

Edgar Filing: PARTSBASE INC - Form 10-Q

PARTSBASE INC  
Form 10-Q  
November 18, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C.  
20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended September 30, 2002

OR

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 000-29727 \_\_\_\_\_

PartsBase, Inc.

(Exact name of registrant as specified in its charter)

Delaware

76-0604158

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

905 Clint Moore Road  
Boca Raton, Florida 33487-8242

-----  
(Address of principal executive offices)

Registrant's telephone number, including area code: 561.953.0700  
-----

Indicate by check mark whether the Registrant (1) has filed all reports required 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 filing requirements for the past 90 days: Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The registrant had an aggregate of 14,012,302 shares of its common stock, \$0.001 par value, outstanding as of the close of business on November 1, 2002.

Edgar Filing: PARTSBASE INC - Form 10-Q

PARTSBASE, INC.  
TABLE OF CONTENTS

	Page
PART I- FINANCIAL INFORMATION (UNAUDITED)	
ITEM 1. Financial Statements .....	3
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .....	12
ITEM 3. Quantitative and Qualitative Disclosure about Market Risk .....	17
ITEM 4. Controls and Procedures .....	17
 PART II- OTHER INFORMATION	
ITEM 1. Legal Proceedings .....	17
ITEM 2. Changes in Securities .....	19
ITEM 3. Default Upon Senior Securities .....	19
ITEM 4. Submission of Matters to a Vote of Security Holders .....	19
ITEM 5. Other Information .....	19
ITEM 6. Exhibits and Reports on Form 8-K .....	20
SIGNATURES .....	21

PART I FINANCIAL INFORMATION

PARTSBASE, INC. AND SUBSIDIARY

CONSOLIDATED CONDENSED BALANCE SHEETS  
(Unaudited)

	September 30, 2002	December 31, 2001
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,594,237	\$ 23,851,593
Accounts receivable, net	1,185,411	403,969
Investments, at amortized cost	-	900,073

Edgar Filing: PARTSBASE INC - Form 10-Q

Prepaid expenses and other current assets	307,740	330,966
	-----	-----
Total current assets	24,087,388	25,486,601
Property and equipment, net	1,919,276	2,570,330
Certificate of deposit - restricted cash	480,000	1,070,000
Other assets	52,074	36,839
	-----	-----
Total assets	\$ 26,538,738	\$ 29,163,770
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 213,674	\$ 87,060
Accrued expenses and other current liabilities	829,826	406,147
Deferred revenue, net	2,251,843	2,231,076
	-----	-----
Total current liabilities	3,295,433	2,724,283
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 2,000,000 shares authorized, shares issued and outstanding in 2002 and 2001	-	-
Common stock, \$0.001 par value; 30,000,000 shares authorized, issued and outstanding 14,012,302 in 2002 and 14,003,620 in 2001	14,012	14,004
Additional paid-in capital	53,254,279	53,255,465
Accumulated deficit	(30,024,986)	(26,828,892)
Unearned compensation	-	(1,090)
	-----	-----
Total stockholders' equity	23,243,305	26,439,487
	-----	-----
Total liabilities and stockholders' equity	\$ 26,538,738	\$ 29,163,770
	=====	=====

The accompanying notes are an integral part of these consolidated condensed financial statements.

PARTSBASE, INC. AND SUBSIDIARY

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months
	September 30,		September
	-----	-----	-----
	2002	2001	2002
	-----	-----	-----

Edgar Filing: PARTSBASE INC - Form 10-Q

Net revenues	\$ 2,529,493	\$ 1,343,649	\$ 6,678,587	\$
Cost of revenues	2,054,261	885,225	5,558,768	
Gross profit	475,232	458,424	1,119,819	
Operating expenses:				
General and administrative expenses	1,265,239	1,441,207	3,713,783	
Stock-based compensation expense	-	98,610	1,090	
Litigation and other related costs	-	-	150,000	
Relocation expenses and abandonment costs	-	-	281,906	
Total operating expenses	1,265,239	1,539,817	4,146,779	
Operating loss	(790,007)	(1,081,393)	(3,026,960)	
Privatization expenses	(236,092)	-	(506,092)	
Other income, net	94,052	303,522	336,958	
Net loss	\$ (932,047)	\$ (777,871)	\$ (3,196,094)	\$
Basic and diluted net loss per share	\$ (0.07)	\$ (0.06)	\$ (0.23)	
Weighted average common shares outstanding	14,012,302	14,029,387	13,996,665	

The accompanying notes are an integral part of these consolidated condensed financial statements.

