



ROBOCOM

SYSTEMS INTERNATIONAL

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

ITEM 1. FINANCIAL STATEMENTS

ROBOCOM SYSTEMS INTERNATIONAL INC. BALANCE SHEETS

	November 30, 2002	May 31, 2002
Assets	(unaudited)	
Current Assets:		
Cash and cash equivalents	\$722,611	\$219,370
Accounts receivable, net	454,513	448,056
Unbilled revenue	14,254	163,408
Deferred taxes	29,128	29,128
Other current assets	169,824	125,097
Total current assets	1,390,330	985,059
Property and equipment, net	37,242	64,689
Capitalized software, net	1,399,458	1,647,319
Total assets	\$2,827,030	\$2,697,067
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$72,839	\$94,293
Accrued expenses	271,872	252,454
Deferred revenue	812,306	741,862
Total current liabilities	1,157,017	1,088,609

Loans payable to shareholders	80,105	90,888
Loans payable to Baseboard Investments, LLC.	566,542	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	<u>2,019,664</u>	<u>1,962,039</u>
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 November 30, 2002 and May 31, 2002	44,960	44,960
Additional paid-in capital	11,832,246	11,832,246
Accumulated deficit	<u>(11,069,840)</u>	<u>(11,142,178)</u>
Total shareholders' equity	<u>807,366</u>	<u>735,028</u>
Total liabilities and shareholders' equity	<u>\$2,827,030</u>	<u>\$2,697,067</u>

See accompanying notes.

ROBOCOM SYSTEMS INTERNATIONAL INC.

STATEMENT OF OPERATIONS

(unaudited)

Three months ended November
30,

	2002	2001
Revenues:		
Software license fees	\$145,099	\$194,189
Services	419,135	98,275
Hardware	14,981	220,084
Maintenance	339,369	356,439
Total revenues	<u>918,584</u>	<u>868,987</u>

Cost of revenues:		
Cost of license fees	20,323	27,336
Cost of services	179,673	97,075
Cost of hardware	13,417	199,585
Cost of maintenance	159,388	286,215
Total cost of revenues	372,801	610,211
Amortization of software development costs	231,210	395,892
	604,011	1,006,103
Gross margin	314,573	(137,116)
Selling, general and administrative expenses	172,774	174,647
Income (loss) from operations	141,799	(311,763)
Interest expense and other, net	10,050	10,742
Income (loss) before benefit of income taxes	131,749	(322,505)
Benefit of income taxes	----	----
Net income (loss)	\$131,749	(\$322,505)
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.

ROBOCOM SYSTEMS INTERNATIONAL INC.
STATEMENT OF OPERATIONS
(unaudited)

	Six months ended November 30,	
	2002	2001
Revenues:		
Software license fees	\$174,779	\$268,914
Services	740,802	307,254
Hardware	267,644	245,978

Maintenance	716,853	742,696
Total revenues	<u>1,900,078</u>	<u>1,564,842</u>
Cost of revenues:		
Cost of license fees	30,060	27,336
Cost of services	458,472	256,964
Cost of hardware	239,920	225,167
Cost of maintenance	292,314	536,568
Total cost of revenues	<u>1,020,766</u>	<u>1,046,035</u>
Amortization of software development costs	456,635	835,668
	<u>1,477,401</u>	<u>1,881,703</u>
Gross margin	422,677	(316,861)
Selling, general and administrative expenses	<u>329,560</u>	<u>538,601</u>
Income (loss) from operations	93,117	(855,462)
Interest expense and other, net	20,779	22,095
Income (loss) before benefit of income taxes	<u>72,338</u>	<u>(877,557)</u>
Benefit of income taxes	----	----
Net income (loss)	<u>\$72,338</u>	<u>(\$877,557)</u>
Net income (loss) per basic and diluted share	<u>\$0.02</u>	<u>(\$0.20)</u>
Weighted average shares outstanding	<u>4,495,984</u>	<u>4,495,984</u>

See accompanying notes.

ROBOCOM SYSTEMS INTERNATIONAL INC.

