2006 ANNUAL REPORT

XATA

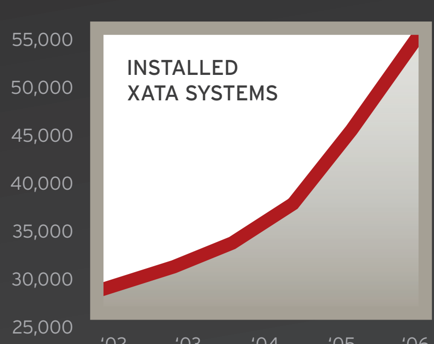
FLEET INTELLIGENCE

2006 HIGHLIGHTS

XATA again achieved record revenue growth in 2006 with an increase of 59% over the prior fiscal year. In 2006 XATANET, our web-based fleet management system, continued to experience explosive growth as revenue grew 190% over 2005.

Based on a clear understanding of the features and functions that matter most to drivers and fleet operators, XATANET delivers on-demand applications and intelligence over the Internet so fleet managers can securely view data for any truck at any time with a Web browser. The affordable entry-point and the ability to quickly show performance improvements have enabled XATANET to penetrate fleets ranging in size from 5 to 5,000 vehicles.

The success of XATANET represents 20 years of experience developing solutions for North America's premier private fleets.



And, we believe, with the shift to a per truck subscription-based offering, this product will be the driving force behind continued growth for years to come.

A pioneer in onboard fleet management solutions since 1985, XATA revolutionized the trucking industry by being the first to introduce paperless driver logs, exception-based reporting and dynamically updated fleet standards.

XATA now combines onboard computing, global positioning, wireless communication and fleet management software in a seamless solution that helps companies focus on what matters most about their fleet: controlling costs and ensuring compliance.

These proven solutions enable XATA customers to reduce fuel costs, increase productivity, improve safety and enhance customer service.

Today, XATA systems increase the productivity of more than 54,000 trucks at 1,800 distribution centers across North America.

Form 10-KSB

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: September 30, 2006

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________________ to _________________

Commission file number: 0-27166

XATA CORPORATION
(Name of small business issuer in its charter)

Minnesota	41-1641815
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
151 East Cliff Road, Suite 10, Burnsville, Minnesota	55337
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: (952) 707-5600

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $.01 par value
(Title of Class)

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

State issuer's revenues for its most recent fiscal year: $30,629,000

The aggregate market value of the voting stock held by non-affiliates of the registrant was $28,146,000 as of December 13, 2006, based upon the closing sale price on the Nasdaq Capital Market reported for such date. Shares of Common Stock held by each officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 8,452,000 shares of the registrant's Common Stock issued and outstanding as of December 13, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-KSB incorporates information by reference from the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on February 7, 2007 to the extent stated herein. Except with respect to information specifically incorporated by reference in this Form 10-KSB, the Proxy Statement is not deemed to be filed as a part of this Report. It is anticipated that the definitive Proxy Statement will be filed with the Commission not later than January 12, 2007. In addition, there are incorporated by reference in this Report certain previously filed exhibits identified in Part III, Item 13.

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Forward Looking Statements

This report includes forward-looking statements based on current expectations. Actual results may differ materially. These forward-looking statements involve a number of risks and uncertainties about us, our business, our customers, and the economy and business environment in general. Risks and uncertainties about us include, for example, the following:

- We incurred operating losses in our most recent fiscal year, and such losses are likely to continue in the next fiscal year.
- We may be unable to adapt to technological change quickly enough to grow or to retain our customer base.
- We will continue to be dependent upon positioning systems and wireless communication networks owned and controlled by others, and accordingly, their problems may adversely impact us.
- For the foreseeable future, we are dependent upon the continued receipt and fulfillment of new orders for our current products.
- Our growth and profitability depend on our timely introduction and market acceptance of new products, our ability to continue to fund product development activities, and our ability to establish and maintain strategic partner relationships.

Trademark Notice

XATA®, OpCenter®, XATANET®, SmartCom™, and XATA MobileSync™ are all trademarks of XATA Corporation. XATA®, XATANET® and OpCenter® are registered with the U.S. Patent and Trademark Office.

PART I

Item 1. Description of Business

About XATA

We are one of the leading providers of fleet management solutions to the truck transportation industry. Our innovative technologies and value-added services enable customers to optimize the utilization of their assets and enhance the productivity of fleet operations across the entire supply chain, resulting in decreased costs, improved compliance with U.S. Department of Transportation regulations, improved customer service and overall business productivity.

Founded in 1985, XATA has leveraged over 20 years of experience developing solutions for North America's premier private fleets. That knowledge has resulted in a clear understanding of the features and functions that matter most to drivers and fleet operators.

We were the first company to provide completely paperless electronic logs, exception-based management reporting and learned standards for accurate business intelligence. Our products seamlessly combine enterprise software, onboard computing, real-time communications and global positioning systems (GPS) to provide an enterprise logistics management solution for private fleet operators.

Our first-generation products, introduced in the early 1990's, included our revolutionary touch-screen Driver Computer and PC based Fleet Management System software. Valuable data was downloaded from Driver Computers to the Fleet Management System host software in batch mode via our patented Driver Key for compliance reporting and analysis.

In 1999 we introduced OpCenter, a Microsoft Windows-based customer-hosted system that can manage multiple operation centers and users over a wide area network. OpCenter continues to be a leading Fleet Management System for Fortune 1000 private trucking fleets.

In 2004, we introduced XATANET, our next-generation Web-based system. Over the past several years we have invested heavily in product development to bring the XATANET system to market, as well as to develop additional software applications for managing trucks and fleet operations. We believe that XATANET enables us to significantly broaden our penetration of the 3.6 million medium and heavy duty vehicle private fleet transportation market.

In 2000, we formed a strategic alliance with John Deere Special Technologies Group, Inc. ("JDSTG"), a subsidiary of Deere & Company, to enable us to accelerate our product development initiatives and more effectively distribute our new products to both new and existing markets. Deere now owns approximately 16.2 % of our outstanding common stock on a fully diluted basis.

In December 2003, Trident Capital invested approximately $4.1 million in the Company by acquiring 1,613,000 shares of Series B Convertible Preferred Stock. In September 2005, Trident Capital invested an additional $5.0 million by acquiring 1,269,000 shares of Series C Convertible Preferred Stock. On an as if-converted and fully diluted basis, Trident Capital now owns approximately 29.5% of our common stock. Trident Capital, a private equity firm with more than $1.5 billion under management, focuses on investments in the information services and enterprise software sectors. The additional capital has allowed us to continue expanding our product development, distribution and marketing efforts, and provided a strong endorsement of our plans for future growth.

Trucking Industry Background and Trends

Private fleets and for-hire carriers comprise the two major fleet categories within the commercial trucking industry. Private fleets (our current market focus) include manufacturers, wholesalers, retailers and other companies who transport their own goods using equipment they own or lease. For-hire carriers include truckload and less-than-truckload carriers whose primary business is the trucking and transportation of freight that belongs to others.

Commercial trucking fleets are characterized by considerable investment in equipment, high operating costs, significant annual mileage per vehicle and extensive federal and state compliance reporting requirements. Costs for equipment, drivers, fuel, insurance, maintenance, and support personnel make the efficient operation of each vehicle an essential and complex part of fleet management. Accordingly, accurate and timely data collection and analysis enables managers of truck fleets to reduce operating costs. We believe there is, and will continue to be, significant demand in the trucking industry for onboard fleet management systems, principally because the use of this technology enables fleet operators to reduce expenses, respond to competitive pressures and improve customer service.

We believe the following trends continue to impact the private fleet trucking industry, resulting in increasing competitive pressures and demand for mobile information technology:

- New technologies: Historical barriers to purchase are diminishing with the affordability, simplicity and acceptance of new wireless communication and internet technologies.

- Increased operating costs: Driver salaries, fuel, insurance, and other operating costs continue to increase. These trends encourage operators to utilize onboard information systems to control costs and more effectively manage their fleets.

- Safety and security concerns: Since the terrorist attacks of September 11, 2001, public authorities and fleet operators have become more acutely interested in technology solutions to increase the safety and security of their drivers and cargo. This is especially true for companies transporting petroleum products and other hazardous loads.

- E-commerce: As companies increasingly rely on just-in-time inventory management and seek to control and monitor inventories throughout their entire supply chain, they demand better service and increased capabilities from their trucking operators and vendors. In addition, as companies increasingly adopt Internet technologies to reduce communication costs, paperwork and processing times, trucking operators are adopting technology to comply with the operating processes and systems of their customers. This trend encourages integration of onboard computers with the host information systems of trucking fleet operators.

- Government regulations: U.S. Department of Transportation (DOT) driver log requirements have become more stringent. The Federal Motor Carrier Safety Administration (FMCSA), an administration within the DOT, implemented new driver hours-of-service rules in January 2004, tightening driver work rules. These rules were challenged in federal court and the FMSCA issued revised rules effective October 1, 2005. The revised regulations became enforceable after a period of transitional compliance on January 1, 2006. The FMCSA is currently evaluating the benefit of Electronic Onboard Recorders (EOBR's) to increase hours-of-service compliance, and in turn, highway safety. We believe computer generated driver logs may eventually be mandated by federal or state governments.

The extensive hours-of-service regulations imposed by the FMCSA are compounded by additional regulation in each of the 50 states. In general, states require trucks to pay state fuel taxes based on the amount of fuel consumed in their state. To comply with these regulations, drivers must record state border crossing and fuel purchase information. Many long haul vehicles cross up to 25 state borders per week, resulting in significant paperwork for the driver, the clerical staff of the carrier and the processor of the carrier's fuel tax returns. To complicate an already large paperwork requirement, these records must be maintained at the fleet home base as well as at the carrier's headquarters. Records must also be readily available for federal regulators to review driver log compliance. Our systems are designed to automate compliance with each of these regulatory requirements.

Our Products and Services

XATA provides powerful, advanced, yet user-friendly computer systems used by manufacturing, distribution, petroleum and other operators of trucking fleets to reduce fuel costs, increase operational efficiencies, improve safety and enhance customer service.

Our product offerings consist of OpCenter, our comprehensive Windows-based fleet management system, and XATANET, our Web-based fleet management system. Our products perform the following functions to enable fleet operators to control costs and maximize vehicle and driver performance:

- Mobile two-way messaging and real-time vehicle location.
- Automation of DOT driver log requirements and state fuel tax reporting.
- Comprehensive vehicle and driver performance reporting.
- Efficient routing, trip optimization and stop activity scheduling.
- Diagnostic and accident data capture.

These systems integrate data generated within the truck as well as data received via GPS (Global Positioning System) into either a Windows- or Web-based user interface, enabling fleet managers to measure fleet performance, resolve exception conditions, monitor ongoing operations and perform detailed analysis.

XATANET Fleet Management System

A flexible and expandable fleet management solution, XATANET enables fleet operators to lower operating costs, increase productivity, improve safety, and comply with regulatory requirements.

XATANET integrates onboard computers, driver displays and cost-effective communications with a suite of powerful, Web-based applications delivered on-demand via the Internet.

If organizations chose to have XATA host the service, we will manage the Web-based applications and maintain the customer databases associated with them. XATANET will provide asset tracking with real-time visibility of drivers, vehicles and deliveries. It delivers a low cost of entry and the freedom from customers having to monitor and manage software. All applications are securely accessible via the internet with a standard Web browser.

XATANET is ideal for organizations that seek to eliminate the startup costs and lengthy implementation times typically associated with fleet management solutions. XATANET allows fleets of all sizes to install, utilize and pay for only those applications that benefit their organization today, gaining immediate value at a lower cost of entry, while retaining the ability to expand their use as fleet operations evolve.

A XATANET solution is comprised of four primary components as described below:

<u>Onboard Hardware</u>

XATA Application Modules (XAM) – Rugged, mobile computing platforms including GPS and wireless communications hardware that collect, store and intelligently manage data communications. The XAM connects to the engine gathering vehicle and diagnostic information onboard. In conjunction with interactive driver displays, the XAM unifies communication between fleet management, vehicles, and drivers. Using our powerful onboard applications, all of the vehicle information can be delivered immediately to the driver display or reported back to fleet management, based on user defined preferences.

Our latest-generation, multi-mode XATA Application Module utilizes both the ORBCOMM satellite and Sprint digital cellular (CDMA 1xRTT) networks in a single unit to provide high-bandwidth, low latency, ubiquitous coverage. Our patent pending XATA MobileSync over-the-air application management instantly makes new features available and reduces the cost of updating software in the vehicle. Designed for use with both XATANET and OpCenter, the XAM serves as a migration path for OpCenter customers who want to leverage web-based software.

Driver Displays

Touch-screen driver displays are mounted in the cab of the truck capturing and communicating fleet performance information. With the ability to monitor fuel economy, estimated time of arrival (ETA), and regulatory compliance drivers can help ensure the fleet reaches optimum performance levels.

Wireless Communications

XATA systems use patented technologies that utilize lowest cost communication methods synchronizing trip and driver data with maximum efficiency. Our multi-mode systems combine CDMA 1xRTT, 802.11 WiFi, and satellite wireless networks to provide "No Gap" coverage and high speed data download.

Application Service Packages

XATANET's applications are bundled into 4 Service Packages, conveniently designed to target the specific operational needs of fleet operations. This modular approach enables customers to expand services over time.

OpCenter Fleet Management System

Our OpCenter system enables managers to achieve measurable fleet performance and productivity improvements by integrating onboard technology into the fleet management process. The OpCenter system consists of a Driver Computer, Driver Key, Data Station and our OpCenter Fleet Management Software hosted and managed by the customer. Our XAM can also be used in various hardware configurations in replacement of a Driver Key.

The Driver Computer has a touch-sensitive, easy-to-read, user-friendly screen that provides instant feedback to the driver. Each driver has an electronic Driver Key that stores his identity, log, dispatch, and trip data and is a means of electronically transferring information to and from the Driver Computer and Data Station. Data Stations are located where drivers begin and end their trips, and provide dispatch data on a Driver Key at the beginning of each trip and offload actual trip data from the Driver Key at the end of each trip.