4

PARTSBASE, INC. AND SUBSIDIARY

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	NINE MONTHS ENDED	
	SEPTEMBER 30, 2002	SEPTEMBER 30, 2001
Cash flows from operating activities:		
Net loss	\$ (3,196,094)	\$ (4,542,577)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	580,515	660,989
Loss on property abandonments	251,498	-
Provision for doubtful accounts	72,952	674,805

Edgar Filing: PARTSBASE INC - Form 10-Q

Provision for litigation and other related costs	150,000	457,500
Recognition of stock based compensation	1,090	276,614
Change in assets and liabilities:		
Accounts receivable, net	(850,701)	(4,038)
Prepaid and other current assets	23,226	439,767
Other assets	(15,798)	497,119
Accounts payable	126,703	(491,208)
Accrued expenses and other accrued liabilities	273,679	(438,750)
Deferred revenue, net	17,075	(329,024)
Other liabilities	-	(6,006)
	-----	-----
Net cash used in operating activities	(2,565,855)	(2,804,809)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(180,396)	(161,817)
Maturities of marketable debt securities	900,073	4,118,965
Purchase of marketable debt securities	-	(13,872,550)
Purchase of certificate of deposit-restricted cash	-	(1,629,250)
Redemption of certificate of deposit-restricted cash	590,000	-
	-----	-----
Net cash provided by (used in) investing activities	1,309,677	(11,544,652)
	-----	-----
Cash flows from financing activities:		
Purchase of treasury stock	(22,838)	(795,544)
Exercise of employee non-qualified stock options	21,660	178,926
	-----	-----
Net cash used in financing activities	(1,178)	(616,618)
	-----	-----
Net decrease in cash and cash equivalents	(1,257,356)	(14,966,079)
Cash and cash equivalents at beginning of period	23,851,593	23,045,491
	-----	-----
Cash and cash equivalents at end of period	\$ 22,594,237	\$ 8,079,412
	=====	=====
Noncash financing activities:		
Retirement of treasury stock	\$ 22,838	\$ -
	=====	=====

The accompanying notes are an integral part of these consolidated condensed financial statements.

PARTSBASE, INC. AND SUBSIDIARY  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

The Company and Basis of Presentation

PartsBase, Inc. and subsidiary ("PartsBase" or the "Company") operates in two business segments; an online provider of aviation e-commerce business and a supplemental nurse staffing agency.

At the Company's Annual Meeting of Stockholders held on June 20, 2001, the

## Edgar Filing: PARTSBASE INC - Form 10-Q

stockholders approved an amendment to change the state of incorporation of the Company from Texas to Delaware and changed the name of the Company from PartsBase.com, Inc. to PartsBase, Inc.

PartsBase's global e-marketplace provides a means for aviation parts buyers and sellers to buy and sell new, repaired or overhauled aviation parts and list products and services.

In September 2001, PartsBase, Inc. formed RNpartners, Inc., a Florida corporation, ("RNpartners"), as a wholly owned subsidiary of PartsBase, which operates as a supplemental nurse staffing agency. RNpartners commenced operations on October 1, 2001 as a provider of critical care registered nurses for temporary assignment to hospitals in Miami-Dade, Palm Beach, Orange, Hillsborough and Broward counties of the State of Florida.

