USDATA CORP
Form 10-Q
May 15, 2003

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 March 31, 2003

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 May 14, 2003

Class	Number of Shares Outstanding
Common Stock, Par Value $.01 Per Share	3,708,518 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 MARCH 31, 2003

TABLE OF CONTENTS

			Page Number
PART I. FINANCIAL INFORMATION			
	Item 1.	Financial Statements	
		Unaudited Condensed Consolidated Balance Sheets as of March 31, 2003 and December 31, 2002	3
		Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three Months Ended March 31, 2003 and 2002	4
		Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2003 and 2002	5
		Notes to Unaudited Condensed Consolidated Financial Statements	6
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk	19
	Item 4.	Controls and Procedures	19
PART II. OTHER INFORMATION			
	Item 6.	Exhibits and Reports on Form 8-K	20
	Signatures		21
	Certifications		22

USDATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	MARC 2
ASSETS	
Current assets:	
Cash and cash equivalents	$
Accounts receivable, net of allowance for doubtful accounts of $108 and $82, respectively	
Other current assets	
Total current assets	
Property and equipment, net	
Computer software development costs, net	
Software held for resale, net	
Customer relationships, net	
Other assets	
Total assets	$
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$
Deferred revenue	
Accrued compensation and benefits	
Notes payable and current portion of long-term debt	
Other accrued liabilities	
Net liabilities of discontinued operation	
Total current liabilities	
Other noncurrent liabilities	
Long-term debt, less current portion	
Total liabilities	
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 2003 and 2002	
Series B cumulative convertible preferred stock; $.01 par value; liquidation preference $100 per share; 800,000 shares authorized; 281,800 shares issued and outstanding in 2003 and 2002	
Series C-1 cumulative convertible preferred stock; $.01 par value; liquidation preference $80 per share; 125,000 shares authorized; 112,500 shares issued and outstanding in 2003 and 75,000 shares issued and outstanding in 2002	
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 2003 and 2002
Common stock, $.01 par value, 40,000,000 shares authorized;
4,104,810 shares issued in 2003 and 3,485,624 shares issued in 2002
Additional paid-in capital
Deferred stock compensation
Accumulated deficit (
Treasury stock at cost, 396,292 shares in 2003 and 2002
Accumulated other comprehensive loss

Total stockholders' equity

Total liabilities and stockholders' equity $

See accompanying notes to unaudited condensed consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
Revenues:		
Product license	$ 2,541	$ 2,146
Services	621	456
Total revenues	3,162	2,602
Operating expenses:		
Selling and product materials	1,481	1,300
Product development	328	325
General and administrative	1,021	683
Depreciation and amortization	935	805
Restructuring and other charges	--	356
Total operating expenses	3,765	3,469
Loss from operations	(603)	(867)
Interest expense	(18)	(32)
Other income, net	5	7
Net loss	(616)	(892)
Dividends on preferred stock, preferred stock warrant and beneficial conversion	(4,089)	(684)
Net loss applicable to common stockholders	$ (4,705)	$ (1,576)

Net loss per common share:		
Basic and diluted	$ (1.30)	$ (0.56)
Comprehensive loss:		
Net loss	$ (616)	$ (892)
Foreign currency translation adjustment	(39)	(17)
Comprehensive loss	$ (655)	$ (909)
Weighted average shares outstanding: {a}		
Basic and diluted	3,612	2,836

{a} As of March 31, 2003, total shares outstanding on an as converted basis was 9,981,000 shares,

See accompanying notes to unaudited condensed consolidated financial statements.

4

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

	THREE MON MARC
	2003
Cash flows from operating activities:	
Net loss	$ (616)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Furniture and equipment transfer in lease negotiation	--
Depreciation and amortization	935
Non-cash stock compensation	157
Exchange of source code for note payable (see Note 3)	(512)
Changes in operating assets and liabilities:	
Accounts receivable, net	32
Other assets, net	(86)
Accounts payable and other accrued liabilities	(296)
Accrued compensation and benefits	(93)
Deferred revenue	(109)
Net cash provided by (used in) continuing operations	(588)
Net cash used in discontinued operations	--
Net cash provided by (used in) operating activities	(588)
Cash flows from investing activities:	
Capital expenditures	(14)

