

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

SANDATA TECHNOLOGIES INC
Form 10KSB/A
October 25, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB/A

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

For the fiscal year ended May 31, 2002

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

For the transition period from _____ to _____

Commission file number 0-14401

SANDATA TECHNOLOGIES, INC.
(Exact name of small business issuer in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

11-2841799
(I.R.S. Employer Identification No.)

26 Harbor Park Drive,
Port Washington, NY
(Address of principal executive offices)
11050
(Zip Code)

Issuer's telephone number, including area code: (516) 484-4400

Securities registered under Section 12(b) of the Exchange Act:
None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, \$.001 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 X No

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

The issuer's revenues for year ended May 31, 2002 were \$17,852,710.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of August 16, 2002 was \$1,536,918.

ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PAST FIVE YEARS

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

Yes _____ No _____

APPLICABLE ONLY TO CORPORATE REGISTRANTS

The number of shares outstanding of each of the issuer's classes of common equity, as of August 16, 2002 was 2,481,808.

Transitional Small Business Disclosure Format (check one):

Yes _____ No X _____

DOCUMENTS INCORPORATED BY REFERENCE

None.

ITEM 7 - FINANCIAL STATEMENTS

The Annual Report on Form 10-KSB for Sandata Technologies, Inc. (the "Company") for the year ended May 31, 2002 is hereby amended to the extent, and only to the extent, of amending Item 7 thereof, to correct typographical errors in the Consolidated Balance Sheet and the Consolidated Statement of Shareholders Equity for the year ended May 31, 2002, and in the Notes to the Consolidated Financial Statements. Item 7 shall read in its entirety as follows:

SANDATA TECHNOLOGIES, INC.

FINANCIAL STATEMENTS COMPRISING ITEM 7
OF REPORT ON FORM 10-KSB
TO SECURITIES AND EXCHANGE COMMISSION
YEAR ENDED MAY 31, 2002

SANDATA TECHNOLOGIES, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Financial Statements

Consolidated Balance Sheets as of May 31, 2002 and 2001

Consolidated Statements of Operations for the years ended
May 31, 2002 and 2001

Consolidated Statement of Shareholders' Equity for the years
ended May 31, 2002 and 2001

Consolidated Statements of Cash Flows for the years ended
May 31, 2002 and 2001

Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
of Sandata Technologies, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Sandata Technologies, Inc. and Subsidiaries (formerly Sandata, Inc.) as of May 31, 2002 and 2001, and the related consolidated statements of operations, shareholders'

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sandata Technologies, Inc. and Subsidiaries as of May 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in the Notes to the consolidated financial statements, the Company had certain transactions with companies affiliated with the Company's Officers and Chairman.

/s/ Marcum & Kliegman LLP

Woodbury, New York

July 26, 2002, except for Notes 12c and 12d, which are dated August 21, 2002 and August 22, 2002, respectively

F-2

SANDATA TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	May 2002 ----
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,630,617
Accounts receivable, net of allowance for doubtful accounts of \$202,746 and \$346,903 at 2002 and 2001, respectively	2,182,963
Receivables from affiliates	280,297
Notes receivable - officer	100,000
Inventories	45,342
Prepaid expenses and other current assets	345,349
Deferred income taxes	207,595

Total Current Assets	4,792,163
FIXED ASSETS, NET	6,820,596

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

DEFERRED INCOME TAXES	171,579
OTHER ASSETS	
Notes receivable	25,190
Cash surrender value of officer's life insurance, security deposits and other assets	1,105,502

TOTAL ASSETS	\$12,915,030
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 2,781,550
Deferred/unearned revenue	16,367
Deferred income	103,258

Total Current Liabilities	2,901,175
LONG-TERM DEBT	4,500,000
DEFERRED INCOME	21,142

TOTAL LIABILITIES	7,422,317

COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY	
Common stock, \$.001 par value, 6,000,000 shares authorized; 2,481,808 and 2,506,475 shares issued and outstanding in 2002 and 2001, respectively	2,482
Additional paid in capital	5,765,766
Retained earnings	1,193,755
Notes receivable - officers	(1,469,290)

TOTAL SHAREHOLDERS' EQUITY	5,492,713

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$12,915,030
	=====

See notes to consolidated financial statements

F-3

SANDATA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended May 31,

2002

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

REVENUES		
Service fees		\$17,173,922
Other income		514,999
Interest income		163,789

TOTAL REVENUES		17,852,710

COSTS AND EXPENSES		
Operating		9,877,651
Selling, general and administrative		5,502,264
Depreciation and amortization		1,839,965
Interest expense		241,729
Impairment of developed software		--
Impairment of goodwill		--

TOTAL COSTS AND EXPENSES		17,461,609

EARNINGS (LOSS) BEFORE INCOME TAXES		391,101
INCOME TAX EXPENSE (BENEFIT)		249,067

NET EARNINGS (LOSS)		\$ 142,034
		=====
PER SHARE INFORMATION		
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE		\$.06
		=====
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING		2,494,175
		=====

See notes to consolidated financial statements

F-4

SANDATA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Years ended May 31, 2002 and 2001

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings
	-----	-----	-----	-----
Balance at June 1, 2000	2,506,475	\$2,506	\$5,803,704	\$ 3,249,868
Net Loss	--	--	--	(2,198,147)

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

	-----	-----	-----	-----
Balance at				
May 31, 2001	2,506,475	2,506	5,803,704	1,051,721
Reclassification of notes receivable officer (re-paid subsequent to year-end- Note 12d)	--	--	--	--
Effect of Stock Surrender	(24,667)	(24)	(37,938)	--
Net Earnings	--	--	--	142,034
	-----	-----	-----	-----
Balance at				
May 31, 2002	2,481,808	\$2,482	\$5,765,766	\$ 1,193,755
	=====	=====	=====	=====

See notes to consolidated financial statements

F-5

SANDATA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended May 31,

	2002

Cash flows from operating activities:	
Net earnings (loss)	\$ 142,034
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:	
Depreciation and amortization	1,839,965
(Gain) loss on disposal of fixed assets	(4,309)
Change in allowance for doubtful accounts	(144,157)
Recognition of deferred income	(296,561)
Recognition of deferred revenue	(36,121)
Impairment of developed software	--
Impairment of goodwill	--
Deferred tax provision	231,069
(Increase) decrease in operating assets	
Accounts receivable	121,869
Receivables from affiliates	522,490
Inventories	(9,352)
Prepaid expenses and other current assets	70,708
Other assets	(234,247)
(Decrease) Increase in operating liabilities	
Accounts payable and accrued expenses	900,282
Deferred/unearned revenue	21,418
Deferred income	--