The accompanying unaudited consolidated condensed interim financial statements reflect all adjustments, (consisting only of normal recurring accruals) which in the opinion of management are necessary for a fair presentation of the consolidated results of operations for the periods shown. The consolidated results of operations for the three month and nine month periods ended September 30, 2002 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted as permitted by Article 10 of Regulation S-X of the Securities and Exchange Commission. These consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of PartsBase, Inc. and its wholly owned subsidiary, RNpartners, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

### Revenue Recognition

PartsBase recognizes subscription and banner advertising revenue, related to its e-commerce business, over the life of the subscription, which is typically 12 months. Sales costs, including commissions, are expensed as incurred, and are included in the cost of revenues. Net revenue represents that portion of gross revenue, related to subscriptions sold pertaining to its e-commerce business, that was earned during the period presented. Therefore, during quarters with significant gross revenue growth, gross margins will be negatively impacted due to the effect of sales costs being expensed in their entirety, whereas the corresponding sales are amortized over the subscription term. Nurse staffing revenues and the related labor costs and payroll taxes are recorded in the period in which staffing services are performed.

### Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments purchased with an original maturity of three months or less.

### Basic and Diluted Net Loss per Share

Basic net loss per share is computed using the weighted average number of

## Edgar Filing: PARTSBASE INC - Form 10-Q

common shares outstanding during the period. Diluted net loss per share, when

6

not anti-dilutive, is computed using the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares consist of the incremental common shares issuable upon the exercise of stock options and warrants (using the treasury stock method). For the three and nine month periods ended September 30, 2002 and 2001, common share equivalents are not included in the computation of diluted loss per share since inclusion of such shares would be anti-dilutive.

### Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

### Relocation expenses and abandonment costs

During May 2000 the Company entered into a sublease agreement with an unaffiliated third party for 35,668 square feet of general office space. The sublease agreement was to expire on October 31, 2006. In December 2001, the sublessor filed for bankruptcy protection and as a result, the sublease was vacated by the bankruptcy court. In January 2002, the Company entered into a new sublease agreement with another unaffiliated third party for 6,600 square feet of general office space in Boca Raton. In conjunction with the move to the new and smaller office space in February 2002, the Company incurred moving expenses totaling \$30,408 and a loss on abandoned furniture, fixtures and trailing technology computer equipment and software with a net book value of \$251,498.

### Segment Information

Based on the criteria established by the Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," management assesses Company performance and allocates resources principally on the basis of two segments: (i) aviation e-commerce segment which develops and markets an online marketplace for the purchasing and distribution of aviation products, globally and (ii) the supplemental nurse staffing agency currently operating in Florida. The latter segment was formed in September 2001 as a wholly-owned subsidiary of the Company and commenced operations in October 2001. Accordingly, the Company operated in one business line in the nine months ended September 30, 2001.

The online marketplace for the purchasing and distribution of aviation products provides a means for aviation parts buyers and sellers to buy and sell new, repaired or overhauled aviation parts, list products, services and catalogs. The primary source of revenues is from the sales of subscriptions, generally one year in term and recognized over the life of the subscription. Additionally, the Company recognizes revenue from advertising sales, principally banner ads which run from three months to one year in duration during which revenue is recognized ratably over the run period. Cost of revenues include the commissions paid to salespersons who sell subscriptions and banner advertising and direct costs of operating the web site, the related depreciation and the overhead associated with managing the website.

The supplemental nurse staffing agency provides registered nurses to hospitals in Miami-Dade, Broward, Hillsborough, Orange and Palm Beach counties of Florida to supplement their existing nursing staffs based on need. The sole source of revenue is derived from the hourly fees charged to the hospitals for the services rendered by the Company's registered nurse employees. Cost of

## Edgar Filing: PARTSBASE INC - Form 10-Q

revenues include the wages paid to these nurses as well as the cost of recruitment.

Revenues, expenses and assets are accounted for in accordance with the accounting policies set forth as noted above. Revenues and non-overhead expenses for each business line are those that directly relate to those operations. Overhead expenses, such as general, corporate and administrative expenses, are allocated to each business line based on management's best estimate of the resources utilized in the management and operations of each segment. Total assets are those assets directly used in the Company's operations in each line of business. Other than the online marketplace funding the operations of the supplemental nurse staffing agency, there are no significant transfers between segments.