Our OpCenter Fleet Management Software operates in a multi-user, Microsoft Windows environment and is capable of managing multiple fleets over a wide area network. The system collects, validates and processes data recorded by a fleet's network of Driver Computers and Data Stations. OpCenter provides a decision support tool for the entire distribution team. This system reduces operating costs, improves safety, streamlines compliance reporting and automates data collection for other systems. OpCenter helps users efficiently measure fleet performance, resolve exception conditions, monitor ongoing operations and perform detailed analysis.

When integrated with optional satellite, digital cellular or 802.11b Wi-Fi wireless communications via our XAM, OpCenter provides immediate access to critical onboard information. Its real-time notification is triggered by user-defined onboard conditions, ensuring that only critical information is reported to fleet management. Detecting and processing of exception conditions only improves operating efficiency while minimizing recurring communication charges.

Target Markets

There are approximately 8.1 million commercial trucks operating in the United States, of which 6.6 million are operated by private fleets and 1.5 million are operated by for-hire carriers. While most of our current customers fall into a portion of the private fleet category, we believe that our new fleet management products will enable us to enter other segments of the commercial trucking industry.

Private Fleets

Private fleets include the commercial trucks operated by manufacturers, wholesalers, retailers and other companies who transport their own goods using equipment they own or lease. Historically, the costs associated with purchasing an integrated hardware and software system for onboard computing, including our OpCenter system, required a minimum fleet size in order to recover the fixed costs of a host system implementation. As a result, we target our OpCenter system to private fleets that operate more than 30 heavy-duty trucks in select vertical markets.

We believe our historic target market segment has comprised approximately 300,000 vehicles. We believe our introduction of XATANET will allow us to significantly expand our addressable market to a much larger portion of the private fleet sector, including smaller fleets, large decentralized fleets and fleets in new vertical markets. Specifically, smaller fleets and decentralized fleets are able to purchase individual XATANET software application packages that target their specific information needs and use our Internet-based host system to collect, process and present their data. We believe these fleets represent a significant new market opportunity. We view the total 6.6 million commercial trucks in this segment as our target market going forward, with particular emphasis on fleets operating medium and heavy duty trucks, estimated at 3.6 million vehicles.

For-Hire Carriers

For-hire carriers include both truckload and less-than-truckload (LTL) carriers, whose primary business is the trucking and transportation of freight that belongs to others. There are approximately 1.3 million commercial trucks in the for-hire carrier market segment.

Other Markets

We believe our XATANET web-based system may ultimately be introduced into several other new markets because of its open system architecture and the many potential applications for web-based, GPS-enabled tools.

Major Customers

In fiscal 2006, we had sales with customers (hereinafter referred to as "Customer A" and "Customer B") who each accounted for approximately 18% of fiscal 2006 revenue. No other customer accounted for 10% or more of revenue in fiscal 2006 or 2005.

Our systems have been installed in approximately 54,000 trucks at over 1,800 distribution centers. Our customers include Fortune 500 companies and other large organizations, including Allegiance Healthcare Corporation, Baxter Healthcare Corporation, Bi-Lo, LLC, The BOC Group plc, Core-Mark International, CVS Pharmacy, Eby-Brown Company, Foster Farms Dairy, Hannaford Trucking Co., The Kroger Co., McLane Company, Publix Super Markets, Inc., Penske Corporation, Perlman Rocque, Ryder System Inc., Safeway, Inc., Supervalu, Inc., Toys "R" Us, Inc., Unisource Worldwide, Inc., United Natural Foods, Inc., the United States Postal Service, Whirlpool Corporation and xpedx (a division of International Paper Company).

Sales and Marketing

We market our products to operators of trucking fleets through a multi-tiered sales strategy including a direct sales force and various strategic alliances in our indirect sales channel.

Direct Sales Channel

Our direct sales force sells our onboard fleet management systems primarily to private fleet truck operators and logistics providers through national, regional and inside sales account executives. The efforts of our sales executives are supported by our systems sales consultants, project management and customer service organizations, which have a strong working knowledge of the hardware and software configurations and experience integrating our systems into fleets. We believe the level of service we provide to our customers is unique in the industry and a key competitive advantage in securing new customers and retaining existing accounts.

We focus our direct sales and marketing efforts on companies operating fleets of all sizes within vertical markets that have experienced significant benefits from our systems. These vertical markets include food distribution, petroleum production and marketing, manufacturing and processing, retail/wholesale delivery, and government.

Indirect Sales Channel

Distribution relationships with leading truck leasing companies such as Penske Truck Leasing Co., L.P. (a partnership of Penske Corporation and GE Capital) and NationaLease Purchasing Corporation (an affiliate of National Truck Leasing System) are the basis of our indirect sales channel. In our arrangement with Penske, Penske integrates our XATANET web-based system into its full-service lease program through a private labeled offering named Fleet I.Q. NationaLease also offers XATANET to its large base of lease customers in a joint go-to-market strategy with us.

As we continue to evolve the XATANET system, we anticipate offering our product through other new indirect sales channels such as sales agents, wireless carries and third party installers that will drive substantial additional sales.

We also use a combination of integrated marketing activities, including advertising, trade shows, the Internet and direct mail, to gain exposure within our target markets. We exhibit our products at selected industry conferences to promote brand awareness. We actively pursue speaking opportunities at industry trade shows for our management staff, as well as for customers who have gained efficiencies in fleet operations using our technology.

Competition

Competition in the mobile resource management system industry continues to increase at a rapid pace as businesses and governments realize the number of benefits organizations can achieve. We face strong competition for our solutions, and this competition is expected to continue to increase in the future. We compete primarily on the basis of functionality, ease of use, quality, price, service availability and corporate financial strength. As the demand by businesses for mobile resource management solutions increases, the quality, functionality and breadth of competing products and services will likely improve and new competitors will likely enter our market. In addition, the widespread adoption of industry standards may make it easier for new market entrants or existing competitors to improve their existing products and services, to offer some or all of the products and services we offer or may offer in the future, or to offer new products and services that we do not offer. We also do not know to what extent network infrastructure developers and wireless network operators will seek to provide integrated wireless communications, Global Positioning Systems, software applications, transaction processing, and Internet solutions, including access devices developed internally or through captive suppliers.

Many of our existing and potential competitors have substantially greater financial, technical, marketing and distribution resources than we do. Additionally, many of these companies have greater name recognition and more established relationships with our target customers. Furthermore, these competitors may be able to adopt more aggressive pricing policies and offer customers more attractive terms than we can.

Key Alliances and Relationships

We continue to establish relationships with third parties with the intent to increase the deployment of our solutions. We believe that establishing these strategic relationships will facilitate our technological leadership and increase our access to new customers. Some of our existing relationships include:

Communication Providers

We have established relationships with Sprint/Nextel (Sprint) and Orbcomm LLC (Orbcomm) to provide wireless connectivity between our subscribers and our host system. We contract directly with Sprint and Orbcomm for the provision of wireless communications, which are bundled with our solutions. We are continuing to expand this category and look to add additional partners in the upcoming 12 – 18 months.

Indirect Sales Channel Alliances

We have an agreement with Penske Truck Leasing Co., L.P. in which we provide Penske a private labeled version of our XATANET web-based fleet management system, wireless communication services, managed hosting services and technical support. Penske has integrated our XATANET web-based system as an option for its full-service lease customers under the name Fleet I.Q. In total, Penske Truck Leasing has approximately 200,000 vehicles under management.

We also have a relationship with NationaLease Purchasing Corporation, whereby NationaLease offers XATANET to its truck leasing customers in a joint go-to-market strategy with us. NationaLease is a consortium of approximately 120 independent truck leasing companies with a total fleet of 65,000 vehicles.

Manufacturers

We have established a relationship with Winland Electronics, Inc. (Winland) for the manufacture and testing of our mobile hardware products pursuant to our detailed specifications and quality requirements. In fiscal 2005 our primary manufacturing vendor was Phoenix International Corporation, a subsidiary of Deere & Company. Deere & Company, through its subsidiary JDSTG, is a principal shareholder of the Company. In the first quarter of fiscal 2006, we changed our primary manufacturing vendor to Winland as a result of increased production capabilities.

We have relationships with other companies that manufacture components for our solutions as well. All of our suppliers have entered into confidentiality agreements with respect to our proprietary technology. We believe our current suppliers can provide production volumes to meet our anticipated increases in product demand and we are not aware of any difficulty experienced by our suppliers in obtaining raw materials for manufacture.

Patents, Trademarks, and Copyrights

XATA, XATANET, and OpCenter are trademarks registered with the United States Patent and Trademark office. All computer programs, report formats, and screen formats are protected under United States copyright laws. In addition, we possess a design patent issued by the United States Patent and Trademark Office that covers the design of our Driver Computer display, and have patent applications pending on other technologies. We also claim trademark and trade name protection for the following: XATA MobileSync, and SmartCom. We have trademark applications pending with the United States Patent and Trademark Office for XATA MobileSync. We have patents pending for XATA Data Conduit, Portable Storage Module, and Environmental Condition Monitoring of a Container. We protect and defend our intellectual property rights vigorously.

Research and Development

We concentrate our research and development activities on hardware and software solutions for our customers. Our U.S. research and development activities are supplemented by third party resources we contract in Belarus. To enhance our existing solutions and to introduce new solutions to our existing and potential customers, we focus on the following key areas:

- *Software.* We intend to continue to develop our software applications by offering new features while enhancing existing features. For example, in August 2006, we announced the availability of XATANET 3.2, the latest version of our on-demand fleet management system that offers a new automated dashboard for key performance metrics and point-and-click scheduled reporting for information distribution.

- *Hardware.* We intend to continue to develop and release platform upgrades to add new features as well as to enhance existing features. For example, in November 2004, we announced the availability of our Multi-Mode communications platform. An integrated digital cellular (CDMA 1xRTT) and satellite communications platform that delivers both high-speed data download and ubiquitous coverage, eliminating the traditional bandwidth and gap limitations facing fleets trying to efficiently operate in real-time.

Research and development expenses were $3.3 million for fiscal 2006 compared to $3.6 million for fiscal 2005. The decrease of $0.3 million was mainly due to the increase in capitalized software development costs. In addition, we invested approximately $0.3 million in both fiscal 2006 and 2005 on the enhancement of released products. In fiscal 2006 and 2005, we incurred total research and development costs of $4.2 million and $3.9 million, respectively; of which $0.9 million and $0.3 million of software development costs were capitalized in fiscal 2006 and 2005, respectively. These costs were capitalized after the establishment of technological feasibility occurred as required by FAS 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed.* These costs will be amortized to cost of goods sold over the anticipated useful life of the product which is determined based upon its anticipated future net revenues.

Employees

As of September 30, 2006, our staff included 101 employees and 21 independent contractors whose primary assignments are approximately as follows: 47 in research and development and information services; 16 in sales and marketing; 35 in customer support; 24 in administrative, finance, purchasing and warehousing.

Executive Officers

<u>John J. Coughlan, Chairman of the Board & Chief Executive Officer</u>

Mr. Coughlan, age 48, has been Chairman and Chief Executive Officer since joining XATA in October 2006. Prior to joining XATA, he was involved in a business consulting practice. He previously served as president and CEO of Lawson Software, Minnesota's largest software company. Mr. Coughlan joined Lawson Software in 1987 and became CEO in February 2001 prior to the company's initial public offering in December of 2001. In addition to his responsibilities at XATA, Mr. Coughlan is an active regional business advocate and serves on the board of directors for several local organizations, including Securian Financial Group, Inc. He replaced Craig Fawcett who resigned in September 2006.

<u>Mark E. Ties, Chief Financial Officer & Treasurer</u>

Mr. Ties, age 41, joined XATA in April 2005 as Chief Financial Officer. He is responsible for the Company's finance, human resources, purchasing, and distribution functions. Before joining XATA, Mr. Ties was the chief financial officer and treasurer at Velocity Express Corporation, where he served as a member of the Company's executive leadership team and was responsible for the Company’s financial activities including; capital raising activities; SEC compliance; financial planning and analysis; mergers and acquisitions; cash management; back-office process integration; corporate governance practices; and investor relations. Prior to Velocity, he served as a Senior Manager for Ernst & Young LLP in its entrepreneurial services and mergers and acquisitions departments and as a senior financial executive at a number of companies in varied industries. He has extensive financial management experience in the areas of financing, mergers and acquisitions, business integration and financial processes.

<u>Thomas L. Schlick, Chief Operating Officer</u>

Mr. Schlick, age, 56 joined XATA in April 2006 as Chief Operating Officer. As COO, Schlick is responsible for the XATA’s service operations, project management, quality delivery, customer training, and implementation. Prior to joining XATA, Schlick was senior vice president, global service, solutions and sales operations, for DataCard Corporation. At DataCard, Schlick served as a member of the executive leadership team and was responsible for global services activities including; field operations, technical product and software support, sales and service training, program management, depot repair, and call center operations. Prior to DataCard, he served as a senior executive at Rosemount, Inc., a division of Emerson Electric. Schlick has a B.S. in Electrical Engineering and an MBA from the University of Minnesota. He is a Six Sigma Green Belt, a Board Member of Association of Service Management, International and a senior member of the Instrument Society of America.

Thomas N. Flies, Vice President – Business Development
Mr. Flies, age 37, is responsible for the company's business development, marketing and product management efforts. Mr. Flies joined XATA in 1990 and has served in various roles in sales, marketing, and product development including Sr. Vice President of Product Development where he led the development and introduction of XATA's OpCenter product line. He was named Vice President of Business Development in 2002 to focus on developing and marketing XATANET to truck leasing companies. In his role, Mr. Flies is responsible for developing product and marketing strategies and programs that drive revenue growth and establish strong brand awareness. Mr. Flies is a member of the National Private Truck Council (NPTC), American Trucking Association (ATA), Truck Rental and Leasing Association (TRALA) and the Council of Supply Chain Management Professionals (CSCMP).

Investment Considerations and Risk Factors

We do not have a long or stable history of profitable operations. The Company's net losses to common shareholders for the fiscal years 2006 and 2005 were $2.1 million and $6.7 million, respectively. The respective periods' net losses were $1.8 million and $6.0 million. Additional amounts of $0.3 million and $0.7 million, resulting from beneficial conversion charges and preferred stock dividends increased such respective period losses to the aforementioned levels of net losses to common shareholders.

