



# ROBOCOM

SYSTEMS INTERNATIONAL

## Form 10-QSB Quarterly Report (SEC form 10QSB)

### ITEM 1. FINANCIAL STATEMENTS

#### ROBOCOM SYSTEMS INTERNATIONAL INC. BALANCE SHEETS

|                                     | February<br>28, 2003 | May 31,<br>2002 |
|-------------------------------------|----------------------|-----------------|
| <b>Assets</b>                       |                      |                 |
|                                     | (unaudited)          |                 |
| Current assets:                     |                      |                 |
| Cash and cash<br>equivalents.....   | \$451,701            | \$219,370       |
| Accounts receivable,<br>net.....    | 690,674              | 448,056         |
| Unbilled<br>revenue.....            | 26,835               | 163,408         |
| Deferred<br>taxes.....              | 29,128               | 29,128          |
| Other current<br>assets.....        | 165,427              | 125,097         |
| Total current<br>assets.....        | 1,363,765            | 985,059         |
| Property and equipment,<br>net..... | 40,884               | 64,689          |
| Capitalized software,<br>net.....   | 1,372,824            | 1,647,319       |
| Total<br>assets.....                | \$2,777,473          | \$2,697,067     |

#### Liabilities and Shareholders' Equity

Current liabilities:

|                                |           |           |
|--------------------------------|-----------|-----------|
| Accounts payable.....          | \$328,859 | \$94,293  |
| Accrued expenses.....          | 297,763   | 252,454   |
| Deferred revenue.....          | 655,369   | 741,862   |
| Total current liabilities..... | 1,281,991 | 1,088,609 |

|  |           |           |
|--|-----------|-----------|
| Loans payable to shareholders.....               | 76,316    | 90,888    |
| Loans payable to Baseboard Investments, LLC..... | 266,542   | 566,542   |
| Loan payable to Robocom Properties Inc.....      | 161,872   | 161,872   |
| Other liabilities.....                           | 25,000    | 25,000    |
| Deferred tax liabilities.....                    | 29,128    | 29,128    |
| Total liabilities.....                           | 1,840,849 | 1,962,039 |

Shareholders' equity:

|   |              |              |
|---|--------------|--------------|
| Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued  | ---          | ---          |
| Common stock, \$.01 par value; 10,000,000 shares authorized; 4,495,984 issued and outstanding at February 28, 2003 and May 31, 2002 | 44,960       | 44,960       |
| Additional paid-in capital.....   | 11,832,246   | 11,832,246   |
| Accumulated deficit.....  | (10,940,582) | (11,142,178) |
| Total shareholders' equity.....   | 936,624      | 735,028      |
| Total liabilities and shareholders' equity.....   | \$2,777,473  | \$2,697,067  |

See accompanying notes.

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**ROBOCOM SYSTEMS INTERNATIONAL INC.**  
**STATEMENT OF OPERATIONS**  
(unaudited)

|   | <b>Three months ended<br/>February 28,</b> |                  |
|---|--|------------------|
|   | <b>2003</b>                                | <b>2002</b>      |
| Revenues:   |  |                  |
| Software license fees.....                        | \$33,048                                   | \$107,120        |
| Services.....                                     | 200,350                                    | 131,153          |
| Hardware.....                                     | 430,571                                    | 3,176            |
| Maintenance.....                                  | 387,398                                    | 402,636          |
| Total revenues.....                               | <u>1,051,367</u>                           | <u>644,085</u>   |
| Cost of revenues:                                 |  |                  |
| Cost of license fees.....                         | 2,111                                      | 12,651           |
| Cost of services.....                             | 71,573                                     | 92,082           |
| Cost of hardware.....                             | 253,576                                    | 1,467            |
| Cost of maintenance.....                          | 186,158                                    | 289,407          |
| Total cost of revenues.....                       | <u>513,418</u>                             | <u>395,607</u>   |
| Amortization of software development costs.....   | <u>231,666</u>                             | <u>373,950</u>   |
|   | <u>745,084</u>                             | <u>769,557</u>   |
| Gross margin.....                                 | 306,283                                    | (125,472)        |
| Selling, general and administrative expenses..... | 171,727                                    | 172,893          |
| Income (loss) from operations.....                | <u>134,556</u>                             | <u>(298,365)</u> |

|  |           |             |
|--|-----------|-------------|
| Interest expense and other, net.....               | 5,298     | 9,083       |
| Income (loss) before income taxes.....             | 129,258   | (307,448)   |
| Income taxes.....                                  | ----      | ----        |
| Net income (loss) .....                            | \$129,258 | (\$307,448) |
| Net income (loss) per basic and diluted share..... | \$0.03    | (\$0.07)    |
| Weighted average shares outstanding.....           | 4,495,984 | 4,495,984   |