Net cash provided by operating activities	3,125,088

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

Cash flows from investing activities:	
Purchases of fixed assets	(2,620,049)
Proceeds from sale/leaseback transactions	--
Acquisition of intangible asset	--

Net cash used in investing activities	(2,620,049)

Cash flows from financing activities:	
Principal payments on note payable	(500,000)
Proceeds from note payable	500,000
Proceeds from line of credit	3,800,000
Principal payments on line of credit	(3,150,000)

Net cash provided by financing activities	650,000

INCREASE (Decrease) in cash and cash equivalents	1,155,039

Cash and cash equivalents - beginning	475,578

Cash and cash equivalents - ending	\$ 1,630,617
	=====

See notes to consolidated financial statements

F-6

SANDATA TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Economic Dependency

Sandata Technologies, Inc. and Subsidiaries (the "Company", formerly known as Sandata, Inc.) are primarily engaged in the business of providing computerized data processing services and custom software and programming services using Company-developed and licensed software principally to the healthcare industry. The Company primarily operates in the New York metropolitan area. During fiscal years ended May 31, 2002 and 2001, the Company received revenues from a group of customers who are all funded by the Human Resources Administration of the City of New York ("HRA"), amounting to approximately \$10,549,000 and \$10,608,000, respectively. The Company was owed approximately \$1,259,000 and \$1,160,000 from these customers at May 31, 2002 and 2001, respectively.

Principles of Consolidation

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

The consolidated financial statements include the accounts of Sandata Technologies, Inc. and its wholly owned subsidiaries: Sandsport Data Services, Inc., Sandata Home Health Systems, Inc., Sandata Spectrum, Inc., SANTRAX Systems, Inc., SANTRAX Productivity, Inc. and Pro-Health Systems, Inc. ("Pro-Health", formerly known as Sandata Inteck, Inc.). SANTRAX Productivity, Inc. and Sandata Spectrum, Inc. are inactive subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications have no effect on previously reported earnings/loss.

Fixed Assets

Fixed assets are recorded at cost. Depreciation and amortization are computed principally by the straight-line method over the lesser of the estimated useful lives or lease terms of the related assets.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets, including goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets as determined by estimated discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Income Taxes

The Company uses the liability method to account for income taxes. The primary objectives of accounting for income taxes are to (a) recognize the amount of income tax payable for the current year and (b) recognize the amount of deferred tax liability or asset based on management's assessment of the tax consequences of events that have been reflected in the Company's financial statements or tax returns. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Software Costs

The Company capitalizes software development costs from the point in time where technological feasibility has been established until the computer software product is available to be sold. The annual amortization of the capitalized amounts is the greater of the ratio of current revenue to total projected revenue for a product, or the straight-line method, and is applied over periods ranging up to five years. The Company performs periodic reviews to ensure that unamortized program costs remain recoverable from future revenue.

Research and Development

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

Research and development costs are charged to expense as incurred. Research and development expenses amounted to approximately \$62,000 and \$10,000 in 2002 and 2001, respectively.

Inventories

Inventories, consisting of computer hardware and peripherals held for resale, are stated at the lower of cost or market; cost is determined using the specific identification method.

Net Earnings Per Common Share

The Company computes earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings per Share". Basic earnings per share has been computed using the weighted average number of shares of common stock outstanding. Diluted earnings per share has been computed using the basic weighted average shares of common stock issued adjusted for the dilutive effect of outstanding stock options.

For the year ended May 31, 2002 options and warrants to purchase 1,394,419 shares of common stock were outstanding and were not included in the computation of diluted earnings per share because the exercise price of the options and warrants were greater than the average market price of the common stock. For the year ended May 31, 2001, outstanding stock options, warrants and other potential stock issuances have not been considered in the computation of diluted earnings per share amounts since the effect of their inclusion would have been antidilutive. The Company uses the treasury stock method to calculate the effect that the conversion of the stock options would have on earnings per share and the weighted average number of shares of common stock.

Revenue Recognition

Computerized Information Processing Services. The Company generates revenues for its computerized information processing services from its Sandport Home Attendant Reporting Program ("SHARP") and Pro-Health software applications. The SHARP application provides weekly time sheets, billing, payroll processing and management reports for not-for-profit agencies that provide home attendant services to those in need. Revenues are recognized for these services in the period they are provided. The Pro-Health application is an application service provider solution that provides home health care customers access to the Company's software over the Internet without needing sophisticated hardware at its site to house the software or store the data. Customers using this application are charged a monthly fee and revenue is recognized on a monthly basis as the service is provided.

Telephone-Based Data Collection Services. The Company generates revenues for its telephone-based data collection services from its automated electronic system known as Sandata(R) SANTRAX(R) ("SANTRAX") software application. The SANTRAX application is an automated electronic system that incorporates telephone technologies into the data reporting process to monitor the arrival and departure times of off-site workers. Revenues from this application are recognized based on a per call or visit basis in the period in which the services are provided.

Technology Infrastructure and Outsourcing Services. Revenues from technology infrastructure and outsourcing services such as data processing, technology infrastructure consulting, web site development, running e-commerce applications and reselling telephone services are recognized based on per hour or call rates in the period the service is provided.

Information Technology Services. The Company generates revenues from information technology services under the name of SandataNet and includes

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

services such as software support, hardware support/break-fix, Local Area Network ("LAN") administration and configuration services and the reselling of computer hardware and third-party software systems; some of the services are pursuant to long-term contracts. Support revenue is recognized based on per hour rates in the period the service is provided. For maintenance contracts greater than one month, revenue is recognized over the term of the contract on a straight-line basis. Computer hardware and software resale revenues are recognized when the units are shipped and accepted by the customer. The Company does not bundle maintenance with any software sold.

Long-Term Contracting. As discussed above, the Company utilizes long-term contracts and recognizes revenue for financial statement purposes under the percentage of completion method and, therefore, takes into account the costs, estimated earnings and revenue-to-date on contracts not yet completed.

The amount of revenue recognized at the financial statement date is the portion of the total contract price that the direct labor costs expended to date bears to the anticipated total direct labor costs, based on current estimates of costs to complete. Direct labor costs include all direct labor, related benefits, and subcontract costs. This method is used because management considers direct labor costs to be the best available measure of progress on these contracts.

Revisions in estimates of costs and earnings during the life of the contracts are reflected in the accounting period in which such revisions become known. At the time a loss on a contract becomes known, the entire amount of the estimated loss is recognized in the financial statements. Billings in excess of estimated costs and earnings on uncompleted contracts are included in deferred/unearned revenue.