We are dependent on key customers. We sell large orders to individual fleets and may be dependent upon a few major customers each year whose volume of purchases is significantly greater than that of other customers. As we continue to grow our existing customer base this risk will lessen, but until such time we are still dependent on continued purchases by present customers who continue to equip and upgrade their fleets. Loss of any significant current customers or an inability to further expand our customer base would adversely affect us.

Our sales cycle is long. The period required to complete a sale of our systems has historically been up to a year or longer. The length of the sales cycle may result in quarter-to-quarter fluctuations in revenue. Our systems are technically complex, which means the customer has to make an advance budget decision. The availability of new and other technologies also complicates and delays buying decisions.

We have competitors who are larger than we are. Many of the companies who offer competitive products have greater financial and other resources than our company. These competitors offer products ranging in sophistication and cost from basic onboard recorders to advanced mobile satellite communication and information systems. Their products may offer better or more functions than ours or may be more effectively marketed. In addition, the nature and sources of competition in our industry are rapidly evolving and increasingly depend on the ability to deliver integration of multiple information systems. These systems must link trucking operations with other facets of the supply chain through a variety of sophisticated software and communications technologies. These changes reflect a trend toward integration of intra-company data with the larger external supply chain involving the flow of goods to markets. We must continue to adapt our existing products and develop new products that facilitate the collection, integration, communication and utilization of information throughout the entire supply chain. This may entail the development of new technologies and the adaptation of new and existing products to be compatible with products and services provided by others in the industry. These trends may require us to establish strategic alliances with other companies who may be competitors.

We have a limited number of products and those products are concentrated in one industry. Although our systems have potential applications in a number of industries, to date we have targeted only the private fleet trucking segment of the transportation industry. If this market segment experiences a downturn that decreases our sales, the development of new applications and markets could take several months or longer, and could require substantial funding. In addition, our future success is dependent in part on developing and marketing new software applications. We cannot assure that new applications can be successfully developed or marketed in a timely manner.

Our target market is highly cyclical. The fleet trucking segment of the transportation industry is subject to fluctuations and business cycles. We cannot predict to what extent these business cycles may result in increases or decreases in capital purchases by fleet managers. A significant downturn in the prospects of the fleet trucking segment of the transportation industry could have a material, adverse affect on us.

The effectiveness of our selling efforts depends on knowledgeable staff and effective marketing alliances. Direct sales of our products are dependent in part upon the salesperson's in-depth knowledge and understanding of our systems. This knowledge is attained through experience and training over a period of several months or longer. We must attract, train, and retain qualified personnel on a continuing basis. We may not be able to sustain or augment our sales and marketing efforts by retaining or adding personnel, and it is possible that increased sales and marketing efforts will not result in increased sales or profitability. We believe that marketing alliances with truck leasing companies, truck manufacturers and others in the truck supply chain will become increasingly important distribution channels for our products. We may not be able to establish or sustain effective alliances. Moreover, we may have limited control over the selling efforts of our alliance partners.

We are dependent on proprietary technology. Our success is heavily dependent upon proprietary technology. We have been issued a design patent by the United States Patent and Trademark Office that covers our Driver Computer and have recently applied for several software-related patents, but we have not yet been awarded patents on any of our software programs. We rely primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures, and contractual provisions to protect our proprietary rights. These measures afford only limited protection. Our means of protecting our proprietary rights may prove inadequate, or our competitors may independently develop similar technology, either of which could adversely affect us. In addition, despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our systems or obtain and use information that we regard as proprietary.

We depend on wireless communication networks owned and controlled by others. If we are unable to deliver continued access to communication services with sufficient capacity, our revenues could decrease. Our ability to grow and achieve profitability depends on the ability of satellite and digital cellular wireless carriers to provide sufficient network capacity, reliability and security to our customers. Even where wireless carriers provide coverage to entire regions, there are occasional lapses in coverage, for example due to man-made or natural obstructions blocking the transmission of data. These effects could make our services less reliable and less useful, and customer satisfaction could suffer. Our financial condition could be seriously harmed if our wireless carriers were to increase the prices of their services, or to suffer operational or technical failures.

Our products may quickly become obsolete. Our systems utilize proprietary software and onboard touch-screen computers. Although we believe our proprietary software is more important in the capture and communication of operating data than the hardware on which the software operates, continued improvements in hardware may render our technology, including its software, obsolete. The field of software and hardware is constantly undergoing rapid technological change and we may not be able to react and adapt to changes in this field. Moreover, development by our competitors could make our systems and services less competitive or obsolete. We believe that advancements in hardware and communications technology provide opportunities for us to form alliances with companies offering products complementary to our systems and services, but we cannot assure that we can form alliances with such companies or that any such alliance will be successful. Our success depends, in large part, on our ability to anticipate changes in technology and industry standards, and develop and introduce new features and enhancements to our system on a timely basis. If we are unable to do so for technological or other reasons or if new features or enhancements do not achieve market acceptance, our business could be materially and adversely affected. We may encounter technical or other difficulties that could in the future delay the introduction of new systems or system features or enhancements.

JDSTG and Trident Capital, who are represented on our Board of Directors, individually and together own enough stock to exert significant influence over XATA. As of December 13, 2006, JDSTG owned approximately 16.2% and Trident Capital owned approximately 29.5% of our common stock on an as-converted basis, and Trident has the ability to increase its ownership significantly through exercising warrants. In addition, JDSTG is entitled to name up to three representatives to our Board of Directors and Trident is entitled to name up to two representatives. Trident is entitled to vote its Series B Preferred Stock and Series C Preferred Stock as if converted to common stock and to vote as a separate class (to the exclusion of the holders of common stock) on the election of its two director nominees. Both JDSTG and Trident benefit from certain restrictive covenants of XATA in connection with their equity investments in the Company. The combination of stock ownership and Board of Director representation enables these shareholders, individually and together, to a greater degree, to exercise significant influence over the Company.

We are dependent on key personnel. Our staff is small and our future success depends to a significant extent on the efforts of key management, technical and sales personnel. The loss of one of our key employees could adversely affect our ability to provide leading edge technology to the transportation industry.

We may need additional capital. Although we believe cash flow from operations and our $5 million line of credit will be sufficient to meet capital requirements for the foreseeable future, our cash needs may vary significantly from predictions. For example, if we do not generate anticipated cash flow, or if we grow at a rate faster than we anticipate, our predictions regarding cash needs may prove inaccurate and we may require additional financing. Our inability to obtain needed financing could have a material adverse effect on operating results. We cannot assure that we will be able to secure additional financing when needed or that financing, if obtained, will be on terms favorable or acceptable to us. Moreover, future financing may result in dilution to holders of our common stock.

We may issue additional stock without shareholder consent. We have authorized 25,000,000 shares of common stock, of which 8,452,000 shares were issued and outstanding as of December 13, 2006. The Board of Directors has authority, without action or vote of the shareholders, to issue all or part of the authorized but unissued shares. Additional shares may be issued in connection with future financing, acquisitions, employee stock plans, or otherwise. Any such issuance will dilute the percentage ownership of existing shareholders. We are also currently authorized to issue up to 5,000,000 shares of preferred stock. As of December 13, 2006, 1,815,000 shares of Series B Convertible Preferred Stock and 1,269,000 Series C Convertible Preferred Stock were issued and outstanding. The Board of Directors can issue additional preferred stock in one or more series and fix the terms of such stock without shareholder approval. Preferred stock may include the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. The issuance of preferred stock could adversely affect the rights of the holders of common stock and reduce the value of the common stock. In addition, specific rights granted to holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party.

Our common stock could be delisted due to failure to satisfy a continued listing rule or standard. On August 26, 2005, the Company received a letter from The Nasdaq Listing Qualification Staff ("Nasdaq"), notifying the Company that it was not in compliance with Marketplace Rule 4310(c)(2)(B) (the "Rule"). This Rule requires the Company to have a minimum $35 million in market value of listed securities, $2.5 million in shareholders' equity, or $500,000 in net income from continuing operations for the most recently completed fiscal year or two of the three most recently completed fiscal years. Nasdaq informed the Company that it had 30 calendar days, or until September 26, 2005, to regain compliance with the Rule. By virtue of the Trident Capital investment in September 2005, we regained compliance with the Nasdaq Marketplace listing requirements. However, Nasdaq has advised us that it will continue to monitor our compliance with the listing standards. If we fail to show compliance, we may be subject to delisting.

We may be unable to manage rapid growth. The Company's continued growth will place an increasing strain on our resources, and we could experience difficulties relating to a variety of operational matters, including hiring, training and managing an increasing number of employees, obtaining sufficient quantities of product from vendors, obtaining sufficient materials and contract manufacturers to produce our products, expanding our distribution capabilities and enhancing our customer service, financial, and operating systems. There can be no assurance that the Company will be able to manage growth effectively. Any failure to manage growth could have a material adverse effect on the Company's business, financial condition and results of operations.

Our directors' liability is limited under Minnesota law and under certain agreements. Our Articles of Incorporation, as amended and restated, state that our directors are not liable for monetary damages for breach of fiduciary duty, except for a breach of the duty of loyalty, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, for dividend payments or stock repurchases illegal under Minnesota law or for any transaction in which the director derived an improper personal benefit. In addition, our bylaws provide that we shall indemnify our officers and directors to the fullest extent permitted by Minnesota law for all expenses incurred in the settlement of any actions against them in connection with their service as officers or directors of the Company. In addition, we have entered into indemnification agreements with the Trident investors, and its representatives who serve as directors on our Board, which may supplement the indemnification provisions available to them under Minnesota law.

Anti-takeover provisions. Minnesota law provides Minnesota corporations with anti-takeover protections. These protective provisions could delay or prevent a change in control of our company by requiring shareholder approval of significant acquisitions of our voting stock. These provisions operate even when many shareholders may think a takeover would be in their best interests.

We face burdens relating to the recent trend toward stricter corporate governance and financial reporting standards. New legislation or regulations that follow the trend of imposing stricter corporate governance and financial reporting standards, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002, continues to increase our costs of compliance. A failure to comply with these new laws and regulations may impact market perception of our financial condition and could materially harm our business. Additionally, it is unclear what additional laws or regulations may develop, and we cannot predict the ultimate impact of any future changes.

Failure to achieve and maintain effective internal controls could have a material adverse effect on our business, operating results and stock price. We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act which will become effective for the Company beginning in fiscal 2008, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our Independent Auditors in fiscal 2009 addressing these assessments. During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

Item 2. Description of Property

On April 4, 1997, we leased 20,600 square feet of office and warehouse space at 151 East Cliff Road in Burnsville, Minnesota. We signed a seven year, non-cancelable operating lease for this space, with initial rental payments of $12,000 per month, plus a pro rata share of the building operating expenses commencing June 1, 1997. The base rent increased to $15,000 on February 1, 1999, in part due to occupancy of an additional 4,800 square feet of warehouse space adjacent to the originally occupied space. Base rent increased to $16,000 on June 1, 2002. In May 2003 we extended this lease through November 2006. Effective with this extension, our leased space was reduced to the 20,600 square feet we initially occupied, and our base rent was reduced to $13,000 per month. In December 2006, we extended this lease through March 31, 2008.

Item 3. Legal Proceedings

None.

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

None.

PART II

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

The following table sets forth the quarterly high and low sales prices for our common stock as reported by the NASDAQ Capital Market for fiscal years 2006 and 2005. There is no market for our Series B Preferred Stock or Series C Preferred Stock.

Fiscal Year 2006	Low	High
First Quarter	$ 3.29	$ 5.20
Second Quarter	4.01	5.25
Third Quarter	4.70	5.32
Fourth Quarter	4.35	5.50

Fiscal Year 2005	Low	High
First Quarter	$ 5.25	$ 6.10
Second Quarter	4.00	6.25
Third Quarter	3.80	5.18
Fourth Quarter	2.62	4.83

Our common stock is held by 89 registered holders of record. Registered ownership includes nominees who may hold securities on behalf of multiple beneficial owners. We estimate the number of beneficial owners of our common stock to be approximately 1,500.

Dividend Policy

Except for dividends paid to the holders of Series A 8% Convertible Preferred Stock (from issuance in May 1999 until conversion in full in August 2000), we have never paid cash dividends on any of our securities. We have retained any earnings for use in our operations. Our Board of Directors will determine future dividend payments, if any, based upon our earnings, capital needs and other relevant factors.

On December 6, 2003, we issued 1,613,000 shares of Series B Preferred Stock that pays an annual cumulative dividend of 4% of the original issue price (payable in additional shares of Preferred Stock or cash, at the option of the holders). The Series B Preferred Stock provides that we cannot pay dividends to the holders of any other capital stock unless and until we have paid dividends accrued on the Series B Preferred Stock. The holders of the Series B Preferred Stock elected to receive dividends due and payable on each of May 31 and November 30 in additional shares of Preferred Stock rather than cash. Accordingly as of December 15, 2006, we had issued a total of 70,000 and 68,000 shares of Series B Preferred Stock for payment of dividends in calendar 2006 and 2005.

Sale of Unregistered Securities

Preferred Stock

In August 2005, the Company's Board of Directors authorized the sale of up to 1,400,000 shares of Series C Preferred Stock through a private placement. Pursuant to a Stock Purchase Agreement entered into in September 2005 with Trident Capital, Inc. and its affiliates (collectively, "Trident") the Company sold 1,269,000 shares of Series C Preferred Stock for $5,015,000, or $3.94 per share. Each share of the Series C Preferred Stock is convertible into one share of the Company's common stock. The price per share of Series C Preferred Stock and the conversion price for the common stock is equal to the "market value" of the common stock (as defined in the rules of the Nasdaq Stock Market) on the date of execution of the definitive agreements. The Series C Preferred Stock does not pay a dividend unless we decline to redeem the stock upon demand of the holders after an Acceleration Event (as defined in the Certificate of Designation of the Series C Preferred Stock). In that case, it pays an annual cumulative dividend of 4% of the original issue price (payable in cash). The Series C Preferred Stock has a non-participating liquidation right equal to the original issue price, plus accrued unpaid dividends which are senior to our common stock and junior to the Series B Convertible Preferred Stock. The Company may redeem the Series C Preferred Stock at its option after five (5) years from the date of issuance at the original issue price, plus accrued unpaid dividends, if the market value of the common stock is at least three (3) times the then effective conversion price for a specified period.

