USDATA CORP
Form 10-Q
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 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 0-25936

USDATA Corporation
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	75-2405152
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2435 N. Central Expressway, Richardson, TX 75080

(Address of Principal Executive Offices)
(Zip Code)

Registrant's Telephone Number, Including Area Code: (972) 680-9700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 11, 2002

Class	Number of Shares Outstanding
Common Stock, Par Value $.01 Per Share	3,089,331 shares

Unless the context indicates otherwise, the terms "USDATA," "the Company," "we," "our," and "us" refer to USDATA Corporation.

USDATA CORPORATION AND SUBSIDIARIES
FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 2002

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USDATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	SEPTEMBER 30, 2002
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,728
Accounts receivable, net of allowance for doubtful accounts of $108 and $279, respectively	1,789
Other current assets	686
Total current assets	4,203
Property and equipment, net	609
Computer software development costs, net	5,201
Software held for resale, net	1,496
Other assets	22
Total assets	$ 11,531
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 547
Deferred revenue	987
Accrued compensation and benefits	353
Notes payable and current portion of long-term debt	1,642
Other accrued liabilities	1,263
Net liabilities of discontinued operation	300
Total current liabilities	5,092
Other noncurrent liabilities	1,599
Long-term debt, less current portion	258
Total liabilities	6,949
Commitments and contingencies	
Stockholders' equity:	
Series A cumulative convertible preferred stock, $.01 par value; liquidation preference $100 per share; 100,000 shares authorized; 50,000 shares issued and outstanding in 2002 and 2001	6,268
Series B cumulative convertible preferred stock; $.01 par value; liquidation preference $100 per share; 800,000 shares authorized; 265,000 shares issued and outstanding in 2002 and 2001	30,852
Series C-1 cumulative convertible preferred stock; $.01 par value; liquidation preference $80 per share; 125,000 shares authorized; 75,000 shares issued and outstanding in 2002 and 53,750 shares issued and outstanding in 2001	13,154
Series C-2 cumulative convertible preferred stock; $.01 par value; liquidation preference $120 per share; 125,000 shares authorized; 0 shares issued and outstanding in 2002 and 2001	--
Common stock, $.01 par value, 40,000,000 shares authorized; 3,264,872 shares issued in 2002 and 2001	33
Additional paid-in capital	8,333
Accumulated deficit	(46,216)
Treasury stock at cost, 396,292 shares in 2002 and 438,247 shares in 2001	(6,787)
Accumulated other comprehensive loss	(1,055)

Total stockholders' equity	4,582
Total liabilities and stockholders' equity	$ 11,531

See accompanying notes to unaudited condensed consolidated financial statements.

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USDATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Revenues:				
Product license	$ 1,649	$ 2,753	$ 6,087	$ 9,052
Services	383	508	1,256	1,520
Total revenues	2,032	3,261	7,343	10,572
Operating expenses:				
Selling and product materials	2,072	2,216	6,016	6,974
Product development	393	453	1,174	1,406
General and administrative	606	867	2,138	2,877
Restructuring and other charges	--	1,061	356	1,068
Write off of capitalized software	--	391	--	391
Total operating expenses	3,071	4,988	9,684	12,716
Loss from operations	(1,039)	(1,727)	(2,341)	(2,144)
Interest expense	(32)	(44)	(97)	(135)
Other income, net	5	--	17	--
Loss from continuing operations	(1,066)	(1,771)	(2,421)	(2,279)
Income from discontinued operations	--	132	--	132
Net loss	(1,066)	(1,639)	(2,421)	(2,147)
Dividends on preferred stock, preferred stock warrant and beneficial conversion	(2,384)	(1,330)	(3,752)	(10,128)
Net loss applicable to common stockholders	$ (3,450)	$ (2,969)	$ (6,173)	$(12,275)
Net loss per common share:				
Basic and diluted				
Loss from continuing operations	$ (1.20)	$ (1.10)	$ (2.17)	$ (4.40)
Income from discontinued operations	--	0.05	--	0.05
Net loss per common share	$ (1.20)	$ (1.05)	$ (2.17)	$ (4.35)

Comprehensive loss:				
Net loss	$ (1,066)	$ (1,639)	$ (2,421)	$ (2,147)
Foreign currency translation adjustment	(9)	(15)	(52)	(33)
Comprehensive loss	$ (1,075)	$ (1,654)	$ (2,473)	$ (2,180)
Weighted average shares outstanding:				
Basic and diluted	2,868	2,826	2,847	2,818

See accompanying notes to unaudited condensed consolidated financial statements.

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USDATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
Cash flows from operating activities:		
Net loss	$ (2,421)	$ (2,147)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Furniture and equipment transfer in lease negotiation	135	--
Depreciation and amortization	2,731	2,735
Non-cash stock expense	22	87
Write off of capitalized software	--	391
Changes in operating assets and liabilities:		
Accounts receivable, net	784	1,456
Other assets, net	67	149
Accounts payable and other accrued liabilities	(159)	(1,547)
Accrued compensation and benefits	(115)	(88)
Deferred revenue	(261)	(248)
Net cash provided by continuing operations	783	788
Net cash used in discontinued operations	(39)	(2,048)
Net cash provided by (used in) operating activities	744	(1,260)
Cash flows from investing activities:		
Capital expenditures	(379)	(60)
Capitalized software development costs	(596)	(983)
Deposit of acquisition costs	(191)	--
Refund of leasehold improvement costs	--	209
Net cash used in investing activities	(1,166)	(834)
Cash flows from financing activities:		
Proceeds from issuance of common stock	22	56
Proceeds from issuance of preferred stock, net	810	2,050
Borrowing under revolving line of credit	965	1,657

Other borrowings	139	584
Payments on long-term debt	(1,630)	(1,532)
Net cash provided by financing activities	306	2,815
Net increase (decrease) in cash and cash equivalents	(116)	721
Cash and cash equivalents, beginning of period	1,844	673
Cash and cash equivalents, end of period	$ 1,728	$ 1,394
Non-cash operating, investing and financing activity:		
Conversion of accrued liabilities to long-term notes payable	$ --	$ 232
Accrued liability related to software held for resale	$ 1,120	$ --
Furniture and equipment transfer in lease negotiation	$ 135	$ --

See accompanying notes to unaudited condensed consolidated financial statements.

USDATA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements of USDATA and our subsidiaries for the three and nine month periods ended September 30, 2002 and 2001 have been prepared in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies followed by USDATA were disclosed in the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2001. In the opinion of our management, the accompanying consolidated financial statements contain the adjustments, consisting of normal recurring adjustments, necessary to present fairly our consolidated financial position at September 30, 2002 and the consolidated results of our operations and comprehensive loss, and cash flows for the three and nine month periods ended September 30, 2002 and 2001. Operating results for the three and nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. Certain prior period balances have been reclassified to conform to the current year presentation.

2. NET LOSS PER SHARE OF COMMON STOCK

Net loss per share of common stock is presented in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Under SFAS No. 128, basic loss per share excludes dilution for potentially dilutive securities and is computed by dividing income or loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Potentially dilutive securities are excluded from the computation of diluted earnings (loss) per share when their inclusion would be antidilutive to the results of continuing operations.

