on determining obsolescence. Such revenue added 9.3% to the gross margin percentage over the prior year's quarter. In addition, higher product repair revenue improved the gross margin percentage by 1.4%. These increases were offset with unfavorable mix of product sales (-4.8%) and higher component prices (-3.0%).

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Gross margin, as a percentage of sales, in the six months ended March 31, 2005 was 60.2% as compared to 57.9% in the six months ended March 31, 2004, or an increase of 2.3%. Sales of older, previously written off inventories constituted 20% of revenues in the current six month period and resulted in a gross margin improvement of 7.2%. Higher product repair revenues added 1.4% to gross profit margin. Manufacturing overhead costs were lowered by 0.6%. These increases were offset with unfavorable mix of product sales (-3.3%) and higher component prices (-3.6%).

In future periods, the Company's gross margin will vary depending upon a number of factors, including the mix of products sold, the cost of products manufactured at subcontract facilities, the channels of distribution, the price of products sold, discounting practices, price competition, increases in material costs and changes in other components of cost of sales. As and to the extent the Company introduces new products, it is possible that such products may have lower gross profit margins than other established products in higher volume production. Accordingly, gross margin as a percentage of sales may vary.

Selling, General and Administrative

<TABLE>

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	Three Months Ended March 31,		Six Months Ended March 31,	
(in thousands)	2005	2004	2005	2004
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Selling, general and administrative	\$1,079	\$1,693	\$2,335	\$3,602
Percentage of revenues	32.1%	41.4%	32.3%	39.2%

</TABLE>

The Company's selling, general and administrative ("SG&A") expenses decreased to \$1,079,000, or 32.1% of sales in the three months ended March 31, 2005 from \$1,693,000 or 41.4% of sales in the three months ended March 31, 2004. The reduction in spending in the quarter of \$614,000, or 36%, was due to lower payroll and payroll-related costs (\$229,000) resulting from a reduced number of employees, Company mandated salary and work week reductions and lower sales commissions due to lower sales levels; lower post-bankruptcy liability insurance costs (\$37,000); reduced sales force travel expenses (\$40,000); resolution of state sales, use and franchise tax issues (\$265,000) and other reductions in operating expenses due to cost reduction efforts (\$43,000).

For the six months ended March 31, 2005, SG&A decreased to \$2,335,000, or 32.3% of sales, from \$3,602,000, or 39.2% of sales in the six months ended March 31, 2004. The 35%, or \$1,267,000 decrease in spending was due to lower payroll and payroll-related costs (\$680,000); reduced sales force travel expenses (\$129,000); reduced sales, use and franchise tax expenses (\$334,000) due to resolution of open issues and other reductions in operating expenses due to cost reduction efforts (\$124,000).

Research and Product Development

<TABLE>

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	Three Months Ended March 31,		Six Months Ended March 31,	
(in thousands)	2005	2004	2005	2004
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Research and product development	\$ 534	\$ 687	\$1,080	\$1,454
Percentage of revenues	15.9%	16.8%	14.9%	15.8%

</TABLE>

Research and product development ("R&D") expenses decreased to \$534,000 in the three months ended March 31, 2005 as compared to \$687,000 in the three months ended March 31, 2004, due to lower labor costs resulting from a 20% salary reduction and a reduced number of engineers.

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For the same reason, R&D expenses for the six months ended March 31, 2005 decreased to \$1,080,000 from \$1,454,000 as compared to the comparable prior year period.

Other Income (Expense)

Interest expense decreased to \$869,000 in the three months ended March 31, 2005 from \$886,000 in the three months ended March 31, 2004, due to principal payments made on the Company's Term Obligation offset by higher interest rates on notes payable to related parties and higher variable interest on the senior secured debt.

Other items included in other income (expense) for the three months ended March 31, 2005 includes \$2,748,000 from the recovery of a note receivable and the net amount of \$55,000 which includes \$69,000 in sales of components no longer used, \$24,000 received from a tradename license and \$23,000 received from settlement of litigation, offset by foreign exchange losses of \$64,000. For the three months ended March 31, 2004, other income (expense) of \$41,000 included \$33,000 in reimbursement of retirement plan administrative expenses from the plan trust account.

Other items included in other income (expense) for the six months ended March 31, 2005 and 2004 totaled \$3,144,000 and \$137,000, respectively. The 2005 amount includes \$2,748,000 from the recovery of a note receivable, \$300,000 profit on sale of a 25% minority interest in a Mexican Company (see note 8), \$79,000 in sales of components no longer used, \$44,000 received from a tradename license and \$23,000 received from settlement of litigation, offset by foreign exchange losses of \$68,000. The 2004 amount includes \$90,000 from the sale of excess assets (furniture, equipment and components) and \$33,000 in reimbursement of retirement plan administrative expense.

Reorganization Items

Reorganization items in the three months ended March 31, 2005 and March 31, 2004 include \$101,000 and \$1,330,000, respectively, in reduced claims from unsecured creditors in the Company's bankruptcy case due to challenges raised by the Company. Similarly, reorganization items in the six months ended March 31, 2005 and March 31, 2004 include \$246,000 and \$1,330,000, respectively, associated with reduction of such claims.

Provision for Income Taxes

The tax provision for the three months ended March 31, 2005 includes a credit of \$369,194 due to the favorable settlement of a foreign income tax claim (see note 6). Apart from recording this settlement, no federal income tax provisions or tax benefits were provided in the three and six months ended March 31, 2005 and 2004 due to the valuation allowance provided against the net change in deferred tax assets. The Company established a full valuation allowance against its net deferred tax assets due to the uncertainty of realization of benefits of the net operating loss carryforwards from prior years. The Company has federal tax credit and net operating loss carryforwards of approximately \$12.0 million and \$206.1 million, respectively, as of September 30, 2004. Income tax provisions for the three and six months ended March 31, 2005 and 2004 reflect minimum state taxes.