Additionally, the Company issued Trident 5-year warrants to purchase 375,000 shares of its common stock at an exercise price of $3.94 per share. The aggregate purchase price of the warrants was $47,000. The warrants permit "cashless exercise."

In connection with this transaction, the Company recognized a one-time, non-cash deemed dividend of $419,000 relating to the beneficial conversion portion of the preferred stock. The beneficial conversion portion was determined by allocating the Trident proceeds on a fair value basis between the preferred stock and the warrants. The amount of the deemed dividend was the difference between the deemed fair value of the Series C Preferred Stock and the purchase price on the date of the transaction. The deemed dividend was recorded as an addition to preferred stock with a corresponding increase to accumulated deficit. The addition was recognized at the date of issuance of the preferred stock, the same date at which the shares were eligible for conversion.

No broker or placement agent was involved and no commissions or other compensation was paid.

In December 2003, the Company's Board of Directors authorized the sale of up to 1,700,000 shares of Series B Preferred Stock through a private placement. Pursuant to a Stock Purchase Agreement entered into with Trident the Company sold 1,613,000 shares of Series B Preferred Stock for $4,097,000, or $2.54 per share. Each share of the Preferred Stock is convertible into one share of the Company's common stock. The price per share of the Series B Preferred Stock and the conversion price for the common stock were equal to the "market value" of the common stock (as defined in the rules of the Nasdaq Stock Market) on the date of execution of the definitive agreements. The Series B Preferred Stock pays an annual cumulative dividend of 4% of the original issue price (payable semi-annually; payable in additional shares of Series B Preferred Stock or cash, at the option of the holders) and has a non-participating preferred liquidation right equal to the original issue price, plus accrued unpaid dividends.

In the fiscal year ended September 30, 2006, the Company issued 69,000 shares of Series B Preferred Stock to Trident for payment of accrued dividends. Based on the market value of the Company's common stock on the date of the dividend payment, the payment of the dividend in additional shares of Preferred Stock resulted in a non-cash deemed dividend of $144,000.

The Series B Preferred Stock is redeemable at the option of Trident at 100% of the original purchase price plus accrued and unpaid dividends at any time after five years from the date of issuance, or at any time if there is a significant adverse judgment against the Company, the Company defaults on its debts or files for bankruptcy, or in the event of a change of control. However, the Company may decline to redeem any or all of the Preferred Stock at its sole option and discretion, and in such case the annual cumulative dividend on the Series B Preferred Stock will increase from 4% to 10%. The Company may redeem the Series B Preferred Stock at its option after five years from the date of issuance if the market price of its Common Stock is greater than three times the conversion price on each of the sixty consecutive days prior to the redemption date.

Additionally, the Company issued Trident 5-year warrants for 451,000 shares of its common stock at an exercise price of $3.17 per share. The aggregate purchase price of the warrants was $56,000. The warrants permit “cashless exercise.”

In connection with this transaction, the Company recognized a one-time, non-cash deemed dividend of $629,000 relating to the beneficial conversion portion of the preferred stock. The beneficial conversion portion was determined by allocating the Trident proceeds on a fair value basis between the preferred stock and the warrants. The amount of the deemed dividend was the difference between the deemed fair value of the Series B Preferred Stock and the purchase price on the date of the transaction. The deemed dividend was recorded as an addition to preferred stock with a corresponding increase to accumulated deficit. The addition was recognized at the date of issuance of the preferred stock, the same date at which the shares were eligible for conversion.

The placement agent for the Trident investment received as consideration a $320,000 cash fee and 7-year warrants for purchase of an aggregate of 163,000 shares of Common Stock (130,000 shares at $2.54 per share and 33,000 shares at $3.17 per share). These warrants permit “cashless exercise” and provide the holders with piggyback registration rights.

Warrants

In January and September 2006, we issued two warrants for the purchase of 8,000 shares of common stock at $4.84 per share and 32,000 shares of common stock at $4.95 per share, to Williams Executive Search and Blackbird Partners, respectively. These warrants were consideration for executive search services.

In July 2006, the placement agent for the Trident investment exercised 16,000 warrants at $3.17 per share. In September 2006, a director of the company exercised 10,000 warrants at $3.69 per share. These warrants were issued in September 2001 for service as chairman of the board of directors.

Exemptions

All of the securities discussed above were issued in reliance upon the exemption from registration under Section 4(2) and/or Section 4(6) of the Securities Act of 1933. Notices on Form D were filed with respect to the Trident investments in our Preferred Stock.

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

The following discussion should be read in conjunction with the financial statements and the related notes included in this Report. This Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those in such forward-looking statements as a result of many factors, including those discussed in "Investment Considerations and Risk Factors" and elsewhere in this Report.

Critical Accounting Policies

Accounting policies, methods and estimates are an integral part of our financial statements and are based upon management's current judgments. Certain accounting policies, methods and estimates are particularly important because of their significance to the financial statements. Note 2 of the Notes to Financial Statements includes a summary of the significant accounting policies and methods we use. The following is a discussion of what we believe to be the most critical of these policies and methods.

Revenue Recognition. We derive our revenue from sales of hardware, software and related services, and from application service contracts. We recognize revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-9, Modification of SOP 97-2, *Software Revenue Recognition with Respect to Certain Transactions*, and Securities and Exchange Commission Staff Accounting Bulletin (SAB) 104, *Revenue Recognition in Financial Statements*.

Software revenue is recognized under SOP 97-2 and SAB 104 when (i) persuasive evidence of an arrangement exists (for example a signed agreement or purchase order), (ii) delivery has occurred, as evidenced by shipping documents or customer acceptance, (iii) the fee is fixed or determinable and payable within twelve months, and (iv) collectibility is probable and supported by credit checks or past payment history. Pursuant to certain contractual arrangements, revenues are recognized for completed systems held at our warehouse pending the receipt of delivery instructions from the customer. As of September 30, 2006 and September 30, 2005, we had approximately $20,000 of systems on hand that had been billed to those customers awaiting specific delivery instructions.

With regard to software arrangements involving multiple elements, we allocate revenue to each element based on the relative fair value of each element. Our determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence (VSOE). We limit our assessment of VSOE for each element to the price charged when the same element is sold separately. We have analyzed all of the elements included in its multiple-element arrangements and have determined that it has sufficient VSOE to allocate revenue to consulting services and post-contract customer support (PCS) components of its license arrangements. We sell our consulting services separately, and have established VSOE on this basis. VSOE for PCS components are determined based upon the customer's annual renewal rates for these elements. Accordingly, assuming all other revenue recognition criteria are met, revenue from licenses is recognized upon delivery, and revenue from PCS components are recognized ratably over the applicable term, typically one year.

Prior to January 1, 2006, certain software sales included application service contracts. The terms of those contracts did not meet the delivery requirements of SOP 97-2 and SAB 104 and resulted in the recognition of all revenue ratably over the term of the agreement. During the fiscal year ending September 30, 2006, we changed the terms of all new contracts, such that all the requirements of SOP 97-2 and SAB 104 are met, including delivery. For these new contracts, revenue is recognized based on the multiple element arrangement accounting described above.

Allowance for doubtful accounts and sales returns. We grant credit to customers in the normal course of business. The majority of our accounts receivables are due from companies with fleet trucking operations in a variety of industries. Credit is extended based on an evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are typically due from customers within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts and sales returns. Accounts outstanding longer than the contractual payment terms are considered past due. We determine the allowance for doubtful accounts by considering a number of factors, including the length of time trade receivables are past due, our previous loss history, the customer's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. We reserve for these accounts receivable by increasing bad debt expense when they are determined to be uncollectible. Payments subsequently received, or otherwise determined to be collectible, are treated as recoveries that reduce bad debt expense. We determine our allowance for sales returns by considering several factors, including history of prior sales credits issued. We regularly assess the allowance for sales returns and increase it as needed. When we accept a product return or issue a sales credit for which we had specifically increased the allowance, we write-off the associated accounts receivable and decrease the allowance for sales returns.

Capitalized software development costs. Software development costs incurred after establishing technological feasibility are capitalized. These costs are amortized to cost of goods sold beginning when the product is first released for sale to the general public. The dollar amount amortized is the greater of the amount computed using the ratio of current gross revenues for the product to the total of current and anticipated future gross revenues or the straight-line method over the estimated economic life of the product (two to five years).

Research and development costs. We charge expenditures for research and development activities to expense as incurred. Such expenses include product development costs and costs related to the Company's internally developed software systems, which have not met the capitalization criteria of Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1).

Income taxes. Deferred income taxes are provided on the liability method whereby deferred tax assets and deferred tax liabilities are recognized for the effects of taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Results of Operations for the years ending September 30, 2006 and 2005

The following table sets forth certain Statements of Operations data as a percentage of net sales:

	Fiscal Years Ended September 30,	
	2006	2005
Net sales	**100%**	100%
Gross profit	**42%**	38%
Selling, general and administrative	**37%**	50%
Research and development	**11%**	19%
Operating loss	**-6%**	-31%
Net loss	**-6%**	-31%

Net Sales

Net sales increased 58.7% to $30.6 million in fiscal 2006 compared to $19.3 million in fiscal 2005. Net sales derived from our OpCenter product line increased 6.6% to $14.7 million for fiscal 2006 compared to $13.8 million for fiscal 2005.

Net sales of XATANET equipment and services increased 190% to $15.9 million for fiscal 2006 compared to $5.5 million for fiscal 2005. XATANET system sales were 52 percent of total net sales for fiscal 2006, compared to 28 percent for fiscal 2005. The 184% growth in XATANET equipment sales in fiscal 2006 is associated with the following: (i) the increase in XATANET systems revenue in fiscal 2006 resulting from prior period deferred sales versus fiscal 2005 and (ii) the change in our XATANET contract terms, which now meets the revenue recognition requirements for immediate revenue recognition related to the software and hardware components of a sale for most new system sales. The effect of this change was additional revenue of $1.8 million for fiscal 2006. The 207% growth in recognized XATANET subscription sales is due to a larger subscriber base in fiscal 2006 in comparison to fiscal 2005.

We ended fiscal 2006 with $12.0 million of deferred revenue in comparison to $11.1 million at the end of fiscal 2005. Revenue associated with XATANET systems that are not under our new contract format will continue to be recognized over the initial term of each subscription rather than at the time of delivery. XATANET subscription terms are a minimum of twelve months.

Cost of Goods Sold

Cost of goods sold includes the direct product costs associated with fulfilling customer orders, warranty costs related to previously sold systems, communication and hosting costs, product repair and refurbishment costs, and expenses associated with the enhancement of released products. Total cost of goods sold increased $5.8 million to $17.8 million for fiscal 2006 compared to $12.0 million for fiscal 2005, driven by increased XATANET system and subscription sales. Overall gross margins on sales increased 4.1 percentage points to 41.8 percent for fiscal 2006 versus 37.7 percent for fiscal 2005. This improvement in overall margins for fiscal 2006 was driven by strong OpCenter systems margins and by the improvement in XATANET subscriptions margins from 17% in fiscal 2005 to 40% in fiscal 2006. We expect cost of XATANET revenue to decrease as a percentage of sales during the next 12 months, primarily resulting from product design, manufacturing improvements and lower communication and facility costs that are being implemented.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of employee salaries in our support, sales and administration functions, sales commissions, marketing and promotional expenses, executive and administrative costs, accounting and professional fees, recruiting costs and provision for doubtful accounts. Selling, general and administrative expenses were $11.5 million for fiscal 2006 compared to $9.7 million for fiscal 2005. The increase of $1.8 million was mainly due to the following: (i) an increase in employee related expenses of $1.3 million due to an increase in headcount which occurred in late fiscal 2005 to support the XATANET product line (ii) an increase in stock based compensation expense of $0.1 million associated with the Company's long-term incentive program and (iii) an increase in recruiting costs of $0.3 million associated with new executive, sales, and operations positions that were added in fiscal 2006.

Research & Development Expenses

Research and development expenses are charged to expense as incurred. Such expenses include product development costs and costs related to the Company's internally developed software systems, which have not met the capitalization criteria of Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). Research and development expenses consist of employee salaries and expenses related to development personnel and consultants, as well as expenses associated with software and hardware development. Research and development expenses were $3.3 million for fiscal 2006 compared to $3.6 million for fiscal 2005. The decrease of $0.3 million was mainly due to the increase in capitalized software development costs. In fiscal 2006 and 2005, the Company incurred total research and development costs of $4.2 million and $3.9 million, respectively; of which $0.9 million and $0.3 million of software development costs were capitalized in fiscal 2006 and 2005, respectively. These costs were capitalized after the establishment of technological feasibility occurred as required by FAS 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed.* These costs will be amortized to cost of goods sold over the anticipated useful life of the product which is determined based upon its anticipated future net revenues.

Non-operating Income

Non-operating income increased $0.1 million to $0.2 million in fiscal 2006 from $0.1 million in fiscal 2005. The increase was primarily associated with higher interest income due to larger cash balances and improved interest rates in fiscal 2006.

Income Taxes

No income tax benefit or expense was recorded in fiscal 2006 or fiscal 2005. Because we have had continued operating losses and do not have objectively verifiable positive evidence of future taxable income as prescribed by SFAS No. 109, we concluded that a full valuation allowance was appropriate. Realization of deferred tax assets is dependent on future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income. The amount of the net deferred tax asset considered realizable could be increased in the future if we return to profitability and actual future taxable income is higher than currently estimated. At September 30, 2006, we had federal net operating loss carryforwards of approximately $22.1 million.

Net Loss to Common Shareholders

We incurred net losses to common shareholders of $2.1 million and $6.7 million for fiscal 2006 and 2005, respectively. For both periods the difference between net loss applicable to common shareholders and net loss relates to paid and deemed dividends on the Series B Preferred Stock.

Liquidity and Capital Resources

As of September 30, 2006, we held $6.4 million in cash and cash equivalents, and working capital totaled $6.3 million.