Sale/Leaseback

The Company recognizes gains from sale/leaseback transactions ratably over the term of the underlying lease. All such leases are operating leases. Any losses from these transactions are recognized in the period incurred.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. Due to the nature of its operations, the Company deposits, on a monthly basis, amounts in financial institutions for the payment of payroll liabilities for certain customers. Such amounts are reduced when the Company pays such liabilities. Such reduction generally occurs over five to ten business days. At May 31, 2002, the Company had amounts on deposit for these liabilities of approximately \$1,300,000.

Concentration of Credit Risk

The Company is subject to a concentration of credit risk with respect to its trade receivables, as disclosed above. The Company performs on-going credit evaluations of its customers and generally does not require collateral. The Company maintains allowances to cover potential or anticipated losses for uncollectible accounts.

The Company has cash balances in banks in excess of the maximum amount insured by the FDIC as of May 31, 2002.

Statements of Cash Flows

The Company paid income taxes of approximately \$19,000 and \$23,000 and interest of approximately \$242,000 and \$252,000 for the years ended May 31, 2002 and 2001, respectively.

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Fair Value of Financial Instruments

The Company's short term financial instruments include cash, accounts receivable, receivable from affiliates and accounts payable. Due to the short-term nature of these instruments, the fair value of these instruments approximates their recorded value. The Company has long-term debt instruments which it believes are stated at their estimated fair value.

Stock Options and Similar Equity Instruments

The Company accounts for stock options and similar equity instruments (collectively "Options") issued to employees and directors in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," rather than the fair value based method of accounting prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." The exercise price for Options issued to employees and directors equals or exceeds the fair value of the Company's Common Stock at the date of grant and, accordingly, no compensation expense is recorded. Equity instruments issued to acquire goods and services from non-employees are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more readily determinable.

Comprehensive Income

The Company adopted SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS No. 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements.

Business Segments

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", which supercedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS No. 131 establishes standards for the way that public enterprises report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements regarding products and services, geographical areas and major customers. SFAS No. 131 defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has determined that its operations are in one segment, computer services to the health care industry.

New Accounting Pronouncements

In October 2001, the Financial Accounting Standards Board ("FASB") issued

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses the accounting model for long-lived assets to be disposed of by sale and resulting implementation issues. This statement requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. It also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for the Company in fiscal 2003. The Company is evaluating the impact that implementation of SFAS No. 144 may have on the financial statements of the Company.

On April 30, 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect and eliminates an inconsistency between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Generally, SFAS No. 145 is effective for transactions occurring after May 15, 2002. The adoption of this standard is expected to have no impact to the Company.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), provides guidance on the recognition and measurement of liabilities for cost associated with exit or disposal activities. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently reviewing SFAS 146 to determine the impact upon adoption.

NOTE 2 - Fixed Assets

Fixed assets consist of the following:

	Useful Life -----	May 31, 2002 ----
Computer equipment	5 years	\$ 3,169,445
Software costs	Up to 5 years	12,364,224
Furniture, fixtures and automobiles	4-7 years	419,274
Leasehold improvements	10 years	2,823,154
		----- 18,776,097
Less: accumulated depreciation and amortization		(11,955,501) -----
 Total Fixed Assets, net		 \$ 6,820,596 =====

Depreciation and amortization expense relating to fixed assets (other than software costs) amounted to approximately \$443,000 in 2002 and 2001, respectively.

Unamortized software costs amounted to approximately \$5,105,000 and

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

\$4,186,000 at May 31, 2002 and 2001, respectively. Amortization expense for these costs totaled approximately \$1,397,000 and \$2,305,000 in 2002 and 2001, respectively.

During the fourth quarter of the year ended May 31, 2001, the Company shut down certain operating systems and hardware configurations, which had been capitalized in previous years. The Company had determined that the older systems architecture had become obsolete and too costly to maintain, so the Company coordinated placing several new systems in production after running parallel with pre-existing systems resulting in the retirement of the older systems during the fourth quarter. The Company further determined that there is no net realizable value remaining since no future revenue would be recognized in the retired systems because the architecture was completely replaced by the new systems. As such the Company recognized an impairment loss of approximately \$3,300,000 for the year ended May 31, 2001.

NOTE 3 - Debt

Credit Agreement

The Company's wholly owned subsidiary, Sandsport Data Services, Inc. ("Sandsport"), has a revolving credit agreement (the "Credit Agreement") with a Bank which allows Sandsport to borrow amounts up to \$4,500,000 and is due on June 14, 2003. Interest accrues on amounts outstanding under the Credit Agreement at a rate equal to the London Interbank Offered Rate plus 2% and will be paid quarterly in arrears or, at Sandsport's option, interest may accrue at the Bank's prime rate. The Credit Agreement requires Sandsport to pay a fee equal to 1/4% per annum on the unused average daily balance of amounts under the Credit Agreement. In addition, there are other fees and charges imposed based upon Sandsport's failure to maintain certain minimum balances. The indebtedness under the Credit Agreement is guaranteed by the Company and Sandsport's sister subsidiaries (the "Group"). All of the Group's assets are pledged to the Bank as collateral for the amounts due under the Credit Agreement, which pledge is secured by a first lien on all equipment owned by members of the Group, as well as a collateral assignment of \$2,000,000 of life insurance payable on the life of the Company's Chairman. In addition, the Company is restricted in its ability to declare and pay dividends pursuant to the Credit Agreement. The Group's guaranty to the Bank was subsequently modified to include all indebtedness incurred by the Company under the amended Credit Agreement dated August 24, 2001 (see below).

On August 24, 2001, Sandsport, the Company and the other members of the Group, and the Bank, entered into the Third Amendment and Waiver (the "Third Amendment") to the Credit Agreement. Pursuant to the Third Amendment, Sandsport's covenants to the Bank to maintain a certain net worth, and to maintain certain financial ratios, were revised on a going-forward basis and the noncompliance with the existing covenants was waived by the Bank. In addition, in connection with the Third Amendment, Sandsport and each member of the Group executed and delivered to the Bank a Collective Amended and Restated Security Agreement, pursuant to which the Bank's security interest was extended to include a security interest in all of the personal and fixture property of Sandsport, the Company and the members of the Group. As of May 31, 2002 and 2001, the outstanding balance on the Credit Agreement with the Bank was \$4,500,000 and \$3,850,000, respectively.

Long Term Debt

The Company owed National Medical Health Card Systems, Inc. ("Health Card"), a company affiliated with the Company's Chairman, \$500,000 pursuant to a promissory note, dated May 31, 2000 and due June 1, 2001 plus interest at the rate of 9-1/2%; interest on such note was payable quarterly. The Note was paid

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

in May, 2001.