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Liquidity and Capital Resources

(in thousands)	March 31, 2005	September 30, 2004
	----- <C>	----- <C>
Cash and cash equivalents	\$ 933	\$ 586
Working capital (deficit)	(38,203)	(40,938)
Total assets	13,163	11,264
Long-term debt, including current portion	35,666	37,281
Total liabilities (excluding redeemable preferred stock)	48,253	49,298

</TABLE>
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	Three Months Ended March 31,		Six Months Ended March 31,	
	----- 2005	----- 2004	----- 2005	----- 2004
	<C>	<C>	<C>	<C>
<S> Net cash provided (used) by:				
Operating activities	804	(53)	1,978	(745)
Investing activities	12	(14)	(1)	82
Financing activities	(580)	(323)	(1,640)	(777)

</TABLE>

Note: Significant risk factors exist due to the Company's limited financial resources and dependence on achieving future positive cash flows in order to satisfy its obligations and avoid a default under its loan and debenture obligations. See "Risk Factors" below for further discussion.

Cash Flows

Net cash provided by operating activities totaled \$804,000 in the three months ended March 31, 2005 compared to net cash used in operating activities of \$53,000 in the three months ended March 31, 2004. The net income in the 2005 quarter was \$2,852,000. Non-cash items included in this net income were expenses for depreciation of \$52,000, gains on claim reductions of \$101,000, reduction in the reserve for foreign income taxes of \$369,000 and reduction in the reserve for notes receivable of \$2,748,000. A reduction in accounts receivable due to a reducing trend of monthly sales in the quarter and successful collections of December's sales resulted in a source of cash of \$856,000. Inventories were lower by \$185,000 as the Company was able to achieve shipments of on-hand inventories to satisfy customer orders and generate a source of cash through reduced purchasing. Unpaid interest which accrued on the Company's debt increased \$598,000. Tax settlement resulted in lower liabilities of \$251,000 and prepayments of insurance of \$327,000 both result in uses of funds. Other sources of cash totaled a net amount of \$57,000.

The net income in the 2004 quarter was \$497,000. Non-cash items included in this net income were expenses for depreciation of \$49,000 and gains on claim reductions of \$1,330,000. A reduction in accounts receivable resulted in a source of cash of \$313,000. Unpaid interest which accrued on the Company's debt increased \$601,000. A reduction in accrued payroll costs accounted for a decrease in cash of \$185,000. Other sources of funds totaled a net amount of \$2,000.

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Net cash provided by operating activities totaled \$1,978,000 in the six months ended March 31, 2005 compared to net cash used of \$745,000 in the six months ended March 31, 2004. The net income in 2005 was \$2,944,000. Non-cash items included were expenses for depreciation of \$120,000, gains on claim reductions of \$246,000, a reduction in the reserve for foreign income taxes of \$369,000 and a reduction in the reserve for note receivable of \$2,748,000. A reduction in accounts receivable amounted to \$561,000. Inventories decreased by \$831,000 as the Company utilized shipments of on-hand inventories to satisfy orders. Other uses of funds totaled a net amount of \$299,000.

The net loss in 2004 was \$70,000. Non-cash items included were expenses for depreciation of \$94,000 and gains on claim reductions of \$1,330,000. Increases in accrued payroll amounted to \$360,000. Unpaid interest which accrued on the Company's debt increased \$1,207,000. Other uses of cash totaled a net amount of \$286,000.

Cash used by investing activities was \$12,000 due to capital equipment expenditures in the quarter ended March 31, 2005, compared to \$14,000 in the quarter ended March 31, 2004.

For the six months ended March 31, 2005, cash used by investing activities included \$12,000 of equipment purchases in the March 2005 quarter offset in part by the collection of a note receivable of \$11,000. For the six months ended March 31, 2004, cash provided by investing activities was \$82,000 due to the \$29,000 equipment purchases offset by the collection of a note receivable of \$111,000.

Cash used by financing activities of \$580,000 for the quarter ended March 31, 2005 represented principal payments on the Company's Term Obligation and the initiation of notes payable to fund annual insurance policy renewals in the amount of \$214,000.

Cash used by financing activities of \$323,000 for the same time period one year ago represented principal payments of \$823,000 on the Company's Term Obligation offset by \$500,000 of proceeds received from notes payable to related parties.

Cash used in financing activities was \$1,630,000 for the six months ended March 31, 2005 as compared to \$777,000 for the six months ended March 31, 2004. Payments on the Term Obligation were \$1,844,000 and \$1,877,000 for the six months ended March 31, 2005 and 2004, respectively. Proceeds from the issuance of notes payable provided \$214,000 of cash in the six months ended March 31, 2005 while proceeds from the issuance of notes payable to related parties provided \$1,100,000 of cash in the six months ended March 31, 2004.

Liquidity

The Company has virtually no current ability to borrow additional funds. It must, therefore, fund operations from cash balances and cash generated from operating activities. The Company has significant short-term obligations including payment of bankruptcy-related and other professional fees, delinquent property taxes, priority tax claims and monthly payments of principal and interest (currently such principal and interest totals approximately \$290,000 each month) under its senior loan agreement. Furthermore, the Company has significant outstanding obligations to pay total long-term debt of approximately \$48.2 million, along with interest thereon.

The Company's failure to make required payments under the senior loan agreement would constitute an event of default. In addition, the Company is required to meet a financial covenant to avoid an event of default (see Note 4 to Notes to Financial Statements included in Item 2 to this Form 10-QSB). Although the Company was not in default of the financial covenant as of September 30, 2004, it was necessary for the Company to obtain a waiver of compliance with such covenant in order to avoid a default as the Company did not meet the financial covenant requirement.