Cash provided by operating activities for fiscal 2006 was $2.1 million compared to cash used in operating activities of $4.4 million for fiscal 2005. Cash provided by operating activities for fiscal 2006 resulted primarily from working capital changes of $2.7 million and non-cash expenses of $1.1 million offsetting our net loss of $1.7 million.

Accounts receivable was $5.3 million at September 30, 2006, a decrease of approximately $2.5 million from $7.8 million at September 30, 2005. This decrease was driven by strong cash receipts in fiscal 2006. Deferred revenue was $12.0 million at September 30, 2006, an increase of approximately $0.9 million from $11.1 million at September 30, 2005. This increase was driven by strong XATANET systems sales to customers that are not under our new contract format. These increases in working capital were partially offset by a $1.0 million increase in inventories, resulting from inventory buildups in response to early fiscal 2007 sales commitments.

Cash used in investing activities of $1.7 million for fiscal 2006 included $0.8 million for purchases of equipment and $0.9 million for capitalized software development.

Cash used in financing activities of $0.6 million for fiscal 2006 included $2.0 million paid on our bank line of credit, partially offset by $0.2 million borrowed on the bank line of credit and $1.3 million received from the exercise of options and warrants.

On December 17, 2004 we established a $2.0 million line of credit with Silicon Valley Bank. Advances under the line of credit accrue interest at the prime rate, which was 8.25% as of September 30, 2006. On December 16, 2005 we amended this debt facility and increased the size of the facility to $5.0 million. The line is subject to borrowing base requirements and is collateralized by substantially all our assets. We are required to meet a quick ratio level of no less than 1:1 under this agreement. All amounts owed under this line of credit must be repaid no later than December 15, 2007.

We believe our current cash balance, line of credit and vendor terms will provide adequate cash to fund operating needs for the foreseeable future. However, a protracted decline in revenue, significant revenue growth or an increase in product development in the near term may require us to obtain external funding. No assurance can be given that we will be able to secure any required additional financing when needed, or that such financing, if obtained at all, will be on terms favorable or acceptable to us. If additional financing is required and we are unable to secure such additional financing, we may need to implement measures to slow our growth or reduce operating costs, including reductions to product development, marketing and other operating activities.

Our Series B Preferred Stock prohibits payment of dividends to the holders of any other capital stock unless and until we have paid dividends accrued on the Series B Preferred Stock, which pays an annual cumulative dividend of 4% of the original issue price. At the option of the Series B Preferred Stock holders, such dividends are payable in additional shares of Preferred Stock or cash. In fiscal 2006 and 2005, we issued 69,000 and 67,000 shares, respectively, of Series B Preferred Stock for payment of accrued dividends. We are further restricted from dividend payments by our primary lender.

Subsequent Event

On October 1, 2006, we named John J. Coughlan to replace Craig S. Fawcett as Chairman and Chief Executive Officer. We filed a Form 8-K regarding this matter on October 4, 2006.

Off-Balance Sheet Arrangements

None

Recently Issued Accounting Pronouncements

Shared-Based Payment (Statement 123)

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), *Shared-Based Payment,* which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation.* Statement 123(R) supersedes ABP Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends FASB No. 95, *Statement of Cash Flows.* Generally the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. The provisions in Statement 123(R) are effective for all stock options or other equity-based awards to employees or directors that vest or become exercisable in the Company's first quarter of fiscal 2007. The Company will adopt Statement 123(R) at that time and report its first fiscal quarter of 2007 in accordance with the new standard. The Company anticipates the effect of adopting this Statement will reduce its diluted earnings per shares by approximately $.04 for the fiscal year ending September 30, 2007.

Accounting Changes and Error Corrections (Statement 154)

In May 2005, the FASB issued Statement 154, *Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3*, as part of its short-term convergence project with the International Accounting Standards Board. Statement 154 requires that all voluntary changes in accounting principles and changes required by a new accounting pronouncement that do not include specific transition provisions be applied retrospectively to prior periods' financial statements, unless it is impractical to do so. Opinion 20, *Accounting Changes*, required that most voluntary changes in accounting principle be recognized by including the cumulative effect of changing to the new accounting principle as a component of net income in the period of the change.

Statement 154 is effective prospectively for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Statement 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of the Statement. The Company does not believe the adoption of this pronouncement will have a material effect on the Company's results of operations.

Accounting for Uncertainty in Income Taxes (FIN 48)

In July, 2006 the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48, an interpretation of FASB Statement No. 109 "Accounting for Income Taxes," prescribes a recognition threshold and measurement process for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 will be effective for the Company beginning October 1,

2007. The Company is determining what impact if any this Statement will have on the financial statements.

Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statement (SAB 108)

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in the current year financial statements. The SAB requires registrants to quantify misstatements using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 does not change the guidance in SAB 99, "Materiality", when evaluating the materiality of misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006. Upon initial application, SAB 108 permits a one-time cumulative effect adjustment to beginning retained earnings. The Company does not believe the adoption of this pronouncement will have a material effect on the Company's results of operations.

Fair Value Measurements (FAS 157)

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements but does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is determining what impact if any this Statement will have on the financial statements.

Item 7. Financial Statements

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Statements of Operations	F-3
Statements of Changes in Shareholders' Equity	F-4
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Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 8A. Controls and Procedures

Evaluation of disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company. Such officers have concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) are effective, based on an evaluation of such controls and procedures as of the end of the period covered by this report.

Changes in internal controls over financial reporting. The Certifying Officers also have indicated that there have been no changes in the Company's internal controls over financial reporting during its fourth fiscal quarter ended September 30, 2006, that have materially affected or are reasonably likely to materially affect such controls.

Item 8B. Other Information

None.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and
Shareholders of XATA Corporation

We have audited the accompanying balance sheets of XATA Corporation (a Minnesota corporation) as of September 30, 2006and 2005, and the related statements of operations, changes in shareholders' equity, and cash flows for each of the two years in the period ended September 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XATA Corporation as of September 30, 2006 and 2005, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Minneapolis, Minnesota
November 17, 2006

XATA CORPORATION
BALANCE SHEETS

ASSETS	September 30, 2006	September 30, 2005
Current Assets		
Cash and cash equivalents	$ 6,354,000	$ 6,473,000
Accounts receivable, less allowances for doubtful accounts and sales returns of $472,000 and $315,000	5,260,000	7,812,000
Inventories	2,212,000	1,257,000
Deferred product costs	3,433,000	4,671,000
Prepaid expenses	270,000	204,000
Total current assets	17,529,000	20,417,000
Equipment and leasehold improvements, net	2,507,000	1,085,000
Deferred product costs, net of current portion	1,687,000	1,002,000
Total assets	$ 21,723,000	$ 22,504,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank line of credit	$ -	$ 1,800,000
Current portion of long-term obligations	94,000	-
Accounts payable	1,688,000	2,387,000
Accrued expenses	2,674,000	2,171,000
Deferred revenue	6,728,000	7,774,000
Total current liabilities	11,184,000	14,132,000
Long-term obligations, net of current portion	88,000	-
Deferred revenue, net of current portion	5,261,000	3,335,000
Total liabilities	16,533,000	17,467,000
Shareholders' Equity		
Preferred stock, no par, 5,000,000 shares authorized:		
Series B, 4% convertible, 2,250,000 shares designated; 1,779,000 and 1,710,000 shares issued and outstanding	4,579,000	4,260,000
Series C, convertible, 1,400,000 shares designated; 1,269,000 shares issued and outstanding	4,845,000	4,845,000
Common stock, par value $0.01 per share; 25,000,000 shares authorized; 7,963,000 and 7,549,000 shares issued and outstanding	80,000	76,000
Additional paid-in capital	23,246,000	21,458,000
Unearned stock based compensation	(900,000)	(1,007,000)
Accumulated deficit	(26,660,000)	(24,595,000)
Total shareholders' equity	5,190,000	5,037,000
Total liabilities and shareholders' equity	$ 21,723,000	$ 22,504,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

XATA Corporation
STATEMENTS OF OPERATIONS

	Fiscal Years Ended September 30,	
	2006	2005
Net sales	**$ 30,629,000**	$ 19,303,000
Costs and expenses		
Cost of goods sold	**17,814,000**	12,024,000
Selling, general and administrative	**11,526,000**	9,736,000
Research and development	**3,258,000**	3,622,000
	32,598,000	25,382,000
Operating loss	**(1,969,000)**	(6,079,000)
Non-operating income		
Net interest income	**163,000**	64,000
Other	**63,000**	35,000
	226,000	99,000
Net loss before income taxes	**(1,743,000)**	(5,980,000)
Income tax expense	**-**	-
Net loss	**(1,743,000)**	(5,980,000)
Preferred stock dividends	**(178,000)**	(169,000)
Preferred stock deemed dividend	**(144,000)**	(587,000)
Loss to common shareholders	**$ (2,065,000)**	$ (6,736,000)
Loss per common share - basic and diluted:		
Loss to common shareholders	**$ (0.28)**	$ (0.93)
Weighted average common and common share equivalents		
Basic and Diluted	**7,484,000**	7,212,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

XATA CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
PERIODS ENDED SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005

	Common Stock		Series B Preferred Stock		Series C Preferred Stock		Additional Paid-In	Unearned Stock-Based	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Compensation	Deficit	Total
Balance, September 30, 2004	7,254,000	$ 73,000	1,643,000	$ 3,923,000	-	$ -	$ 19,499,000	$ (499,000)	$ (17,860,000)	$ 5,136,000
Common stock issued on exercise of options	118,000	1,000	-	-	-	-	404,000	-	-	405,000
Issuance of restricted shares of common stock	197,000	2,000	-	-	-	-	1,016,000	(1,018,000)	-	-
Amortization of unearned stock based compensation	-	-	-	-	-	-	-	435,000	-	435,000
Elimination of unearned compensation related to terminated employees	-	-	-	-	-	-	(75,000)	75,000	-	-
Forfeiture of restricted shares of common stock	(20,000)	-	-	-	-	-	-	-	-	-
Issuance of common stock warrants	-	-	-	-	-	-	25,000	-	-	25,000
Issuance of preferred stock and warrants	-	-	-	-	1,269,000	4,426,000	589,000	-	-	5,015,000
Preferred stock dividends	-	-	67,000	170,000	-	-	-	-	(169,000)	1,000
Preferred stock deemed dividends	-	-	-	167,000	-	419,000	-	-	(586,000)	-
Net loss	-	-	-	-	-	-	-	-	(5,980,000)	(5,980,000)
Balance, September 30, 2005	7,549,000	$ 76,000	1,710,000	$ 4,260,000	1,269,000	$ 4,845,000	$ 21,458,000	$ (1,007,000)	$ (24,595,000)	$ 5,037,000
Common stock issued on exercise of options	344,000	3,000	-	-	-	-	1,255,000		-	1,258,000
Common stock issued on exercise of warrants	9,000	-	-	-	-	-	-		-	-
Issuance of restricted shares of common stock	199,000	2,000	-	-	-	-	963,000	(965,000)		-
Amortization of unearned stock based compensation	-	-	-	-	-	-	-	566,000	-	566,000
Elimination of unearned compensation related to terminated employees	-	-	-	-	-	-	(506,000)	506,000	-	-
Forfeiture of restricted shares of common stock	(138,000)	(1,000)	-	-	-	-	1,000	-	-	-
Issuance of common stock warrants	-	-	-	-	-	-	75,000	-	-	75,000
Preferred stock dividends	-	-	69,000	175,000	-	-	-	-	(178,000)	(3,000)
Preferred stock deemed dividends	-	-	-	144,000	-	-	-	-	(144,000)	-
Net loss	-	-	-	-	-	-	-	-	(1,743,000)	(1,743,000)
Balance, September 30, 2006	7,963,000	$ 80,000	1,779,000	$ 4,579,000	1,269,000	$ 4,845,000	$ 23,246,000	$ (900,000)	$ (26,660,000)	$ 5,190,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

XATA Corporation
STATEMENTS OF CASH FLOWS

	Twelve Months Ended September 30, 2006	2005
Cash provided by (used in) operating activities		
Net loss	**$ (1,743,000)**	$ (5,980,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization of equipment and leasehold improvements	**451,000**	266,000
Issuance of warrants for services rendered	**75,000**	25,000
Unearned stock based compensation recognized	**566,000**	435,000
Changes in assets and liabilities:		
Accounts receivable	**2,552,000**	(2,311,000)
Inventories	**(955,000)**	(190,000)
Deferred product costs	**553,000**	(4,858,000)
Prepaid expenses	**(66,000)**	27,000
Accounts payable	**(699,000)**	653,000
Accrued expenses	**500,000**	578,000
Deferred revenue	**880,000**	6,950,000
Net cash provided by (used in) operating activities	**2,114,000**	(4,405,000)
Cash provided by (used in) investing activities		
Purchase of equipment and leasehold improvements	**(755,000)**	(610,000)
Additions to software development costs	**(906,000)**	(285,000)
Sales of short-term investments	**-**	3,990,000
Net cash provided by (used in) investing activities	**(1,661,000)**	3,095,000
Cash provided by (used in) financing activities		
Borrowings on bank line of credit	**200,000**	1,800,000
Payments on bank line of credit	**(2,000,000)**	(518,000)
Proceeds from issuance of preferred stock and warrants	**-**	5,015,000
Borrowings on long-term obligations	**49,000**	-
Payments on long-term obligations	**(79,000)**	(252,000)
Proceeds from options and warrants exercised	**1,258,000**	405,000
Net cash provided by (used in) financing activities	**(572,000)**	6,450,000
Increase (decrease) in cash and cash equivalents	**(119,000)**	5,140,000
Cash and cash equivalents		
Beginning	**6,473,000**	1,333,000
Ending	**$ 6,354,000**	$ 6,473,000
Supplemental disclosures of cash flow information		
Cash payments for interest	**$ 86,000**	$ 77,000
Supplemental schedule of noncash investing and financing activities		
Issuance of restricted stock	**$ 965,000**	$ 1,018,000
Preferred stock deemed dividends	**144,000**	587,000
Unearned compensation for terminated employees	**506,000**	75,000
Preferred stock dividends payable	**61,000**	58,000
Preferred stock dividends paid	**175,000**	170,000
Equipment purchased under capital lease	**212,000**	-

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Note 1. Description of Business

XATA Corporation (the "Company") develops, markets and services fully integrated, onboard fleet management systems for the private fleet segment of the transportation industry. The Company sells its products in the United States and Canada. The Company's systems utilize proprietary software and related hardware components and accessories to capture, analyze, and communicate operating information that assists fleet management in improving productivity and profitability.