Options to purchase 409,886 and 237,891 shares of common stock for 2002 and 2001, respectively, were not included in the computation of diluted earnings per share as their impact would be antidilutive. The computation of diluted earnings per share of common stock also excludes common shares that would be issued upon conversion of outstanding shares of Series A, B and C-1 Preferred Stock convertible into an aggregate of 2.8 million shares and 2.3 million shares of common stock for 2002 and 2001, respectively. In addition, warrants to purchase 2.0 million shares and 1.5 million shares of common stock for 2002 and 2001, respectively, were not included in the computation of diluted earnings per share as their inclusion would be antidilutive.

3. SOFTWARE HELD FOR RESALE

We entered into a source code license agreement with the developer of the client graphics used within our FactoryLink(R) software product on March 20, 2002 (the "Effective Date"). We have a nonexclusive right to reproduce, modify and incorporate the licensed software into other computer software. In addition, the licensed software shall be marketed, distributed and sublicensed under one or more of our and/or third party's trademarks, trade names or service marks. The purchase price of the licensed software was $900,000 payable over three years as follows: (a) $200,000 within 10 business days of the Effective Date; (b) $200,000 six months after the Effective Date; (c) $250,000 on March 20, 2003; and (d) $250,000 on March 20, 2004. We capitalized the original purchase price of $900,000 of the licensed software as software held for resale. As of September 30, 2002, $450,000 of the remaining amount due is included in other accrued liabilities with the balance of $250,000 included in other non-current liabilities.

On July 9, 2002, we acquired the rights to certain source code related to value added products that are currently bundled into our FactoryLink(R) software product for $560,000. Under the license agreement we were granted a worldwide, non-exclusive, perpetual, irrevocable, assignable and transferable license to use the source code, design documentation, user documentation, setups and related materials. The $560,000 is payable over three years in annual payments of $140,000 beginning in year 2002. The first payment was made on July 9, 2002 upon receipt of the source code. Each additional payment is due on

each of the first, second and third anniversary of the effective date, June 30, 2002. As of September 30, 2002, $140,000 of the remaining amount due is included in other accrued liabilities with the balance of $280,000 included in other non-current liabilities.

4. SERIES C PREFERRED STOCK PURCHASE AGREEMENT

On March 30, 2001, we entered into a Series C Preferred Stock Purchase Agreement with SCP Private Equity Partners II, L.P. ("SCP") whereby we issued through a private placement 37,500 shares of our Series C-1 Convertible Preferred Stock ("Series C-1 Preferred) and a warrant to purchase up to 75,000 shares of Series C-2 Convertible Preferred Stock ("Series C-2 Preferred") to SCP for $1.5 million (the "Series C Purchase Agreement"). In addition, SCP committed to purchase an additional 37,500 shares of Series C-1 Preferred ("Option Stock")

at $40 per share ($1.5 million) contingent upon USDATA meeting specified monthly target provisions. At December 31, 2001, when the original exercise period expired, we had 21,250 shares remaining under the equity line.

On March 8, 2002, USDATA and SCP entered into a First Amendment to the Series C Purchase Agreement (the "Agreement"). The Agreement extended the Option Stock exercise period to December 31, 2002, deleted the specified monthly target provisions and provided for warrant coverage equal to 50% of the remaining Option Stock, for a total of 10,625 shares of Series C-2 Preferred. All other terms of the Series C Purchase Agreement were unchanged. The Agreement was unanimously approved by the disinterested members of our Board of Directors on March 8, 2002. On September 30, 2002, we exercised our right to sell the remaining 21,250 shares of the Option Stock to SCP. We received $809,867 in cash, net of transaction costs, in exchange for the shares. In connection with issuing the remaining 21,250 shares of Option Stock to SCP, we issued a warrant to SCP granting them the right to purchase up to an additional 10,625 shares of Series C-2 Preferred at a purchase price of $40 per share. Currently, SCP holds two warrants granting them the right to purchase in the aggregate 85,625 shares of our Series C-2 Preferred at a purchase price of $40 per share.

5. OFFICE LEASE AGREEMENT AMENDMENT

We are party to an Office Lease Agreement, as amended (the "Lease"), under which we were the tenant of approximately 79,382 rentable square feet. On March 19, 2002, we entered into a Fourth Amendment to the Lease (the "Fourth Amendment") with Crescent Real Estate Funding VIII, L.P. (the "Landlord") to reduce our lease payment commitment obligations and our excess leased office space. Pursuant to the Fourth Amendment, the Landlord reacquired approximately 44,400 rentable square feet, reducing our headquarters' space to 34,982 rentable square feet ("Existing Premises"). We sublease approximately 14,802 square feet of the Existing Premises. The Fourth Amendment extended the lease term four months to December 31, 2010, and increased the base rental rate per square foot on the Existing Premises by $1.00 each year beginning in 2003 and ending in 2005. In year 2006, the base rental rate per square foot increases by $1.75 from year 2005 and remains constant through year 2010. In addition, we owed $444,000 at March 31, 2002 to the Landlord representing rents due on the excess leased space for five months. The Landlord agreed to waive any claim to such amount owed contingent upon timely payment of all rent to be paid on the Existing Premises. The $444,000 will be reduced by $51,000 per year over the remaining term of the lease. We also transferred to the Landlord our right, title and interest in excess office furniture, with a carrying value of approximately $135,000. In connection with the Fourth Amendment, we issued a Warrant, dated March 19, 2002, to the Landlord for the purchase of up to 243,902 shares of our common stock at an exercise price per share of $2.05, the closing market price on the date of the Warrant. The Warrant is exercisable by the Landlord, in whole or in part, at any time commencing on March 19, 2002 and ending on March 18, 2007. In addition, under the Fourth Amendment, we released certain rights, such as our right to terminate the Lease in 2005, certain preferential rights to lease additional space and the right to extend the Lease. By implementing the provisions of the Fourth Amendment, we will realize a cash savings of approximately $1.0 million in lease costs during 2002.

We will compute rent expense to be recognized under the Lease, as amended, considering the increasing rent over the rent term and all amounts previously accrued for as rent expense, including approximately $1.1 million recorded in the third quarter of 2001 for unoccupied excess lease space,

USDATA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

$135,000 for the excess office furniture transferred to the Landlord and $383,000 for the value of the Warrant issued on March 19, 2002. The remaining accrual will be amortized over the remaining lease term as an offset to rent expense, and the carrying value of the excess office furniture and value of the Warrant will be amortized as an increase to rent expense. At September 30, 2002, $239,000 of the remaining accrual was included in other current liabilities and $933,000 was included in other non-current liabilities.

6. REVOLVING CREDIT FACILITY

We maintain a revolving credit facility with JPMorgan Chase Bank (the "Lending Bank") to provide us with working capital assistance relating to timing of our cash flow (the "Credit Facility"). We were not in compliance with the tangible net worth debt covenant for the months ended March 31, April 30, and May 31, 2002. In addition, we did not comply with the earnings before interest, taxes, depreciation and amortization ("EBITDA") debt covenant for the quarter ended March 31, 2002. On April 15, 2002 and July 12, 2002, we received two separate waivers from the Lending Bank waiving these defaults under the Credit Facility. In connection with the April 15, 2002 waiver, the interest rate under the Credit Facility was increased by 75 basis points to the prime rate plus 2.25% per annum. On July 12, 2002, the Lending Bank amended both debt covenants going forward beginning in June 2002 to be consistent with our most recent business plan. We complied with both debt covenants as of June 30, 2002, but due to lower than expected revenue for the third quarter ended September 30, 2002, we failed to comply with the EBITDA debt covenant for the third quarter of 2002. On October 24, 2002, we received a third waiver from the Lending Bank waiving this default under the Credit Facility.

