SANDATA TECHNOLOGIES INC
Form 10KSB/A
January 28, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB/A
AMENDMENT NO. 2

[X] 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	11-284179
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employee 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

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.

AMENDMENT TO ANNUAL REPORT
ON FORM 10-KSB
FOR THE YEAR ENDED MAY 31, 2002

The Annual Report on Form 10-KSB for Sandata Technologies, Inc. (the "Company") for the year ended May 31, 2002 is hereby amended and restated to the extent, and only to the extent, of the following amendments:

ITEM 1 - DESCRIPTION OF BUSINESS

Business Development

General

The Company, by itself and through its wholly owned subsidiaries, is engaged in providing technology services to its customers. These services either

a) utilize software products developed, acquired or licensed by the Company or b) leverage the technology-based core competencies that the Company has developed in formulating and delivering its software services.

Applications of the Company's software include: an automated payroll processing and Medicaid billing service delivered via leased lines or over the Internet, computerized preparation of management reports, telephone based data collection services, and automated database driven outbound telephone notification.

Services that leverage the Company's core competencies are driven by the Company's Information Technology ("IT") support services. The Company's core competencies principally refers to its SHARP (Sandsport Home Attendant Reporting Program) product which provides computer services, including payroll and billing, to the home health care industry. The services currently offered by the Company include: facilities outsourcing for database and operating system support, technology consulting, custom software development and support, resale and implementation of software written and distributed by others, web site development and hosting, help desk services, and hardware maintenance and related administrative services.

The Company's software is written in a variety of software languages including JAVA, C++, Oracle PL/SQL, CGI, Perl, VB, Foxpro, Access and COBOL.

The Company was incorporated in the State of New York in June, 1978 and reincorporated in the State of Delaware in December 1986. On November 21, 2001, the Company changed its name from Sandata Inc. to its present name.

Business of Issuer

Principal Products and Services

Computerized Information Processing Services. The Company, through its wholly owned subsidiary, Sandsport Data Services, Inc. ("Sandsport"), provides computer services to the home health care industry, principally through its SHARP product.

The primary customers are vendor agencies that provide home attendant services to the elderly and infirm in New York City. The Federal Government offers this program (the "Home Attendant Program") to participating states and municipalities as an optional part of its Medicaid program. The Federal Government funds a substantial portion of the program and the New York State Department of Social Services and New York City fund the balance of the program. In New York City, the Home Attendant Program is administered by the Human Resources Administration ("HRA"), which sub-contracts with proprietary and not-for-profit agencies ("Vendor Agencies") to provide home attendant services to those in need. HRA refers patients to Vendor Agencies that, in turn, send home attendants to patients' homes to assist in personal care chores. Vendor Agencies also provide periodic nurse's visits to patients.

Sandsport processes payroll, preparing paychecks indicating year-to-date earnings and deductions, payroll journals and payroll earnings and deduction summaries. Sandsport provides computerized information which permits Vendor Agencies to prepare their Employer's Quarterly Federal Tax Return, New York State unemployment insurance returns, deposits for Federal unemployment insurance and all required New York City tax returns and deposits.

Annually, Sandsport prepares for each Vendor Agency employee Transmittal of Income and Tax Statements, reconciliation of state tax withheld and Federal Unemployment Insurance Returns. Sandsport also furnishes to Vendor Agencies employee-earning ledgers that enable them to review a full year's earnings history for each of their employees.

Generally, in providing software-related services, the Company receives data from its customers, processes the data on the Company's equipment at its premises, and generates reports based on such data.

These services are primarily provided through SHARP. Vendor Agencies enlist Sandsport's computer services to provide weekly time sheets, billing, payroll processing and management reports. For the fiscal years ended May 31, 2002 and 2001, approximately $5,433,000 or 32% and $5,445,000 or 31%, respectively, of the Company's total operating revenues were derived from services rendered to Vendor Agencies.