*See accompanying notes.*

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**ROBOCOM SYSTEMS INTERNATIONAL INC.**  
**STATEMENT OF OPERATIONS**  
(unaudited)

|                             | <b>Nine months ended<br/>February 28,</b> |                  |
|-----------------------------|---|------------------|
|                             | <b>2003</b>                               | <b>2002</b>      |
| Revenues:                   |   |                  |
| Software license fees.....  | \$207,827                                 | \$376,033        |
| Services.....               | 941,152                                   | 438,407          |
| Hardware.....               | 698,215                                   | 249,154          |
| Maintenance.....            | 1,104,251                                 | 1,145,333        |
| Total revenues.....         | <u>2,951,445</u>                          | <u>2,208,927</u> |
| Cost of revenues:           |   |                  |
| Cost of license fees.....   | 32,170                                    | 39,987           |
| Cost of services.....       | 530,044                                   | 349,045          |
| Cost of hardware.....       | 493,496                                   | 226,634          |
| Cost of maintenance.....    | 478,472                                   | 825,975          |
| Total cost of revenues..... | <u>1,534,182</u>                          | <u>1,441,641</u> |

|  |                  |                      |
|--|------------------|----------------------|
| Amortization of software development costs.....    | 688,301          | 1,209,618            |
|  | <u>2,222,483</u> | <u>2,651,259</u>     |
| Gross margin.....                                  | 728,962          | (442,332)            |
| Selling, general and administrative expenses.....  | 501,289          | 711,496              |
| Income (loss) from operations.....                 | 227,673          | (1,153,828)          |
| Interest expense and other, net.....               | 26,077           | 31,178               |
| Income (loss) before income taxes.....             | 201,596          | (1,185,006)          |
| Income taxes.....                                  | ----             | ----                 |
| Net income (loss).....                             | <u>\$201,596</u> | <u>(\$1,185,006)</u> |
| Net income (loss) per basic and diluted share..... | <u>\$0.04</u>    | <u>(\$0.26)</u>      |
| Weighted average shares outstanding.....           | <u>4,495,984</u> | <u>4,495,984</u>     |

See accompanying notes.

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**ROBOCOM SYSTEMS INTERNATIONAL INC.**  
**STATEMENTS OF CASH FLOWS**  
(unaudited)

|  | <b>Nine months ended<br/>February 28,</b> |               |
|--|---|---------------|
|  | <b>2003</b>                               | <b>2002</b>   |
| <b>Operating activities</b>  |   |               |
| Net income (loss).....   | \$201,596                                 | (\$1,185,006) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |   |               |
| Depreciation and amortization of property and equipment.....                             | 36,656                                    | 57,482        |
| Amortization of software development costs.....  | 688,301                                   | 1,209,618     |
| Provision for bad debt.....  | 6,226                                     | ----          |
| Changes in operating assets and liabilities:   |   |               |

|  |                |                |
|--|----------------|----------------|
| Accounts receivable.....                       | (248,844)      | 178,854        |
| Unbilled revenue.....                          | 136,573        | 136,496        |
| Other current assets.....                      | (40,330)       | (54,082)       |
| Accounts payable.....                          | 234,566        | 56,251         |
| Accrued expenses.....                          | 45,309         | (118,285)      |
| Deferred revenue.....                          | (86,493)       | 116,469        |
| Net cash provided by operating activities..... | <u>973,560</u> | <u>397,797</u> |

**Investing activities**

|  |                  |                  |
|--|------------------|------------------|
| Software development costs.....            | (413,806)        | (239,132)        |
| Purchase of short term investments.....    | ----             | (101,216)        |
| Capital expenditures.....                  | (12,851)         | (3,380)          |
| Net cash used in investing activities..... | <u>(426,657)</u> | <u>(343,728)</u> |