Note 2. Summary of Significant Accounting Policies

Revenue Recognition

The Company derives its revenue from sales of hardware, software and related services, and from application service contracts. The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-9, Modification of SOP 97-2, *Software Revenue Recognition with Respect to Certain Transactions*, and Securities and Exchange Commission Staff Accounting Bulletin (SAB) 104, *Revenue Recognition in Financial Statements*.

Software revenue is recognized under SOP 97-2 and SAB 104 when (i) persuasive evidence of an arrangement exists (for example a signed agreement or purchase order), (ii) delivery has occurred, as evidenced by shipping documents or customer acceptance, (iii) the fee is fixed or determinable and payable within twelve months, and (iv) collectibility is probable and supported by credit checks or past payment history. Pursuant to certain contractual arrangements, revenues are recognized for completed systems held at the Company's warehouse pending the receipt of delivery instructions from the customer. As of September 30, 2006 and September 30, 2005, the Company had approximately $20,000 of systems on hand that had been billed to those customers awaiting specific delivery instructions.

With regard to software arrangements involving multiple elements, the Company allocates revenue to each element based on the relative fair value of each element. The Company's determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence (VSOE). The Company limits its assessment of VSOE for each element to the price charged when the same element is sold separately. The Company has analyzed all of the elements included in its multiple-element arrangements and has determined that it has sufficient VSOE to allocate revenue to consulting services and post-contract customer support (PCS) components of its license arrangements. The Company sells its consulting services separately, and has established VSOE on this basis. VSOE for PCS components are determined based upon the customer's annual renewal rates for these elements. Accordingly, assuming all other revenue recognition criteria are met, revenue from licenses is recognized upon delivery, and revenue from PCS components are recognized ratably over the applicable term, typically one year.

Prior to January 1, 2006, certain Company software sales included application service contracts. The terms of those contracts did not meet the delivery requirements of SOP 97-2 and SAB 104 and resulted in the recognition of all revenue ratably over the term of the agreement. During the fiscal year ending September 30, 2006, the Company changed the terms of all new contracts, such that all the requirements of SOP 97-2 and SAB 104 are met, including delivery. For these new contracts, revenue is recognized based on the multiple element arrangement accounting described above.

Note 2. Summary of Significant Accounting Policies, continued

Segment Reporting

In fiscal 2006 and 2005, the Company operated in a single reportable segment. The Company will evaluate additional segment disclosure requirements as it expands its operations or experiences changes in its business. The Company had no significant revenues from customers outside of the United States in fiscal 2006 and 2005, and had no significant long-lived assets deployed outside the United States at September 30, 2006 and 2005.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents and Short-Term Investments

Cash equivalents consist of highly liquid investments with original maturities of three months or less when purchased by the Company.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash equivalents, short-term investments and accounts receivable. The Company's cash equivalents and short-term investments consist of checking and money market accounts and other liquid investments, which, at times, exceed federally, insured limits. The Company has not experienced any losses in such accounts. The majority of our accounts receivables are due from companies with fleet trucking operations in a variety of industries. In general, the Company does not require collateral or other security to support accounts receivable. Accounts receivable are typically due from customers within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts and sales returns. Accounts outstanding longer than the contractual payment terms are considered past due. To reduce credit risk, management performs ongoing evaluations of its customers' financial condition. The Company determines its allowance for doubtful accounts receivable based upon a number of factors, including the length of time trade receivables are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. Unexpected or significant future changes in trends could result in a material impact to future statements of operations or cash flows. The Company determines its allowance for sales returns by considering several factors, including history of prior sales credits issued. The Company regularly assesses the allowance for sales returns and increases it as needed. The provision for doubtful accounts is recorded as a charge to operating expenses while the provision for sales returns is recognized as a reduction of revenues.

Note 2. Summary of Significant Accounting Policies, continued

Value of Financial Instruments

The amounts of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable approximate fair value because of their short-term maturities. At September 30, 2006 and September 30, 2005, the Company had $0 and $1.8 million, respectively, outstanding under its revolving credit facility with Silicon Valley Bank. The carrying amount of these borrowings approximates fair value as the rate of interest on the revolving credit facility approximates the current market rate of interest for similar instruments with a comparable maturity.

Inventories

Inventories consist of parts and accessories and finished goods, and are stated at the lower of cost or market. Cost is determined on the standard cost method, which approximates the first-in, first-out method.

Inventories consist of:

	September 30, 2006	September 30, 2005
Raw materials and subassemblies	**$ 786,000**	$ 686,000
Finished goods	**1,426,000**	571,000
Total inventories	**$ 2,212,000**	$ 1,257,000

Equipment and Leasehold Improvements

Purchased equipment and leased equipment under capital leases is stated at cost and depreciated using the straight-line method over estimated useful lives of approximately three to seven years. Leasehold improvements are amortized over the shorter of the lease term or their estimated useful lives (three to fifteen years).

Equipment and leasehold improvements consist of:

	September 30, 2006	September 30, 2005
Office furniture and equipment	**$ 2,543,000**	$ 1,661,000
Engineering and manufacturing equipment	**564,000**	454,000
Capitalized software development costs	**1,191,000**	285,000
Leasehold improvements	**34,000**	59,000
	4,332,000	2,459,000
Less: accumulated depreciation and amortization	**(1,825,000)**	(1,374,000)
Equipment and leasehold improvements, net	**$ 2,507,000**	$ 1,085,000

Note 2. Summary of Significant Accounting Policies, continued

Capitalized Software Development Costs

Software development costs incurred after establishing technological feasibility are capitalized as capitalized software development costs. Costs that are capitalized are amortized to cost of goods sold beginning when the product is first released for sale to the general public. Amortization is at the greater of the amount computed using the ratio of current gross revenues for the product to the total of current and anticipated future gross revenues or the straight-line method over the estimated economic life of the product (two to five years).

Depreciation and amortization for income tax reporting purposes are computed using accelerated methods.

Long-Lived Assets

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount.

Product Warranties

The Company sells its hardware products with a limited warranty, with an option to purchase extended warranties. The Company provides for estimated warranty costs at the time of sale and for other costs associated with specific items at the time their existence and amount are determinable. Factors affecting the Company’s product warranty liability include the number of units sold, historical and anticipated rates of claims and cost per claim. The Company periodically assesses the adequacy of its product warranty liability based on changes in these factors.

At September 30, 2006 and 2005, the Company had accruals for product warranties of approximately $877,000 and $800,000, respectively.

Shipping and Handling Costs

Shipping and handling costs, which are classified as a component of cost of goods sold, were approximately $320,000 and $304,000 in fiscal 2006 and 2005, respectively. Customer billings related to shipping and handling fees are reported as net sales.

Advertising Costs

All advertising costs are expensed as incurred. Advertising costs, which are included in selling, general and administrative expenses, were approximately $191,000 and $208,000 in fiscal 2006 and 2005, respectively. Advertising costs consist primarily of ad campaigns, catalog brochures, promotional items and trade show expenses.

Note 2. Summary of Significant Accounting Policies, continued

Research and Development Costs

Research and development expenses are charged to expense as incurred. Such expenses include product development costs and costs related to the Company's internally developed software systems, which have not met the capitalization criteria of Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). During fiscal 2006 and 2005 approximately $906,000 and $285,000, respectively, of research and development costs were capitalized in accordance with FAS 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*.

Income taxes

The Company accounts for income taxes following the provisions of SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires that deferred income taxes be recognized for the future tax consequences associated with differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end, based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable earnings. Valuation allowances are established by the Company when necessary to reduce deferred tax assets to the amount more likely than not to be realized. The effect of changes in tax rates is recognized in the period in which the rate change occurs.

Note 2. Summary of Significant Accounting Policies, continued

Stock-Based Compensation

The Company has a stock-based employee compensation plan, which is described more fully in Note 8. The Company applies Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*, and related Interpretations in accounting for its plan. Under this method, compensation expense is recognized for the amount by which the market price of the common stock on the date of grant exceeds the exercise price of an option. No compensation costs related to stock option grants have been recognized in the consolidated Statements of Operations (see Note 8). The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement 123, *Accounting for Stock-Based Compensation*, using the assumptions described in Note 8, to its stock-based employee plan.

	Fiscal Years Ended September 30,	
	2006	2005
Net loss to common shareholders, as reported	**$ (2,065,000)**	$(6,736,000)
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	**(62,000)**	(155,000)
Pro forma net loss to common shareholders	**$ (2,127,000)**	$(6,891,000)
Basic and diluted net loss to common shareholders per common share		
As reported	**$ (0.28)**	$ (0.93)
Pro forma	**(0.28)**	(0.96)

Reclassifications

Certain reclassifications have been made to the fiscal 2005 financial statement presentation to conform to the fiscal 2006 presentation. These reclassifications had no effect on net loss to common shareholders or shareholders' equity.

Note 2. Summary of Significant Accounting Policies, continued

Major Customers

In fiscal 2006 and 2005, the Company had the following significant customers:

	Year Ended September 30,			
	2006	2005	2006	2005
	Percentage of Net Sales		Percentage of Ending Receivable	
Customer A	18.4%	*	9.5%	*
Customer B	18.2%	*	4.4%	*

* Customer total was less than 10 percent of net sales or ending receivable.

The Company sells large orders to individual fleets and may be dependent upon a few major customers each year whose volume of purchases is significantly greater than that of other customers. Although the Company has experienced growth in its customer base, it is still dependent on continued purchases by present customers who continue to equip and upgrade their fleets. Loss of any significant current customers or an inability to further expand its customer base would adversely affect the Company.

Major Suppliers

While current vendors are meeting the Company's quality and performance expectations, the Company believes that a disruption in the supply of XATA Application Modules (XAMs) supplied by one vendor, would affect the Company's ability to deliver finished goods and replacement parts.

Recently Issued Accounting Standards

Shared-Based Payment (Statement 123)

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), *Shared-Based Payment,* which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation.* Statement 123(R) supersedes ABP Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends FASB No. 95, *Statement of Cash Flows.* Generally the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. The provisions in Statement 123(R) are effective for all stock options or other equity-based awards to employees or directors that vest or become exercisable in the Company's first quarter of fiscal 2007. The Company will adopt Statement 123(R) at that time and report its first quarter of 2007 in accordance with the new standard. The Company anticipates the effect of adopting this Statement will reduce its diluted earnings per shares by approximately $.04 for the fiscal year ending September 30, 2007.

Accounting Changes and Error Corrections (Statement 154)

In May 2005, the FASB issued Statement 154, *Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3*, as part of its short-term convergence project with the International Accounting Standards Board. Statement 154 requires that all voluntary changes in accounting principles and changes required by a new accounting pronouncement that do not

Note 2. Summary of Significant Accounting Policies, continued

include specific transition provisions be applied retrospectively to prior periods' financial statements, unless it is impractical to do so. Opinion 20, *Accounting Changes*, required that most voluntary changes in accounting principle be recognized by including the cumulative effect of changing to the new accounting principle as a component of net income in the period of the change. Statement 154 is effective prospectively for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Statement 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of the Statement. The Company does not believe the adoption of this pronouncement will have a material effect on the Company's results of operations.

Accounting for Uncertainty in Income Taxes (FIN 48)

In July, 2006 the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48, an interpretation of FASB Statement No. 109 "Accounting for Income Taxes," prescribes a recognition threshold and measurement process for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 will be effective for the Company beginning October 1, 2007. The Company is determining what impact if any this Statement will have on the financial statements.

Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statement (SAB 108)

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in the current year financial statements. The SAB requires registrants to quantify misstatements using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 does not change the guidance in SAB 99, "Materiality", when evaluating the materiality of misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006. Upon initial application, SAB 108 permits a one-time cumulative effect adjustment to beginning retained earnings. The Company does not believe the adoption of this pronouncement will have a material effect on the Company's results of operations.

Fair Value Measurements (FAS 157)

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements but does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is determining what impact if any this Statement will have on the financial statements.

Note 3. Bank Line of Credit

As of September 30, 2006, the Company had a $5,000,000 credit line agreement with a financial institution. Advances under the line of credit accrue interest at the prime rate, which was 8.25% as of September 30, 2006. The line is collateralized by substantially all the assets of the Company. The Company is required to meet a quick ratio level of no less than 1:1 under this agreement. All amounts owed under this line of credit must be repaid not later than December 15, 2007.

Note 4. Long-Term Liabilities

During 2006, the Company financed the purchase of $261,000 of computer equipment using capital leases and an equipment financing agreement. Future minimum lease payments under all capital leases/equipment financing agreements at September 30, 2006 are as follows:

Years ending September 30:	
2007	$115,000
2008	89,000
2009	7,000
Total payments	211,000
Amounts representing interest (weighted average 14.2%)	(29,000)
Present value of minimum capitalized lease payments	$182,000

Asset cost related to the above capital leases/financing agreement was $261,000 and accumulated depreciation was $64,000 at September 30, 2006

Note 5. Net Loss Per Share

Basic loss per share is computed based on the weighted average number of common shares outstanding by dividing net loss applicable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other obligations to issue common stock such as options, warrants or convertible preferred stock, were exercised or converted into common stock that then shared in the earnings of the Company. For all periods presented, diluted net loss per share is equal to basic net loss per share because the effect of including such securities or obligations would have been antidilutive.

At September 30, 2006 and 2005, the Company had options and warrants outstanding to purchase a total of 1,421,000 and 1,577,000 shares of common stock, at a weighted-average exercise price of $3.79 and $3.57. Because the Company incurred a net loss in both fiscal 2006 and 2005, the inclusion of potential common shares in the calculation of diluted net loss per common share would have an antidilutive effect. Therefore, basic and diluted net loss per common share amounts is the same in fiscal 2006 and 2005.