At September 30, 2002 and December 31, 2001, $1,059,000 and $1,145,000, respectively, were drawn under the Credit Facility and are included in current liabilities. Based on the qualifying borrowing base arrangement under the Credit Facility, total availability at September 30, 2002 was $557,000; therefore we were overdrawn by $502,000. As a result, on October 1, 2002 and October 22, 2002 we paid $318,000 and $184,000, respectively, to reduce the borrowings on the line. On October 29, 2002 we borrowed $164,000 based on the qualifying borrowing base on that date. At October 31, 2002, $721,000 was borrowed under the line and based on the qualifying borrowing base on that date, total remaining availability was $58,000.

7. SUBSEQUENT EVENTS

On October 1, 2002, we acquired all the issued and outstanding stock of Wizard Information Systems, Ltd ("Wizard"), pursuant to the terms of an Acquisition Agreement for the Purchase of Wizard Information Systems Limited ("Acquisition Agreement"), dated October 1, 2002 ("Completion Date"), by and among USDATA and John Adrian Wise and David John Moody (each a "Seller" and together the "Sellers"). Wizard is a privately held company located in the United Kingdom and is one of USDATA's largest European distributors. Wizard is also an independent automation solutions provider founded in 1995 and has offices in the United Kingdom, France and the Netherlands.

In connection with the Acquisition Agreement, we paid consideration of $140,000 in cash, 220,752 unregistered shares of USDATA common stock (the "Common Stock"), and 16,800 shares of USDATA Series B Preferred Stock (the "Series B Preferred Stock"), each of which is convertible into 3.28 shares of Common Stock. In addition, the Sellers are entitled to receive additional consideration in the aggregate; (i) a maximum of 257,544 shares of unregistered

Common Stock and 19,600 shares of Series B Preferred Stock ("Performance Shares") contingent upon Wizard achieving a certain target gross revenue level by March 31, 2003, and (ii) a maximum of 257,544 shares of Common Stock and 19,600 shares of Series B Preferred Stock ("Retention Shares") contingent upon continued employment with Wizard for three years, under the terms and conditions of Executive Service Agreements entered into by and among Wizard and the Sellers. The Performance Shares and Retention Shares, if earned, shall be issued in equal installments on each of the first three anniversaries of the Completion Date; and, to the extent not yet issued, shall be forfeited in the event that the Seller's employment with USDATA terminates as set forth in the Acquisition Agreement. As of September 30, 2002 we incurred $123,000 in transaction costs associated

with this acquisition. We will account for this acquisition under the purchase method of accounting in the fourth quarter of 2002.

Pursuant to the Export Loan Agreement (the "Loan Agreement"), which governs the Credit Facility between USDATA and the Lending Bank, USDATA will not without the prior written consent of the Lending Bank (a) merge, consolidate or otherwise combine with any other entity; (b) acquire all or substantially all of the assets or capital stock of any other entity; (c) make any material changes in its organizational structure or identity; or (d) enter into any agreement to do any of the foregoing. We requested that the Lending Bank consent to the acquisition of Wizard and waive the foregoing covenants insofar as they prohibit the acquisition. On October 1, 2002, we received a Conditional Consent and Waiver from the Lending Bank, subject to the following new debt covenant: (a) USDATA shall have entered into a binding agreement to receive new equity financing for not less than $1.0 million, on terms and conditions acceptable to the Lending Bank, on or before October 31, 2002 and (b) USDATA shall receive the funds from the new equity financing on or before November 15, 2002. On November 10, 2002, the foregoing deadlines were extended as follows: USDATA has until December 31, 2002 to obtain a binding commitment to obtain new equity financing, and we shall receive the funds no later than January 15, 2003. If we do not obtain the new equity financing, we will be in default under the Credit Facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

USDATA is a global provider of software and services that give enterprises the knowledge and control needed to perfect the products they produce and the processes they manage. Based upon a tradition of flexible

service, innovation and integration, our software currently operates in more than 60 countries around the globe, including 17 of the top 25 manufacturers. Our software heritage has emerged from manufacturing and process automation solutions and has grown to encompass vast product knowledge and control solutions. We continue to innovate solutions that will support the integration of enterprise production and automation information into the supply chain. We have a global network of distribution and support partners.

Our software products are designed to enable manufacturers access to more accurate and timely information - whether they are on the plant floor, in the office, or around the globe. Our solutions span a wide range of manufacturing processes, from monitoring equipment to tracking product flow, and are designed to integrate with customers' existing manufacturing and business software, as well as help customers manage their business in real time, reduce operating costs, shorten cycle times and improve quality in their manufacturing operations. This combination of product breadth and ease of integration is intended to provide a total plant solution intended to improve manufacturing performance and give customers a competitive advantage.

Revenues have been generated primarily from licenses of our FactoryLink(R) and Xfactory(R) software and secondarily from technical support and service agreements, training classes and product related services. The support and service agreements are generally one-year, renewable contracts entitling a customer to certain software upgrades and technical support. Revenue from services represented approximately 19% and 16% of revenues during the three months ended September 30, 2002 and 2001, respectively, and 17% and 14% during the nine months ended September 30, 2002 and 2001, respectively.

We experience seasonality in the sales of our software products. For instance, many of our current and potential customers face budgetary pressures to invest in software before the end of each fiscal year. As a result, we may tend to report higher revenues during the fourth quarter of the year and lower revenues during the first quarter of the year. These seasonal variations in sales may lead to fluctuations in our quarterly operating results. Revenues from our international customers continue to be significant and have been primarily from sales and services related to our FactoryLink(R) software products. International revenues are primarily derived from France, United Kingdom, Italy and Canada and represent approximately 66% of total revenues for the nine months ended September 30, 2002.

FactoryLink(R) is a process knowledge and control solution used to develop custom supervisory control and data acquisition ("SCADA") and human machine interfaces ("HMI") for the supervision and control of a broad range of automated processes. FactoryLink(R) is a horizontal application tool set used by systems integrators and end customers to build automation and control applications for a wide variety of industrial markets such as electronics assembly, semiconductor, automotive, building automation, food and beverage, pharmaceuticals, metals, mining, cement, oil and gas, electricity generation, transmission and distribution and water and waste water transport. It allows customers to collect and monitor data from disparate process control systems and acts as a hub for real-time information that may be used by various decision makers interested in the real-time status of the production process.

Our latest releases of FactoryLink(R) include FactoryLink(R) 7, which is designed to have a lower total cost of ownership than other SCADA/HMI products on the market and FactoryLink(R)++. FactoryLink(R)++ is designed specifically to help new SCADA/HMI users to jump start application

development, lower application maintenance and reduce project risk. FactoryLink(R)++ includes integrated modules, concepts, methods and tools designed to help end users, integrators, original equipment manufacturers and consultants achieve the maximum value out of the FactoryLink(R) software system.