**Financing activities**

|   |           |      |
|---|-----------|------|
| Repayment of loans payable to shareholders .....            | (14,572)  | ---- |
| Repayment of loan payable to Baseboard Investments LLC..... | (300,000) | ---- |
| Net cash used in financing activities.....                  | (314,572) | ---- |

|   |           |           |
|---|-----------|-----------|
| Increase in cash and cash equivalents.....            | 232,331   | 54,069    |
| Cash and cash equivalents at beginning of period..... | 219,370   | 93,878    |
| Cash and cash equivalents at end of period.....       | \$451,701 | \$147,947 |

Supplemental disclosures of cash flow information:

|                             |         |         |
|-----------------------------|---------|---------|
| Cash paid for interest..... | \$1,069 | \$1,719 |
|-----------------------------|---------|---------|

*See accompanying notes.*

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**NOTES TO FINANCIAL STATEMENTS**

**February 28, 2003**

(unaudited)

## 1. Background and Basis of Financial Statement Presentation

The accompanying unaudited financial statements of Robocom Systems International Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The Company's operations consist of the development, marketing and support of advanced warehouse management software solutions that enable companies to realize significant cost savings by automating their warehouse operations and providing inventory visibility throughout the supply chain. The Company's primary product, RIMSÓ, is a client-configurable software solution that enables a company's warehouse to respond to a customer order with greater accuracy and in a timelier manner, thereby turning the warehouse into a competitive advantage. RIMS operates in an open system environment and interfaces with an organization's existing information systems. In addition to providing RIMS software licenses, the Company provides installation, training, implementation support and maintenance services and resells related hardware.

The balance sheet at May 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements.

Operating results for the three- and nine-month periods ended February 28, 2003 are not necessarily indicative of the results that may be expected for the year ended May 31, 2003. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended May 31, 2002.

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

*Certain statements in this Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially*

*different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, among others, uncertainties relating to general economic and business conditions; industry trends; changes in demand for the Company's products; uncertainties relating to client plans and commitments and the timing of orders received from clients; announcements or changes in pricing policies by the Company or its competitors; unanticipated delays in the development, market acceptance or installation of the Company's products; availability of management and other key personnel; availability, terms and deployment of capital; relationships with third-party equipment suppliers; governmental export and import policies; global trade policies; and worldwide political stability and economic growth. The words "believe," "expect," "anticipate," "intend" and "plan" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.*

## RESULTS OF OPERATIONS

### Comparison of Three Months Ended February 28, 2003 and February 28, 2002

Revenues. Total revenues increased by approximately 63% to \$1,051,367 in the three months ended February 28, 2003 as compared to \$644,085 in the three months ended February 28, 2002. Software license fees decreased by approximately 69% during the 2003 period as compared to the 2002 period due to fewer RIMS license sales during the 2003 period and the realization of non-recurring deferred license revenue in the amount \$52,000 during the 2002 period. Service revenues increased by approximately 53% for the 2003 period as compared to the 2002 period, primarily due to higher revenues from services related to the installation of a new RIMS site and upgrades and modifications to existing RIMS sites during the 2003 period. Hardware revenues increased significantly during the 2003 period as compared to the 2002 period, primarily due to a significant sale of RIMS-related hardware during the 2003 period. Maintenance revenues decreased by approximately 4% for the 2003 period as compared to the 2002 period, primarily due to the election of a few customers using older versions of RIMS to reduce maintenance coverage. This decrease in maintenance revenue was offset, in part, by additional maintenance revenues for a new RIMS site and for equipment and software modifications in the 2003 period.

Cost of Revenues. Total cost of revenues increased by approximately 30% to \$513,418 in the three months ended February 28, 2003 as compared to \$395,607 in the three months ended February 28, 2002. As a percentage of revenues, total cost of revenues decreased to approximately 49% in the 2003 period as compared to approximately 61% in the 2002 period. As a percentage of license fee revenues, cost of license fees decreased in the 2003 period as compared to the 2002 period, primarily due to lower related third party license fees in the 2003

period. As a percentage of services revenues, the cost of services was lower in the 2003 period as compared to the 2002 period, primarily due to higher billable support services associated with the installation of a new RIMS site and upgrades and modifications to existing RIMS sites during the 2003 period. As a percentage of hardware revenues, the cost of hardware was higher in the 2003 period as compared to the 2002 period, primarily due to the type of equipment sold during the 2003 period. As a percentage of maintenance revenues, the cost of maintenance was lower in the 2003 period as compared to the 2002 period, primarily due to lower maintenance costs relating to RIMS version 4.3. The Company expects these costs to continue to decrease as customers continue to upgrade to RIMS version 4.3.