Capitalized software development costs	--
Net cash used in investing activities	(14)
Cash flows from financing activities:	
Proceeds from issuance of preferred and common stock, net	1,466
Other borrowings	--
Payments on revolving line of credit and debt	(203)
Net cash provided by (used in) financing activities	1,263
Net increase (decrease) in cash and cash equivalents	661
Cash and cash equivalents, beginning of period	978
Cash and cash equivalents, end of period	$ 1,639
Supplemental disclosures of non-cash operating, investing and financing activities:	
Exchange of source code for note payable (see Note 3)	$ (512)
Accrued liability related to software held for resale	$ --
Furniture and equipment transfer in lease negotiation	$ --

See accompanying notes to unaudited condensed consolidated financial statements.

USDATA CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements of USDATA and our subsidiaries for the three month periods ended March 31, 2003 and 2002 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, 2002. 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 March 31, 2003 and the consolidated results of our operations and comprehensive loss, and cash flows for the three month periods ended March 31, 2003 and 2002. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. Certain prior period balances have been reclassified to conform to the current year presentation.

Based upon anticipated levels of operations, we anticipate that our ongoing working capital requirements will continue to be funded through internally generated funds, our net borrowings from our working capital line of credit and the $1.5 million equity financing we received on January 15, 2003. We anticipate that such sources of funds will be sufficient to satisfy our operating and debt service cash needs throughout 2003 and for the foreseeable

future; however there can be no assurance that these funds will be sufficient. Our working capital line of credit requires us to maintain compliance with certain financial covenants each quarter. Certain of these covenants require us to maintain increasingly higher amounts of earnings before interest, taxes, depreciation and amortization ("EBITDA") and tangible net worth during 2003. In order to meet such requirements throughout 2003, we will be required to achieve sales levels, which are above those that have currently been attained. There is no assurance we will be able to reach such sales levels and maintain compliance with the financial covenants contained in the working capital line of credit. Based on the conditional financing arrangements of our working capital line of credit, there can be no assurance we will be able to obtain any additional funding on acceptable terms, if at all. In the event of a default under our working capital line and in the event the lending bank does not waive the default, our operations could be materially adversely affected. In that event, we would be required to delay or abandon certain operating activities and capital expenditures, which would further adversely affect our operations.

STOCK BASED COMPENSATION

We apply the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations, in accounting for stock options and other stock based awards under our stock option plan. The difference between the quoted market price as of the date of the grant and the contractual purchase price of shares is charged to operations over the vesting period. No compensation cost has been recognized for fixed stock options with exercise prices equal to the market price of the stock on the dates of grant and shares acquired by employees under the USDATA 1994 Equity Compensation Plan. Pro forma net income and earnings per share disclosures as if we recorded compensation expense based on the fair value for stock-based awards have been presented in accordance with the provisions of SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, and are as follows for the three month periods ended March 31, 2003 and 2002:

	Three Mont March
(in thousands, except per share data)	2003
Net loss:	
As reported	$ (4,705)
Stock-based employee compensation cost included in reported net income, net of related tax effects	33
Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(133)
Proforma net loss	$ (4,805)
Basic and diluted net loss per common share	
As reported	$ (1.30)
Pro forma	$ (1.33)

USDATA CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which requires that the fair value of the 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 associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. We adopted this statement on January 1, 2003. The adoption of SFAS No. 143 did not have any material effect on our consolidated results of operations or financial position.

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. We adopted this statement on January 1, 2003. The adoption of this statement did not have a material effect on our consolidated results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We do not expect FIN 46 to have a material effect on our financial condition or results of operations.

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 reflect 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 244,608 and 445,180 shares of common stock for 2003 and 2002, respectively, were not included in the computation of diluted earnings per share as their inclusion 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 3,701,626 shares and 2,326,105 shares of common stock for 2003 and 2002, respectively. In addition, warrants to purchase Series C-1 Preferred Stock and Series C-2 Preferred Stock, which are convertible

into an aggregate of 2,197,500 shares of common stock for 2003 and 1,500,000 shares of common stock for 2002 and warrants to purchase 293,902 shares of common stock were not included in the computation of diluted earnings per share as their inclusion would be antidilutive.