On June 9, 2001, the Company issued a promissory note to Health Card in the principal amount of \$500,000, with interest at the rate of 7%, which was due on June 8, 2002. This Note was paid in full on August 15, 2001.

NOTE 4 - Income Taxes

The income tax expense (benefit) is comprised of the following:

	Year Ended May 31,	
	2002	2001
	----	----
Current		
Federal	\$ --	--
State	17,998	19,000
	-----	-----
Total current	17,998	19,000
	-----	-----
Deferred		
Federal	192,761	(1,089,293)
State	38,308	(223,108)
	-----	-----
Total deferred	231,069	(1,312,401)
	-----	-----
Income tax expense (benefit)	\$249,067	\$(1,293,401)
	=====	=====

The Company's effective income tax rate differs from the statutory U.S. Federal income tax rate as a result of the following:

	Year Ended May 31,	
	2002	2001
	----	----
Statutory U.S. federal tax rate	34.0%	(34.0%)
State taxes	4.6	(5.8)
Permanent Differences	12.2	1.2
Other	12.9	1.6
	-----	-----
	63.7%	(37.0%)
	=====	=====

The components of deferred tax assets and liabilities consists of the following:

	May 31,	
	2002	2001
	----	----
Deferred Tax Assets-Current portion		
Allowance for Doubtful Accounts	\$ 81,686	\$142,230
Deferred Income	61,367	43,340
Accrued Expenses	56,117	79,706
Other	8,425	9,194
	-----	-----

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

Deferred Tax Assets, current	\$207,595 =====	\$274,470 =====
		May 31,
	2002 ----	2001 ----
Deferred Tax Assets-Long term portion		
Net Operating Loss Carryforwards	\$1,642,275	\$1,255,038
Deferred Income	--	129,255
Goodwill	--	82,872
Other	604	615
	-----	-----
Deferred Tax Assets, Long-term	1,642,879 -----	1,467,780 -----
Deferred Tax Liabilities-Long-term portion		
Depreciation and amortization	(1,460,054)	(1,132,007)
Deferred income	(11,246)	--
	-----	-----
Deferred Tax Liabilities, Long-term	(1,471,300) -----	(1,132,007) -----
Deferred Tax Assets - Long-term, Net	171,579 -----	335,773 -----
Total Deferred Tax Asset, Net	\$ 379,174 =====	\$ 610,243 =====

Management determined that it was more likely than not that future taxable income would be sufficient to enable the Company to realize all of its deferred tax assets. Accordingly, no valuation allowance has been recorded at May 31, 2002 and 2001.

At May 31, 2002, the Company had net operating loss carryforwards for tax purposes of approximately \$4,076,000, expiring at various dates through 2022.

NOTE 5- Commitments and Contingencies

Lease Agreements

The Company leases office space at 26 Harbor Park Drive, Port Washington, NY 11050 (the "Facility") from BFS Realty LLC, successor to BFS Sibling Realty and an affiliate of the Company's Chairman (the "Affiliate") (see Note 6). The Company paid rent in the amount of \$407,834 and \$615,412 to the Affiliate for the years ended May 31, 2002 and 2001, respectively.

On June 1, 2001 (revised November, 2001), the Company entered into a ten (10) year lease for the Facility with the Affiliate. The lease provides for annual rental payments of \$277,817 for the period June 1, 2002 to May 31, 2003, with annual 5% increases in each 12-month period thereafter. The lease is being expensed on a straight-line basis over the lease term. The lease also requires monthly payments of various types, such as the Company's proportionate share of real estate taxes and common area maintenance charges, that aggregate approximately \$10,000 per month. In November, 2001, the lease was revised to provide that the Company would pay its utility expenses directly to the respective utility company, not to the Affiliate.

The Company has obligations to pay rental expense in connection with six

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

sale/leaseback transactions. The rental expenses amounted to approximately \$1,195,000 and \$1,630,000 for the years ended May 31, 2002 and 2001 respectively. (See Note 8)

Total office space and equipment rental expense under all operating leases amounted to approximately \$2,294,000 and \$3,417,000 in fiscal 2002 and 2001, respectively.

Future minimum lease payments for all non cancelable operating leases at May 31, 2002 are as follows:

Year Ending May 31, -----	Amount -----
2003	\$1,759,640
2004	969,461
2005	644,554
2006	336,390
2007	330,988
Thereafter	1,739,257
-----	-----
Total	\$5,780,290
	=====

Litigation

a. On October 19, 1999, the Company and Pro-Health brought an action against Provider Solutions Corporation ("Provider") and others, in Supreme Court, New York County, based on breach of contract, fraudulent misrepresentation and other causes of action, demanding damages of approximately \$10,000,000 (the "State Action"). On October 22, 1999, Provider brought a federal action in the United States District Court for the Eastern District of New York (the "Federal Action"). The complaint demanded relief in the form of a permanent injunction and damages against the Company and Pro-Health for total amounts ranging from \$10,000,000 to \$15,000,000. The State Action was consolidated with the Federal Action.

On March 8, 2001 the Company, Pro-Health, Provider and all involved parties and individuals settled the consolidated Federal Action, globally resolving all issues, claims and disputes. The settlement entailed the exchange of general releases between the Company, Pro-Health, Provider and all parties, and the payment of \$600,000 to Provider, of which \$50,000 was paid by the Company. The balance of the payment under the settlement was funded by the Company's insurers. The settlement did not have a material effect on the Company's operations. The Company has retained its proprietary interest in the subject software.

b. In August of 1999, the Company's wholly-owned subsidiary, Sandsport was named as a defendant in Greater Bright Light Home Care Services, Inc. et al. v. Joseph Jeffries-El, El Equity Corporation, Sandsport Data Services, Inc. et al. (Supreme Court of the State of New York, Kings County). Sandsport's contractual obligation to Greater Bright Light involved the depositing of certain government-issued checks into a specific bank account. Upon receiving written notification from the agency issuing the checks to stop depositing them in that account, Sandsport ceased depositing them. The plaintiff brought the action against Joseph Jeffries-El and El Equity, and El Equity counterclaimed against the plaintiff, each basing its claims on the financing agreement between them. El Equity also cross-claimed against Sandsport, asserting that Sandsport converted the government-issued checks to its own use. Although Sandsport is named as a defendant, the Complaint seeks no affirmative relief against Sandsport. Co-defendant Citibank has asserted indemnification claims against Sandsport and all of the other defendants. Sandsport disputes all liability. However, the Company is unable to predict the outcome of these claims and

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

accordingly, no adjustments have been made in the consolidated financial statements in response to these claims.