The Company's strategy is to diversify and expand its health care customer base. Its wholly-owned subsidiary, Pro-Health Systems, Inc., ("Pro-Health") intends to utilize newly acquired and enhanced software to provide additional payroll and billing functionality for SHARP users and, by expanding its billing capabilities, make the product relevant to home healthcare agencies that cannot use SHARP in its current form.

Pro-Health offers a system which is designed to be delivered as an Application Service Provider ("ASP") solution, which allows its customers to access certain Pro-Health software over the Internet without the customer needing sophisticated hardware at its site to house the software or store the data. This allows the Company's customers to have access to software programs via low-cost hardware and on a fee per transaction basis, and enables them to utilize the Company's software services without a substantial upfront investment in either hardware or software. The software consists of a comprehensive suite of on-line interactive modules that are integrated with other Company applications such as Santrax(R) (see below). The Pro-Health systems' modular and flexible design makes it adaptable to the changeable needs of a wide spectrum of health care entities.

For the fiscal years ended May 31, 2002 and 2001, approximately $530,000 or 3%, and $516,000 or 3% respectively, of the Company's total operating revenues were derived from services rendered to customers using the Pro-Health system.

Telephone-Based Data Collection Services. The Company has developed an automated telephony system (combining telephones and computers) known as Sandata(R) SANTRAX(R) that allows the use of Automated Number Identification ("ANI") technology and voice recognition technology to assist in capturing data via telephone. The system incorporates telephone technologies into the data reporting process and is currently designed to monitor the arrival and departure times of off-site workers who simply call a unique toll-free number to record their arrival and departure. The system automatically and immediately confirms that the assigned person is at the expected place at the expected time for the approved and scheduled duration, and produces real-time exception reports to enable its clients to manage their off-site staff.

In addition to collecting the arrival and departure times of off-site workers from the visit site, SANTRAX is also able to collect a wide range of additional information. By collecting additional data, SANTRAX can increase operational efficiencies and enable its customers to generate administrative savings. The information that can be collected and analyzed by SANTRAX includes expense-related data such as mileage and supplies, as well as tasks performed by the off-site worker. This data is used to produce weekly payroll and to automatically prepare reimbursement submissions. Reports are generated to the customer based upon its specific requirements.

For the fiscal years ended May 31, 2002 and 2001, approximately $7,691,000 or 45% and $7,562,000 or 43%, respectively, of the Company's total operating revenues were derived from services rendered relating to SANTRAX.

The software operates on the ASP model, and the Company receives an aggregate of approximately 620,000 calls per week or 32 million calls per year. The service is currently utilized principally by the Company's home health care clients, and approximately seventy-two per cent (72%) of current SANTRAX calls are Vendor Agencies using the SHARP program.

Although the Company developed SANTRAX on its own merits, on April 4, 1997, MCI Telecommunications Corporation ("MCI") filed a claim against the Company alleging that the Company infringed upon its patent. Subsequently, a settlement was reached with no admission of infringement by the Company. Effective June 1, 1998, the Company and MCI entered into a License Agreement (the "License Agreement") pursuant to which the Company was granted a license, under certain of MCI's patents (each individually a "Patent" and collectively the "Patents"), which enables it to use 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. The License Agreement remains in effect until the last to expire of various patents held by MCI or until October 19, 2010, whichever is later. Pursuant to the License Agreement, the Company pays MCI certain royalties on a per call basis.

Although no assurances can be given, it is anticipated that the SANTRAX product can be utilized by other industry applications. The Company is developing the product so that it can be sold into the general commercial market, and the service is currently being modified to meet the needs of a wide range of businesses wishing to monitor or collect data from off-site employees.

Technology Infrastructure and Outsourcing Services. The Company supports specialized system applications for businesses based upon its analysis of a client's particular need and specialized system applications.

In addition, the Company develops web sites, runs e-commerce applications and resells telephone services, leveraging the favorable rates it receives by virtue of the substantial call volume driven by SANTRAX. The Company has also offered managed services in the security arena such as security audits, enterprise firewalls and network monitoring, although it currently is not providing such services. The Company plans to diversify the web site development, e-commerce, and telephone services and resell them to businesses throughout the New York metropolitan area.