The following schedule provides segment information for the three and nine month periods ended September 30, 2002. During the three and nine month periods ended September 30, 2001, the Company only operated in one segment and therefore no segment information is provided for such periods of time.

7

For the nine months ended September 30, 2002				
(In thousands)	Aviation e-commerce business	Supplemental Nurse Staffing	Corporate and other	Total
Subscription revenues	\$ 3,217			\$ 3,217
Advertising	106			106
Nurse staffing services	-	\$ 3,326		3,326
Other	30	-		30
Total revenues	3,353	3,326		6,679
Cost of revenues, excluding depreciation and amortization	2,145	3,085		5,230
General and administrative, excluding depreciation and amortization	1,339	1,460	\$ 664	3,463
Depreciation and amortization	513	67	-	580
Stock based compensation	1	-	-	1
Litigation and other related costs	-	-	150	150
Relocation and other related costs	-	-	282	282
Total cost of revenues and operating expenses	3,998	4,612	1,096	9,706
Operating loss	\$ (645)	\$ (1,286)	\$ (1,096)	\$ (3,027)
Privatization costs and expenses	\$ -	\$ -	\$ 506	\$ 506
Interest income	\$ -	\$ -	\$ 4	\$ 4
Other Income, net	\$ -	\$ -	\$ 2	\$ 2



Edgar Filing: PARTSBASE INC - Form 10-Q

Capital expenditures	\$ 73	\$ 107	\$ -	\$ 1
	=====	=====	=====	=====
Total assets	\$ 25,325	\$ 1,214	\$ -	\$ 26,539
	=====	=====	=====	=====

8

For the three months ended September 30, 2002

(In thousands)	Aviation e-commerce business	Supplemental Nurse Staffing	Corporate and other	Total
	-----	-----	-----	-----
Subscription revenues	\$ 1,062			\$ 1,062
Advertising	30			30
Nurse staffing services	-	\$ 1,422		1,422
Other	15	-		15
	-----	-----		-----
Total revenues	1,107	3,326		2,529
	-----	-----		-----
Cost of revenues, excluding depreciation and amortization	687	1,258		1,945
General and administrative, excluding depreciation and amortization	380	555	\$ 245	1,180
Depreciation and amortization	170	24	-	194
	-----	-----	-----	-----
Total cost of revenues and operating expenses	1,237	1,837	245	3,319
	-----	-----	-----	-----
Operating loss	\$ (130)	\$ (415)	\$ (245)	\$ (790)
	=====	=====	=====	=====
Privatization costs and expenses	\$ -	\$ -	\$ 236	\$ 236
	=====	=====	=====	=====
Interest income	\$ -	\$ -	\$ 4	\$ 4
	=====	=====	=====	=====
Other Income, net	\$ -	\$ -	\$ 90	\$ 90
	=====	=====	=====	=====
Capital expenditures	\$ 6	\$ 3	\$ -	\$ 9
	=====	=====	=====	=====

All of the Company's long-lived assets are geographically located in the United States. Management does not review revenues by geographical locations.

Commitments and Contingencies

In September 2000 the Company sued a third party financial institution because such financial institution paid a check in the amount of \$161,000 despite a stop payment order duly issued by the Company. The payee cashed the check, along with a replacement check. Before the Company learned that the payee had cashed both checks, the Company entered into a binding settlement with the

## Edgar Filing: PARTSBASE INC - Form 10-Q

payee ending the Company's business relationship with the payee. The payee refused to return the amounts and the financial institution failed to credit the Company's account. The Company filed suit, and discovery has commenced. The financial institution joined the payee as a defendant in the matter. The payee countersued the Company claiming the financial institution's action breached a settlement agreement between the payee and the Company and that the Company must indemnify the payee for any losses that may be sustained in the matter. The claims against the Company in this matter are the financial institution's demand for legal fees if the financial institution prevails and the payee's claims for indemnity and legal fees. This matter is scheduled for trial in January 2003.