STATEMENTS OF CASH FLOWS

(unaudited)

Six months ended
November 30,
2002 2001

Operating activities

Net income (loss)	\$72,338	(\$877,557)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	27,447	38,274
Amortization of software development costs	456,635	835,668
Provision for bad debt	----	12,362
Changes in operating assets and liabilities:		
Accounts receivable	(6,457)	61,432
Unbilled revenue	149,154	120,787
Other current assets	(44,727)	(62,844)
Accounts payable	(21,454)	131,450
Accrued expenses	19,418	(115,907)
Deferred revenue	70,444	147,882
Net cash provided by operating activities	<u>722,798</u>	<u>291,547</u>
Investing activities		
Software development costs	(208,774)	(191,822)
Purchase of short term investments	----	(100,750)
Capital expenditures	----	(3,380)
Net cash used in investing activities	<u>(208,774)</u>	<u>(295,952)</u>
Financing activities		
Net cash used in financing activities-repayment of loans payable to shareholders	<u>(10,783)</u>	<u>----</u>
Increase (decrease) in cash and cash equivalents	503,241	(4,405)
Cash and cash equivalents at beginning of period	219,370	93,878
Cash and cash equivalents at end of period	<u>\$722,611</u>	<u>\$89,473</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>741</u>	<u>24737</u>

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

November 30, 2002

(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, RIMS®, 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 six-month periods ended November 30, 2002 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.

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 November 30, 2002 and November 30, 2001

Revenues. Total revenues increased by \$49,597 to \$918,584 in the three months ended November 30, 2002 as compared to \$868,987 in the three months ended November 30, 2001. Software license fees decreased by approximately 25% during the 2002 period as compared to the 2001 period, primarily because the Company sold several lower-value RIMS licenses during the 2002 period, as compared to one significant RIMS license sale at a higher value to one customer in the 2001 period. Service revenues increased by approximately 326% for the 2002 period as compared to the 2001 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 in the 2002 period. Hardware revenues decreased by approximately 93% during the 2002 period as compared to the 2001 period primarily because the Company sold small amounts of replacement hardware to several customers during the 2002 period, as compared to a significant sale of RIMS-related hardware to one customer during the 2001 period. Maintenance revenues decreased by approximately 5% for the 2002 period as compared to the 2001 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 2002 period.

Cost of Revenues. Total cost of revenues decreased by approximately 39% to \$372,801 in the three months ended November 30, 2002 as compared to \$610,211 in the three months ended November 30, 2001. As a percentage of revenues, total cost of revenues decreased to approximately 41% in the 2002 period as compared to approximately 70% in the 2001 period. As a percentage of license fee revenues, cost of license fees remained consistent at 14% in both the 2002 and 2001 periods. As a percentage of services revenues, the cost of services was lower in the 2002 period as compared to the 2001 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 2002 period. As a percentage of hardware revenues, the cost of hardware was lower in the 2002 period due to sales of replacement hardware sold at a higher margin during the 2002 period, as compared to the sale of RIMS related hardware to one customer at a lower margin during the 2001 period. As a percentage of maintenance revenues, the cost of maintenance was lower in the 2002 period as compared to the 2001 period, primarily due to lower maintenance costs relating to RIMS version 4.3.

Amortization of Software Development Costs. Amortization of software development costs decreased by approximately 42% to \$231,210 in the three months ended November 30, 2002 as compared to \$395,892 in the three months ended November 30, 2001. This decrease was due to the final amortization of capitalized software development costs for early versions of RIMS in fiscal 2002. As a percentage of revenue, the amortization of software development costs was approximately 25% in the 2002 period and 46% in the 2001 period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased slightly to \$172,774 in the 2002 period, as compared to \$174,647 in the 2001 period. The Company has taken actions to significantly reduce selling, general and administrative expenses. These actions include restructuring operations to more closely align operating costs with revenue, reducing overhead expenses, and reviewing and revising all other expenditures. The Company expects to continue to seek ways in which it can reduce costs.

Interest Expense and Other, net. Interest income increased by \$117 to \$1,416 in the three months ended November 30, 2002 as compared to \$1,299 in the three months ended November 30, 2001. This increase is primarily due to the increase in the cash balance during the 2002 period.

Interest expense decreased by \$575 to \$11,466 in the three months ended November 30, 2002 as compared with \$12,041 in the three months ended November 30, 2001, primarily due to the reduction in the prime interest rate.

Provision (Benefit) of Income Taxes. No provision or benefit of income taxes is reflected in the 2002 or 2001 periods, as the Company has sufficient net operating losses to offset current earnings. No deferred tax expense has been recorded in the 2002 or the 2001 period as the Company continues to record a valuation allowance to reserve for its net deferred tax assets.