For the fiscal years ended May 31, 2002 and 2001, approximately $737,000 or 4% and $2,071,000 or 12%, respectively, of the Company's total operating revenues were derived from services rendered for outsourcing services. The decrease in revenues from outsourcing for 2002 as compared to 2001 is primarily due to the reduction of programming and technical services that the Company provided for Health Card during fiscal 2002. Previously, Health Card did not have its own programming and technical services and therefore outsourced these services to the Company. However, as Health Card has grown, it has developed its own programming and technical services and therefore the demand for the Company's outsourcing services has decreased.

Information Technology Services. The Company, through its SandataNet(R) division, provides IT consulting services for businesses and the public sector. It delivers computer, communications and networking sales and services, including training, maintenance and repair services, to companies and government and professional services organizations.

SandataNet(R) manages a help desk for the Company's internal operations. This help desk is responsible for desk side support services, including software support, hardware support/break-fix, LAN administration and configuration services.

The Company has installed critical software applications at a local municipal government office. It also provides custom programming, software development and installation services to this sector.

For the fiscal years ended May 31, 2002 and 2001 approximately $2,766,000 or 15% and $2,170,000 or 12%, respectively of the Company's total operating revenues were derived from services rendered relating to SandataNet(R).

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. 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 $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. Therefore, the carrying value of the impaired 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.

Seasonality

The Company's revenues are not subject to seasonal fluctuations.

Competition

In the sale of its software products, the Company competes for customers on the basis of the range, price, functionality and quality of its software and on its ability to develop programs tailored to its customers' requirements. Many of its competitors are companies with directly competitive software products, and a number have substantially greater financial resources and substantially larger marketing, technical and field organizations.

With respect to the Company's SHARP business, there is added competitive pressure and uncertainty because the City of New York requires all contracts with City agencies to undergo competitive bidding. Furthermore, the success of the SHARP business rests with a key officer of the Company, who has established strong relationships with the Company's SHARP customers over the years. Although the Company has been awarded contracts based on its bids, there can be no assurance that its bids will be accepted in the future.

The computer services industry is characterized by competition in the areas of service, quality, price and technical expertise. Competitors in this segment vary from small, local companies to multinational consulting and accounting firms.

Customers

The Company's customer base is primarily drawn from the health care industry. During the fiscal years 2002 and 2001, the Company derived revenues from the Vendor Agencies who are all funded by one governmental agency, amounting to approximately $10,549,000 or 61% and $10,608,000 or 60% of total operating revenues, respectively. The Company was owed approximately $1,259,000 and $1,160,000 from these customers at May 31, 2002 and 2001, respectively. The Company also derived approximately $693,000 or 4% and $2,458,000 or 14% of revenue in the years 2002 and 2001 from National Medical Health Card Systems, Inc. ("Health Card") for database and operating system support, hardware leasing, maintenance and related administrative services. Health Card is a public company engaged in the pharmacy benefits management business; Bert E. Brodsky, Chairman of the Board and Chief Executive Officer of the Company, is also the Chairman of the Board and a principal shareholder of Health Card. (See Item 6 - "Management's Discussion and Analysis or Plan of Operation - Liquidity and Capital Resources").

The Company markets its products and services through telemarketing and sales representatives.

Proprietary Rights

The Company filed a United States Trademark application which renames its voice recognition timekeeping system to SANTRAX. The trademark was registered on September 16, 1997.

On March 3, 1997 the Company filed an application with the United States Patent and Trademark Office to register its SandataNet(R) trademark. The trademark was registered on February 24, 1998.