Note 6. Income Taxes

The Company's deferred tax assets and liabilities are as follows:

	September 30, 2006	September 30, 2005
Current deferred tax assets:		
Inventory and warranty reserve	$ 415,000	$ 407,000
Accrued expenses, deferred revenue and other	873,000	171,000
Accounts receivable and sales reserve	175,000	116,000
	1,463,000	694,000
Non-current deferred tax assets:		
Product development costs	(441,000)	(105,000)
Depreciation	(8,000)	(39,000)
Research and development credit	1,191,000	1,166,000
Net operating loss carryforwards	8,160,000	7,880,000
	8,902,000	8,902,000
Total deferred tax asset	10,365,000	9,596,000
Less: valuation allowance	(10,365,000)	(9,596,000)
Net deferred tax asset	$ -	$ -

The Company periodically reviews the valuation allowance it has established on its deferred tax assets. Realization of deferred tax assets is dependent upon sufficient future taxable income during periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income. The amount of the net deferred tax asset considered realizable could be increased in the future if the Company returns to profitability and actual future taxable income is higher than currently estimated and it becomes more likely than not that these amounts will be realized.

Note 6. Income Taxes, continued

The Company's income tax expense (benefit) differed from the statutory federal rate as follows:

	September 30 2006	September 30 2005
Statutory federal rate applied to loss before income taxes	$ (593,000)	$ (2,033,000)
State income tax benefit	(52,000)	(179,000)
Permanent differences	(67,000)	4,000
Change in valuation allowance	769,000	2,401,000
Research and development credit	(25,000)	(190,000)
Other	(32,000)	(3,000)
	$ -	$ -
Current	$ -	$ -
Deferred	-	-
	$ -	$ -

As of September 30, 2006, the Company had federal net operating loss carryforwards and research and development credit carryforwards of approximately $22.1 million and $1.2 million, respectively, which begin to expire in 2009 through 2026. The carryforwards may be subject to annual use limitations in accordance with the provisions of Section 382 of the Internal Revenue Code. Included in the net operating loss carryforwards is approximately $278,000 related to stock options, which currently have a full valuation allowance, and when realized for financial statement purposes will not result in a reduction in income tax expense. Rather, the benefit will be recorded as an increase to additional paid-in capital.

Note 7. Commitments

Leases

The Company leases its office, warehouse, and certain office equipment under noncancelable operating leases. The facility lease requires that the Company pay a portion of the real estate taxes, maintenance, utilities and insurance.

Approximate future minimum rental commitments, excluding common area costs under these non-cancelable operating leases, are:

Years ending September 30:	
2007	$ 93,000
2008	1,000
2009	1,000
2010	1,000
2011	1,000
Total	$ 97,000

Note 7. Commitments, continued

Rental expense, including common area costs and net of rental income, was approximately $267,000 and $254,000 for the fiscal years ended September 30, 2006 and 2005.

Reseller Commitment

On July 31, 2006, the Company entered into an International Value Added Reseller Agreement with ORBCOMM LLC. The Company has committed to certain volume minimums in exchange for favorable pricing in this agreement. Approximate future minimum purchases in excess of units already activated under customer agreements to secure this favorable pricing are $15,000 in fiscal 2007 and $25,000 in fiscal 2008 and fiscal 2009.

401(k) Plan

The Company has a 401(k) plan covering substantially all employees and is operated on a calendar year basis. The Company increased the employer matching contribution equal to 50% (25% previously) of an employee's contribution for employee deferrals of up to 6% of their compensation effective January 1, 2006. Matching contributions for the fiscal years ended September 30, 2006 and 2005 totaled $107,000 and $60,000, respectively.

Note 8. Shareholders' Equity

Common Stock

The Company is authorized to issue up to 25,000,000 shares of common stock.

Preferred Stock

The Company has authorized an undesignated class of preferred stock of 5,000,000 shares. The Board of Directors can issue preferred stock in one or more series and fix the terms of such stock without shareholder approval. Preferred stock may include the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions.

Series B

In December 2003, the Company's Board of Directors authorized the sale of up to 1,700,000 shares of Series B Preferred Stock through a private placement. On December 6, 2003, pursuant to a Stock Purchase Agreement entered into with Trident Capital, Inc. and its affiliates (collectively, "Trident") the Company sold 1,613,000 shares of Series B Preferred Stock for $4,097,000, or $2.54 per share. Each share of the Preferred Stock is convertible into one share of the Company's common stock. The price per share of the Series B Preferred Stock and the conversion price for the common stock were equal to the "market value" of the common stock (as defined in the rules of the Nasdaq Stock Market) on the date of execution of the definitive agreements. The Series B Preferred Stock pays an annual cumulative dividend of 4% of the original issue price (payable semi-annually; payable in additional shares of Series B Preferred Stock or cash, at the option of the holders) and has a non-participating preferred liquidation right equal to the original issue price, plus accrued unpaid dividends.

Note 8. Shareholders' Equity, continued

In fiscal 2006 and 2005, the Company issued 69,000 and 67,000 shares, respectively, of Series B Preferred Stock to Trident for payment of accrued dividends. Based on the market value of the Company's common stock on the date of the dividend payment, the payment of the dividend in additional shares of Series B Preferred Stock resulted in a non-cash deemed dividend of $144,000 and $168,000 in fiscal 2006 and 2005, respectively.

The Series B Preferred Stock is redeemable at the option of Trident at 100% of the original purchase price plus accrued and unpaid dividends at any time after five years from the date of issuance, or at any time if there is a significant adverse judgment against the Company, the Company defaults on its debts or files for bankruptcy, or in the event of a change of control. However, the Company may decline to redeem any or all of the Preferred Stock at its sole option and discretion, and in such case the annual cumulative dividend on the Series B Preferred Stock will increase from 4% to 10%. The Company may redeem the Series B Preferred Stock at its option after five years from the date of issuance if the market price of its common stock is greater than three times the conversion price on each of the sixty consecutive days prior to the redemption date.

Additionally, the Company issued Trident 5-year warrants for 451,000 shares of its common stock at an exercise price of $3.17 per share. The aggregate purchase price of the warrants was $56,000. The warrants permit "cashless exercise."

In connection with this transaction, the Company recognized a one-time, non-cash deemed dividend of $629,000 relating to the beneficial conversion portion of the preferred stock. The beneficial conversion portion was determined by allocating the Trident proceeds on a fair value basis between the preferred stock and the warrants. The amount of the deemed dividend was the difference between the deemed fair value of the Series B Preferred Stock and the purchase price on the date of the transaction. The deemed dividend was recorded as an addition to preferred stock with a corresponding increase to accumulated deficit. The addition was recognized at the date of issuance of the preferred stock, the same date at which the shares were eligible for conversion.

On December 6, 2003, the placement agent for the Trident investment received as consideration a $320,000 cash fee and 7-year warrants for purchase of an aggregate of 163,000 shares of Common Stock (130,000 shares at $2.54 per share and 33,000 shares at $3.17 per share). These warrants permit "cashless exercise" and provide the holders with piggyback registration rights.

Series C

In August 2005, the Company's Board of Directors authorized the sale of up to 1,400,000 shares of Series C Preferred Stock through a private placement. Pursuant to a Stock Purchase Agreement entered into in September 2005 with Trident the Company sold 1,269,000 shares of Series C Preferred Stock for $5,000,000, or $3.94 per share. Each share of the Series C Preferred Stock is convertible into one share of the Company's common stock. The price per share of Series C Preferred Stock and the conversion price for the common stock is equal to the "market value" of the common stock (as defined in the rules ofthe Nasdaq Stock Market) on the date of execution of the definitive agreements. The Series C Preferred Stock does not pay a dividend, unless the Company declines to redeem the stock upon demand of the holders after an Acceleration Event (as defined in the Certificate of Designation of the Series C Preferred

Note 8. Shareholders' Equity, continued

Stock). In that case, the Series C Preferred Stock pays an annual cumulative dividend of 4% of the original issue price (payable in cash). The Series C Preferred Stock has a non-participating liquidation right equal to the original issue price, plus accrued unpaid dividends which are senior to the Common Stock and junior to the Series B Convertible Preferred Stock. The Company may redeem the Series C Preferred Stock at its option after five (5) years from the date of issuance at the original issue price, plus accrued unpaid dividends, if the market value of the common stock is at least three (3) times the then effective conversion price for a specified period.

Additionally, the Company issued Trident 5-year warrants to purchase 375,000 shares of its common stock at an exercise price of $3.94 per share. The aggregate purchase price of the warrants was $47,000. The warrants permit "cashless exercise."

In connection with this transaction, the Company recognized a one-time, non-cash deemed dividend of $419,000 relating to the beneficial conversion portion of the preferred stock. The beneficial conversion portion was determined by allocating the Trident proceeds on a fair value basis between the preferred stock and the warrants. The amount of the deemed dividend was the difference between the deemed fair value of the Series C Preferred Stock and the purchase price on the date of the transaction. The deemed dividend was recorded as an addition to preferred stock with a corresponding increase to accumulated deficit. The addition was recognized at the date of issuance of the preferred stock, the same date at which the shares were eligible for conversion.

No broker or placement agent was involved in the placement of the Series C Preferred Stock and no commissions or other compensation was paid.

Stock Option Plans

In February 2002 the Company adopted the 2002 Long Term Incentive and Stock Option Plan (the 2002 Plan). The 2002 Plan permits the granting of "incentive stock options" meeting the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, and nonqualified options that do not meet the requirements of Section 422. Stock appreciation rights and restricted stock awards may also be granted under the 2002 Plan. A total of 750,000 shares of the Company's common stock was originally reserved for issuance pursuant to options granted or shares awarded under the 2002 Plan. This total was increased to 1,250,000 upon shareholder approval in February 2006. Generally, the options that are granted under the 2002 Plan are exercisable for a period of five to ten years from the date of grant and vest over a period of up to three years from the date of grant.

Note 8. Shareholders' Equity, continued

The following tables summarize information relating to outstanding stock options as of September 30, 2006 and 2005:

	2006		2005	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	558,053	$3.84	690,288	$3.76
Options granted	198,750	5.09	25,000	5.23
Options exercised	(355,952)	3.71	(117,884)	3.43
Options canceled	(12,800)	3.76	(39,351)	4.48
Options outstanding at end of year	388,051	$4.60	558,053	$3.84

	Options Outstanding			Options Exercisable	
Range of exercise price	Number Outstanding at September 30, 2006	Weighted-Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at September 30, 2006	Weighted Average Exercise Price
$2.85 - $3.03	20,000	1.45	$2.98	20,000	$2.98
$3.37 - $3.99	103,695	1.31	3.83	102,695	3.84
$4.18 - $5.23	264,356	4.51	5.03	85,606	4.83
	388,051	3.50	$4.60	208,301	$4.16

The fair value of each option is estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in fiscal 2006 and 2005: dividend rate of zero for both years; price volatility of 28% for 2006 and 33% for 2005; risk-free interest rate of 4.56% for 2006 and 3.77% for 2005; and expected life of 5.5 years for 2006 and 5 years for 2005. The weighted-average fair value per option of options granted in 2006 and 2005 was $1.78 and $1.87.

Restricted Stock Awards

The Company currently grants restricted shares of common stock rather than stock options as part of its long-term incentive compensation to employees. For fiscal 2006 and 2005 the Company granted 189,000 and 185,000 restricted shares of common stock to employees. During fiscal year 2006 and 2005 employees who left the Company forfeited 138,000 and 20,000 shares of restricted stock. Each grant of restricted shares vests over three years and shares granted may be sold once vested. The Company also granted 10,000 and 12,500 shares of common stock to certain directors in fiscal 2006 and 2005. Each grant of these shares vests immediately.

The Company recognizes deferred compensation expense ratably over the vesting period of the restricted stock. In fiscal 2006 the Company recognized $566,000 of deferred compensation expense, compared to $435,000 during fiscal 2005. In fiscal 2006, the Company adjusted previously recorded deferred compensation expense for the periods beginning in fiscal year 2004 through fiscal 2006 due to a change in estimated expected forfeitures of restricted stock awards. This cumulative effect on current and prior periods was recognized in the current period resulting in a $118,000 reduction of deferred compensation expense in fiscal 2006.

Note 8. Shareholders' Equity, continued

Common stock warrants

The Company has, on occasion, issued warrants for the purchase of common stock to directors, consultants and placement agents. Compensation expense associated with the warrants has not been material and has been recorded as expense at its fair value under FAS 123.

The following tables summarize information relating to outstanding stock warrant as of September 30, 2006 and 2005:

Date	Warrants Outstanding	Weighed-Average Exercise Price	Weighted Average Remaining Life
September 30, 2006	1,033,000	$3.49	2.99 years
September 30, 2005	1,019,000	$3.43	3.83 years

Note 9. Related Party Transactions

The Company purchased a significant portion of the hardware components for its products from Phoenix International Corporation (Phoenix), a wholly owned subsidiary of Deere & Company. John Deere Special Technologies Group, Inc., our largest shareholder, is also a subsidiary of Deere & Company. Payments by the Company to Phoenix totaled approximately $3,026,000 during the fiscal year ended September 30, 2006 and $9,376,000 during the fiscal year ended September 30, 2005. The net amount payable to Phoenix on September 30, 2006 was $0, compared to $451,000 on September 30, 2005. The Company ceased purchasing hardware components from Phoenix on October 31, 2005.

The Company sold $163,000 of equipment to a company wholly owned by a member of the Board of Directors. The revenue on this sale was deferred until fiscal 2007, except for $5,000 of communications revenue, which was recognized in fiscal 2006.

PART III

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

Certain information about our executive officers called for by this Item is contained in Part II of this Report, and other information is incorporated by reference to our definitive proxy statement which will be filed within 120 days after the end of our fiscal year pursuant to Regulation 14A (the “Proxy Statement”).

We have adopted a Code of Ethics (Code) applicable to our principal executive, financial and accounting officers. The Code is filed as Exhibit 14 to our report on Form 10-KSB for fiscal 2004 and will be provided without charge, upon request, to any person.