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Since emerging from bankruptcy, the Company has incurred a loss before reorganization items and income taxes in excess of \$1,100,000. Furthermore, the ability of the Company to meet cash flow and loan covenant requirements is directly affected by the factors described below in "Risk Factors". There can be no assurance that the Company will be able to avoid a default on the senior loan agreement. If there is such a default, the senior secured lenders may accelerate payment of the outstanding debt (\$12.0 million at March 31, 2005) and foreclose on their security interests which likely would require the Company to again file for bankruptcy protection.

The Company emerged from Chapter 11 bankruptcy on September 15, 2003 pursuant to a court-approved Plan of Reorganization. Under this plan the Company intends to pay all creditors 100% of their allowed claims based upon a five year business plan. The ability to meet the objectives of this business plan is directly affected by the factors described below in the "Risk Factors" section. The Company cannot assure investors that it will be able to obtain new customers or to generate the increased revenues required to meet its business plan objectives. In addition, in order to execute the business plan, the Company may need to seek additional funding through public or private equity offerings, debt financings or commercial partners. Since the Company has virtually no current ability to borrow additional funds, it cannot assure investors that it will obtain funding on acceptable terms, if at all. If the Company is unable to generate sufficient revenues or access capital on acceptable terms, it may be required to (a) obtain funds on unfavorable terms that may require the Company to relinquish rights to certain of our technologies or that would significantly dilute its stockholders and/or (b) significantly scale back current operations. Either of these two possibilities would have a material adverse effect on the Company's business, financial condition and results of operations.

Since filing for Chapter 11 bankruptcy protection on November 2, 2001, operations have been funded primarily through cash generated from operations and loans from related parties. Proceeds realized from sales and liquidations of non-core assets were required to be used to pay down the senior secured debt.

At March 31, 2005 the Company's principal source of liquidity included cash and cash equivalents of \$933,000 compared to \$586,000 at September 30, 2004. At March 31, 2005, the Company's working capital was a deficit of approximately \$38.2 million. Negative working capital reflects the classification of all long-term secured debt as a current liability as a result of non-compliance with a financial covenant for which a waiver was obtained. See Note 4, the section on "Loan Agreement" of Notes to Condensed Consolidated Financial Statements included in Item 1 in this Form 10-QSB.

The Company has significant unpaid professional fees (approximately \$1.1 million), and delinquent property taxes (approximately \$320,000) at March 31, 2005 that are expected to be paid in fiscal 2005. In addition, the next installment of priority tax claims (approximately \$260,000) is due on September 15, 2005. In order to meet these and other future payments, the Company must achieve revenue growth while at the same time limiting investments in inventories and capital assets.

As a result of the potential liquidity and cash flow risks described above, the Company's independent auditors expressed uncertainty about the Company's ability to continue as a going concern in their opinion on the Company's fiscal 2004 financial statements.

Management has responded to such risks as part of an ongoing strategy by restructuring its sales force, increasing factory shutdown time, containing expenses and reducing the size of the employee workforce. In addition, in fiscal 2004 the Company obtained \$1.6 million from loans from related parties to be used primarily for replacement of senior indebtedness being repaid with the proceeds (see Note 7 of the Notes to Condensed Consolidated Financial Statements

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included in Item 2 of this Form 10-QSB). The Company also is actively marketing for sale its land and building and pursuing other asset recoveries, the proceeds of which would be used to reduce senior secured debt and related interest. On May 5, 2005 the Company received \$2.7 million in recovery on a note receivable and used the proceeds to pay down senior secured debt (see note 5).

Critical Accounting Policies

The Company's financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods might be based upon amounts that differ from those estimates. The following represent what the Company believes are among the critical accounting policies most affected by significant management estimates and judgements.

Revenue Recognition. The Company recognizes a sale when the product is shipped and the following four criteria are met upon shipment: (1) persuasive evidence of an arrangement exists; (2) title and risk of loss transfers to the customer; (3) the selling price is fixed or determinable; and (4) collectibility is reasonably assured. A reserve for future product returns is established at the time of the sale based on historical return rates and return policies including stock rotation for sales to distributors that stock the Company's products. Service revenue is either recognized when the service is performed or, in the case of maintenance contracts, on a straight-line basis over the term of the contract.

Warranty Reserves - The Company offers warranties of various lengths to our customers depending on the specific product and the terms of our customer purchase agreements. Standard warranties require the Company to repair or replace defective product returned during the warranty period at no cost to the customer. An estimate for warranty-related costs is recorded based on actual historical return rates and repair costs at the time of sale. On an on-going basis, management reviews these estimates against actual expenses and makes adjustments when necessary. While warranty costs have historically been within expectations of the provision established, there is no guarantee that the Company will continue to experience the same warranty return rates or repair costs as in the past. A significant increase in product return rates or the costs to repair our products would have a material adverse impact on the Company's operating results.

Allowance for Doubtful Accounts. The Company estimates losses resulting from the inability of its customers to make payments for amounts billed. The collectability of outstanding invoices is continually assessed. Assumptions are made regarding the customer's ability and intent to pay, and are based on historical trends, general economic conditions and current customer data. Should our actual experience with respect to collections differ from these assessments, there could be adjustments to our allowance for doubtful accounts.