The Company has not applied for Federal copyright registration for its computer software systems now in existence or being developed. However, the Company believes that its systems are trade secrets and that they, together with the documentation, manuals, training aids, instructions and other materials supplied to users, are subject to the proprietary rights of the Company and protected by applicable trade secret laws. The Company generally seeks to obtain trade secret protection pursuant to non-disclosure and confidentiality agreements with its employees. Although the Company's customers are advised that the Company retains title to all of its products, and they agree to safeguard against unauthorized use of such systems, there can be no assurance that the Company will be able to protect against misappropriation of its proprietary rights and trade secrets.

Research and Development

The Company incurred approximately $62,000 and $10,000 during the fiscal years 2002 and 2001, respectively, on research and development. The Company incorporates its research and development into its on-going business activities. The Company's employees may develop new software programs and expand or modify existing ones. After determining that a program has reached technological feasibility, the subsequent development costs are capitalized. All other costs are expensed.

Employees

As of May 31, 2002, the Company and its subsidiaries employed 102 employees, including 98 full-time and 4 part-time employees. The Company believes that its success will depend in part on its ability in a highly competitive environment to attract and retain highly skilled technical, marketing and management personnel.

On August 8, 2001, the Company eliminated certain positions and terminated approximately thirty (30) employees. Projected revenue reductions and recent operating losses combined to cause management to re-evaluate staffing needs. The eliminations and terminations from within the Company and its subsidiaries generated approximately $1,600,000 in reduced expenses. The Company also incurred approximately $47,000 in severance payments.

The Company considers its employee relations to be satisfactory. The Company is not a party to any collective bargaining agreement.

ITEM 3 - LEGAL PROCEEDINGS

In August of 1999, the Company's wholly-owned subsidiary, Sandsport Data Services, Inc. ("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). Greater Bright Light Home Care Services, Inc. ("GBL") is a not-for-profit corporation that was organized to render home care attendant services to individuals selected as eligible recipients by the City of New York acting through the Department of Social Services of the Human Resources Administration ("HRA"). Pursuant to its agreement with HRA, GBL was entitled to reimbursement checks from the New York State Department of Health Medicaid Management Information System for the services it provided ("MMIS Checks"). Before GBL could provide home care attendant services it was required to demonstrate to HRA that it obtained a $1.2 million line of credit. Joseph Jeffries El represented to GBL that he would provide it with the $1.2 million line of credit that HRA required in exchange for an annual fee of $120,000 payable in twelve equal monthly installments of $10,000. GBL and Joseph Jeffries El's company, El Equity Corporation ("El Equity"), thereafter entered into an Escrow Agreement pursuant to which El Equity was to receive a portion of the funds received from MMIS. The MMIS checks were to be deposited in a specified account at Marine Midland Bank. GBL alleged that El Equity misappropriated the MMIS funds. GBL further alleged that El Equity breached the Escrow Agreement because it failed to provide GBL with the $1.2 million line of credit.

Sandsport had been retained by GBL to pick up its MMIS checks and deposit them in a designated account at Marine Midland Bank. El Equity alleged that Sandsport's agreement with GBL prohibited it from depositing the MMIS funds into any other account absent written instructions signed by both GBL and El Equity. El Equity alleged that Sandsport, pursuant to GBL's instructions, deposited certain MMIS checks into an account other than the designated account. El Equity therefore asserted cross-claims against Sandsport for breach of contract and conversion. 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 and has denied any wrongdoing. The aggregate amount of the funds at issue is approximately $262,000.

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 financial performance. The Company has retained its proprietary interest in the subject software.

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. 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. See Note 5c to the Financial Statements comprising Item 7 hereof.

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 business or financial condition of the Company.

ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The Company provides its computerized information processing services to a variety of users, although principally to the health care industry. Many of the Company's software programs are adaptable to customers in related fields of enterprise. Thus, the components of the SHARP system for the Home Attendant Program - Medicaid reimbursable billing, management reports, payroll processing, tax reports - are being developed for utilization in other settings, such as nursing homes, skilled nursing facilities, and rehabilitation facilities.

The Company's telephone-based data collection services are currently principally used to monitor off-site workers in the home healthcare industry. The SANTRAX proprietary software could be used to monitor off-site workers in other industries, and the Company is currently exploring opportunities in the temporary staffing, security guard and building maintenance industries.