In April and May 2001, the Company received notice of, or had been served with, four purported class action lawsuits (Foderaro vs. PartsBase.com, Inc. et al, Case No.: 01-8319 CIV- FERGUSON; IKCYBERINVESTMENTS vs. PartsBase.com, Inc. et al, Case No.: 01-8368 CIV-SEITZ; and Webb vs. PartsBase, et.al. Case No. 01-8376 CIV- GRAHAM and Jesus Martin vs. PartsBase.com, Inc. et al, Case No. 01-8526-CIV-UNGARO-BENAGES). These cases were consolidated into one action entitled, In re: PartsBase.com, Inc. Securities Litigation, Case No. 01-8319-CIV-UNGARO-BENAGES/BROWN. The consolidated lawsuit named as defendants the Company, certain of its current and former officers and directors, and the underwriters of its initial public offering of securities. The consolidated lawsuit alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and alleged the Company's March 2000 registration statement misrepresented and failed to disclose matters related to the Company's business operations and membership sales. The complaint alleged damages of nearly \$42 million. The Court certified a class consisting of purchasers of the Company's

9

common stock in the offering during the period from March 22, 2000 through April 25, 2000. The Company maintained a director and officer's liability insurance policy that provides \$3 million of coverage, with a retention of \$200,000. As of September 30, 2002, the Company had incurred and previously charged the retention of \$200,000 to expense. In May 2002, the Company reached an agreement in principle for the settlement of the consolidated class action. The plaintiffs in the case and the defendants, entered into a Memorandum of Understanding outlining the general terms of the proposed settlement. The Memorandum of Understanding provided for, among other things, a settlement amount of \$1.5 million in cash, plus interest, payable to the class under an insurance policy and for the plaintiffs' dismissal of the class action with prejudice as well as a broad form of release in favor of PartsBase and the other defendants in the class action which, among other things, will have the effect of barring all claims by the plaintiffs and the members of the class other than those who opt out, arising out of the purchase and sale of the Company's common stock in the Company's initial public offering of securities.

In September 2002, the matter was settled and final judgment was entered by the U.S. District Court for the Southern District of Florida dismissing the case with prejudice and otherwise confirming the settlement terms contained in the Memorandum of Understanding. The settlement releases the directors, management personnel, underwriters and securities firms named as defendants in the litigation from further liability relating to the IPO; however, stockholders of 119,000 shares of PRTS opted out of the settlement, and one such stockholder has filed a lawsuit in California State Court. The Company believes that the allegations contained in this lawsuit are without merit and intends to vigorously defend this action. The Company believes the resolution of this matter will not have a material impact upon the Company's consolidated financial statements, results of operations or cash flows.

In July 2001, the Company was served with a lawsuit filed by an information

## Edgar Filing: PARTSBASE INC - Form 10-Q

technology vendor claiming damages resulting from the Company's alleged breach of a software sales and service contract in the amount of \$126,631 plus interest, cost and fees. The Company intends to vigorously defend the allegations contained in this lawsuit. In July 2001, the Company sued the manufacturer of such software for damages totaling \$220,000 as a result of software malfunction. The cases have been consolidated in the Southern District of Florida; however, a tentative trial date of September 2002 has been continued and no new trial date has been set. The consolidated matter was scheduled for court ordered mediation amongst the three parties in September 2002 but was canceled by the plaintiff. A new mediation date is expected to be rescheduled. The Company believes the resolution of this matter will not have a material impact upon the Company's consolidated financial statements, results of operations or cash flows.

