

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

SANDATA TECHNOLOGIES INC
Form 10QSB
October 15, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

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

For the period ended August 31, 2002

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

For the transition period from _____ to _____

Commission file number 0-14401

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

DELAWARE 11-2841799
(State or other jurisdiction of (I.R.S. Employee Identification No.)
incorporation or organization)

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

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

APPLICABLE ONLY TO
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 ISSUERS

The number of shares outstanding of each of the issuer's classes of common equity, as of October 8, 2002 was 2,481,808.

Transitional Small Business Disclosure Format (check one):

Yes_____ No X

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

SANDATA TECHNOLOGIES INC. AND SUBSIDIARIES
INDEX

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements:
Condensed Consolidated Balance Sheets as of
August 31, 2002 (Unaudited) and May 31, 2002 (Audited).....

Unaudited Condensed Consolidated Statements of Operations
for the three months ended August 31, 2002 and August 31, 2001.....

Unaudited Condensed Consolidated Statements of Cash Flows for
the three months ended August 31, 2002 and August 31, 2001.....

Notes to Condensed Consolidated Financial Statements (Unaudited).....

Item 2. Management's Discussion and Analysis
or Plan of Operation

Item 3. Procedures and Controls.....

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.....
Item 2. Changes in Securities and Use of Proceeds.....
Item 3. Defaults Upon Senior Securities.....
Item 4. Submission of Matters to a Vote of Security Holders.....
Item 5. Other Information.....
Item 6. Exhibits and Reports on Form 8-K.....

Signature.....
Certifications.....

SANDATA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

August 31, 2002

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

	(unaudited)
CURRENT ASSETS:	
Cash and cash equivalents	\$ 2,162,312
Accounts receivable, net of allowance for doubtful accounts of \$260,974 and \$202,746 at 2002 and 2001, respectively	2,527,353
Receivables from affiliates	359,771
Notes receivable - officer	--
Inventories	48,250
Prepaid expenses and other current assets	235,140
Deferred income taxes	226,536

Total Current Assets	5,559,362
FIXED ASSETS, NET	6,587,269
DEFERRED INCOME TAXES	141,349
OTHER ASSETS	
Notes receivable	23,821
Cash surrender value of officer's life insurance, security deposits and other assets	1,115,398

Total Assets	\$ 13,427,199
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 4,071,298
Deferred/unearned revenue	38,100
Deferred income	71,650
Short term debt	3,750,000

Total Current Liabilities	7,931,048
LONG-TERM DEBT	--
DEFERRED INCOME	10,572

Total Liabilities	7,941,620

COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY	
Common stock, \$.001 par value, 6,000,000 shares authorized; 2,481,808 shares issued and outstanding	2,482
Additional paid in capital	5,765,766
Retained earnings	1,186,621
Notes receivable - officers	(1,469,290)

Total Shareholders' Equity	5,485,579

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

Total Liabilities and Shareholders' Equity	\$ 13,427,199 =====
--	------------------------

SANDATA TECHNOLOGIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED AUGUST 31,

	2002 ----
REVENUES	
Service fees	\$4,398,826
Other income	79,520
Interest income	43,576

	4,521,922
COSTS AND EXPENSES	
Operating	2,696,630
Selling, general and administrative	1,263,068
Depreciation and amortization	499,502
Interest expense	45,759

TOTAL COSTS AND EXPENSES	4,504,959 -----
EARNINGS (LOSS) FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT)	16,963 -----
INCOME TAX EXPENSE (BENEFIT)	24,097 -----
NET (LOSS)	\$ (7,134) =====
BASIC AND DILUTED LOSS PER SHARE	\$ 0.00 =====
BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	2,481,808 =====