Note Receivable Reserve. In August, 2001, the Company received a note in the amount of \$17.0 million as partial consideration for the sale of its Broadband Systems division and retained a security interest in the underlying assets sold. Shortly thereafter, the Company, the purchaser (Ahead Communications Systems, Inc.) and the purchaser's parent company in Austria (Ahead Communications Systems AG) which had guaranteed payment of the note, all filed for bankruptcy protection, the purchaser defaulted on the note payment and disputes arose relating to the division sale agreements. As a result, the Company established a valuation reserve for a substantial portion of the note and recorded a related loss in fiscal 2001. The note is currently fully reserved so that any recoveries will result in recording a gain.

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Inventories. The Company values inventory at the lower of cost or market. Cost is computed using standard cost, which approximates actual cost on a first-in, first-out basis. Agreements with certain customers provide for return rights. The Company is able to reasonably estimate these returns and they are accrued for at the time of shipment. Inventory quantities on hand are reviewed on a quarterly basis and a provision for excess and obsolete inventory is recorded based primarily on product demand for the preceding twelve months. Historical product demand may prove to be an inaccurate indicator of future demand in which case the Company may increase or decrease the provision required for excess and obsolete inventory in future periods. The Company has possession of inventory, from a former division that was sold in 2001, which has been written off for financial reporting purposes. If the Company is able to sell inventory in the future that has been previously written down or off, such sales will result in higher than normal gross margin.

Deferred Tax Assets. The Company has provided a full valuation allowance related to its deferred tax assets. In the future, if sufficient evidence of the Company's ability to generate sufficient future taxable income in certain tax jurisdictions becomes apparent, the Company will be required to reduce its valuation allowances, resulting in income tax benefits in the Company's consolidated statement of operations. Management evaluates the realizability of the deferred tax assets and assesses the need for the valuation allowance each year.

Impairment of Long-Lived Assets. The Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable under the guidance prescribed by SFAS No. 144. The Company's long-lived assets consist of real estate, property and equipment.

At March 31, 2005 and September 30, 2004, real estate represents the only significant remaining long-lived asset that has not been fully written down for impairment.

Recent Accounting Pronouncements

In December 2003, the FASB revised Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation of Accounting Research Bulletin No. 51 Consolidated Financial Statements, addresses consolidation of variable interest entities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary if the entity does not effectively disperse risks among the parties involved. The provisions are effective no later than the end of the first reporting period that ends after March 15, 2004. The Company has no variable interest entities and accordingly the adoption of this Interpretation did not have a material impact on the Company's financial position or results of operations.

FASB Statement 123 (Revision 2004), "Share-Based Payment," was issued in December 2004 and will be effective for the Company beginning fiscal 2006. The new statement requires all share-based payments to employees to be recognized in the financial statements based on their fair values. The Company currently accounts for its share-based payments to employees under the intrinsic value method of accounting set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Additionally, the Company complies with the stock-based employer compensation disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." The Company plans to adopt the new statement in its financial statements for the quarter and year ending September 30, 2006.

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RISK FACTORS

THIS QUARTERLY REPORT ON FORM 10-QSB CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. FOR THIS PURPOSE, STATEMENTS CONTAINED HEREIN THAT ARE NOT STATEMENTS OF HISTORICAL FACT MAY BE DEEMED TO BE FORWARD-LOOKING STATEMENTS. WITHOUT LIMITING THE FOREGOING, THE WORDS "BELIEVES", "ANTICIPATES", "PLANS", "EXPECTS" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES AND ARE NOT GUARANTEES OF FUTURE PERFORMANCE. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE INDICATED IN SUCH FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH UNDER THIS HEADING.

GDC Limited Operating History Since Emerging from Bankruptcy. The Company emerged from Bankruptcy on September 15, 2003. The Company had voluntarily filed for protection under Chapter 11 of the US Bankruptcy Code on November 2, 2001, after incurring seven consecutive years of losses and selling three of its four operating divisions in 2001. Accordingly, an investor in our common stock must evaluate the risks, uncertainties, and difficulties frequently encountered by a Company emerging from Chapter 11 and that operates in rapidly evolving markets such as the telecommunications equipment industry.

Due to the Company's limited and negative operating history and poor performance since emergence, the Company may not successfully implement any of its strategies or successfully address these risks and uncertainties. As described by the following factors, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Limited Financial Resources and Risk of Default. The Company has virtually no current ability to borrow additional funds. It must, therefore, substantially fund operations from cash balances and cash generated from operating activities. The Company has significant short term obligations including payment of bankruptcy-related and other professional fees, delinquent property taxes, priority tax claims and monthly payments of principal and interest (currently such principal and interest totals approximately \$290,000 per month) under its new loan agreement. Furthermore, the Company has significant outstanding obligations and commitments (see Item 7 of the Company's Annual Report on Form 10-K for the year ended September 30, 2004 as filed with the Securities and Exchange Commission, in the section on "Liquidity" for additional discussion of this Risk Factor and the Company's contractual cash obligations as of September 30, 2004).

The Company's failure to make required payments under the senior loan agreement would constitute an event of default. In addition, the Company is required to meet a financial covenant to avoid an event of default (see Notes 1 and 4 to Notes to Financial Statements included in Item 8 of the Company's Annual Report on Form 10-K). Although the Company was not in default of the financial covenant as of September 30, 2004, it was necessary to obtain a waiver of compliance with such covenant in order to avoid a default as the Company did not meet the financial covenant requirement.

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Since emerging from bankruptcy, the Company incurred a loss before reorganization items and income taxes in excess of \$1,100,000. Furthermore, the ability of the Company to meet cash flow and loan covenant requirements is directly affected by the factors described in the "Risk Factors" section.