Xfactory(R) is a product knowledge and control solution designed to capture and communicate real-time manufacturing data from the shop floor to the people and systems who need it, when they need it. The information is intended to help customers make better-informed decisions and reduce manufacturing costs and lead times. Xfactory(R) is designed to track all aspects of discrete manufacturing production maintaining historically accurate records as well as real-time production information, defect tracking, complete product genealogy and integration into enterprise software systems. Xfactory(R) is intended to benefit manufacturing customers by reducing work in progress, lowering cost of errors, and lowering cost of compliance with government regulations, while limiting the amount of rework and increasing product revenue. In November 2001, we announced the worldwide release of our newest version of Xfactory(R). Xfactory (R) 2.0 is intended to enhance real-time visibility and decision-making, performance monitoring, analysis and reporting and data management.

We recently implemented a plan to optimize our distribution strategy to increase market coverage by focusing our sales efforts through selected distributors, who provide the level of support and expertise needed in the industrial automation market, systems integrators, original equipment manufacturers and end customers. We have channel support locations in the United States and Europe and our distributors have sales locations throughout North and South America, Europe, the Far East and the Middle East.

Revenues declined 38% and 31% for the three and nine months ended September 30, 2002, respectively, when compared to the same periods in 2001. As a result, in November 2002 we will be implementing a 23% reduction in our workforce in an effort to reduce costs. The reductions will primarily be in general and administrative, quality assurance and documentation. The quality assurance and documentation functions will be outsourced at a lower cost. A portion of the cost savings from the general and administrative reductions will be offset by newly established revenue producing functions.

FORWARD LOOKING STATEMENTS

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 regarding revenues, margins, operating expenses, earnings, growth rates and certain business trends that are subject to risks and uncertainties that could cause actual results to differ materially from the results described herein. Specifically, the ability to grow product and service revenues may not continue and we may not be successful in developing new products, product enhancements or services on a timely basis or in a manner that satisfies customers' needs or achieves market acceptance. Other factors that could cause actual results to differ materially are: competitive pricing and supply, market acceptance and success for service offerings, short-term interest rate fluctuations, general economic conditions, employee turnover, possible future litigation, and related uncertainties on future revenue and earnings as well as the risks and uncertainties set forth from time to time in our other public reports and filings and public statements. Recipients of this document are cautioned to consider these risks and uncertainties and to not place undue reliance on these forward-looking statements. See "Business" in Part I, Item 1 of our Annual Report on Form 10-K for the period ended December 31, 2001 for a discussion of other important factors that could affect the validity of any such forward-looking statement. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these

cautionary statements.

RESULTS OF OPERATIONS

The following table presents selected financial information relating to our financial condition and results of operations and should be read in conjunction with the consolidated financial statements and notes included herein. The table sets forth, for the periods indicated, our statement of operations as a percentage of revenues.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Revenues:				
Product license	81%	84%	83%	86%
Services	19%	16%	17%	14%
Total revenues	100%	100%	100%	100%
Operating expenses:				
Selling and product materials	102%	68%	82%	66%
Product development	19%	14%	16%	13%
General and administrative	30%	27%	29%	27%
Restructuring and other charges	0%	33%	5%	10%
Write off of capitalized software	0%	11%	0%	4%
Total operating expenses	151%	153%	132%	120%
Loss from operations	(51)%	(53)%	(32)%	(20)%
Interest expense	(1)%	(1)%	(1)%	(1)%
Other income, net	0%	0%	0%	0%
Loss from continuing operations	(52)%	(54)%	(33)%	(21)%
Income from discontinued operations	0%	4%	0%	1%
Net loss	(52)%	(50)%	(33)%	(20)%
Dividends on preferred stock, preferred stock warrant and beneficial conversion	(117)%	(41)%	(51)%	(96)%
Net loss applicable to common stockholders	(169)%	(91)%	(84)%	(116)%

Comparison of Three Months Ended September 30, 2002 and 2001

Total revenues for the quarter ended September 30, 2002 were $2.0 million, a decrease of $1.3 million when compared to $3.3 million in revenues for the same period in 2001. Product licensing revenue decreased $1.2 million and revenue from services decreased $125,000. The decrease in product licensing revenue is primarily due to a decline in our base revenue from FactoryLink(R) product sales. Of our open sales opportunities greater than $25,000 tracked during the third quarter of 2002, 14% or $255,000 closed during the third

quarter of 2002 versus 18% or $453,000 for the same period in 2001. The decrease in revenue is also attributed to the winding down of follow-on license and services revenue related to projects that were sold during 2001 and due to a general slowdown in the industrial economy, new projects are being sold at a slower rate than in 2001. While new projects are being sold, the decline in base revenue more than offsets the revenue from these new projects.

Selling and product materials expenses for the quarter ended September 30, 2002 were $2.1 million, a decrease of $144,000 when compared to $2.2 million for the same period in 2001. The decrease is a result of decreased sales, marketing and technical support services totaling $360,000 primarily attributed to decreases in travel, consulting services and personnel (2 employees in marketing and 1 in sales). In addition, variable cost of sales decreased $19,000. Partially offsetting this decrease is a $235,000 increase in capitalized software amortization. The increase in capitalized software amortization includes $321,000 related to the two source code purchases described in Note 3 in the Notes to Condensed Consolidated Financial Statements and amortization related to releasing a portion of the newest member of the FactoryLink(R) HMI/SCADA product, offset by amortization included in the first eight months of 2001 related to capitalized software that was written off in September 30, 2001. Selling and product materials expenses as a percentage of revenues increased to 102% for the quarter ended September 30, 2002 from 68% for the same period in 2001 due to the decrease in revenues.

Product development expenses for the quarter ended September 30, 2002, net of amounts capitalized, were $393,000, a decrease of $60,000 when compared to $453,000 for the same period in 2001.

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Product development expenses consist primarily of labor costs. The decrease in 2002 is due to lower engineering development activities related to the next major release of our FactoryLink(R) product line. We capitalized $140,000 of development costs during the quarter ended September 30, 2002 and $330,000 for the same period in 2001. Product development expenses as a percentage of revenues increased to 19% for the quarter ended September 30, 2002 from 14% for the same period in 2001. Gross product development expenses as a percentage of revenues increased slightly to 26% for the three months ended September 30, 2002 from 24% for the same period in 2001. In November 2002, we plan to reduce costs in product development by outsourcing quality assurance and documentation, which will result in a staff reduction of 6 full-time employees. We plan to reduce software developers by 3 full-time employees; however, we will be re-allocating 2 internal resources back to product development, resulting in a net reduction of 1 employee. We do not anticipate that this action will affect our development efforts in keeping up with customer needs or technology as we will continue to maintain an internal ability to monitor and manage the outsourcing of quality assurance and documentation.

General and administrative expenses for the quarter ended September 30, 2002 were $606,000, a decrease of $261,000 when compared to $867,000 for the same period in 2001. The decrease in general and administrative expenses is due to decreases in salaries and benefits of $106,000 from staff reductions, information technology of $60,000, legal and professional of $28,000, consulting fees of $29,000 and other expenses of $38,000. Included in the decrease in salaries and benefits is a $54,000 reversal in the third quarter of 2002 related to accrued medical claims associated our self-insured health benefits plan. The time limit for these potential claims has expired. General and administrative expenses as a percentage of revenues increased to 30% for the quarter ended September 30, 2002 from 27% for the same period in 2001 due to the decrease in revenues. In November 2002, we will be implementing a 27% staff reduction in

general and administrative personnel and therefore anticipate lower general and administrative expenses in the near future.