In March 2001 the Company received notice from counsel to the Business Software Alliance (the "BSA"), an industry watchdog group representing software manufacturers, in connection with the BSA's investigation of possible illegal duplication of certain software companies' proprietary software products by the Company. Through subsequent correspondence from the BSA, the BSA has alleged that the Company has installed unauthorized copies of BSA member software products on Company computers. The correspondence from the BSA provides that the Company's potential exposure in this matter could be over \$1,950,000 if willful copyright infringement is shown. The Company is currently in negotiations with the BSA in an attempt to resolve the matter. To date the Company is not aware of any legal proceedings initiated by BSA in this matter. The Company believes that the resolution of this matter will not have a material impact upon the Company's consolidated financial position, results of operations and cash flows.

During May 2000 the Company entered into a sublease agreement with an unaffiliated third party for 35,668 square feet of general office space. The sublease agreement was to expire on October 31, 2006. In December 2001, the sublessor filed for bankruptcy protection and as a result, the sublease was voided by the bankruptcy court. The Company continued to occupy the premises until February 2002, at which time, the Company moved to new subleased 6,600 square feet office space in Boca Raton from an unaffiliated party. On March 26, 2002, the lessor of the former property filed a complaint for damages in the amount of \$92,910 plus interest, costs and fees, representing the value of the time the Company occupied the premises from the date the sublease was voided by the bankruptcy court through the date the Company vacated the premises in accordance with rent provisions of the voided sublease. The lessor subsequently amended the complaint and the Company filed a motion to dismiss the complaint. The motion to dismiss the complaint was heard in November 2002, at which time the Court granted the plaintiff additional time to amend the complaint. The Company believes the resolution of this matter will not have a material impact upon the Company's consolidated financial statements, results of operations or cash flows.

On April 8, 2002, the Company received a proposal from the Company's Chairman of the Board, President, CEO and majority stockholder (the

"Company's Chairman ") and a limited partnership controlled by the Company's Chairman to acquire the remaining shares of the Company's common stock, approximately 5,000,000 shares or approximately 36% of the shares currently outstanding that the Company's Chairman does not own or control. On August 26, 2002 the Company and entities controlled by the Company's Chairman entered into a definitive agreement regarding the transaction for a per share purchase price of \$1.41 per share.

## Edgar Filing: PARTSBASE INC - Form 10-Q

On April 16 and 17, May 8 and June 11, 2002, the Company received notices of, or had been served with, four purported class action lawsuits, two of which were filed in the Circuit Court in and for Palm Beach County, Florida and the other two which was filed in the Court of Chancery of the State of Delaware (Cliff Gordon vs. PartsBase, Inc. et.al, Case No. 024277, Hughes Rousseau vs. PartsBase, Inc. et.al Case No. 0205368 in Palm Beach County, Florida and Key Equity Investors vs. PartsBase, Inc., et.al. C.A. 19546 and Paul Berger vs. PartsBase, Inc. et.al, C.A. 19693 in Delaware). The lawsuits name as defendants the Company and certain of its current officers and directors. The lawsuits allege the directors have breached their fiduciary duty to the plaintiffs and the purported class and seek to enjoin the Company from entering into a proposed going-private transaction by the Company's Chairman and a related limited partnership and to recover unspecified damages resulting from the alleged breach of fiduciary duty. The Company intends to vigorously defend these actions. Nevertheless, an unfavorable resolution of these lawsuits could have a material adverse effect on the Company in one or more future periods. The Company maintains a director and officer's liability insurance policy that provides \$3 million of coverage, with a retention of \$150,000. The Company fully expects its legal expenses to exceed the retention amount. Therefore at June 30, 2002, the Company recorded a litigation reserve for \$150,000 to cover the expected retention. This reserve has been classified as a litigation and other related costs in the statement of operations for the nine months ended September 30, 2002.

The two lawsuits filed in Delaware have been informally stayed pending the resolution of the lawsuits filed in Florida. In October 2002, the Florida Court approved consolidation of the two lawsuits filed in Florida as a single action. In October 2002, the parties to the Florida lawsuits entered into a Memorandum of Understanding, which provides for an agreement-in-principle to settle the class action lawsuits. The Memorandum of Understanding provides for the parties to enter a joint stipulation and such other documentation as may be required to obtain final approval of the Florida Court. The Company believes the resolution of this matter will not have a material impact upon the Company's consolidated financial statements, results of operations or cash flows.