There can be no assurance that the Company will be able to avoid a default on the new loan agreement. If there is such a default, the senior secured lenders may accelerate payment of the outstanding debt (\$12.0 million at March 31, 2005) and foreclose on their security interests which likely would require the Company to again file for bankruptcy protection. In addition, the Company's senior loan agreement provides the lenders with warrants to (i) purchase up to 51% (currently 20%) of the Company's common stock at \$.01 per share in the event of default, and (ii) purchase 10% of the Company's common stock if the debt owing to them is not fully paid by December 31, 2004. Such debt was not fully paid by December 31, 2004. Both such warrants and any common stock issued thereunder will be cancelled if the senior lender's outstanding debt is fully paid by December 31, 2007.

Dependence on Legacy and Recently Introduced Products and New Product Development. The Company's future results of operations are dependent on market acceptance of existing and future applications for the Company's current products and new products in development. The majority of sales continue to be provided by the Company's legacy products, primarily the DSU/CSU, V.34 lines which represented approximately 80% of net product sales in fiscal 2004 and in the first six months of fiscal 2005. The Company anticipates that net sales from legacy products will decline over the next several years and net sales of new products will increase at the same time, with significant quarterly fluctuations possible, and without assurance that sales of new products will increase at the same time.

Market acceptance of the Company's recently introduced and future product lines is dependent on a number of factors, not all of which are in the Company's control, including the continued growth in the use of bandwidth intensive applications, continued deployment of new telecommunication services, market acceptance of multiservice access devices, the availability and price of competing products and technologies, and the success of the Company's sales and marketing efforts. Failure of the Company's products to achieve market acceptance would have a material adverse effect on the Company's business, financial condition and results of operations. Failure to introduce new products in a timely manner in order to replace sales of legacy products could cause customers to purchase products from competitors and have a material adverse effect on the Company's business, financial condition and results of operations.

New products under development may require additional development work, enhancement and testing or further refinement before the Company can make them commercially available. The Company has in the past experienced delays in the introduction of new products, product applications and enhancements due to a variety of internal factors, such as reallocation of priorities, financial constraints, difficulty in hiring sufficient qualified personnel, and unforeseen technical obstacles, as well as changes in customer requirements. Such delays have deferred the receipt of revenue from the products involved. If the Company's products have performance, reliability or quality shortcomings, then the Company may experience reduced orders, higher manufacturing costs, delays in collecting accounts receivable, and additional warranty and service expenses.

Customer Concentration. The Company's historical customers have consisted primarily of RBOCs, long distance service providers, wireless service providers, and resellers who sell to these customers. The market for the services provided by the majority of these service providers has been influenced largely by the passage and interpretation of the Telecommunications Act of 1996 (the "1996 Act"). Service providers require substantial capital for the development, construction, and expansion of their networks and the introduction of their

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services. The ability of service providers to fund such expenditures often depends on their ability to budget or obtain sufficient capital resources. Over the past several years, resources made available by these customers for capital acquisitions have declined, particularly due to recent negative market conditions in the United States. If the Company's current or potential service provider customers cannot successfully raise the necessary funds, or if they experience any other adverse effects with respect to their operating results or profitability, their capital spending programs may be adversely impacted which could materially adversely affect the Company's business, financial condition and results of operations.

A small number of customers have historically accounted for a majority of the Company's sales. Sales to the Company's top five customers accounted for 56% and 61% of sales in fiscal 2004 and 2003, respectively. There can be no assurance that the Company's current customers will continue to place orders with the Company, that orders by existing customers will continue at the levels of previous periods, or that the Company will be able to obtain orders from new customers. GDC expects the economic climate and conditions in the telecommunication equipment industry to remain unpredictable in fiscal 2005, and possibly beyond. The loss of one or more of our service provider customers, such as occurred during the past three years through industry consolidation or otherwise, could have a material adverse effect on our sales and operating results. A bankruptcy filing by one or more of the Company's major customers could materially adversely affect the Company's business, financial condition and results of operations.

Dependence on Key Personnel. The Company's future success will depend to a large extent on the continued contributions of its executive officers and key management, sales and technical personnel. Each of the Company's executive officers, and key management, sales and technical personnel would be difficult to replace. The Company does not have employment contracts with its key employees. The Company implemented significant cost and staff reductions in recent years, which may make it more difficult to attract and retain key personnel. The loss of the services of one or more of the Company's executive officers or key personnel, or the inability to attract qualified personnel, could delay product development cycles or otherwise could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Key Suppliers and Component Availability. The Company generally relies upon several contract manufacturers to assemble finished and semi-finished goods. The Company's products use certain components, such as microprocessors, memory chips and pre-formed enclosures that are acquired or available from one or a limited number of sources. Component parts that are incorporated into board assemblies are sourced directly by the Company from suppliers. The Company has generally been able to procure adequate supplies of these components in a timely manner from existing sources. While most components are standard items, certain application-specific integrated circuit chips used in many of the Company's products are customized to the Company's specifications. None of the suppliers of components operate under contract. Additionally, availability of some standard components may be affected by market shortages and allocations. The Company's inability to obtain a sufficient quantity of components when required, or to develop alternative sources due to lack of availability or degradation of quality, at acceptable prices and within a reasonable time, could result in delays or reductions in product shipments which could materially adversely affect the Company's operating results in any given period. In addition, as referenced above the Company relies heavily on outsourcing subcontractors for production. The inability of such subcontractors to deliver products in a timely fashion or in accordance with the Company's quality standards could materially adversely affect the Company's operating results and business.

The Company uses internal forecasts to manage its general finished goods and components requirements. Lead times for materials and components may vary significantly, and depend on factors such as specific supplier performance, contract terms, and general market demand for components. If orders vary from

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forecasts, the Company may experience excess or inadequate inventory of certain materials and components, and suppliers may demand longer lead times and higher prices. From time to time, the Company has experienced shortages and allocations of certain components, resulting in delays in fulfillment of customer orders. Such shortages and allocations may occur in the future, and could have a material adverse effect on the Company's business, financial condition and results of operations.