USDATA CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. NOTES PAYABLE AND CURRENT PORTION OF LONG-TERM DEBT

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). The Credit Facility originated on January 15, 2001 and on January 15, 2002, it was amended to extend the Credit Facility to January 31, 2003 and increase the commitment fee from 1.0% to 1.5% per annum on the total commitment of up to $3.0 million. Effective January 31, 2003, we renewed the Credit Facility through January 31, 2004, increased the interest rate to the prime rate plus 3.0% and increased the commitment fee from 1.5% to 2.0% per annum on the total commitment of up to $3.0 million. At March 31, 2003, the interest rate was 5.75%. The Credit Facility is collateralized by certain of our foreign accounts receivable, and is guaranteed by Export-Import Bank of the United States ("EXIM Bank"). EXIM Bank guarantees 90% of the principal and interest. At March 31, 2003 and December 31, 2002, $622,000 and $663,000, respectively, was borrowed under the Credit Facility and is included in current liabilities. Based on the qualifying borrowing base arrangement, total remaining availability at March 31, 2003 and December 31, 2002 was $88,000 and $97,000, respectively. Due to the nature of the qualifying borrowing base arrangement, our borrowing capability varies each month depending on billings and cash collections.

In December 2000, we entered into a development and commercialization agreement with an OEM and one of our customers. On May 11, 2001, the agreement was amended to include a loan agreement ("Loan") between a wholly-owned subsidiary of USDATA and the OEM in connection with a coordinated development program to co-develop what was to be the next major release of our software product FactoryLink(R), or S2K. During 2001, the OEM advanced to USDATA $467,500 in three separate advances. The Loan bears interest at 10.5% per annum and is repayable in eight equal quarterly installments of principal and interest with the first installment due on April 15, 2002. In October 2002, we contacted the OEM and requested delaying the loan payments, as a result of their significantly lower than forecasted purchases from USDATA. A key provision of the development and commercialization agreement was that our software products were to be a preferred solution of the OEM and that they were to actively promote and sell our software products. On March 17, 2003, we entered into an amendment to the development and commercialization agreement, whereby USDATA granted to the OEM a license to the S2K source code as it existed on that date in satisfaction of the $446,000 outstanding balance of the Loan, accrued interest of $33,000 and accrued royalties of $61,000, partially offset by satisfaction of the $14,000 outstanding accounts receivable from the OEM, in exchange for the source code. USDATA retains the intellectual property rights to the existing S2K software product. In addition, we have an obligation to provide 192 hours of support over the next twelve months. The net settlement of $526,000 less $14,000 deferred revenue related to our support obligation is included in software license revenue for the three-month period ended March 31, 2003.

4. SERIES C PREFERRED STOCK PURCHASE AGREEMENT

On January 14, 2003, we entered into a Series C Preferred Stock Purchase Agreement with SCP Private Equity Partners II, L.P. ("SCP"), pursuant to which SCP acquired on January 15, 2003, for an aggregate purchase price of $1.5 million, (1) 37,500 shares of Series C-1 Preferred; (2) a warrant to purchase 18,750 shares of Series C-2 Preferred at an initial exercise price of $40.00 per shares, subject to adjustment upon the occurrence of certain events; and (3) 619,186 shares of USDATA common stock. We received $1.5 million in cash, net of transaction costs. As of March 31, 2003, SCP beneficially owned approximately 74% of our common stock.

5. NON-CASH STOCK COMPENSATION

We entered into an agreement with Phoenix Management Services, Inc. ("Phoenix") on October 24, 2002 to provide us with an interim chief executive officer at a fixed fee of $35,000 per month and performance incentives comprised of warrants to purchase 5,000 shares of our Series C-1 Preferred Stock ("Series C-1 Preferred") and 5,000 shares of our Series C-2 Preferred Stock ("Series C-2 Preferred") at an exercise price of $40.00 per share.

As long as Phoenix's engagement has not been terminated prior to the following dates, the warrants are deemed earned according to the following schedule: 1) 1,500 C-1 shares on January 15, 2003, 2) 1,500 C-1 shares and 2,500 C-2 shares on February 1, 2003, and 3) 2,000 C-1 shares and 2,500 C-2 shares on May 1, 2003. The warrants are exercisable for 10 years. We have recorded $113,000 of non-cash stock compensation during the three months ended March 31, 2003 related to these warrants. The compensation cost represents the fair value of warrants earned during the period determined using a Black Scholes option pricing model with the following assumptions: dividend yield of 0%, volatility of 150%, risk free interest rates of 3.96% to 4.01%, and contractual lives of 10 years.