In the third quarter of 2001, we recorded a $1.1 million restructuring charge related to lease costs associated with 44,400 square feet of excess office space at our Richardson headquarter facilities. The excess office space was a result of the restructuring plan implemented in the fourth quarter of 2000. The $1.1 million charge represented one full year of lease costs and was accrued due to our inability to sublet this excess office space.

Due to strategy changes from two of our suppliers, we determined that the carrying amount of capitalized software development costs related to two of our software products were not recoverable. As a result, these assets were considered to be impaired and were written off for a total of $391,000 during the third quarter of 2001.

As a result of the factors discussed above, we recorded a loss from operations of $1.0 million for the quarter ended September 30, 2002, compared to a loss from operations of $1.7 million for the same period in 2001.

Comparison of Nine Months Ended September 30, 2002 and 2001

Total revenues for the nine months ended September 30, 2002 were $7.3 million, a decrease of $3.3 million when compared to $10.6 million in revenues for the same period in 2001. Product licensing revenue decreased $3.0 million and revenue from services decreased $264,000. The decrease in product licensing revenue is primarily due to a decline in our base revenue from FactoryLink(R) product sales. Of our open sales opportunities greater than $25,000 tracked during the first nine months of 2002, an average of 10% or $955,000 closed during the third quarter of 2002 versus an average of 29% or $1.9 million for the same period in 2001. Also, 2001 included a $555,000 software license sale to a single customer. The decrease in revenue is also attributed to the winding down of follow-on license and services revenue related to projects that were sold during 2001 and due to a general slowdown in the industrial economy, new projects are being sold at a slower rate than in 2001. While new projects are being sold, the decline in base revenue more than offsets the revenue from these new projects.

Selling and product materials expenses for the nine months ended September 30, 2002 were $6.0 million, a decrease of $958,000 when compared to $7.0 million for the same period in 2001. The decrease

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is a result of decreased sales, marketing and technical support services totaling $1.1 million primarily attributed to decreases in travel, consulting services and personnel (2 employees in marketing and 1 in sales). In addition, variable cost of sales decreased $49,000. Partially offsetting this decrease is a $145,000 increase in capitalized software amortization. The increase in capitalized software amortization includes $396,000 related to the two source code purchases described in Note 3 in the Notes to Condensed Consolidated Financial Statements and amortization related to releasing a portion of the newest member of the FactoryLink(R) HMI/SCADA product, offset by amortization included in the first eight months of 2001 related to capitalized software that was written off in September 30, 2001. Selling and product materials expenses as a percentage of revenues increased to 82% for the nine months ended September 30, 2002 from 66% for the same period in 2001 due to the decrease in revenues.

Product development expenses for the nine months ended September 30,

2002, net of amounts capitalized, were $1.2 million, a decrease of $232,000 when compared to $1.4 million for the same period in 2001. Product development expenses consist primarily of labor costs. The decrease in 2002 is due to lower engineering development activities related to the next major release of our FactoryLink(R) product line. We capitalized $597,000 of development costs in the nine months ended September 30, 2002 and $982,000 for the same period in 2001. Although overall expenses decreased, we intend to continue to invest in product development for both our software product lines to keep up with customer needs and technology. Product development expenses, net of amounts capitalized, as a percentage of revenues increased to 16% for the nine months ended September 30, 2002 from 13% for the same period in 2001. Gross product development expenses as a percentage of revenues increased slightly to 24% for the nine months ended September 30, 2002 from 23% for the same period in 2001. In November 2002, we plan to reduce costs in product development by outsourcing quality assurance and documentation, which results in a staff reduction of 6 full-time employees. We plan to reduce software developers by 3 full-time employees; however, we will be re-allocating 2 internal resources back to product development, resulting in a net reduction of 1 employee. We do not anticipate that this action will affect our development efforts in keeping up with customer needs or technology as we will continue to maintain an internal ability to monitor and manage the outsourcing of quality assurance and documentation.

General and administrative expenses for the nine months ended September 30, 2002 were $2.1 million, a decrease of $739,000 when compared to $2.9 million for the same period in 2001. The decrease in general and administrative expenses is due to 2001 including approximately $435,000 in consulting fees related to operational assistance in executing the cost cutting initiatives resulting from the 2000 restructuring plans in addition to further cost cutting initiatives to be implemented throughout 2001. Information technology, salaries and benefits and other expenses decreased $379,000, $248,000 and $9,000, respectively, as a direct result of these cost cutting initiatives. The $739,000 decrease is net of a settlement of amounts owed for consulting services incurred in 2000. Under the terms of the settlement arrangement, $332,000 of accrued consulting expenses was forgiven and the accrual was reversed in the second quarter of 2001. General and administrative expenses as a percentage of revenues increased to 29% for the nine months ended September 30, 2002 from 27% for the same period in 2001 primarily due to the decrease in revenues. In November 2002, we will be implementing a 27% staff reduction in general and administrative personnel and therefore anticipate lower general and administrative expenses in the near future.

On March 19, 2002, we entered into a Fourth Amendment to our Office Lease Agreement with Crescent Real Estate Funding VIII, L.P. (the "Landlord") which provides for, among other things, the Landlord removing approximately 44,400 square feet of rentable excess office space. In connection with the Fourth Amendment, we recorded a $356,000 restructuring charge for the consultant who assisted us in the negotiations. In the third quarter of 2001, we recorded a $1.1 million restructuring charge related to this excess office space representing one full year of lease costs.

As a result of the factors discussed above, we recorded a loss from operations of $2.3 million for the nine months ended September 30, 2002, compared to a loss from operations of $2.1 million for the same period in 2001.

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CRITICAL ACCOUNTING POLICIES

In preparing our financial statements, management is required to make

estimates and assumptions that, among other things, affect the reported amounts of assets and liabilities and reported amounts of revenues and expenses. These estimates are most significant in connection with our most critical accounting polices, namely our accounting policies that are most important to the portrayal of our financial condition and results and require management's most difficult, subjective or complex judgments. These judgments often result from the need to make estimates about the effects of matters that are inherently uncertain. The following is a brief discussion of the more critical accounting policies and methods that we use.

Significant Estimates and Assumptions

Our management has made a number of estimates and assumptions related to the reporting of assets and liabilities in preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. The most significant estimates relate to the allowance for doubtful accounts, the determination of the recoverability of property and equipment, capitalized software development costs, software held for resale, and the valuation of deferred tax assets.

In determining the adequacy of the allowance for doubtful accounts, management considers a number of factors, including the aging of the receivable portfolio, customer payment trends, financial condition of the customer, economic conditions in the customer's country and industry conditions. For the period ended September 30, 2002, we did not experience any charges to bad debt expense, however, due to the general weakening of the economy, there can be no assurance that this trend will continue. Actual amounts could differ significantly from management's estimates. The allowance for doubtful accounts at September 30, 2002 was $108,000 or approximately 6% of total accounts receivable.