Fluctuations in Quarterly Operating Results. The Company's sales are subject to quarterly and annual fluctuations due to a number of factors resulting in more variability and less predictability in the Company's quarter-to-quarter sales and operating results. As a small number of customers have historically accounted for a majority of the Company's sales, order volatility by any of these major customers has had and may have an impact on the Company in the prior, current and future fiscal years.

Most of the Company's sales require short delivery times. The Company's ability to affect and judge the timing of individual customer orders is limited. Large fluctuations in sales from quarter-to-quarter could be due to a wide variety of factors, such as delay, cancellation or acceleration of customer projects, and other factors discussed below. The Company's sales for a given quarter may depend to a significant degree upon planned product shipments to a single customer, often related to specific equipment or service deployment projects. The Company has experienced both acceleration and slowdown in orders related to such projects, causing changes in the sales level of a given quarter relative to both the preceding and subsequent quarters.

Delays or lost sales can be caused by other factors beyond the Company's control, including late deliveries by the third party subcontractors the Company is using to outsource its manufacturing operations and by vendors of components used in a customer's products, slower than anticipated growth in demand for the Company's products for specific projects or delays in implementation of projects by customers and delays in obtaining regulatory approvals for new services and products. Delays and lost sales have occurred in the past and may occur in the future. The Company believes that sales in the past have been adversely impacted by merger and restructuring activities by some of its top customers. These and similar delays or lost sales could materially adversely affect the Company's business, financial condition and results of operations. See "Customer Concentration" and "Dependence on Key Suppliers and Component Availability".

The Company's backlog at the beginning of each quarter typically is not sufficient to achieve expected sales for that quarter. To achieve its sales objectives, the Company is dependent upon obtaining orders in a quarter for shipment in that quarter. Furthermore, the Company's agreements with certain of its customers typically provide that they may change delivery schedules and cancel orders within specified timeframes, typically up to 30 days prior to the scheduled shipment date, without significant penalty. Some of the Company's customers have in the past built, and may in the future build, significant inventory in order to facilitate more rapid deployment of anticipated major projects or for other reasons. Decisions by such customers to reduce their inventory levels could lead to reductions in purchases from the Company in certain periods. These reductions, in turn, could cause fluctuations in the Company's operating results and could have an adverse effect on the Company's business, financial condition and results of operations in the periods in which the inventory is reduced.

Operating results may also fluctuate due to a variety of factors, including market acceptance of the Company's new lines of products, delays in new product introductions by the Company, market acceptance of new products and feature enhancements introduced by the Company, changes in the mix of products and or customers, the gain or loss of a significant customer, competitive price pressures, changes in expenses related to operations, research and development and marketing associated with existing and new products, and the general condition of the economy.

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All of the above factors are difficult for the Company to forecast, and these or other factors can materially and adversely affect the Company's business, financial condition and results of operations for one quarter or a series of quarters. The Company's expense levels are based in part on its expectations regarding future sales and are fixed in the short term to a certain extent. Therefore, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in sales. Any significant decline in demand relative to the Company's expectations or any material delay of customer orders could have a material adverse effect on the Company's business, financial condition, and results of operations. There can be no assurance that the Company will be able to sustain profitability on a quarterly or annual basis. In addition, the Company has had, and in some future quarter may have operating results below the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock would likely be materially and adversely affected. See "Potential Volatility of Stock Price".

Competition. The market for telecommunications network access equipment addressed by the Company's products can be characterized as highly competitive, with intensive equipment price pressure. This market is subject to rapid technological change, wide-ranging regulatory requirements, the entrance of low cost manufacturers and the presence of formidable competitors that have greater name recognition and financial resources. Certain technology such as the V.34 and DSU/CSU portion of the SpectraComm and InnovX lines are not considered new and the market has experienced decline in recent years.

Industry consolidation could lead to competition with fewer, but stronger competitors. In addition, advanced termination products are emerging, which represent both new market opportunities, as well as a threat to the Company's current products. Furthermore, basic line termination functions are increasingly being integrated by competitors, such as Cisco, Lucent Technologies, Inc. and Nortel Networks, into other equipment such as routers and switches. To the extent that current or potential competitors can expand their current offerings to include products that have functionality similar to the Company's products and planned products, the Company's business, financial condition and results of operations could be materially adversely affected. Many of the Company's current and potential competitors have substantially greater technical, financial, manufacturing and marketing resources than the Company. In addition, many of the Company's competitors have long-established relationships with network service providers. There can be no assurance that the Company will have the financial resources, technical expertise, manufacturing, marketing, distribution and support capabilities to compete successfully in the future.

Rapid Technological Change. The network access and telecommunications equipment markets are characterized by rapidly changing technologies and frequent new product introductions. The rapid development of new technologies increases the risk that current or new competitors could develop products that would reduce the competitiveness of the Company's products. The Company's success will depend to a substantial degree upon its ability to respond to changes in technology and customer requirements. This will require the timely selection, development and marketing of new products and enhancements on a cost-effective basis. The development of new, technologically advanced products is a complex and uncertain process, requiring high levels of innovation. The Company may need to supplement its internal expertise and resources with specialized expertise or intellectual property from third parties to develop new products.