c. On March 1, 2000, Dataline, Inc. ("Dataline") began a lawsuit against MCI WorldCom Network Services, Inc. ("MCI") and the Company for alleged trade libel and related counts, in the United States District Court for the Southern District of New York. The court dismissed that lawsuit, with prejudice, on May 23, 2002. On May 4, 2001 MCI had brought a patent infringement lawsuit against Dataline, alleging that it was infringing three MCI patents, under which the Company has an exclusive license in New York City. Shortly thereafter, the Company joined MCI in the suit against Dataline. Pursuant to a Settlement Agreement dated January 1, 2002 among MCI, its parent (MCI Communications Corporation), the Company, and Dataline, Dataline acknowledged the validity and enforceability of the 3 MCI-owned patents that were the subject of the lawsuits. There were no payments from either MCI or the Company to Dataline. As part of the settlement, Dataline agreed to pay the Company \$100,000 in cash and issue an 8% promissory note in the amount of \$721,000. Due to the uncertainty of realization of the note receivable, the Company is recognizing the income on the note using the installment method of accounting. During the year ended May 31, 2002, the Company has recognized approximately \$115,000 of income. In addition, Sandata and Dataline entered into an Exclusive Service Agreement by which Dataline agreed to use the Company's "call capture infrastructure" for all of Dataline's time and attendance systems, and to pay royalties to the Company for such use. The terms of the settlement also included mutual releases.

d. An action was commenced against the Company and Health Card by a former executive of Health Card, Mary Casale, who alleged that employees of both Health Card and the Company engaged in sex discrimination as to Ms. Casale, and thus, violated Title VII of the Civil Rights Act of 1964. In February 2002 the matter was withdrawn from the Equal Employment Opportunity Commission, and was settled without any effect on the financial statements of the Company.

Royalty Agreement

The Company has been granted a license under certain of MCI's patents which permits the Company to continue to market and sell its SANTRAX time and attendance verification product non-exclusively nationwide, and exclusively in the home health care industries for the five New York boroughs, and that the Company will pay MCI certain royalties, on a per call basis. The license remains in effect until the last to expire of various patents held by MCI or until October 19, 2010, whichever is later.

Employment and Deferred Compensation Agreements

On February 1, 1997 the Company and its Chairman ("Mr. Brodsky") entered into an employment agreement for a five year term (the "Brodsky Employment Agreement"). Among other things, the Brodsky Employment Agreement provides compensation at the annual rate of \$500,000 or a lesser amount if mutually agreed. The Brodsky Employment Agreement also provides for payment of an annual bonus at the sole discretion of the Board of Directors. Mr. Brodsky agreed to accept a reduction in compensation for the fiscal years ended May 31, 2002, 2001, and 2000 and has signed waivers evidencing his agreement to such reductions. The Brodsky Employment Agreement was renewed, on identical terms, on March 1, 2002.

In May 1992, Mr. Brodsky and the Company entered into a deferred compensation agreement pursuant to which the Company would (i) pay to Mr. Brodsky a lump sum ranging from \$75,000 to \$255,000 if he voluntarily terminated his employment with the Company after attaining 55 years of age, or (ii) pay to Mr. Brodsky's beneficiary a lump sum ranging from \$200,000 to \$450,000 in the event of Mr. Brodsky's death during the term of his employment with the Company. This agreement was terminated in October, 2001.

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

On August 9, 2001 the Company announced that it had terminated the employment of Stephen Davies as President of the Company, and would be terminating approximately 30 other employees. Mr. Davies received a severance payment equal to six (6) months' base salary, or \$100,000, and had 90 days from the date of termination to exercise the 66,673 options that were vested on that date. None of such options were exercised. In addition, the Company paid approximately \$47,000 in severance payments for approximately 30 other terminated employees.

NOTE 6 - Related Party Transactions

a. In November 1996 the Company entered into an agreement with the Affiliate, the Nassau County Industrial Development Agency ("NCIDA"), and a Bank (the "Bondholder") (the "Agreement"). Pursuant to the Agreement, the Affiliate (i) assumed all of the Company's rights and obligations under a Lease Agreement that was previously between the Company and the NCIDA (the "Lease"), and (ii) entered into a Sublease Agreement with the Company for the premises the Company occupies. Pursuant to the Agreement, the Affiliate also obtained the right to become the owner of the premises upon expiration of the Lease. Under the terms of the Agreement, the Company is jointly and separately liable to the NCIDA for all obligations owed by the Affiliate to the NCIDA under the Lease; however, the Affiliate has indemnified the Company with respect to certain obligations relative to the Lease and the Agreement. In addition, the Agreement provides that the Company is bound by all the terms and conditions of the Lease, and that a security interest is granted to the Affiliate in all of the Company's fixtures constituting part of the premises.

The foregoing transactions and agreements were the last in a series of transactions involving the Company, the Affiliate, NCIDA, the Bondholder and the U.S. Small Business Administration ("SBA"). Chief among these was the borrowing by the Affiliate in June of 1994 of \$3,350,000 in the form of Industrial Development Revenue Bonds (the "Bonds") to finance the acquisition of the Facility. Simultaneously with the issuance of the Bonds: (1) NCIDA obtained title to the Facility and leased it to the Affiliate, (2) the Affiliate subleased the Facility to the Company, (3) the Bondholder bought the Bonds, (4) the Bondholder received a mortgage and security interest in the Facility to secure the payment of the Bonds. The Affiliate's obligations under the Lease were guaranteed by Mr. Brodsky, the Company, Sandsport and others. The Affiliate's obligations respecting repayment of the Bonds were also guaranteed by Mr. Brodsky, the Company, Sandsport and others.

The Bonds currently bear interest at the rate of 9%, and the outstanding balance due on the Bonds as of May 31, 2002 was \$1,444,445. The Company paid rent to the Affiliate of \$407,834 and \$615,412 for the years ended May 31, 2002 and 2001.