Management assesses the recoverability of property and equipment, capitalized software development costs and software held for resale by determining the estimated future cash flows related to such assets. Management reviews these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is generally measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is equal to the amount by which the carrying amounts of the assets exceed the fair values of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Management's estimates of future cash flows are based in part upon prior performance, industry conditions, economic conditions, technology trends and customer relationships. Changes in these factors or other factors could result in significantly different cash flow estimates and an impairment charge.

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management has fully reserved all deferred tax assets to the extent such assets exceed deferred tax liabilities.

Revenue Recognition

We earn revenue primarily from license fees, maintenance fees and professional services sold through direct sales or through our channel partners. The license arrangements do not provide for a right of return, and are primarily non-transferable and non-exclusive perpetual licenses. We offer two types of maintenance fees: one that provides the customer the right to telephone support and to receive error and bug fix releases and one that provides upgrade version releases of the product during the maintenance term.

We recognize revenue in accordance with Statement of Position 97-2, Software Revenue Recognition ("SOP 97-2"), as amended by SOP 98-9, and we generally recognize revenue when all of the following criteria are met as set forth in paragraph 8 of SOP 97-2: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the fee is fixed or determinable; and (4) collectibility is probable. Each of the four criteria above is defined as follows:

Persuasive evidence of an arrangement exists. It is customary practice to have a written contract, which is signed by both the customer and us or, in situations where a contract is not required, a customer purchase order has been received.

Delivery has occurred. Our software may be either physically or electronically delivered to the customer. Delivery is deemed to have occurred upon the delivery of the electronic code or the shipment of the physical product based on standard contractual committed shipping terms, whereby risk of loss passes to the customer when shipment is picked up by the carrier. If undelivered products or services exist in an arrangement that is essential to the functionality of the delivered product, delivery is not considered to have occurred until these products or services are delivered as described above.

The fee is fixed or determinable. Our customers generally pay a per-license fee that is based on the number of servers on which the software is installed, the size of the application that they will develop for the software, the options provided for those servers, and the number of client workstations that access with the server. Additional license fees are due when the total number of subscribers using our products increases beyond the specified number for which a license was purchased or when additional options are added. License fees are generally due within 30-45 days from product delivery in the United States and within 30 - 90 days from product delivery internationally.

Collectibility is probable. Collectibility is assessed on a customer-by-customer basis. We typically sell to customers with high credit ratings and solid payment practices. New customers are subjected to a credit review process, in which we evaluate the customers' financial position and ultimately their ability to pay. If it is determined from the outset of an arrangement that collectibility is not probable based upon our credit review process, revenue is recognized as cash payments are received.

We allocate revenue on software arrangements involving multiple elements to each element based on the relative fair value of each element. Our determination of fair value of each element in multiple element arrangements is based on vendor-specific objective evidence ("VSOE"). We limit our assessment of VSOE to the price charged when the same element is sold separately. We have analyzed all of the elements included in our multiple-element arrangements and determined that we have sufficient VSOE to allocate revenue to maintenance and support services and professional service components of our license arrangements. We sell our professional services separately, and have established

VSOE on this basis. VSOE for maintenance and support services is based on the customer's annual renewal rates for these elements. Accordingly, assuming all other revenue recognition criteria are met, revenue from licenses is recognized on delivery using the residual method in accordance with SOP 98-9, and revenue from maintenance and support services is recognized ratably over the respective term.

Professional services generally are not essential to the functionality of the software. Our software products are fully functional upon delivery and implementation and do not require any significant modification or alteration. Customers purchase these professional services to facilitate the adoption of our technology and dedicate personnel to participate in the services being performed, but they may also decide to use their own resources or appoint other professional service organizations to provide these services. Software products are typically billed separately and independently from professional services, which are generally billed either on a time-and-materials or a milestone-achieved basis. We generally recognize revenue from professional services as the services are performed.

Capitalized Software Development

Software development costs incurred prior to establishing technological feasibility are charged to operations and included in product development costs. Software development costs incurred after

establishing technological feasibility, and purchased software costs, are capitalized and amortized on a product-by-product basis when the product is available for general release to customers. We establish technological feasibility when we have completed all planning, designing, coding and testing activities necessary to determine that the final product meets its design specifications, specifically when we have completed a detail program design and are ready to begin coding. Annual amortization, which is charged to selling and product materials, is the greater of (i) the amount computed using the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product, or (ii) the straight-line method over the remaining estimated economic life of the product. We amortize capitalized software development and purchased software costs using the straight-line method over the remaining estimated economic life of the product, generally three years.

LIQUIDITY AND CAPITAL RESOURCES

Our operating activities provided $744,000 of cash for the nine months ended September 30, 2002, compared to using $1.3 million for the same period in 2001. The significant items contributing to cash provided by operations for the nine months ended September 30, 2002 was a $784,000 decrease in accounts receivable and $2.7 million added back for depreciation and amortization, partially offset by a net loss of $2.4 million, a $159,000 decrease in accounts payable and other accrued liabilities and a $261,000 decrease in deferred revenue, due to lower invoiced maintenance and support revenue during the nine months ended September 30, 2002. Contributing to cash used in operations for the nine months ended September 30, 2001 was a net loss of $2.1 million, a $1.5 million decrease in accounts payable and accrued liabilities and $2.0 million in net cash used in discontinued operations, partially offset by a $1.5 million decrease in accounts receivable and $2.7 million for depreciation and amortization.

Net cash used in investing activities was $1.2 million for the nine months ended September 30, 2002, compared to using $834,000 for the same period in 2001. The increase in cash used in investing activities is attributed to a $319,000 increase in capital expenditures due to paying $340,000 related to the two source code license agreements discussed in Note 3 in the Notes to Condensed Consolidated Financial Statements, partially offset by a $21,000 decrease in other capital expenditures. In addition, we deposited $140,000 with our attorney in England to settle the cash portion of the purchase price for the Wizard acquisition upon closing on October 1, 2002 and paid $51,000 in transactions costs, and 2001 includes a $209,000 leasehold improvement refund received in the first quarter. Offsetting the increase in cash used in investing activities for the nine months ended September 30, 2002 was a decrease in capitalized software development costs of $387,000.

Net cash provided by financing activities was $306,000 for the nine months ended September 30, 2002, compared to net cash provided by financing activities of $2.8 million for the same period in 2001. During 2002, we paid $1.6 million related to our debt obligations, of which $1.1 million was for our revolving line of credit, partially offset by borrowings under our line of $965,000 and other borrowings of $139,000. In addition, we received $809,867 in net proceeds related to issuing 21,250 shares of our Series C-1 Preferred to SCP on September 30, 2002. Contributing to cash provided by financing activities during 2001 was $2.1 million in net proceeds related to issuing 53,750 shares of our Series C-1 Preferred, borrowing $1.7 million under our revolving line of credit and $584,000 in other borrowings, partially offset by $1.5 million in payments on our debt obligations.

Our working capital requirements for the nine months ended September 30, 2002 and 2001 have been funded through internally generated funds, net borrowings under our $3.0 million revolving Credit Facility and our Series C Preferred Stock equity financing arrangement with SCP. Details of the equity and debt financings are discussed below.