Furthermore, the communications industry is characterized by the need to design products that meet industry standards for safety, emissions and network interconnection. With new and emerging technologies and service offerings from network service providers, such standards are often changing or unavailable. As a result, there is a potential for product development delays due to the need for compliance with new or modified standards. The introduction of new and enhanced products also requires that the Company manage transitions from older products in order to minimize disruptions in customer orders, avoid excess inventory of old products and ensure that adequate supplies of new products can be delivered to meet customer orders. There can be no assurance that the Company will be successful in developing, introducing or managing the transition to new

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or enhanced products, or that any such products will be responsive to technological changes or will gain market acceptance. The Company's business, financial condition and results of operations would be materially adversely affected if the Company were to be unsuccessful, or to incur significant delays in developing and introducing such new products or enhancements. See "Dependence on Legacy and Recently Introduced Products and New Product Development".

Compliance with Regulations and Evolving Industry Standards. The market for the Company's products is characterized by the need to meet a significant number of communications regulations and standards, some of which are evolving as new technologies are deployed. In the United States, the Company's products must comply with various regulations defined by the Federal Communications Commission and standards established by Underwriters Laboratories and Bell Communications Research and new products introduced in the SpectraComm line and other products designed for telecommunication carrier networks will need to be NEBS Certified. As standards continue to evolve, the Company will be required to modify its products or develop and support new versions of its products. The failure of the Company's products to comply, or delays in compliance, with the various existing and evolving industry standards, could delay introduction of the Company's products, which could have a material adverse effect on the Company's business, financial condition and results of operations.

GDC May Require Additional Funding to Sustain Operations. The Company emerged from Chapter 11 bankruptcy on September 15, 2003. Under the plan of emergence, the Company plans to pay all creditors 100% of their allowed claims based upon a five year business plan. The ability to meet the objectives of this business plan is directly affected by the factors described in this section "Risk Factors". The Company cannot assure investors that it will be able to obtain new customers or to generate the increased revenues required to meet our business plan objectives. In addition, in order to execute the business plan, the Company may need to seek additional funding through public or private equity offerings, debt financings or commercial partners. The Company cannot assure investors that it will obtain funding on acceptable terms, if at all. If the Company is unable to generate sufficient revenues or access capital on acceptable terms, it may be required to (a) obtain funds on unfavorable terms that may require the Company to relinquish rights to certain of our technologies or that would significantly dilute our stockholders and/or (b) significantly scale back current operations. Either of these two possibilities would have a material adverse effect on the Company's business, financial condition and results of operations.

Risks Associated With Entry into International Markets. The Company has had limited direct sales to customers outside of North America since 2001. The Company has little recent experience in international markets with the exception of a few direct customers and resellers/integrators. The Company intends to expand sales of its products outside of North America and to enter certain international markets, which will require significant management attention and financial resources. Conducting business outside of North America is subject to certain risks, including longer payment cycles, unexpected changes in regulatory requirements and tariffs, difficulties in supporting foreign customers, greater difficulty in accounts receivable collection and potentially adverse tax consequences. To the extent any Company sales are denominated in foreign currency, the Company's sales and results of operations may also be directly affected by fluctuations in foreign currency exchange rates. In order to sell its products internationally, the Company must meet standards established by telecommunications authorities in various countries, as well as recommendations of the Consultative Committee on International Telegraph and Telephony. A delay in obtaining, or the failure to obtain, certification of its products in countries outside the United States could delay or preclude the Company's marketing and sales efforts in such countries, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Risk of Third Party Claims of Infringement. The network access and telecommunications equipment industries are characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. From time to time, third parties may assert exclusive patent, copyright, trademark and other intellectual property rights to technologies that are important to the Company. The Company has not conducted a formal patent search relating to the technology used in its products, due in part to the high cost and limited benefits of a formal search. In addition, since patent applications in the United States are not publicly disclosed until the related patent is issued and foreign patent applications generally are not publicly disclosed for at least a portion of the time that they are pending, applications may have been filed which, if issued as patents, could relate to the Company's products. Software comprises a substantial portion of the technology in the Company's products. The scope of protection accorded to patents covering software-related inventions is evolving and is subject to a degree of uncertainty which may increase the risk and cost to the Company if the Company discovers third party patents related to its software products or if such patents are asserted against the Company in the future.

The Company may receive communications from third parties asserting that the Company's products infringe or may infringe the proprietary rights of third parties. In its distribution agreements, the Company typically agrees to indemnify its customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. In the event of litigation to determine the validity of any third-party claims, such litigation, whether or not determined in favor of the Company, could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel from productive tasks. In the event of an adverse ruling in such litigation, the Company might be required to discontinue the use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses from third parties. There can be no assurance that licenses from third parties would be available on acceptable terms, if at all. In the event of a successful claim against the Company and the failure of the Company to develop or license a substitute technology, the Company's business, financial condition, and results of operations could be materially adversely affected.

Limited Protection of Intellectual Property. The Company relies upon a combination of patent, trade secret, copyright, and trademark laws and contractual restrictions to establish and protect proprietary rights in its products and technologies. The Company has been issued certain U.S. and Canadian patents with respect to certain products. There can be no assurance that third parties have not or will not develop equivalent technologies or products without infringing the Company's patents or that a court having jurisdiction over a dispute involving such patents would hold the Company's patents valid, enforceable and infringed. The Company also typically enters into confidentiality and invention assignment agreements with its employees and independent contractors, and non-disclosure agreements with its suppliers, distributors and appropriate customers so as to limit access to and disclosure of its proprietary information. There can be no assurance that these statutory and contractual arrangements will deter misappropriation of the Company's technologies or discourage independent third-party development of similar technologies. In the event such arrangements are insufficient, the Company's business, financial condition and results of operations could be materially adversely affected. The laws of certain foreign countries in which the Company's products are or may be developed, manufactured or sold may not protect the Company's products or intellectual property rights to the same extent as do the laws of the United States and thus, make the possibility of misappropriation of the Company's technology and products more likely.