On August 11, 1995, the Company entered into a \$750,000 loan agreement with the Long Island Development Corporation ("LIDC"), under a guarantee by the SBA (the "SBA Loan"). The SBA Loan was assigned to the Affiliate in November 1996; however, repayment of the SBA loan is guaranteed by the Company and various subsidiaries of the Company. The entire proceeds were used to repay a portion of the Bonds. The SBA Loan is payable in 240 monthly installments of \$6,255, which includes principal and interest at a rate of 7.015%. The balance of the SBA loan as of May 31, 2002 was \$599,024.

b. Until January 2002, the Company derived revenue from Health Card, a company affiliated with the Company's Chairman, principally for data base and operating system support, hardware leasing, maintenance and related administrative services. The revenues generated from Health Card amounted to approximately \$693,000 and \$2,458,000 for the years ended May 31, 2002 and 2001,

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

respectively. The Company billed Health Card approximately \$126,000 and \$821,000 for quality assurance testing of software programs developed by Health Card and network support, and \$47,000 and \$561,000 for help desk services, \$175,000 and \$448,000 for data processing center as well as \$305,000 and \$534,000 for certain computer equipment leases and other services for \$40,000 and \$95,000 for years ended May 31, 2002 and 2001, respectively. In addition the Company resells its telephone services to Health Card. The billings for such telephone services amounted to approximately \$124,000 and \$134,000 for the years ended May 31, 2002 and May 31, 2001 and are recorded as a reduction of operating expense. The Company was owed \$19,280 from Health Card at May 31, 2002. Subsequent to May 31, 2002, the Company received approximately \$14,000 from Health Card, representing substantially complete payment of amounts due as of that date. As of January, 2002, the Company ceased rendering services to Health Card. Health Card continues to pay its allocable share of expenses for shared services, which amounts to approximately \$45,000 per month.

c. The Company makes lease and rent payments to affiliates of the Company's Chairman. The payments for leased equipment were made to P.W. Capital Corp. and P.W. Medical Management, Inc., and were \$268,011 and \$395,989 for the years ended May 31, 2002 and 2001, respectively. The payments for the Facility were made to BFS Realty, LLC, and were \$407,834 and \$615,412 for the years ended May 31, 2002 and 2001, respectively. In June 2001, the Company entered into a new lease for the Facility which was revised in November, 2001. (See Note 5).

d. Medical Arts Office Services, Inc. ("MAOS"), of which the Company's Chairman is the sole shareholder, provided the Company with accounting, bookkeeping and legal services. For the years ended May 31, 2002 and 2001 the total payments made by the Company to MAOS were \$340,869 and \$279,894, respectively.

e. During the years ended May 31, 2002 and 2001 the Company paid an aggregate of \$57,285 and \$65,894, respectively on behalf of certain officers to companies affiliated with the Company's Chairman for payment of automobile leases.

NOTE 7 - SHAREHOLDERS' EQUITY

Stock Options

The Company maintains the following stock option plans:

1984 Stock Option Plan

There had been 2,536 options granted at an exercise price of \$1.88 under an incentive stock option plan adopted in October 1984 (the "1984 Plan") and subsequently amended. Options granted under this plan were granted at exercise prices not less than fair market value on the date of grant. All of the options outstanding under this plan expired in January 2001. No additional options may be granted under this plan.

1995 Stock Option Plan

At May 31, 2002, there were 590,500 incentive options outstanding under a stock option plan adopted in January 1995 (the "1995 Plan"), which provides for both incentive and nonqualified stock options and reserves 1,000,000 shares of common stock for grant under the plan. Of these options, 520,500 are held by officers of the Company. The plan requires that incentive options be granted at exercise prices not less than the fair market value at the date of grant, and terminates in January 2005. All options outstanding under this plan are exercisable at May 31, 2002 at prices ranging from \$1.41 to \$2.61 per share over a period of five years from date of grant.

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

On July 14, 1997, the Company filed a Registration Statement on Form S-8 relative to reofferings of shares of Common Stock of the Company which may be acquired pursuant to the 1984 and 1995 Plan.

1998 Stock Option Plan

At May 31, 2002 there were 775,579 incentive stock options outstanding under a stock option plan adopted in October 1998, (the "1998 Plan") which provides for both incentive and nonqualified stock options and reserves 1,000,000 shares of common stock for grant under the plan. The plan requires that incentive options be granted at exercise prices not less than the fair market value at the date of grant and terminates in August 2008. Of the options outstanding at May 31, 2002, 567,060 were exercisable at prices ranging from \$1.31 to \$3.00 over three to five years from the date of grant.

2000 Stock Option Plan

At May 31, 2002, there were 28,340 incentive options outstanding under a stock option plan adopted on November 20, 2000 (the "2000 Plan"), which provides for both incentive and nonqualified stock options and reserves 1,500,000 shares of common stock for grant under the plan. The 2000 Plan terminates in September 2010. Options outstanding under the plan vest over a seven-year period commencing December 31, 2000 and ending December 31, 2007 and are exercisable at prices ranging from \$1.00 per share to \$3.00 per share over a period of ten years from the date of grant. At May 31, 2002, there were no options currently exercisable.

Summary information with respect to the stock option plans follows:

	Range of exercise prices (\$)	Outstanding options granted
	-----	-----
Balance, June 1, 2000	1.31 - 3.00	1,523,902
Granted	3.00	279,808
Cancelled		(76,118)

Balance, May 31, 2001	1.31 - 3.00	1,727,592
Granted	1.00 - 3.00	40,085
Cancelled		(373,258)

Balance, May 31, 2002	1.31 - 3.00	1,394,419
		=====

Stock option grants to certain officers and directors were as follows:

In October 1998, the Company granted certain directors of the Company non-qualified stock options to purchase an aggregate of 20,000 shares of the Company's common stock under the 1998 Plan at an exercise price of \$3.00. These options vested immediately and are exercisable over a five-year period.

In December 1998, the Company granted 520,500 incentive options to certain officers of the Company under the 1995 Plan at an exercise price of \$1.41 per share. These options vested immediately and are exercisable over a five-year period.

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

In February 2000, the Company granted its Chairman incentive stock options to purchase an aggregate of 350,000 shares under the 1998 Plan at an exercise price of \$1.31. These options vest and are exercisable over a five-year period.

In April 2000, the Company granted certain directors of the Company non-qualified stock options to purchase an aggregate of 72,000 shares under the 1998 Plan at an exercise price of \$3.00. These options vest and are exercisable over a six-year period.

In April 2000, the Company granted its then President incentive stock options to purchase an aggregate of 100,000 shares under the 1998 Plan at an exercise price of \$3.00. In October 2000, the Company granted its then President incentive stock options to purchase 150,000 shares under the 2000 Plan, at an exercise price of \$3.00 per share. The President's employment was terminated on August 6, 2001, at which date the President became entitled to exercise, for ninety days, the options that had already vested. Those options consisted of 33,340 shares under the 1998 Plan, and 33,333 under the 2000 Plan, none of which were exercised before the right to exercise expired.

In November 2000, the Company granted certain directors of the Company non-qualified stock options to purchase an aggregate of 20,000 shares of the Company's common stock under the 1998 Plan at an exercise price of \$3.00. These options vest over a three-year period and are exercisable over a five-year period.

During the fiscal year ended May 31, 2002 non-qualified options to purchase up to 10,000 shares of Common Stock, at an exercise price of \$1.00 per share, were issued to each of two Director's.