At September 30, 2002, $1,059,000 was outstanding under the Credit Facility and on September 30, 2002 we exercised our right to sell the remaining 21,250 shares of Series C-1 Preferred for net cash proceeds of $809,867. We are currently seeking to obtain additional equity financing for not less than $1.0 million necessary to help fund our ongoing operations and to comply with the terms and conditions of our Credit Facility. We believe such sources of funds will be sufficient to satisfy our operating and debt service cash needs for the foreseeable future, however, there can be no assurance that we

will be able to obtain sufficient funding on terms acceptable to us, if at all. If necessary, we will delay certain operating and capital expenditures until adequate financing is obtained. In the event we are unable to secure sufficient debt or equity financing and our cash flows from operations are not sufficient to meet future cash requirements, our operations would be materially adversely affected. Equity Financings

Equity Financings

On March 30, 2001, we entered into a Series C Preferred Stock Purchase Agreement with SCP whereby we issued through a private placement 37,500 shares of our Series C-1 Preferred and a warrant to purchase up to 75,000 shares of Series C-2 Preferred to SCP for $1.5 million. In addition, SCP committed to purchase an additional 37,500 shares of Series C-1 Preferred ("Option Stock") at $40 per share ($1.5 million) contingent upon specified monthly target provisions

through December 31, 2001.

On July 20, 2001, we exercised our right to sell 16,250 shares of the Option Stock to SCP. We received $635,596 in cash, net of transaction costs, in exchange for the shares.

On March 8, 2002, USDATA and SCP entered into a First Amendment to the Series C Preferred Stock Purchase Agreement (the "Agreement"). The Agreement extended the Option Stock exercise period to December 31, 2002, deleted the specified monthly target provisions and provided for additional warrant coverage equal to 50% of the remaining Option Stock, or 10,625 shares. All other terms of the original Series C Preferred Stock Purchase Agreement were unchanged. The Agreement was unanimously approved by the disinterested members of our Board of Directors on March 8, 2002.

On September 30, 2002, we exercised our right to sell the remaining 21,250 shares of the Option Stock to SCP. We received $809,867 in cash, net of transaction costs, in exchange for the shares. In accordance with the Agreement, we issued a warrant to SCP granting them the right to purchase up to 10,625 shares of Series C-2 Preferred at a purchase price of $40 per share. Currently, SCP has the right to purchase a total of 85,625 shares of our Series C-2 Preferred at a purchase price of $40 per share. As of September 30, 2002, 75,000 shares of Series C-1 Preferred are issued and outstanding and we have received $2.9 million, net of transaction costs, in total proceeds.

As of September 30, 2002, we have issued 50,000 shares of our Series A Convertible Preferred Stock ("Series A Preferred") with a liquidation preference of $100 per share, plus cumulative dividends; 265,000 shares of our Series B Convertible Preferred Stock ("Series B Preferred") with a liquidation preference of $100 per share, plus cumulative dividends; 75,000 shares of our Series C-1 Preferred with a liquidation preference of $80 per share, plus cumulative dividends; and a warrant for the purchase of 85,625 shares of our Series C-2 Preferred (and collectively, with the Series C-1 Preferred, the "Series C Preferred") with a liquidation preference of $120 per share, plus cumulative dividends.

The Series C Preferred ranks senior to all other classes and series of our capital stock with respect to dividend rights, rights on liquidation, dissolution and winding up, and the Series B Preferred ranks senior to the holders of the Series A Preferred with respect to dividend rights, rights on liquidation, dissolution and winding up. In the event of any liquidation, merger, acquisition, dissolution or winding up of USDATA, whether voluntary or involuntary, the preferred stockholders shall be entitled to preferential distribution of up to approximately $52.0 million in value, prior and in preference to any distribution of any of our assets or surplus funds to the holders of our common stock. For example on an as-converted basis, the holders of Series C Convertible Preferred Stock would be entitled to up to $16.0 million in value prior to any distribution to common stockholders, the holders of Series B Convertible Preferred Stock would be entitled to up to $30.0 million in value prior to any distribution to common stockholders, and the holders of Series A Convertible Preferred Stock would be entitled to up to $6.0 million in value prior to any distribution to common stockholders.

Debt Financings

On January 15, 2002, we renewed our revolving Credit Facility with JPMorgan Chase (the "Lending Bank"). The Credit Facility provides for $3.0 million in revolving credit availability through January 31, 2003 and bears interest at the prime rate plus 2.25% per annum, as amended. The Credit Facility has a commitment fee of 1.5% per annum on the total commitment of up to $3.0 million, is collateralized by certain of our foreign accounts receivable and is guaranteed by Export-Import Bank of the

United States for 90% of principal and interest. Availability under the Credit Facility is subject to a borrowing base calculation, which varies each month depending on billings and cash collections. In addition, we must be in compliance with certain debt covenants.

We were not in compliance with the tangible net worth debt covenant for the periods ended March 31, April 30, and May 31, 2002. In addition, we did not comply with the earnings before interest, taxes, depreciation and amortization ("EBITDA") debt covenant for the quarter ended March 31, 2002. On April 15, 2002 and on July 12, 2002, we received two separate waivers from the Lending Bank waiving these defaults under the Credit Facility. In connection with the waiver received on April 15, 2002, the interest rate under the facility increased by 75 basis points from the prime rate plus 1.5% per annum to the prime rate plus 2.25% per annum. On July 12, 2002, the Lending Bank amended both debt covenants going forward beginning in June 2002 to be consistent with our most recent business plan. As a result, we complied with both debt covenants as of June 30, 2002. However, due to lower than expected revenue for the third quarter ended September 30, 2002, we were not in compliance with the EBITDA debt covenant for the third quarter of 2002. On October 24, 2002, we received a third waiver from the Lending Bank waiving this default under the Credit Facility.

At September 30, 2002 and December 31, 2001, $1,059,000 and $1,145,000, respectively, were drawn under the Credit Facility and are included in current liabilities. Based on the qualifying borrowing base arrangement under the Credit Facility, total availability at September 30, 2002 was $557,000 therefore we were overdrawn by $502,000. As a result, on October 1, 2002 and October 22, 2002, we paid $318,000 and $184,000, respectively; down on the line and on October 29, 2002, we borrowed $164,000 based on the qualifying base on that date. At October 31, 2002, $721,000 was borrowed under the line and based on the qualifying borrowing base arrangement on that date, total remaining availability was $58,000.

Pursuant to the Export Loan Agreement (the "Loan Agreement"), which governs the Credit Facility between USDATA and the Lending Bank, USDATA will not without the prior written consent of the Lending Bank (a) merge, consolidate or otherwise combine with any other entity; (b) acquire all or substantially all of the assets or capital stock of any other entity; (c) make any material changes in its organizational structure or identity; or (d) enter into any agreement to do any of the foregoing. We requested that the Lending Bank consent to the acquisition of Wizard and waive the foregoing covenants insofar as they prohibit the acquisition. On October 1, 2002, we received a Conditional Consent and Waiver from the Lending Bank, subject to the following new debt covenants: (a) USDATA shall have entered into a binding agreement to receive new equity financing for not less than $1.0 million, on terms and conditions acceptable to the Lending Bank, on or before October 31, 2002 and (b) USDATA shall receive the funds from the new equity financing on or before November 15, 2002. On November 10, 2002, the foregoing deadlines were extended as follows: USDATA has until December 31, 2002 to obtain a binding commitment to obtain new equity financing, and we shall receive the funds no later than January 15, 2003.