Potential Volatility of Stock Price. The trading price of the Company's Common Stock may be subject to wide fluctuations in response to quarter-to-quarter variations in operating results, announcements of technological innovations or new products by the Company or its competitors, developments with respect to patents or proprietary rights, general conditions in the telecommunication network access and equipment industries, changes in earnings estimates by analysts, or other events or factors. In addition, the stock market has experienced extreme price and volume fluctuations, which have

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particularly affected the market prices of many technology companies and which have often been unrelated to the operating performance of such companies. Company-specific factors or broad market fluctuations may materially adversely affect the market price of the Company's Common Stock. The Company has experienced significant fluctuations in its stock price and share trading volume in the past and may continue to do so.

The Company is Controlled by a Small Number of Stockholders and Certain Creditors. In particular, Mr. Modlin, Chairman of the Board and Chief Executive Officer, and President of Weisman Celler Spett & Modlin, P.C., legal counsel for the Company, owns approximately 69% of the Company's outstanding shares of Class B stock. Furthermore, Mr. Modlin is also executor of the estate of Mr. Charles P. Johnson, the former Chairman of the Board and Chief Executive Officer, and such estate owns approximately 27% of the outstanding shares of Class B stock. Class B stock under certain circumstances has 10 votes per share in the election of Directors. The Board of Directors is to consist of no less than three and no more than thirteen directors, one of which was designated by the Creditors Committee (and thereafter may be designated by the Trustee). The holders of the 9% Preferred Stock are presently entitled to designate two directors until all arrears on the dividends on such 9% Preferred Stock are paid in full. In addition, until the Company's primary secured loan obligations are paid in full, the primary secured lender, Ableco Finance LLC ("Ableco") is entitled to designate three directors and, upon default in its loan, its affiliate shall have the right under the two warrants it holds, to (i) acquire from 5% to 51% (currently 20%) of the outstanding Common Stock depending on the amount of the outstanding secured debt at such time, and (ii) acquire 10% of the outstanding Common Stock on a diluted basis. If Ableco's loan is not repaid in full by September 15, 2006, the Trustee may designate two more directors, and in the event of a payment default under the Debentures which is not cured within 60 days after written notice, the Trustee shall be entitled to select a majority of the Board of Directors. Accordingly, in the absence of a default under Ableco's loan, or a payment default under the Debentures, Mr. Modlin may be able to elect all members of the Board of Directors not designated by the holders of the 9% Preferred Stock, Ableco and the Trustee and determine the outcome of certain corporate actions requiring stockholder approval, such as mergers and acquisitions of the Company. This level of ownership by such persons and entities could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company. Such provisions could limit the price that certain investors might be willing to pay in the future for shares of the Company's Common Stock, thereby making it less likely that a stockholder will receive a premium in any sale of shares. To date, the holders of the 9% Preferred Stock and Ableco have not designated any directors.

ITEM 3. CONTROLS AND PROCEDURES

For the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer, and Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's President and Chief Executive Officer, and Vice President and Chief Financial Officer, have concluded that the Company's disclosure controls and procedures are effective to ensure the information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There have been no significant changes in the Company's internal controls over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-QSB that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Payment of dividends on the 9% Cumulative Convertible Exchangeable Preferred Stock were suspended June 30, 2000. Such dividend arrearages total \$8,420,681 as of March 31, 2005.

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

Not applicable

ITEM 5. OTHER INFORMATION

Reference is made to Note 7. 2005 Stock and Bonus Plan for description of new 2005 Stock and Bonus Plan adopted January 26, 2005 and previously filed as an exhibit.

ITEM 6. EXHIBITS

(a) Exhibits Index:

Exhibit Number	Description of Exhibit
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31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

GENERAL DATACOMM INDUSTRIES INC.

May 16, 2005

/s/ WILLIAM G. HENRY

William G. Henry
Vice President, Finance and Administration
Chief Financial Officer

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CERTIFICATION

I, Howard S. Modlin, Chairman of the Board, President and Chief Executive Officer of General DataComm Industries, Inc. (the "Company") certify that:

1. I have reviewed this Report on Form 10-QSB (the "Report") of the Company for the quarter ended March 31, 2005.
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;
4. The Company's other certifying officer 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 Company 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 Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - b) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - c) disclosed in this Report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
 - 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 Company's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ HOWARD S. MODLIN

Date: May 16, 2005

Howard S. Modlin
Chairman of the Board, President and
Chief Executive Officer

CERTIFICATION

I, William G. Henry, Vice President, Finance and Administration and Chief Financial Officer of General DataComm Industries, Inc. (the "Company") certify that:

1. I have reviewed this Report on Form 10-QSB (the "Report") of the Company for the quarter ended March 31, 2005.
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;
4. The Company's other certifying officer 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 Company 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 Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - b) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - c) disclosed in this Report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
 - 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 Company's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ WILLIAM G. HENRY

Date: May 16, 2005

William G. Henry
Vice President, Finance and
Administration
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), I, Howard S. Modlin, Chairman of the Board, President and Chief Executive Officer, and I, William G. Henry, Vice President, Finance and Administration and Chief Financial Officer, each of General DataComm Industries, Inc. (the "Company"), do each hereby certify, to the best of my knowledge that:

(1) The Company's Quarterly Report on Form 10-QSB for the period ended March 31, 2005 being filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This Certification accompanies this Form 10-QSB as an exhibit, but shall not be deemed as having been filed for purposes of Section 18 of the Securities Exchange Act of 1934 or as a separate disclosure document of the Company or the certifying officer.

Date: May 16, 2005

/s/ HOWARD S. MODLIN

Howard S. Modlin,
Chairman of the Board, President and
Chief Executive Officer

/s/ WILLIAM G. HENRY

William G. Henry
Vice President, Finance and
Administration and Chief Financial
Officer