In September 2002, the Company received notice that a complaint had been filed in the United States District Court for the Western District of Tennessee by a subsidiary of a competitor of the Company. The complaint alleges that the Company violated the Computer Fraud and Abuse Act and various related torts. The Company's counsel has filed a motion to dismiss the complaint and to transfer venue to Florida. The Company intends to vigorously defend the allegations contained in this lawsuit. The Company believes the resolution of this matter will not have a material impact upon the Company's consolidated financial statements, results of operations or cash flows.

The Company is not currently aware of any other legal proceedings or claims that the Company believes are likely to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

The Company is party to a Content License and Reseller Agreement (the "Agreement") with USA Information Systems Inc. ("USAIS"), an exclusive owner of an Internet-based government parts, logistic and digital document database, whereby USAIS provides access to that database to paid subscribers through a Web site owned, operated and maintained by USAIS (the "Subscription Services"). Per the Agreement, as amended on March 15, 2001 and March 15, 2002, respectively, USAIS licenses to the Company the non-exclusive rights to resell the Subscription Services and to offer access to certain segments of the USAIS content to the Company's existing customers. The Agreement commenced on June 1, 2000 and has an initial term of three years. The Agreement will be automatically renewed for two one-year terms, unless either party notifies the other in writing of its intention not to renew the Agreement within ninety (90) days prior to the expiration of the then-current term. The Company is obligated to

## Edgar Filing: PARTSBASE INC - Form 10-Q

pay USAIS the sum of \$100,000 in monthly installments during the first year of the Agreement. Beginning with the second year and continuing until the expiration of the Agreement, the Company is obligated to pay USAIS \$60,000 in monthly installments. In conjunction with the amended Agreement, the Company obtained and delivered to USAIS, on March 21, 2002, an irrevocable, transferable standby Letter of Credit in the amount of \$840,000, collateralized by a certificate of deposit of the same amount that is to diminish on a dollar for

11

dollar basis as payments are made in accordance with the amended Agreement. As of September 30, 2002, the Company owed USAIS \$480,000.

### Proposed Privatization Transaction

On April 8, 2002, the Company received a proposal from the Company's Chairman of the Board, President, CEO and majority stockholder (the "Company's Chairman") and a limited partnership controlled by the Company's Chairman to acquire the remaining shares of the Company's common stock, approximately 5,000,000 shares or approximately 36% of the shares currently outstanding that the Company's Chairman does not own or control (the "Non-Chairman's Shares"). On August 26, 2002, the Company and the entities controlled by the Company's Chairman entered into a definitive merger agreement, providing for, among other things, entities controlled by the Company's Chairman to acquire the Non-Chairman Shares at a price of \$1.41 per share. The merger agreement and the consummation of the transactions contemplated thereunder are subject to, among other things, approval of the shareholders of PartsBase, Inc. In November 2002, the Company filed a Preliminary Proxy Statement and related Transaction Statement with the Securities and Exchange Commission relating to the contemplated transaction.

As of September 30, 2002, the Special Committee has incurred \$506,092 in expenses, primarily for legal and financial advice and a stipend for each of the three members of the Special Committee approved by the Company's Board of Directors. Such expenses have been classified as Privatization Expenses in the Company's Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2002, respectively.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding the Company's expectations, beliefs, intentions or future strategies that are signified by the words "expects", "anticipates", "intends", "believes", or similar language. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors including but not limited to those set forth under "Risk Factors" included in Exhibit 99.1 elsewhere in this report.

#### Overview

We currently operate in two business segments: (i) we provide business-to-business e-commerce services for the aviation industry and (ii) since October 2001 we have provided, for a fee, registered nurses for temporary assignment to hospitals located in Broward County, Miami-Dade County,

## Edgar Filing: PARTSBASE INC - Form 10-Q

Hillsborough County, Orange County and Palm Beach County, Florida.