The following table summarizes our contractual obligations related to debt, capital leases and operating leases at September 30, 2002:

(in thousands)	Commitment Per Period

	Total	2002	2003	2004	Thereafter
Revolving line of credit	$ 1,059	$1,059	$ --	$ --	$ --
Long-term debt and other debt	657	229	357	71	--
Capital leases	184	15	62	64	43
Operating leases	7,045	204	812	818	5,211
	$ 8,945	$1,507	$1,231	$ 953	$ 5,254

International Operations

Our international revenues represented approximately 67% of our total revenue during 2001. For the nine months ended September 30, 2002, approximately 66% of total revenues were derived from our international customers. Revenues from international operations are subject to various political and economic risks including, but not limited to, the following: political instability; economic instability; currency controls; currency devaluations; exchange rate fluctuations; potentially unstable channels of

distribution; increased credit risks; export control laws that might limit the markets we can enter; inflation; changes in laws related to foreign ownership of businesses abroad; foreign tax laws; trade disputes among nations; changes in cost of capital; changes in import/export regulations, including enforcement policies; "gray market" resales; tariffs and freight rates. Such risks and other factors beyond our control in any nation where we conduct business could have a material adverse effect on our operations.

NASDAQ COMPLIANCE NOTICES

On February 14, 2002, we received a letter from The Nasdaq Stock Market notifying us that over the previous 30 consecutive trading days, our common stock had not maintained a minimum market value of publicly held shares ("MVPHS") of $5.0 million as required for continued listing on The Nasdaq National Market under Marketplace Rule 4450(a)(2) (the "Rule"). In accordance with Nasdaq Marketplace Rule 4450(e)(1), we were provided 90 calendar days, or until May 15, 2002, to regain compliance.

As of May 8, 2002, we had not regained compliance with the Rule and applied to transfer our securities to The Nasdaq SmallCap Market. On June 11, 2002, our application was approved and our securities were transferred to The Nasdaq SmallCap Market at the opening of business on June 12, 2002.

On July 23, 2002, we received a notice from The Nasdaq SmallCap Market that for the last 30 consecutive trading days, the price of our common stock had closed below the minimum $1.00 per share requirement for continued inclusion under Marketplace Rule 4310(c)(4). In accordance with Marketplace Rule 4310(c)(8)(D), we have 180 days, or until January 21, 2003, to regain compliance. If, at anytime before January 21, 2003 our common stock closes at $1.00 per share or more for a minimum of 10 consecutive trading days, we will have regained compliance. On September 10, 2002, we received notice from The Nasdaq SmallCap Market that the closing bid price of our common stock has been at $1.00 per share or greater for at least 10 consecutive trading days. Accordingly, we have regained compliance with the minimum $1.00 per share

requirement. There can be no assurance that we will be able to continue compliance with this listing requirement in the future.

RECENT ACCOUNTING PRONOUNCEMENTS

On June 30, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") Nos. 141 and 142, "Business Combinations" and "Goodwill and Other Intangible Assets," respectively. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. SFAS 142 requires that ratable amortization of goodwill be replaced with periodic fair-value based tests of the goodwill's impairment and that intangible assets other than goodwill be amortized over their useful lives. Additionally, under the provision of the new accounting standard, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so. SFAS 141 is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method for which the date of acquisition is after June 30, 2001. The provisions of SFAS 142 are effective for fiscal years beginning after December 15, 2001, and we have adopted the provisions, as required, in fiscal year 2002. Adoption of SFAS No. 141 and No. 142 did not have a material impact on our consolidated results of operations or financial position for the periods ended September 30, 2002 or 2001.

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. Statement No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the

carrying amount of the liability, we will recognize a gain or loss on settlement. We are required to adopt the provisions of Statement No. 143 no later than the beginning of fiscal year 2003, with early adoption permitted. We will adopt this statement for fiscal year 2003 and do not expect its adoption to have a material effect on our consolidated results of operations or financial position.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", it retains many of the fundamental provisions of that Statement. Statement No. 144 became effective for fiscal years beginning after December 15, 2001. Adoption of this statement did not have a material effect on our consolidated results of operations or financial position for the periods ended September 30, 2002 and 2001.

In April 2002, the FASB issued Statement No. 145, "Revision of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Statement No. 145 rescinds Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and an amendment of Statement No. 4, Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Statement No. 145 also rescinds Statement No. 44, "Accounting for Intangible Assets of Motor Carriers". Statement No. 145 amends Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic affects that are similar to sale-leaseback transactions. Statement No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Under Statement No. 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Statement No. 145 eliminates Statement No. 4, and, thus the exception to applying Opinion 30 to all gains and losses related to extinguishments of debt (other than extinguishments of debt to satisfy sinking-fund requirements). As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Opinion 30. Applying the provisions of Opinion 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. Statement No. 145 becomes effective for fiscal years beginning after May 15, 2002, with early applications encouraged. Adoption of this statement is not expected to have a material effect on our consolidated results of operations or financial position.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities. Adoption of this statement is required for exit or disposal activities initiated after December 31, 2002, with earlier application encouraged. The adoption of this statement is not expected to have a material effect on the Company's financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk associated with changes in interest rates relates to our variable rate bank note payable of $80,000 and our revolving line of credit of with a current outstanding balance of $1,059,000. Interest rate risk is estimated as the potential impact on our results of operations or financial position due to a hypothetical change of 50 basis points in quoted market prices. This hypothetical change would not have a material effect on our results of operations and financial position.

A significant portion of our revenues is derived from foreign operations (approximately 67% as of December 31, 2001 and approximately 70% as of September 30, 2002). We primarily invoice and collect in U.S. dollars; therefore, we are not exposed to any significant market risk relating to currency rates.

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ITEM 4. CONTROLS AND PROCEDURES

An evaluation of the effectiveness of the design and operation of our

disclosure controls and procedures as of November 14, 2002 was conducted under the supervision and with the participation of our management, including our chief executive officer and chief financial officer. Based on that evaluation, our management, including our chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective as of November 14, 2002. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to November 14, 2002.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits (filed as part of this report).

99.1 Certificate of Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002.

99.2 Certificate of Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002.

(b) Reports on Form 8-K

None.

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SIGNATURES

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

USDATA CORPORATION

Date: November 14, 2002

/s/ James E. Fleet

James E. Fleet
Interim President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 14, 2002

/s/ Jennifer P. Dooley

Jennifer P. Dooley
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, James E. Fleet, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USDATA Corporation;

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

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we 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 us by others within those entities, particularly during the period in which this quarterly 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 quarterly report (the "Evaluation Date"); and

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

5. The registrant's other certifying officers and I have disclosed, based on our 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. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ JAMES E. FLEET

James E. Fleet
Interim Chief Executive Officer
(Principal Executive Officer)

I, Jennifer P. Dooley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USDATA Corporation;

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

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we 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 us by others within those entities, particularly during the period in which this quarterly 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 quarterly report (the "Evaluation Date"); and

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

5. The registrant's other certifying officers and I have disclosed, based on our 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. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ JENNIFER P. DOOLEY

Jennifer P. Dooley
Chief Financial Officer (Principal

Financial Officer)

EXHIBIT INDEX

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