On July 14, 1998, the Chairman, certain officers and directors, and a former director (who is also the spouse of an officer and an employee of Sandsport Data Services, Inc. ("Sandsport"), the Company's wholly owned subsidiary), exercised their respective options and warrants to purchase an aggregate of 921,334 shares of Common Stock. The exercise prices ranged from \$1.38 to \$2.61 per share for an aggregate cost of \$1,608,861. Payment for such shares was made to the Company in the amount of \$921 representing the par value of the shares, and a portion in the form of non-recourse promissory notes due in July 2001, with interest at eight and one-half percent (8-1/2%) per annum, payable annually, and secured by the number of shares exercised. The Company has received interest payments on such notes in the amount of \$131,994 and \$162,110 during the fiscal years ended May 31, 2002 and 2001. As of May 31, 2002 and 2001, the outstanding balance on such notes, including principal and accrued but unpaid interest, was \$1,669,640 and \$1,722,547, respectively (see Note 12d). On July 14, 2001, the Company agreed to extend the due dates of the promissory notes for one hundred twenty days. On November 9, 2001, the due date of the notes was extended to November 9, 2004, and the Company agreed to substitute full recourse unsecured notes for the notes it had previously accepted. Effective December 1, 2001, the interest rate was changed from 8-1/2% to 6%. During the year ended May 31, 2002, 24,667 shares of common stock were surrendered by a former director and an employee in settlement of notes in the amount of \$37,962.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock option plans under the fair value method of SFAS No. 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions for 2002 and 2001.

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

ASSUMPTIONS

	Year Ended
	2002
Risk free rate	4.95 - 6.05%
Dividend yield	.00%
Volatility factor of the expected market price of the Company's common stock	61%
Average life	5 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly differently from those of traded options, and because changes in the subjective input assumptions can materially affect the fair market value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of the options. The Company's pro forma loss is as follows:

	Year
	2002
Pro forma net income (loss)	\$78,025
Pro forma net income (loss) per share	\$.03

The weighted average fair value of options granted during the years ended May 31, 2002 and 2001 were \$1.12 and \$.86, respectively. The weighted average remaining contractual life of options exercisable at May 31, 2002 is 5 years. The exercisable prices range from \$1.31 to \$3.00 for options outstanding as of May 31, 2002.

Restricted Stock Grant Plan

On September 1, 2000 the Board of Directors approved the adoption of the Company's 2000 Restricted Stock Grant Plan (the "Stock Grant Plan"). The Stock Grant Plan was subsequently adopted by the Shareholders at the Company's Annual Meeting on November 20, 2000. The Stock Grant Plan provides for the issuance of shares that are subject to both standard restrictions on the sale or transfer of such shares (e.g., the standard seven year vesting schedule set forth in the Stock Grant Plan) and/or restrictions that the Board may impose, such as restrictions relating to length of service, corporate performance, or other restrictions. As of May 31, 2002, no grants had been made under the Stock Grant Plan and, therefore, no shares had vested under it. There are 700,000 shares of Common Stock reserved for issuance in connection with grants made under the Stock Grant Plan.

NOTE 8 - Sale/Leaseback Transactions

The Company is a party to various sale/leaseback transactions involving

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

certain fixed assets, principally computer hardware, software and equipment. Gains on these transactions have been deferred and are being recognized over the lives of the related leases, each of which is 36 months. Approximately \$297,000 and \$344,000 of the deferred gains were recognized in other income for the years ended May 31, 2002 and 2001, respectively. Included in these amounts are the effects of the following sale/leaseback transactions:

In January 1998, the Company consummated a sale/leaseback of certain fixed assets which had a net book value of approximately \$515,000, were sold for \$700,000. The resulting gain of approximately \$185,000 was recorded as deferred income and is being recognized over the life of the lease. Approximately \$36,000 of the deferred gain was recognized for fiscal 2001, which was the last year of the lease. An unaffiliated third party purchased the residual rights to such lease.

In January 1999, the Company consummated a sale/leaseback of certain fixed assets which had a net book value of approximately \$830,000, were sold for \$1,100,000. The resulting gain of approximately \$270,000 was recorded as deferred income and is being recognized over the life of the lease. Approximately \$60,000 and \$90,000 of deferred gain was recognized for the years ended May 31, 2002 and 2001, respectively. An unaffiliated third party purchased the residual rights in such lease.

In May 1999, the Company consummated a sale/leaseback of certain fixed assets which had a net book value of approximately \$896,000, were sold for \$1,100,000. The resulting gain of approximately \$204,000 was recorded as deferred income and is being recognized over the life of the lease. Approximately \$68,000 of deferred gain was recognized for each of the years ended May 31, 2002 and 2001. An unaffiliated third party purchased the residual rights in such lease.

In October 1999, the Company consummated a sale/leaseback of certain fixed assets which had a net book value of approximately \$895,000, were sold for \$1,115,000. The resulting gain of approximately \$220,000 was recorded as deferred income and is being recognized over the life of the lease. Approximately \$73,000 of the deferred gain was recognized for each of the years ended May 31, 2002 and 2001. An unaffiliated third party purchased the residual rights in such lease.

In January 2000, the Company consummated a sale/leaseback of certain fixed assets which had a net book value of approximately \$442,000, were sold for \$561,000. The resulting gain of approximately \$119,000 was recorded as deferred income and is being recognized over the life of the lease. Approximately \$40,000 of deferred gain was recognized for each of the years ended May 31, 2002 and 2001. An unaffiliated third party purchased the residual rights in such lease.

In February 2000, the Company consummated a sale/leaseback of certain fixed assets which had a net book value of approximately \$237,000, were sold for \$277,000. The resulting gain of approximately \$40,000 was recorded as deferred income and is being recognized over the life of the lease. Approximately \$14,000 of deferred gain was recognized for each of the years ended May 31, 2002 and 2001. An unaffiliated third party purchased the residual rights in such lease.

In November 2000, the Company consummated a sale/leaseback of certain fixed assets which had a net book value of approximately \$421,500, were sold for \$548,300. The resulting gain of approximately \$126,800 was recorded as deferred income and is being recognized over the life of the lease. Approximately \$42,000 and \$21,000 of the deferred gain was recognized for the years ended May 31, 2002 and 2001, respectively. An unaffiliated third party purchased the residual rights in such lease.

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

NOTE 9 - Asset Acquisition and Impairment

On April 27, 2001, the Company acquired certain assets of North American Internet Services, Inc. ("NAIS"), a provider of broadband services, Internet access, and co-location services for approximately \$201,000. NAIS had entered bankruptcy proceedings and, under the auspices of the Bankruptcy Court, the Company was permitted to "credit bid" approximately \$124,000 of expenses (including salaries) it had incurred on behalf of NAIS as the purchase price for the assets, and was given 180 days to exploit the assets it had acquired. The Company incurred approximately \$77,000 in additional costs related to the acquisition of these assets. The tangible assets were determined to have no significant fair value. Therefore, all the expenditures related to the acquisition were allocated to goodwill. The Company has the option to abandon the exploitation of these assets within the 180 day period. If the Company continues to use the NAIS assets, 10% of the profits (defined as earnings before interest expense and taxes) generated by such use must be paid to the bankruptcy estate for the first three years.