Technology infrastructure and outsourcing services are currently utilized in-house and within affiliate companies. The Company intends to take the core competencies that it has developed in supporting its service offerings and resell them into the business community in the New York metropolitan area. The Company cannot assure its ability to resell such services.

The Company believes it can leverage its in-house capabilities to develop a new IT services business, and intends that such IT services will be marketed primarily to businesses in the New York metropolitan area, where it believes it can support professional services with on-site technical help. In the future, the Company believes it will have the capability of rolling out such IT services to a wider geographical audience. The Company cannot assure its ability to develop a new IT service business and cannot predict that such services will be successful.

Analysis of Operations

Fiscal Years ended May 31, 2002 compared with May 31, 2001

Service fee revenues for fiscal 2002 were $17,173,922 as compared to $17,769,069 for the previous fiscal year, a decrease of $595,147 or 3%. The decrease is primarily attributable to a decrease in service fee revenues from

Health Card of approximately $1,300,000 due to a reduction of programming and technical services provided by the company. Previously, Health Card did not have its own programming and technical services and therefore outsourced these services to the company. However, as Health Card has grown, it has developed its own programming and technical services and therefore the demand for the Company's outsourcing services has decreased. In addition, the decrease is partially attributable to the sale of a customer list to a third party, as a result of which the Company is no longer able to recognize the revenues from such customers. The decrease in revenues is partially offset by increases in revenue from SandataNet Consulting of approximately $1,266,000 due to several consulting contracts with customers.

Other income for the year ended May 31, 2002 was $514,999 as compared to $368,502 for the year ended May 31, 2001, an increase of $146,497 or 40%. The increase is attributable to $115,000 in payments received in connection with a litigation settlement and the sale of a customer list for $79,000 to a third party. This increase is partially offset by a decrease in revenue recognition on sales/leasebacks transactions as some of the leases have expired and no new sales/leasebacks were entered into during fiscal 2002.

Expenses Related to Services

Operating expenses were $9,877,651 for the year ended May 31, 2002, as compared to $10,372,524 for the year ended May 31, 2001, a decrease of $494,873 or 5%. Decreased payroll expenses (approximately $875,000) due to a reduction in workforce, and decreased equipment rental expenses (approximately $373,000), partially offset by increases in purchases for resale (approximately $945,000) were the primary factors for the decrease in operating expenses.

Selling, general and administrative expenses for the year ended May 31, 2002 were $5,502,264 compared to $5,004,255 for the year ended May 31, 2001, an increase of $498,099 or 9%. The increases were primarily due to increases in consulting and legal expenses, and additional insurance premiums.

Depreciation and amortization expenses were $1,839,959 for the year ended May 31, 2002, as compared to $2,748,411 for the year ended May 31, 2001, a decrease of $908,452 or 33%. The decrease was primarily attributable to the write off of impaired software in 2001, as described below under the heading "Impairment of Developed Software."

Interest expense for the year ended May 31, 2002 was $241,729 as compared to $189,240 for the year ended May 31, 2001, an increase of $52,489 or 28%. The increase was a result of higher overall average daily balances under the Company's revolving credit agreement. The higher overall daily balances were primarily due to increased borrowings to fund working capital requirements, specifically to fund the Company's increased accounts payable and accrued expenses.

Impairment of Developed Software

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 system's 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.

Impairment of Goodwill

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.

Income Tax Expenses

Income tax expense (benefit) was $249,067 and $(1,293,401) for fiscal 2002 and 2001, respectively. The increase in income tax expense is due to higher pretax income. The effective tax rates for fiscal 2002 and 2001 were 63.7% and (37.0%), respectively.

IDA/SBA Financing

In November, 1996 the Company entered into an agreement with the Affiliate, the Nassau County Industrial Development Agency ("NCIDA"), and Marine Midland 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. 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. During the years ended May 31, 2002 and 2001, the Company paid rent to the Affiliate of approximately $408,000 and $615,000, respectively.