Item 10. Executive Compensation

Information called for by this Item is incorporated by reference to our definitive proxy statement which will be filed within 120 days after the end of our fiscal year pursuant to Regulation 14A.

Equity Compensation Plan Information

The Company has three equity compensation plans: its 1991 Long-Term Incentive and Stock Option Plan, its 2001 Interim Incentive and Stock Option Plan, and its 2002 Long-Term Incentive and Stock Option Plan, all of which have been approved by the shareholders of the Company. The 1991 and 2001 Plans have terminated and no additional awards can be made under those Plans. In addition, the Company has issued warrants to its directors and certain service providers. These awards have not been presented to or approved by the shareholders.

Information called for by this Item is incorporated by reference to our definitive proxy statement which will be filed within 120 days after the end of our fiscal year pursuant to Regulation 14A.

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

Information called for by this Item is incorporated by reference to our definitive proxy statement which will be filed within 120 days after the end of our fiscal year pursuant to Regulation 14A.

Item 12. Certain Relationships and Related Transactions

Information called for by this Item is incorporated by reference to our definitive proxy statement which will be filed within 120 days after the end of our fiscal year pursuant to Regulation 14A.

Item 13. Exhibits and Reports on Form 8-K

Reports on Form 8-K

1. Report on Form 8-K dated October 4, 2006, naming John J. Coughlan to replace Craig S. Fawcett as Chairman and Chief Executive Officer.

Exhibits

Exhibit No.	Description of Exhibits
3.1	Restated Articles of Incorporation, as amended [1]
3.2	Bylaws [1]
3.3	Amended and Restated Bylaws, effective February 26, 2002 [12]
4.1	Form of certificate representing the Common Stock [1]
4.2	Certificate of Designation of Preferences of Series B Preferred Stock [17]
4.3	Form of Trident Warrants [17]
4.4	Form of Cherry Tree Warrants [17]
4.5	Certificate of Designation [21]
4.6	Form of Trident Warrants [21] The Company issued 5 warrants which are identical except as to holder and number of shares. The holders and their respective share amounts are as follows:

Holder	Number of Warrant Shares
Trident Capital Fund-V, L.P.	335,939
Trident Capital Fund-V Affiliates Fund, L.P.	1,953
Trident Capital Fund-V Affiliates Fund (Q), L.P.	1,863
Trident Capital Fund-V Principals Fund, L.P.	9,723
Trident Capital Parallel Fund-V, C.V.	25,522

Exhibit No.	Description of Exhibits
9.0	Voting Agreement [17]
9.1	Amended and Restated Voting Agreement [21]
10.1	Lease (for Office and Manufacturing Facilities), dated September 11, 1986, Letter Agreement and Amendment No. 1 to lease dated July 10, 1992, and Amendment No. 2 to Lease [1]
10.2	Agreements with Dennis R. Johnson regarding employment [1]
10.3	Agreements with William P. Flies regarding employment [1]
10.4	1991 Long-Term Incentive and Stock Option Plan, as amended by the Board of Directors in May 1997 subject to ratification by the shareholders
10.5	Purchase Agreement with Ryder Dedicated Logistics, Inc. dated December 31, 1994, with supplemental agreement dated September 1, 1995 [2]
10.7	Lease dated December 26, 1996 with Hoyt Properties, Inc. for new corporate headquarters [3]
10.8	Letter of Agreement with William Callahan regarding compensation [4]
10.9	Credit Agreement with Norwest Business Credit, Inc., dated October 23, 1998 and Amendments dated November 30, 1998 and January 8, 1999 [5]
10.10	Master Security Agreement and Promissory Note with GE Capital Corporation Commercial Asset Funding, dated August 6, 1998 [5]
10.11	Separation Agreement with Dennis R. Johnson [6]
10.12	Separation Agreement with William Callahan [6]
10.13	Amendment to Credit Agreement with Norwest Bank dated December 1, 1999 [6]
10.14	Sublease Agreement with Kavoras, Inc. dated September 1, 1999 [6]
10.15	Stock Purchase Agreement with JDSTG, dated August 30, 2000 [7]
10.16	Registration Rights Agreement with JDSTG dated August 30, 2000 [7]
10.17	Amendment No. 1, dated October 31, 2000, to Stock Purchase Agreement with JDSTG [9]
10.18	Side Agreement with JDSTG dated December 28, 2000 [8]
10.19	Employment Agreement dated October 1, 2000 with William P. Flies, Chief Executive Officer [10]

10.20	Employment Agreement dated January 15, 2001 with John G. Lewis, Chief Financial Officer [10]
10.21	Employment Agreement dated October 1, 2000 with Thomas N. Flies, Senior Vice President of Product Development [10]
10.22	Employment Agreement dated October 1, 2000 with Joel G. Jorgenson, Senior Vice President of Sales [10]
10.23	Employment Agreement dated February 5, 2001 with J. Perry McGahan, Vice President of Software Engineering [11]
10.24	Employment Agreement dated February 20, 2002 with Craig S. Fawcett, Chief Executive Officer [12]
10.25	Financing Agreement and Revolving Note with Itasca Business Credit, Inc. dated December 23, 2002 [13]
10.26	Form of Warrant issued to directors as equity compensation [13], [14]
10.27	Employment Agreement dated October 1, 2002 with William P. Flies, Chief Technical Officer [15]
10.28	First Lease Amendment dated May 5, 2003 which amends Lease dated December 27, 1996 with Hoyt Properties for Burnsville, Minnesota corporate headquarters [15]
10.29	Separation Agreement and Release dated June 11, 2003 with William P. Flies, Chief Technical Officer [16]
10.30	Trident Investor Indemnification Agreement [17]
10.31	Trident Director Indemnification Agreement [17]
10.32	Common Stock Warrant and Series B Preferred Stock Purchase Agreement [17]
10.33	First Amendment to Financing Agreement and Restated Revolving Note with Itasca Business Credit, Inc.
10.34	Amended Restricted Stock Award Agreement [18]
10.35	Loan and Security Agreement with Silicon Valley Bank
10.36	Form of Directors' Restricted Stock Award Agreement [19] An award in this form was granted to each director of the company.
10.37	Ties restricted stock award [20]
10.38	Ties change of control agreement [20]
10.39	Common stock warrant & Series C Preferred Stock Purchase Agreement [21] The Schedule of Exceptions to Representations, Warranties, and Covenants of the Company has been omitted, but will be provided to the Commissioner upon request.
10.40	First Amendment to Loan and Security Agreement dated December 16, 2005 with Silicon Valley Bank [22]
10.41	Schlick restricted stock award [23]
10.42	Schlick addendum to restricted stock award [23]
10.43	Schlick change of control agreement [23]
10.44	Coughlan executive employment agreement [24]
10.45	Coughlan incentive stock option agreement [24]
10.46	Coughlan restricted stock award [24]
10.47	Coughlan matching restricted stock award [24]
10.48	Business Agreement with Winland Electronics dated June 28, 2005 *
10.49	Reseller Agreement with Orbcomm, Inc. dated July 31, 2006 **
10.50	Second Amendment to Custom Service Agreement with Sprint Solutions, Inc. dated December 18, 2006 **
14	Amended Code Of Ethics For Principal Executive Officer And Senior Financial Officers [25]
23	Consent of Grant Thornton LLP, independent registered public accounting firm*
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *

32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
99.1	Fiscal Year 2006 Definitive Proxy Materials (portions of which are incorporated herein by reference) [26]

* Filed herewith

** Filed herewith. Certain information in the Exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(1) Incorporated by reference to exhibit filed as a part of Registration Statement on Form S-2 (Commission File No. 33-98932).

(2) Incorporated by reference to exhibit filed as a part of Report on Form 10-QSB for the fiscal quarter ended March 31, 1995. Certain segments have been granted confidential treatment.

(3) Incorporated by reference to exhibit filed as a part of Report on Form 10-QSB for the fiscal quarter ended March 31, 1997.

(4) Incorporated by reference to exhibit filed as a part of Report on Form 10-KSB for fiscal year ended September 30, 1997.

(5) Incorporated by reference to exhibit filed as a part of Report on Form 10-KSB for fiscal year ended September 30, 1998.

(6) Incorporated by reference to exhibit filed as a part of Report on Form 10-KSB for fiscal year ended September 30, 1999.

(7) Incorporated by reference to exhibit filed as a part of Report on Form 8-K on September 7, 2000.

(8) Incorporated by reference to exhibit filed as a part of Report on Form 10-KSB for the fiscal year ended September 30, 2000.

(9) Incorporated by reference to exhibit filed as a part of Report on Form 8-K on November 2, 2000.

(10) Incorporated by reference to exhibit filed as part of Report on Form 10-QSB for the fiscal quarter ended December 31, 2000.

(11) Incorporated by reference to exhibit filed as part of Report on Form 10-QSB for the fiscal quarter ended March 31, 2001.

(12) Incorporated by reference to exhibit filed as part of Report on Form 10-QSB for the fiscal quarter ended March 31, 2002.

(13) Incorporated by reference to exhibit filed as part of Report on Form 10-KSB for the fiscal year ended September 30, 2002.

(14) Warrants substantially identical to the warrant filed as Exhibit 10.26 have been issued and are outstanding as follows:

Holder	Date of Issuance	Exercise Price	Number of Shares
Richard Bogen	5/14/00	4.50	5,000
Stephen Lawrence	9/17/01	3.69	10,000

(15) Incorporated by reference to exhibit filed as part of Report on Form 10-QSB for the fiscal quarter ended March 31, 2003.

(16) Incorporated by reference to exhibit filed as part of Report on Form 10-QSB for the fiscal quarter ended June 30, 2003.

(17) Incorporated by reference to exhibit filed as part of Report on Form 8-K on December 9, 2003.

(18) Form of Amended Restricted Stock Award Agreement for awards granted to Craig S. Fawcett, John G. Lewis, Peter A. Thayer, Mark W. Engel and Thomas N. Flies. The award agreements are identical for each individual except for name, dates and number of shares. Incorporated by reference to exhibit file as part of Report on Form 10-KSB for the fiscal year ended September 30, 2004.

(19) Incorporated by reference to exhibit filed as part of Report on Form 8-K on March 1, 2006.

(20) Incorporated by reference to exhibit filed as part of Report on Form 8-K on April 12, 2005.

(21) Incorporated by reference to exhibit filed as part of Report on Form 8-K on September 22, 2005.

(22) Incorporated by reference to exhibit filed as part of Report on Form 10-KSB/A for the fiscal year ended September 30, 2005

(23) Incorporated by reference to exhibit filed as part of Report on Form 8-K on April 11, 2006.

(24) Incorporated by reference to exhibit filed as part of Report on Form 8-K on October 4, 2006.

(25) Incorporated by reference to exhibit filed as part of Report on Form 10-KSB for the fiscal year ended September 30, 2004

(26) To be filed in definitive form not later than January 12, 2007

Item 14. Principal Accountant Fees and Services

Information called for by this Item is incorporated by reference to our definitive proxy statement which will be filed within 120 days after the end of our fiscal year pursuant to Regulation 14A.

SIGNATURES

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

XATA CORPORATION

Dated: December 20, 2006 By: /s/ John J. Coughlan
John J. Coughlan, Chairman and Chief Executive Officer
(Principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Dated: December 20, 2006 By: /s/ John J. Coughlan
John J. Coughlan, Chairman and Chief Executive Officer

Dated: December 20, 2006 By: /s/ Carl M. Fredericks
Carl M. Fredericks, Director

Dated: December 20, 2006 By: /s/ Roger W. Kleppe
Roger W. Kleppe, Director

Dated: December 20, 2006 By: /s/ Stephen A. Lawrence
Stephen A. Lawrence, Director

Dated: December 20, 2006 By: /s/ Mark E. Ties
Mark E. Ties, Chief Financial Officer (Principal accounting and financial officer)

Dated: December 20, 2006 By: /s/ Christopher P. Marshall
Christopher P. Marshall, Director

Dated: December 20, 2006 By: /s/ Charles R. Stamp, Jr.
Charles R. Stamp, Jr., Director

INDEX TO EXHIBITS

Index Number	Description
10.48	Business Agreement with Winland Electronics dated June 28, 2005
10.49	Reseller Agreement with Orbcomm, Inc. dated July 31, 2006 **
10.50	Second Amendment to Custom Service Agreement with Sprint Solutions, Inc. dated December 18, 2006 **
23	Consent of Grant Thornton LLP, independent registered public accounting firm
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

** Certain information in the Exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

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CORPORATE INFORMATION

CORPORATE HEADQUARTERS
XATA Corporation
151 East Cliff Road, Suite 10
Minneapolis, MN 55337

Phone: 952-707-5600
Fax: 952-894-2463
Email: info@xata.com
Web: www.xata.com

OFFICERS
John J. Coughlan
Chairman and Chief Executive Officer

Mark E. Ties
Chief Financial Officer

Thomas L. Schlick
Chief Operating Officer

Thomas N. Flies
Vice President
Business Development

BOARD OF DIRECTORS
John J. Coughlan
Chairman and Chief Executive Officer

Carl M. Fredericks
President
Fredericks & Associates

Roger W. Kleppe
Senior Vice President of
Human Resources & Facilities Services
Blue Cross & Blue Shield
of Minnesota

Stephen A. Lawrence
Chairman and Chief Executive Officer
LTX, Inc.

Christopher P. Marshall
Managing Director
Trident Capital, Inc.

Charles R. Stamp, Jr.
Vice President
Public Affairs Worldwide
Deere & Company

INDEPENDENT AUDITORS
Grant Thornton LLP
Minneapolis, MN

TRANSFER AGENT AND REGISTRAR
Wells Fargo Shareowner Services
161 North Concord Exchange
South St. Paul, MN 55075
Phone: 800-468-9716

FORM 10-KSB
Copies of the annual report on Form 10-KSB filed with the Securities and Exchange Commission may be obtained free of charge by writing to Investor Relations at the Corporate Headquarters address above or on our web site at www.xata.com.

ANNUAL MEETING
February 7, 2007, 3:00 p.m.
Sheraton Bloomington Hotel
7800 Normandale Road
Bloomington, MN 55439

KNOW WHAT MATTERS.

XATA
FLEET INTELLIGENCE

XATA CORPORATION

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