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

SANDATA TECHNOLOGIES, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE THREE MONTHS ENDED AUGUST 31,

	2002

Cash flows from operating activities:	
Net (loss)	\$ (7,134)
Adjustments to reconcile net (loss) to net cash provided by operating activities:	
Depreciation and amortization	499,502
Gain on disposal of fixed assets	--
Provision for doubtful accounts	58,228
Recognition of deferred income	(42,179)
Recognition of deferred revenue	(19,489)
Deferred tax provision	11,289
(Increase) decrease in operating assets	
Accounts Receivable	(402,618)
Receivables from affiliates	(79,474)
Inventories	(2,908)
Prepaid expenses and other current assets	110,209
Other assets	(8,527)
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	1,289,748
Deferred/unearned revenue	41,223

Net cash provided by operating activities	1,447,870

Cash flows from investing activities:	
Purchases of fixed assets	(266,175)

Net cash used in investing activities	(266,175)

Cash flows from financing activities:	
Principal payments on note payable	--
Proceeds from note payable	--
Proceeds from note receivable officer	100,000
Proceeds from line of credit	500,000
Principal payments on line of credit	(1,250,000)

Net cash (used in) provided by financing activities	(650,000)

Net increase in cash and cash equivalents	531,695
Cash and cash equivalents at the beginning of the year	1,630,617

Cash and cash equivalents at the end of the year	\$ 2,162,312

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Condensed Consolidated Balance Sheet as of August 31, 2002, the Condensed Consolidated Statements of Operations for the three month periods ended August 31, 2002 and 2001, and the Condensed Consolidated Statements of Cash Flows for the three month periods ended August 31, 2002 and 2001 have been prepared by Sandata Technologies, Inc. and Subsidiaries (the "Company") without audit. In the opinion of management, all adjustments (which include only normal, recurring adjustments) necessary to present fairly the financial position as of August 31, 2002 and for all periods presented have been made.

For information concerning the Company's significant accounting policies, reference is made to the Company's Annual Report on Form 10-KSB for the year ended May 31, 2002. Results of operations for the period ended August 31, 2002 are not necessarily indicative of the operating results expected for the full year.

New Accounting Pronouncements and Policies

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 reductions generally occur over five to ten business days. At August 31, 2002, the Company had amounts on deposit for these liabilities of approximately \$1,800,000. The Company has cash balances in banks in excess of the maximum amount insured by the FDIC as of August 31, 2002.

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 144 ("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 provisions of the interpretations that are applicable to the Company were implemented on a prospective basis as of June 1, 2002, which had no material effect on the Company's financial statements.

On April 30, 2002 the Financial Accounting Standards Board 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.

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), provides guidance on the recognition and measurement of liabilities for costs 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.

2. RELATED PARTY TRANSACTIONS

a. Pursuant to an agreement (the "Agreement") involving the Company, Nassau County Industrial Development Agency ("NCIDA"), BFS Realty, LLC (the "Affiliate") HSBC Bank USA (successor to Marine Midland Bank) ("the "Bank") and the U.S. Small Business Administration ("SBA"), the Affiliate borrowed \$3,350,000 in Industrial Development Revenue Bonds (the "Bonds") to finance the acquisition of the Company's facility (the "Facility").

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 agreement between NCIDA, as landlord, and the Affiliate, as Tenant (the "Lease"); however, the Affiliate has indemnified the Company with respect to certain obligations relative to the Lease and the Agreement. The Company subleases space from the Affiliate (see below). 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 August 31, 2002 was \$1,401,111.

The Company has also 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 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 August 31, 2002 was \$592,036.

b. The Company derived revenue from National Medical Health Card Systems, Inc. ("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. No revenues were generated from Health Card for the three months ended August 31, 2002. The revenues generated from Health Card amounted to approximately \$367,000 for the three months ended August 31, 2001 for various services. In addition the Company resells its telephone services to Health Card. The billings for such telephone services amounted to approximately \$6,000 and \$61,000 for the three months ended August 31, 2002 and 2001, respectively and are recorded as a reduction of operating expense. The Company was owed approximately \$43,000 from Health Card at August 31, 2002. Subsequent to August 31, 2002, the Company received approximately \$28,000 from Health Card.