Non-cash stock compensation also includes $33,000 during the three months ended March 31, 2003 related to retention shares and performance shares granted in connection with the October 1, 2002 acquisition of Wizard Information Systems Limited.

6. NASDAQ COMPLIANCE NOTICES

On November 12, 2002, we received a notice from The Nasdaq SmallCap Market ("Nasdaq") that for the then 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 had 180 days, or until May 12, 2003, to regain compliance. As of May 12, 2003, the bid price of our common stock had not closed at $1.00 per share or more; therefore, we have not regained compliance with Marketplace Rule 4310(c)(8)(D).

On April 21, 2003, we received a letter from Nasdaq notifying us that we do not comply with Marketplace Rule 4310(c)(2)(B) the ("Rule"), which requires companies listed on Nasdaq to have a minimum of $2.5 million in

stockholders' equity, or $35.0 million market value of listed securities, or $500,000 of net income from continuing operations for the most recently completed fiscal year or two of the three most recently completed fiscal years. Based on our Annual Report on Form 10K for the year ended December 31, 2002, we did not meet any of the three requirements under the Rule.

Based on not meeting the minimum $1.00 per share requirement for continued listing and based on not meeting the minimum requirements under the Rule described above, we expect to get written notification in the second quarter of 2003 and we expect our securities will be delisted from Nasdaq. Trading of our stock will then be conducted on an electronic bulletin board established for securities that do not meet the Nasdaq listing requirement or in quotations published by the National Quotation Bureau, Inc. that are commonly referred to as the "pink sheets". As a result it could be more difficult to sell, or obtain an accurate quotation as to the price of our common stock.

USDATA CORPORATION AND SUBSIDIARIES

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

OVERVIEW

USDATA is an independent, global supplier of industrial automation software tools, applications and consulting services designed to provide businesses with the knowledge and control needed to perfect the products they produce and the processes they manage. During the 1980s, USDATA evolved its software research and engineering to focus on supervisory control and data acquisition ("SCADA"). As a result, we developed FactoryLink(R), our main industrial automation software product, which has become one of the manufacturing and process industry's most widely used automation products. FactoryLink(R) was launched in 1986 and to date has shipped more than 79,000 copies to more than 110 countries around the world.

As manufacturing continued to evolve, so did the need to create new solutions that would assist companies to better manage their production processes. In 1998, we launched Xfactory(R). Building on its expertise on the shop floor, our Xfactory(R) product is designed to track all aspects of discrete manufacturing production in real time. Xfactory(R) maintains historically accurate records, provides defect tracking, and complete product genealogy. Data gathered and analyzed by this powerful product gives companies the insight needed to improve production performance and meet the changing requirements of customers dynamically, while generating enhanced competitive advantage.

FactoryLink(R) is a process knowledge and control solution used to develop custom SCADA and human machine interface ("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. In 2000, we released FactoryLink(R) 7, which is designed to have a lower total cost of ownership than other SCADA/HMI products on the market and in April 2001 we released FactoryLink(R)++, which enhanced the core product with some ease-of-use features and redundancy for seamless application fail over. In January 2003, we announced our release of FactoryLink(R) 7.1, which utilizes Microsoft.NET Framework technology to provide enhanced connectivity and ease-of-use in implementing distributed systems in Windows XP and Windows 2000 operating environments.

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 information of the production process, defect tracking, and complete product genealogy. 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 our worldwide release of the 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.

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 20% and 18% of revenues during the three months ended March 31, 2003 and 2002, respectively.

We focus our sales efforts through selected distributors capable of providing the level of support and expertise required in the industrial automation market, systems integrators, OEM's and end customers. We have channel support locations in the United States and Europe and we have a global network of distribution and support partners. Our distributors have sales locations throughout North and South America, Europe, Asia Pacific and the Middle East.