At May 31, 2001, the Company performed an evaluation of the recoverability of the assets acquired from NAIS and concluded that a significant impairment of these assets had occurred based on actual results during the year ended May 31, 2001 and on estimated future cash flows not being sufficient to recover the carrying value of the goodwill. As such, the carrying value of goodwill was written down to its estimated fair value, which was determined based on discounted estimated cash flows. The Company recognized an impairment loss and write down of the goodwill of approximately \$201,000. Considerable management judgment is necessary to estimate fair value; accordingly, actual results could vary significantly from such estimates.

NOTE 10 - Retirement Plan

The Company has a 401(k) savings plan covering all eligible employees in which the Company matches a portion of the employees' contribution. The amount of this match was \$40,204 and \$38,197 in fiscal years 2002 and 2001, respectively.

NOTE 11 - Revenue by Product Line

The Company operates in one business segment, but derives its revenue from several product lines. The following table provides the service fee revenues for the product lines earned for the fiscal years ended May 31, 2002 and 2001:

	Year Ended May 31,	
	2002	2001
	----	----
Computerized information processing	\$ 5,962,880	\$ 5,960,450
Telephone-based data collection	7,690,852	7,561,852
Technology infrastructure and outsourcing	736,932	2,071,266
Information technology	2,765,761	2,170,240
Other	17,497	5,261
	-----	-----
Total	\$17,173,922	\$17,769,069
	=====	=====

NOTE 12 - Subsequent Events

a. By letter dated June 26, 2002, a former employee of the Company asserted claims for back wages of \$410,000. The letter, from the employee's attorney,

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

also contained allegations of age discrimination and retaliatory discharge. The letter also contained an offer of settlement. No formal litigation has been started and the Company intends to pursue settlement negotiations. A provision of \$200,000 is included in accrued expenses relating to the asserted claim, which represents the Company's best estimate of costs to be incurred. The amount of the ultimate cost may vary from this estimate.

b. The Company has received a proposal to engage in a going private transaction. The proposed transaction is anticipated to be in the form of a merger with an entity owned by an investor group to be led by Bert E. Brodsky, the Company's Chief Executive Officer, and to include Directors Hugh Freund and Gary Stoller as well as other investors (the "Acquiring Group"). Pursuant to the proposal, the Company's shareholders (other than Mr. Brodsky, and the other shareholders that shall comprise the "Acquiring Group") would receive \$1.50 per share of Common Stock of the Company (the "Shares"), in cash. The proposal may be amended, modified or supplemented at any time.

The Board of Directors has appointed a Special Committee (the "Committee"), comprised of Ronald Fish and Martin Bernard, to review the proposed transaction. The Committee has retained Brean Murray & Co., Inc. as its financial advisor, and has retained its own legal counsel.

The proposed transaction would result in the acquisition of all of the outstanding Shares other than the Shares owned by Mr. Brodsky and the other shareholders that shall comprise the Acquiring Group. The final terms of any acquisition will be based on negotiations between the Acquiring Group and the Committee. The proposed acquisition will be subject to, among other things, (1) the negotiation, execution, and delivery of a definitive agreement, (2) approval of the proposed transaction by the Committee, the full Board of Directors and the Company's shareholders, (3) receipt of a fairness opinion by the Committee, (4) applicable regulatory approval, and (5) obtaining any necessary third-party consents or waivers. There can be no assurance that a definitive merger agreement will be executed and delivered, or that the proposed transaction will be consummated.

c. On July 9, 2002 the Company issued a press release announcing that Nasdaq had informed the Company that its shares would be subject to de-listing from the Small Cap Market for failure to comply with Nasdaq's Marketplace Rules regarding minimum value of publicly held shares and minimum bid price per share. The Company requested a hearing on these matters, and the de-listing was stayed until the hearing. The Company was informed by Nasdaq on August 21, 2002 that the Company had regained compliance with both Marketplace Rules and that therefore, the hearing was cancelled and the matter was moot.

d. On August 22, 2002 the Chairman repaid \$100,000 of the note receivable officer.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SANDATA TECHNOLOGIES, INC.

(Registrant)

By /s/ Bert E. Brodsky

Bert E. Brodsky, Chairman

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

(Principal Executive Officer and
Principal Financial and Accounting Officer)

Date: October 22, 2002

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 registrant and in the capacities and on the dates indicated.

By /s/ Bert E. Brodsky

Bert E. Brodsky, Chairman, Treasurer, Director

Date: October 22, 2002

By /s/ Hugh Freund

Hugh Freund, Executive Vice President, Secretary, Director

Date: October 22, 2002

By /s/ Gary Stoller

Gary Stoller, Executive Vice President, Director

Date: October 22, 2002

By /s/ Martin Bernard

Martin Bernard, Director

Date: October 22, 2002

By /s/ Ronald L. Fish

Ronald L. Fish, Director

Date: October 22, 2002

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Amended Annual Report of Sandata Technologies, Inc. ("the "Company") on Form 10-KSB-A for the year ended May 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bert E. Brodsky, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

15(d) of the Securities Exchange Act of 1934; and

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

/s/ Bert E. Brodsky

Bert E. Brodsky
Chief Executive Officer,
Chief Financial Officer

October 22, 2002

CERTIFICATION

I, Bert E. Brodsky, Chief Executive Officer and Chief Financial Officer, certify that:

1. I have reviewed this amended annual report on Form 10-KSB/A of Sandata Technologies, Inc. and its Subsidiaries;

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

3. Based on my knowledge, the financial statements, and other financial information included in this amended annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Sandata Technologies, Inc. and its Subsidiaries as of, and for, the periods presented in this amended annual report.

4. As both Chief Executive Officer and Chief Financial Officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant, and I have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the periods in which this amended annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this amended annual report (the "Evaluation Date"); and

c) presented in this report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;

5. As both Chief Executive Officer and Chief Financial Officer I have disclosed, based on my most recent evaluation, to the registrant's auditors and

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10KSB/A

the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data, and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. As both Chief Executive Officer and Chief Financial Officer, I have indicated in this report whether or not there were significant changes in internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 22, 2002

/s/ Bert E. Brodsky
Bert E. Brodsky, Chief Executive
Officer and Chief Financial Officer