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 approximately \$54,000 and \$95,000 for the three months ended August 31, 2002 and 2001 respectively. The payments for the Facility were made to the Affiliate, and were approximately \$68,000 and \$143,000 for the three months ended August 31, 2002 and 2001 respectively.

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 three months ended August 31, 2002 and

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

2001 the total payments made by the Company to MAOS were approximately \$115,000 and \$89,000, respectively.

3. NET EARNINGS (LOSS) PER COMMON SHARE

The Company computes earnings per share in accordance with Statement of Financial Accounting Standards No. 128 "Earnings per Share". Basic earnings per share has been computed using the weighted average number of shares of common stock outstanding.

Options and warrants to purchase 1,388,599 shares of common stock were outstanding at August 31, 2002, which were not included in the computation of diluted earnings per share because the exercise effect would have been anti-dilutive.

4. SHAREHOLDERS' EQUITY

Stock Options

On July 14, 1998, the Chairman, certain officers, directors, and a former director and the spouse of an officer (who is 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 acquired ("Non-recourse Notes"). On July 14, 2001, the Company agreed to extend the due dates of the Non-recourse 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 ("Recourse Notes") for the Non-recourse Notes it had previously accepted. The Recourse Notes will bear interest at the rate of eight and one-half percent (8 1/2%) per annum, payable annually, with the principal amount of each Recourse Note, plus any accrued and unpaid interest, due and payable on November 9, 2004.

Effective December 1, 2001, the interest rate on the Recourse Notes was changed to six percent (6%) per annum, and the shares and Recourse Note of the spouse of the officer were both transferred to the officer.

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 Non-recourse Notes in the amount of \$37,962. As of August 31, 2002, the outstanding balance on Recourse Notes, including principal and accrued but unpaid interest, was \$1,512,679. During the period ended August 31, 2002, the Chairman repaid \$100,000 of his Recourse Note.

5. COMMITMENTS AND CONTINGENCIES

Litigation

a. 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

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

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

b. 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. For the three months ended August 31, 2002, the Company has recognized approximately \$45,000 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.

c. 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, 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.

d. For description of the going private transaction, and of the class-action lawsuits initiated in connection with such transaction, see Note 8.

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.

6. REVENUE BY PRODUCT LINE

The Company derives its revenue from several product lines that are similar in nature. The following table provides the service fee revenues for the product lines earned for the three month periods ended August 31, 2002 and 2001:

For the three months

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

	ended August 31, 2002 ----	2001 ----
Computerized information processing	\$1,564,344	\$1,522,247
Telephone-based data collection	2,085,888	1,892,151
Technology infrastructure and outsourcing	11,150	402,292
Information technology	736,930	564,075
Other	514	11,563
	-----	-----
	\$4,398,826	\$4,392,328

7. ECONOMIC DEPENDENCE

A significant number of the Company's customers (both for-profit and not-for-profit companies) receive some or all of their funding from Federal and State agencies. These customers' contracts with the Company are subject to review and approval by a New York City governmental agency. For the three months ended August 31, 2002, the Company received revenues from these customers amounting to approximately \$2,836,279, as compared to \$2,667,000 for the three months ended August 31, 2001. The Company was owed approximately \$1,481,000 from these customers at August 31, 2002.

8. GOING PRIVATE TRANSACTION

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 (subsequently revised to \$1.91) 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.