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, 2002 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 MARCH 31,	
	2003	2002
Revenues:		
Product license	80%	82%
Services	20%	18%
Total revenues	100%	100%
Operating expenses:		
Selling and product materials	47%	50%
Product development	10%	12%
General and administrative	32%	26%
Depreciation and amortization	30%	31%
Restructuring and other charges	0%	14%
Total operating expenses	119%	133%

Loss from operations	(19)%	(33)%
Interest expense	0%	(1)%
Other income, net	0%	0%
Net loss	(19)%	(34)%
Dividends on prefered stock, preferred stock warrant and beneficial conversion	(129)%	(26)%
Net loss applicable to common stockholders	(148)%	(60)%

Comparison of Three Months Ended March 31, 2003 and 2002

Total revenues for the three months ended March 31, 2003 were $3.2 million, an increase of $560,000 when compared to $2.6 million in revenues for the same period in 2002. Product license revenue was $2.5 million and services revenue was $621,000. Wizard Information Systems, Inc. ("Wizard"), our distributor acquired on October 1, 2002, contributed $559,000 to product license revenue and $288,000 to services revenue during the first quarter of 2003. Included in product license revenue for the three months ended March 31, 2003 was $512,000 related to granting a source code license to an OEM in satisfaction of a loan, accrued interest and accrued royalties owed to the OEM. See Note 3 in the Unaudited Notes to Condensed Consolidated Financial Statements for details. Product license revenue excluding the source code license grant was $2.0 million, a $117,000 decrease when compared to $2.1 million for the three months ended March 31, 2002.

Selling and product materials expenses for the three months ended March 31, 2003 were $1.5 million, an increase of $181,000 when compared to $1.3 million for the same period in 2002. The increase is due to $459,000 in selling and product materials expenses from Wizard offset by an $87,000 decrease in sales expenses and a $191,000 decrease in variable cost of sales. The decrease in variable cost of sales is primarily attributed to the two source code license agreements entered into by USDATA in the first and second quarters of 2002, which eliminated the royalty expense related to these source code purchases. Selling and product materials expenses as a percentage of revenues decreased to 47% for the three months ended March 31, 2003 from 50% for the same period in 2002.

Product development expenses for the three months ended March 31, 2003, net of amounts capitalized, were $328,000 compared to $325,000 for the same period in 2002. Product development expenses consist primarily of labor costs. We did not capitalize product development costs during the first quarter of 2003, as there were no projects in development for the three months ended March 31, 2003 that had progressed to the stage of technological feasibility. We capitalized $251,000 of development costs

during the first quarter of 2002 primarily related to product development cost for SCADA2Knowledge ("S2K"). During the fourth quarter of 2002, we determined that the carrying amount of the capitalized software developments costs for S2K were not recoverable, and as a result, we wrote off the entire balance of $3.3 million in December 2002. Net product development expenses as a percentage of revenues decreased to 10% for the three months ended March 31, 2003 from 12% for the same period in 2002. Gross product development expenses as a percentage of revenues decreased to 10% for the three months ended March 31, 2003 from 22% for

the same period in 2002.

General and administrative expenses for the three months ended March 31, 2003 were $1.0 million, an increase of $338,000 when compared to $683,000 for the same period in 2002. The increase in general and administrative expenses is primarily due to including $163,000 in general and administrative expenses from Wizard and due to including non-cash stock compensation expense of $33,000 in connection with the acquisition of Wizard and $113,000 in connection with the engagement of Phoenix Management Services, Inc. ("Phoenix"). See below for a complete description of the non-cash stock compensation expenses. General and administrative expenses as a percentage of revenues increased to 32% for the three months ended March 31, 2003 from 26% for the same period in 2002.

In connection with the acquisition of Wizard the sellers are entitled to receive additional common stock and Series B Preferred Stock as follows: (i) a maximum of 257,544 shares of unregistered USDATA common stock and 19,600 shares of Series B Preferred ("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 USDATA common stock and 19,600 shares of Series B Preferred ("Retention Shares") contingent upon continued employment with Wizard for three years, under the terms and conditions of an Executive Service Agreement entered into by and among Wizard and the Sellers. The Performance Shares and Retention Shares, if earned, shall be granted in equal installments on each of the first three anniversaries of the Completion Date; and, to the extent not yet granted, shall be forfeited in the event that the Seller's employment with USDATA terminates as set forth in the Acquisition Agreement. The Performance Shares and Retention Shares, if earned, will be recognized as non-cash compensation expense in our statement of operations. We recorded $33,000 in non-cash stock compensation in connection with the earned portion of the Retention Shares and Performance shares during the three months ended March 31, 2003.