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 U.S. Small Business Administration ("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.

Liquidity and Capital Resources

The Company's working capital decreased as of May 31, 2002 to $1,890,988 from $1,956,661 as of May 31, 2001. The primary factors that contributed to the decrease were increases in accounts payable, accrued expenses and notes receivable-officer, and decreases in receivables from affiliates and deferred income, offset by an increase in cash and cash equivalents.

The Company has spent approximately $2,620,049 for fixed asset additions, including software capitalization costs in connection with revenue growth and new product development. The Company expects a reduction in the levels of capital expenditures in the future.

On July 14, 1998 the Chairman, certain officers and directors (Bert E. Brodsky, Hugh Freund and Gary Stoller), and a former director, Carol Freund (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 item 7 "Financial Statements" 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% to reflect fair market value, and the shares and note of the spouse of the officer, Carol Freund, were both transferred to the officer.

On April 18, 1997 Sandsport, entered into a revolving credit agreement (the "Credit Agreement") with the Bank which allowed 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 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 June 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 subsequently modified to include all indebtedness incurred by the Company under the amended Credit Agreement dated August 24, 2001 (see below).

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. At May 31, 2001 the Group failed to meet these net worth and financial ratios, and the Bank granted the Group a waiver. 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 April 11, 2002 the Bank approved the extension of the termination date of the Credit Agreement to June 14, 2003. 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 May 31, 2002, the outstanding balance on the Credit Agreement with the Bank was $4,500,000 and the Company was in compliance with the covenants.

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

(a) 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 the year ended May 31, 2001, which was the last year of the lease. An unaffiliated third party purchased the residual rights in such lease.

(b) 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.

(c) In May 1999, the Company entered into 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.

(d) 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.

(e) 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.

(f) In February 2000, the Company entered into 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.

(g) In November 2000, the Company entered into 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.

Until January of 2002, the Company was leasing equipment and providing services to Health Card pursuant to a verbal agreement, and was receiving its allocable share of administrative and support services that were shared by Health Card and the Company at a cost to Health Card of approximately $81,000/month. 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.

The Company believes the results of its present operations, together with the available Credit Line, should be adequate to fund present and foreseeable working capital requirements.

Prospects for the Future, Trends and Other Events

There is added competitive pressure and uncertainty in the Company's SHARP business because the City of New York requires all contracts with City agencies to undergo competitive bidding. Furthermore, the success of its SHARP business rests with a key officer of the Company, who has established strong relationships with the Company's SHARP customers over the years. Although the Company has been awarded contracts based on its bids, there can be no assurance that its bids will be accepted in the future.

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 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 part of 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 of the Company other than the shares owned by Mr. Brodsky and the other shareholders that shall comprise part of 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.

Except as discussed above, the Company has no knowledge of any specific prospects, industry or other trends, events or uncertainties that might have a material impact on the Company's net sales or revenues or income from continuing operations, or that would increase the value of the shares in the long-term or the short-term.

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
(Principal Executive Officer and
Principal Financial Officer)

Date: January 28, 2003

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: January 28, 2003

By /s/Hugh Freund

Hugh Freund, Executive Vice President, Secretary, Director

Date: January 28, 2003

By /s/Gary Stoller

Gary Stoller, Executive Vice President, Director

Date: January 28, 2003

By /s/Martin Bernard

Martin Bernard, Director

Date: January 28, 2003

By /s/Ronald L.Fish

Ronald L. Fish, Director

Date: January 28, 2003

CERTIFICATION 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 Amendment to the Annual Report of Sandata Technologies, Inc. (the "Company") on Form 10-KSB for the year ended May 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Bert E. Brodsky, Chief Exectuive Officer and Chief Financial Officer of the Company, certifies, 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 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 result of operations of the Company.

/s/ Bert E. Brodsky

Bert. E. Brodsky
Chief Executive Officer and Chief Financial Officer
January 28, 2003

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 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.

Dated: January 28, 2003

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