On September 11, 2002, a stockholder of the Company filed a lawsuit in the Delaware Chancery Court against the Company and the members of its Board of Directors. (Eva Seitler v. Sandata Technologies, Inc., Bert E. Brodsky, Ronald L. Fish, Martin Bernard, Hugh Freund, and Gary Stoller, Civil Action No. 19886-NC). The plaintiff alleges that the defendants breached their fiduciary duties to the Company and the Company's public stockholders in connection with Sandata Acquisition Corp.'s proposal to acquire all of the outstanding public shares of the Company. The plaintiffs also allege, among other things, that the directors serving on the special committee are not independent, and that the

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

merger consideration is inadequate. The complaint seeks certification of the action as a class action, both preliminary and permanent injunction against the proposed transaction, and rescission if it is not enjoined. On September 13, another stockholder of the Company filed a separate lawsuit in the same court, making substantially identical allegations and seeking substantially identical remedies. The Company and the individual directors intend to vigorously defend themselves. However, the Company is unable to predict the outcome of this matter and, accordingly, no adjustments have been made in the condensed consolidated financial statements in response to this matter.

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

Results of Operations

Revenues were \$4,521,922 for the three months ended August 31, 2002 as compared to \$4,524,666 for the three months ended August 31, 2001, a decrease of \$2,744 or .06%.

Service fee revenue for the three months ended August 31, 2002 was \$4,398,826 as compared to \$4,392,328 for the three months ended August 31, 2001 an increase of \$6,498. or .15%.

Other income for the three months ended August 31, 2002 was \$79,520 as compared to \$98,742 for the three months ended August 31, 2001. The decrease is attributable to a decrease in income recognized on sales/leaseback transactions, offset by payments received on notes receivable.

Expenses Related to Services

Operating expenses were \$2,696,630 for the three months ended August 31, 2002 as compared to \$2,714,083 for the three months ended August 31, 2001, a decrease of \$17,453 or .6%. Costs associated with payroll decreased this quarter, offset by an increase in purchases for resale.

Selling, general and administrative expenses were \$1,263,068 for the three months ended August 31, 2002, as compared to \$1,650,170 for the three months ended August 31, 2001, a decrease of \$387,102 or 23%. The decrease is primarily due to a decrease in payroll.

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. Under the terms of Mr. Davies' Employment Agreement, he is entitled to a severance payment equal to six (6) months' base salary, or \$100,000, and has 90 days from the date of termination to exercise the 66,673 options that were vested on that date. The elimination of approximately 30 positions from within the Company and its subsidiaries is expected to generate between \$1.7 million and \$2 million in reduced expenses. In addition, the Company paid approximately \$47,000 in severance payments for approximately 30 terminated employees.

Depreciation and amortization expense increased \$71,640 to \$499,502 for the three months ended August 31, 2002 as compared to \$427,862 for the three months ended August 31, 2001. The increase was primarily attributable to the write-off of developed software that occurred in the year ended May 31, 2001, which resulted in decreased amortization expense in last year's quarter.

Interest expense was \$45,759 for the three months ended August 31, 2002 as compared to \$77,679 for the three months ended August 31, 2001. The decrease was a result of decreased borrowings on the Company's Credit Agreement.

Income Tax Expenses (Benefit)

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

Income tax expense for the three months ended August 31, 2002 was \$24,097 as compared to income tax benefit of \$170,179 for the three months ended August 31, 2001. The increase in income tax expense is due to higher pretax income.

Liquidity and Capital Resources

The Company has a working capital deficit as of August 31, 2002 of \$2,371,686, as compared to working capital of \$1,890,988 at May 31, 2002. The primary factor is a result of the revolver becoming short-term liability of which \$3,750,000 is due in June 2003.

For the three months ended August 31, 2002, the Company spent approximately \$266,000 in fixed asset additions, of which \$229,000 was for software capitalization costs in connection with revenue growth and new product development. The Company expects the current levels of capital expenditures to continue.

On July 14, 1998, the Chairman, certain officers, directors and a former director and 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 at exercise prices ranging 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. On July 14, 2001, the Company agreed to extend the due dates of such notes for one hundred twenty days until November 11, 2001. On November 9, 2001, the Company agreed to substitute full recourse unsecured Notes for the Notes it had previously accepted in connection with these option and warrant exercises. Such notes will bear interest at the rate of eight and one-half percent (8 1/2%) per annum, payable annually, with the principal amount of each such Note, plus any accrued and unpaid interest, due and payable on November 9, 2004.