Effective October 29, 2002, our board of directors appointed an interim president and chief executive officer for USDATA to serve until such time as a permanent president and chief executive officer is selected. Our interim president and chief executive officer is with Phoenix, an operationally focused turnaround management firm headquartered in Philadelphia, Pennsylvania. Pursuant to an engagement letter between Phoenix and USDATA, Phoenix shall receive $35,000 per month, plus expenses. In addition, Phoenix shall be granted warrants to purchase up to 5,000 shares of our Series C-1 Preferred Stock and 5,000 shares of our Series C-2 Preferred Stock, all of which were be granted by May 1, 2003. In February 2003, we issued warrants to purchase 3,000 shares of Series C-1 Preferred Stock and 2,500 shares of Series C-2 Preferred Stock (see Note 5 in the Notes to the Unaudited Condensed Consolidated Financial Statements. Warrants to purchase the remaining 2,000 shares of Series C-1 Preferred Stock and 2,500 shares of Series C-2 Preferred Stock were issued on May 1, 2003. We recorded $113,000 in non-cash compensation expense in connection with the earned portion of the warrants for the three months ended March 31, 2003.

Depreciation and amortization expenses for the three months ended March 31, 2003 were $935,000, an increase of $130,000 when compared to $805,000 for the same period in 2002. The increase is due to 2003 including $120,000 amortization expense for customer relationships in connection with the acquisition of Wizard and a $112,000 increase in amortization expense related to the two source code license agreements entered into by USDATA in the first and second quarters of 2002. This is offset by a $102,000 decrease in depreciation expense due to computer equipment being fully depreciated.

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.

As a result of the factors discussed above, we recorded a loss from operations of $603,000 for the three months ended March 31, 2003, compared to a loss from operations of $867,000 for the same period in 2002.

CRITICAL ACCOUNTING POLICIES

Our discussions and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. In preparing our financial statements, management is required to make estimates, assumptions and judgments, that, among other things, affect the reported amounts of assets and liabilities, of revenues and expenses and disclosures of contingent assets and liabilities as of the date of the financial statements. 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. We use authoritative pronouncements, historical experience and other assumptions as the basis for making estimates. Actual results could differ from those estimates. The following is a brief discussion of the more critical accounting policies and methods that we use in the preparation of our consolidated financial statements.

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, software development costs, software held for resale, customer relationships 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 three years ended December 31, 2002, we did not experience significant charges to bad debt expense; however, 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 March 31, 2003 was $108,000 or approximately 4% of total accounts receivable.

Management assesses the recoverability of property and equipment and intangible assets (capitalized software development costs, software held for resale and customer relationships) 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, Modification of SOP 97-2, With Respect to Certain Transactions ("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 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

We used $588,000 in cash from our operating activities for the three months ended March 31, 2003 compared to our operating activities providing $590,000 in cash for the same period in 2002. For the three months ended March 31, 2003, our net loss was $616,000, accounts payable and other accrued liabilities decreased $296,000, accrued compensation decreased $93,000, deferred revenue decreased $109,000 and other assets decreased $86,000. In addition, we reduced cash from operating activities by the $512,000 in non-cash stock compensation. This is offset by a $32,000 decrease in accounts receivable and adding back $935,000 in depreciation and amortization and $157,000 in non-cash stock compensation. Contributing to cash provided by operations during the first quarter of 2002 was a $630,000 decrease in accounts receivable and a $100,000 increase in accounts payable, partially offset by a $92,000 decrease in other assets and $26,000 net cash used in discontinued operations

Net cash used in investing activities was $14,000 for the three months ended March 31, 2003 compared to using $262,000 for the same period in 2002. The decrease in cash used in investing activities is primarily attributed to a $251,000 decrease in capitalized software development costs.