Comparison of Six Months Ended November 30, 2002 and November 30, 2001

Revenues. Total revenues increased by \$335,236 to \$1,900,078 in the six months ended November 30, 2002 as compared to \$1,564,842 in the six months ended November 30, 2001. Software license fees decreased by approximately 35% during the 2002 period as compared to the 2001 period, primarily because the Company sold several lower-value RIMS licenses during the 2002 period, as compared to one significant RIMS license sale at a higher value to one customer in the 2001 period. Service revenues increased by approximately 141% for the 2002 period as compared to the 2001 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 in the 2002 period. Hardware revenues increased by approximately 9% during the 2002 period as compared to the 2001 period primarily due to hardware sales associated with the implementation of a RIMS system for a new customer and additional sales of hardware to existing RIMS customers during the 2002 period, offset, in part, by one significant sale of hardware to one customer during the 2001 period. Maintenance revenues decreased by approximately 3% for the 2002 period as compared to the 2001 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 2002 period.

Cost of Revenues. Total cost of revenues decreased by approximately 2% to \$1,020,766 in the six months ended November 30, 2002 as compared to \$1,046,035 in the six months ended November 30, 2001. As a percentage of revenues, total cost of revenues decreased to approximately 54% in the 2002 period as compared to approximately 67% in the 2001 period. As a percentage of license fee revenues, cost of

license fees increased due to the sale of licenses with related third party fees during the 2002 period. As a percentage of services revenues, the cost of services was lower due to higher billable support services associated with the installation of a new RIMS site and upgrades and modifications to existing of RIMS sites during the 2002 period. As a percentage of hardware revenues, the cost of hardware was lower in the 2002 period due to sales of replacement hardware sold at a higher margin during the 2002 period, as compared to the sale of RIMS-related hardware to one customer at a lower margin during the 2001 period. As a percentage of maintenance revenues, the cost of maintenance was lower in the 2002 period as compared to the 2001 period, primarily due to lower maintenance costs relating to RIMS version 4.3.

Amortization of Software Development Costs. Amortization of software development costs decreased by approximately 45% to \$456,635 in the six months ended November 30, 2002 as compared to \$835,668 in the six months ended November 30, 2001. This decrease was due to the final amortization of capitalized software development costs for early versions of RIMS in fiscal 2002. As a percentage of revenue, the amortization of software development costs was approximately 24% in the 2002 period and 53% in the 2001 period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by approximately 39% to \$329,560 in the six months ended November 30, 2002 as compared to \$538,601 in the six months ended November 30, 2001. In July 2001, the Company took actions designed to reduce selling, general and administrative expenses. The majority of these cost reductions were attributable to a workforce restructuring that eliminated 11 positions, which represented approximately 30% of the workforce at that time. In addition, overhead expenditures were reviewed and reduced resulting in additional cost savings.

Interest Expense and Other, net. Interest income decreased by \$324 to \$2,285 in the six months ended November 30, 2002 as compared to \$2,609 in the six months ended November 30, 2001. This decrease is primarily due to reduced income earned from investments due to the recent fluctuations in the debt market, offset, in part, by the increase in the cash balance during the 2002 period. Interest expense decreased by \$1,640 to \$23,064 in the six months ended November 30, 2002 as compared with \$24,704 in the six months ended November 30, 2001, primarily due to the reduction in the prime interest rate.

Provision (Benefit) of Income Taxes. No provision or benefit of income taxes is reflected in the 2002 or 2001 periods, as the Company has

sufficient net operating losses to offset current earnings. No deferred tax expense has been recorded in the 2002 or the 2001 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 \$722,798 in the six months ended November 30, 2002 and \$291,547 in the six months ended November 30, 2001. Cash flows from operations increased in the 2002 period primarily due to an increase in income from operations and a decrease in amortization of capitalized software development costs.

The Company capitalized \$208,774 and \$191,822 in the six months ended November 30, 2002 and 2001, 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 \$3,380 for property and equipment in the six months ended November 30, 2001.

As of November 30, 2002, the Company had \$722,611 in cash and cash equivalents and working capital of \$233,313.

As of September 19, 2001, the Company secured a line of credit from Baseboard Investments LLC, a limited liability company, 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 January 10, 2003). As of January 10, 2003, \$240,146 had been drawn down from this line of credit.

Management has taken actions to significantly reduce operating, selling, general and administrative expenses and capital expenditures. These actions include restructuring operations to more closely align operating costs with revenue, reducing overhead expenses and capital expenditures through workforce reductions and reviewing and revising other expenditures. Management expects to continue to seek ways in which it can reduce operating costs and selling, general and administrative expenses.

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 six months ended November 30, 2002, the Company recorded net income of \$528,973, or \$.12 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, is sufficient to fund the Company's operations at the current levels beyond fiscal 2003.

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.