As of December 1, 2001, the interest rate on the notes was changed to six percent (6%) per annum, and the shares and note of the spouse of the officer were both transferred to the officer. 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. As of August 31, 2002, the outstanding balance on such notes, including principal and accrued but unpaid interest, was \$1,512,679.

On April 18, 1997, the Company's wholly owned subsidiary, Sandsport, entered into a revolving credit agreement (the "Credit Agreement") with HSBC Bank USA, which allows Sandsport to borrow amounts up to \$3,000,000. 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 payable 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 Credit Agreement has been amended by the Bank to permit Sandsport to borrow amounts up to \$4,500,000 until February 14, 2003. Interest accrues at the same rate as the original Credit Agreement. 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 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. The Group's guaranty to the Bank was modified to include all indebtedness incurred by the Company under the

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

Credit Agreement. On April 11, 2002, the Bank approved the extension of the termination date of the Credit Agreement to June 14, 2003 (from February 14, 2003).

In addition, pursuant to the Credit Agreement, the Group is required to maintain certain levels of net worth and meet certain financial ratios in addition to various other affirmative and negative covenants. As of 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. On October 23, 2001 the Credit Agreement was amended with respect to one of the financial ratios, at the Company's request. At August 31, 2002 the Group met the net worth and financial ratios requirements of the Credit Agreement. In the past, the Group has failed to meet certain of the financial ratios, and the Bank has granted the Group a waiver. There can be no assurance that the Bank will continue to grant waivers if the Group fails to meet the net worth and financial ratios in the future. If such waivers are not granted, any loans outstanding under the Credit Agreement become immediately due and payable, which may have an adverse effect on the Company's business, operations or financial condition. As of August 31, 2002, the outstanding balance on the Credit Agreement with the Bank was \$3,750,000.

The Company believes the results of its continued operations, together with the available credit line, should be adequate to fund presently foreseeable working capital requirements.

ITEM 3 - PROCEDURES AND CONTROLS

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, primarily the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Reference is made to Notes 5 and 8 to the Condensed Consolidated Financial Statements comprising Part I, Item 1 of this Form 10-QSB.

ITEM 2 - CHANGES IN SECURITIES

The Company's ability to declare and pay dividends is restricted pursuant to the terms of a Revolving Credit Agreement dated April 18, 1997 between the company and HSBC Bank USA, formerly Marine Midland Bank (the "Bank"), and also under the terms of the Guaranty Agreement dated June 1, 1994 by and among the Company (as a guarantor), BFS Realty, LLC (an affiliate of the Company's

Edgar Filing: SANDATA TECHNOLOGIES INC - Form 10QSB

Chairman), and the Bank (among others). The Guarantee Agreement was entered into in connection with the IDA/SBA Financing discussed in Item 6 of the Annual Report on Form 10-KSB for the year ended May 31, 2002, filed with the SEC on August 27, 2002.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

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

None

Item 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99.1 Certification Pursuant to Sarbanes Oxley Act, Section 302

99.2 Certification Pursuant to Sarbanes Oxley Act, Section 906

(b) Reports on Form 8-K

1. Current Report on Form 8-K filed August 23, 2002 reporting under Item 5 the Company's regaining compliance with certain Nasdaq Marketplace Rules, as detailed in the press release comprising an Exhibit to the Report.

2. Current Report on Form 8-K filed September 18, 2002 reporting under Item 5 the Company's acceptance of a proposal to engage in a going private transaction, subject to the conditions specified in the press release comprising an Exhibit to the Report.

SIGNATURES

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

SANDATA TECHNOLOGIES, INC.

(Registrant)

Date: October 15, 2002

By: /s/ Bert E. Brodsky

Bert E. Brodsky
Chairman of the Board,
Chief Executive Officer,
Chief Financial Officer