Net cash provided by financing activities was $1.3 million for the three months ended March 31, 2003, compared to net cash used in financing activities of $506,000 for the same period in 2002. During 2003, we received $1.5 million in net proceeds related to issuing 37,500 shares of our Series C-1 Preferred to SCP Private Equity Partners II, L.P. ("SCP") on January 15, 2003. In addition, we paid $203,000 related to our debt obligations, of which $41,000 was for our working capital line of credit. Contributing to cash used in financing activities during 2002 was $655,000 in cash payments for our debt obligations, of which $333,000 related to our working capital line of credit, partially offset by other borrowing of $138,000 and $11,000 in proceeds from issuance of our common stock.

Our working capital requirements over the past 15 months have been funded through internally generated funds, net borrowings under our $3.0 million working capital line of credit and our equity financings from SCP. The details of these financing arrangements are described below.

16

Equity Financings

On March 8, 2002, USDATA and SCP entered into a First Amendment to the Series C Preferred Stock Purchase Agreement (the "Agreement") dated March 30, 2001. The Agreement extended the period in which USDATA could exercise its right to sell the remaining 21,250 shares of Series C-1 Preferred Stock ("Series C-1 Preferred") 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 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 104,375 shares of our Series C-2 Preferred at a purchase price of $40 per share.

On January 14, 2003, USDATA and SCP entered into a Series C Preferred Stock Purchase Agreement, pursuant to which SCP acquired on January 15, 2003, for an aggregate purchase price of $1.5 million, (1) 37,500 shares of Series C-1 Preferred; (2) a warrant to purchase 18,750 shares of Series C-2 Preferred at an initial exercise price of $40.00 per shares, subject to adjustment upon the occurrence of certain events; and (3) 619,186 shares of USDATA common stock. We received $1.486 million in cash, net of transaction costs.

For the three and fifteen months ended March 31, 2003, we have received $1.5 million and $2.3 million in cash, net of transaction costs, in total equity financing proceeds.

As of March 31, 2003, we have issued 50,000 shares of our Series A Preferred with a liquidation preference of $100 per share, plus cumulative dividends; 281,800 shares of our Series B Preferred with a liquidation preference of $100 per share, plus cumulative dividends; 112,500 shares of our Series C-1 Preferred with a liquidation preference of $80 per share, plus cumulative dividends; and four warrants for the purchase of 106,875 shares of our Series C-2 Preferred with a liquidation preference of $120 per share, plus cumulative dividends.

The Series C-1 and C-2 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 $56.2 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-1 Preferred and C-2 Preferred would be entitled to up to $17.7 million in value prior to any distribution to common stockholders, Series A Preferred stockholders and Series B Preferred stockholders, the holders of Series B Preferred would be entitled to up to $32.2 million in value prior to any distribution to common stockholders and Series A Preferred stockholders, and the holders of Series A Preferred would be entitled to up to $6.3 million in value prior to any distribution to common stockholders.

Debt Financings

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). The Credit Facility originated on January 15, 2001 and on January 15, 2002, it was amended to extend the Credit Facility to January 31, 2003 and increase the commitment fee from 1.0% to 1.5% per annum on the total commitment of up to $3.0 million. Effective January 31, 2003, we renewed the Credit Facility through January 31, 2004, increased the interest rate to the prime rate plus 3.0% and increased the commitment fee from

1.5% to 2.0% per annum on the total commitment of up to $3.0 million. At March 31, 2003, the interest rate was 5.75%. The Credit Facility is collateralized by certain of our foreign accounts receivable,

and is guaranteed by Export-Import Bank of the United States ("EXIM Bank"). EXIM Bank guarantees 90% of the principal and interest. At March 31, 2003 and December 31, 2002, $622,000 and $663,000, respectively, was borrowed under the Credit Facility and is included in current liabilities. Based on the qualifying borrowing base arrangement, total remaining availability at March 31, 2003 and December 31, 2002 was $88,000 and $97,000, respectively. Due to the nature of the qualifying borrowing base arrangement, our borrowing capability varies each month depending on billings and cash collections.

The EBITDA and tangible net worth covenants to be met for the first, second, third and fourth quarters of 2003, respectively, are as follows: (a) EBITDA - ($564) thousand, ($50) thousand, ($25) thousand and $1.3 million; and (b) tangible net worth - ($3.4) million, ($3.7) million, ($3.9) million and ($2.5) million. We met both covenants during the first quarter of 2003.