**Amortization of Software Development Costs.** Amortization of software development costs decreased by approximately 38% to \$231,666 in the three months ended February 28, 2003, as compared to \$373,950 in the three months ended February 28, 2002. This decrease was due to the final amortization of capitalized software development costs for early versions of RIMS during fiscal 2002. As a percentage of revenue, the amortization of software development costs was approximately 22% in the 2003 period and 58% in the 2002 period. The Company expects amortization expense to remain consistent at current levels through 2004.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses decreased by approximately 1% to \$171,727 in the 2003 period, as compared to \$172,893 in the 2002 period. In fiscal 2002, the Company took actions to significantly reduce selling, general and administrative expenses. These actions included restructuring operations to more closely align operating costs with revenue, reducing overhead expenses, and reviewing and revising all other expenditures. Although the Company will continue to seek ways in which it can reduce costs, it expects selling, general and administrative expenses to remain at current levels through 2004.

**Interest Expense and Other, net.** Interest income decreased by \$125 to \$699 in the three months ended February 28, 2003, as compared to \$824 in the three months ended February 28, 2002. This decrease is primarily due to the decline in interest rates during the 2003 period. Interest expense decreased by \$3,910 to \$5,997 in the three months ended February 28, 2003, as compared with \$9,907 in the three months ended February 28, 2002. This decrease is primarily due to the reduction in the loan payable to Baseboard Investments, LLP.

**Income Taxes.** No provision or benefit of income taxes is reflected in the 2003 or 2002 periods, as the Company has sufficient net operating losses

to offset current earnings. No deferred tax expense has been recorded in the 2003 or the 2002 period as the Company continues to record a valuation allowance to reserve for its net deferred tax assets.

#### Comparison of Nine Months Ended February 28, 2003 and February 28, 2002

**Revenues.** Total revenues increased by approximately 34% to \$2,951,445 in the nine months ended February 28, 2003, as compared to \$2,208,927 in the nine months ended February 28, 2002. Software license fees decreased by approximately 45% during the 2003 period as compared to the 2002 period, primarily because the Company sold fewer RIMS licenses, particularly internationally. In addition, domestic RIMS sales during the 2003 period were for a fewer number of users, as compared to a significant domestic RIMS license sale at a higher value to one customer with several users during the 2002 period. Service revenues increased by approximately 115% for the 2003 period as compared to the 2002 period, primarily due to higher revenues from services related to the installations of new RIMS sites and upgrades and modifications to existing RIMS sites during the 2003 period. Hardware revenues increased by approximately 180% during the 2003 period as compared to the 2002 period, primarily due to a significant sale of RIMS-related hardware during the 2003 period. Maintenance revenues decreased by approximately 4% for the 2003 period as compared to the 2002 period, primarily due to the election of a few customers using older versions of RIMS to reduce maintenance coverage. This decrease in maintenance revenue was offset, in part, by additional maintenance revenues for new RIMS sites and for equipment and software modifications sold during the 2003 period.

**Cost of Revenues.** Total cost of revenues increased by approximately 6% to \$1,533,182 in the nine months ended February 28, 2003, as compared to \$1,441,641 in the nine months ended February 28, 2002. As a percentage of revenues, total cost of revenues decreased to approximately 52% in the 2003 period, as compared to approximately 65% in the 2002 period. As a percentage of license fee revenues, the cost of license fees increased during the 2003 period as compared to the 2002 period, due to the increased sales of licenses with related third-party fees during the 2003 period. As a percentage of services revenues, the cost of services was lower during the 2003 period as compared to the 2002 period, due to higher billable support services associated with the installations of new RIMS sites and upgrades and modifications to existing RIMS sites during the 2003 period. As a percentage of hardware revenues, the cost of hardware was lower in the 2003 period as compared to the 2002 period, due to the sale of RIMS-related hardware at a higher margin during the 2003 period. As a percentage of maintenance revenues, the cost of maintenance was lower in the 2003 period as compared to the

2002 period, primarily due to lower maintenance costs relating to RIMS version 4.3. The Company expects these costs to continue to decrease as customers continue to upgrade to RIMS version 4.3.