The following table summarizes our contractual obligations related to debt, capital leases and operating leases at March 31, 2003:

(in thousands)	Commitment Per Period				
	Total	2003	2004	2005	Therea
Working capital line of credit	$ 622	$ 622	$ --	$ --	$
Long-term debt and other debt	116	116	--	--	
Capital leases	153	46	64	43	
Operating leases	6,974	684	922	938	4,
	$ 7,865	$ 1,468	$ 986	$ 981	$ 4,

Based upon anticipated levels of operations, we anticipate that our ongoing working capital requirements will continue to be funded through internally generated funds, our net borrowings from our Credit Facility and the $1.5 million equity financing we received on January 15, 2003. We anticipate that such sources of funds will be sufficient to satisfy our operating and debt service cash needs throughout 2003 and for the foreseeable future; however there can be no assurance that these funds will be sufficient. Our Credit Facility requires us to maintain compliance with certain financial covenants each quarter. Certain of these covenants require us to maintain increasingly higher amounts of EBITDA and tangible net worth during 2003. In order to meet such requirements throughout 2003, we will be required to achieve sales levels, which are above those that have currently been attained. There is no assurance we will be able to reach such sales levels and maintain compliance with the financial covenants contained in the Credit Facility. Based on the conditional financing arrangements of our Credit Facility, there can be no assurance we will be able to obtain any additional funding on acceptable terms, if at all. In the event of a default under our Credit Facility and in the event the Lending Bank does not waive the default, our operations could be materially adversely affected. In

that event, we would be required to delay or abandon certain operating activities and capital expenditures, which would further adversely affect our operations.

International Operations

Our international revenues represented approximately 81% of our total revenue for the three months ended March 31, 2003. Revenues from these 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. For the three months ended March 31, 2003, international revenues were primarily derived from France for $583,000, United Kingdom for 822,000, Italy for 80,000, Germany for $133,000, and Canada for $186,000.

NASDAQ COMPLIANCE NOTICES

On November 12, 2002, we received a notice from The Nasdaq SmallCap Market ("Nasdaq") that for the then 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 had 180 days, or until May 12, 2003, to regain compliance. As of May 12, 2003, the bid price of our common stock had not closed at $1.00 per share or more; therefore, we have not regained compliance with Marketplace Rule 4310(c)(8)(D).

On April 21, 2003, we received a letter from Nasdaq notifying us that we do not comply with Marketplace Rule 4310(c)(2)(B) the ("Rule"), which requires companies listed on Nasdaq to have a minimum of $2.5 million in stockholders' equity, or $35.0 million market value of listed securities, or $500,000 of net income from continuing operations for the most recently completed fiscal year or two of the three most recently completed fiscal years. Based on our Annual Report on Form 10K for the year ended December 31, 2002, we did not meet any of the three requirements under the Rule.

Based on not meeting the minimum $1.00 per share requirement for continued listing and based on not meeting the minimum requirements under the Rule described above, we expect to get written notification in the second quarter of 2003 and we expect our securities will be delisted from Nasdaq. Trading of our stock will then be conducted on an electronic bulletin board established for securities that do not meet the Nasdaq listing requirement or in quotations published by the National Quotation Bureau, Inc. that are commonly referred to as the "pink sheets". As a result it could be more difficult to sell, or obtain an accurate quotation as to the price of our common stock.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB's Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We do not expect EITF Issue No. 00-21 to have a material effect on our financial condition 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 $44,000 and our working capital line of credit of $622,000. 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 81% for the three months ended March 31, 2003). We primarily invoice and collect in U.S. dollars; therefore, we are not exposed to any significant market risk relating to currency rates.

ITEM 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this quarterly report on Form 10Q for the period ended March 31, 2003, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic filings with the Securities and Exchange Commission. No significant changes in our internal controls or other factors that could affect these controls have occurred subsequent to the date of such evaluation.

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

On March 28, 2003, we filed a current report on Form 8-K to announce our operating results for the fourth quarter and year ended December 31, 2002.

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: May 15, 2003

/s/ James E. Fleet

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

Date: May 15, 2003

/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 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: May 15, 2003

/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: May 15, 2003

/s/ Jennifer P. Dooley

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

EXHIBIT INDEX

99.1	Certification 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	Certification 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.