**Amortization of Software Development Costs.** Amortization of software development costs decreased by approximately 43% to \$688,301 in the nine months ended February 28, 2003, as compared to \$1,209,618 in the nine months ended February 28, 2002. This decrease was due to the final amortization of capitalized software development costs for early versions of RIMS during fiscal 2002. As a percentage of revenue, the amortization of software development costs was approximately 23% in the 2003 period and 55% in the 2002 period. The Company expects amortization expenses to remain consistent at current levels through 2004.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses decreased by approximately 30% to \$501,289 in the nine months ended February 28, 2003, as compared to \$711,496 in the nine months ended February 28, 2002. In fiscal 2002, the Company took actions designed to reduce selling, general and administrative expenses. The majority of these cost reductions were attributable to a workforce restructuring, which represented approximately 30% of the workforce at that time. In addition, overhead expenditures were reviewed and reduced resulting in additional cost savings. Although the Company will continue to seek ways in which it can reduce costs, it expects selling, general and administrative expenses to remain at current levels through 2004.

**Interest Expense and Other, net.** Interest income decreased by \$449 to \$2,984 in the nine months ended February 28, 2003, as compared to \$3,433 in the nine months ended February 28, 2002. This decrease is primarily due to the decline in interest rates during the 2003 period. Interest expense decreased by \$5,550 to \$29,061 in the nine months ended February 28, 2003, as compared with \$34,611 in the nine months ended February 28, 2003. This decrease is primarily due to the reduction in the loan payable to Baseboard Investments, LLC.

**Income Taxes.** No provision or benefit of income taxes is reflected in the 2003 or 2002 periods, as the Company has sufficient net operating losses to offset current earnings. No deferred tax expense has been recorded in the 2003 or the 2002 period as the Company continues to record a valuation allowance to reserve for its net deferred tax assets.

## LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$973,560 in the nine months ended February 28, 2003 and \$397,797 in the nine months ended February 28, 2002. Cash flows from operations increased in the 2003 period primarily due to an increase in income from operations and a decrease in amortization of capitalized software development costs.

The Company capitalized \$413,806 and \$239,132 in the nine months ended February 28, 2003 and 2002, respectively, for software development costs. Any costs associated with the development of new products or enhancements to the existing RIMS product will be financed through working capital. The Company expended \$12,851 and \$3,380 for property and equipment in the nine months ended February 28, 2003 and 2002, respectively.

As of February 28, 2003, the Company had \$451,701 in cash and cash equivalents and working capital of \$81,774.

As of September 19, 2001, the Company secured a line of credit from Baseboard Investments LLC, the members of which consist of three principal shareholders and directors of the Company. This line of credit provides for borrowings of up to \$1,250,000, and expires on September 19, 2004. Borrowings bear interest at the prime rate plus two percent (6.25% at April 11, 2003). As of April 11, 2003, \$240,146 had been drawn down from this line of credit.

The Company's capital requirements depend on many factors, including the level and timing of revenues and new product development. However, the Company is limited to its current cash, cash equivalents and available unused lines of credit for funding such internal growth and development. No significant capital expenditures are anticipated in the next 12 months.

For the nine months ended February 28, 2003, the Company recorded net income of \$889,897, or \$.20 per share, excluding the amortization of software development costs. The Company believes its existing cash and cash equivalents, anticipated revenues from existing maintenance contracts, and anticipated revenues from existing contracts for implementation of RIMS at new sites, including license fees, hardware and services, are sufficient to fund the Company's operations at the current levels through fiscal 2004.

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### ITEM 3. CONTROLS AND PROCEDURES

(a) Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and principal accounting officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon the evaluation, the Company's Chief Executive Officer and principal accounting officer concluded that the Company's disclosure controls and procedures are effective in timely alerting him to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

(b) There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the date the Company carried out this evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.