We were incorporated in Texas on April 27, 1999 and prior to such date operated as a division of Aviation Laboratories, Inc. At the Company's Annual Meeting of Stockholders held on June 20, 2001, the stockholders approved an amendment to change the state of incorporation of the Company from Texas to Delaware and changed the name of the Company from PartsBase.com, Inc. to PartsBase, Inc. As a Texas corporation, the Company's shares of common stock had no par value. As a result of the reincorporation in Delaware, the Company's shares of preferred and common stock, each have a \$0.001 par value and \$14,004 was reclassified from Additional Paid-In Capital to Common Stock to reflect the par value of the shares of common stock outstanding at such time. No shares of preferred stock were issued or outstanding at September 30, 2002 and December 31, 2001, respectively.

The Aviation E-commerce Business and Corporate

Results of Operations

Net Revenues

Net revenues consist of subscription fees charged to subscribers and, to a lesser extent, banner-advertising and product listings revenue. Net revenues

12

were \$1,106,933 and \$3,352,915 for the third quarter and first nine months of 2002, respectively, compared to \$1,343,649 and \$4,296,715 for the same periods in 2001, a decrease of 18% and 22%, respectively. During the third quarter and first nine months of 2002, PartsBase signed up 180 and 547 new subscribers at an average subscription fee of \$1,985 and \$2,022, respectively. During the same periods, 501 and 1,382 subscribers renewed their subscription for another year at an average subscription fee of \$1,606 and \$1,634, respectively. The aggregate average subscription fee of both new and renewal subscribers during the third quarter and first nine months of 2002 was \$1,706 and \$1,744, respectively.

During the third quarter and first nine months of 2001, PartsBase signed up 282 and 1,435 new subscribers at an average subscription fee of \$1,675 and \$1,490, respectively. In addition, during the third quarter and first nine months of 2001, 427 and 1,155 members renewed their subscriptions for another year at the average renewal fee of \$1,368 and \$1,316 respectively. The average subscription fee increased during the 2002 nine month period over the same period in 2001, due to higher prices charged for competing services, and PartsBase's ability to offer additional value added services to its subscribers, such as government procurement data and enhanced parts search. The aggregate average subscription fee of both new and renewal subscribers during the third quarter and first nine months of 2001 was \$1,547 and \$1,312, respectively.

At September 30, 2002, PartsBase had 2,375 paying subscribers as compared to 2,466 paying subscribers at June 30, 2002, 2,749 paying subscribers at March 31, 2002, 2,926 paying subscribers at December 31, 2001 and 3,315 paying subscribers at September 30, 2001. The subscriber count decreased during the second quarter of 2002 compared to the prior quarter, as former subscribers who utilized the site on a marginal basis and paid below average subscription fees did not renew their membership. Of the 1,382 subscribers who renewed their subscriptions during the first nine months of 2002, 689 represent those subscribers renewing for the second time, representing 26% of the new

## Edgar Filing: PARTSBASE INC - Form 10-Q

subscribers initially signed during the first nine months of 2000 and 48% of the new subscribers signed up during the first nine months of 2001. The Company expects that the renewal rate for third year subscriptions will be higher than that experienced for second year renewals, although there can be no assurances that future renewal rates will be higher than that experienced for the second year. A paid subscriber is defined as a member of the PartsBase web site who has purchased a subscription that is currently active, and therefore, does not include subscribers whose subscriptions have expired, or potential subscribers who are trialing the service.

Gross revenues were \$1,212,208 and \$3,505,942 for the third quarter and first nine months of 2002, respectively, compared to \$1,125,229 and \$3,993,137 for the same periods in 2001, an increase of 8% and a decrease of 12%, respectively. The increase in gross revenue during the current quarter as compared to the same quarter of the prior year is attributable to an increase in subscription fees charged to subscribers during the current quarter. The decrease in the 2002 nine month period as compared to the comparable period of the prior year is attributable to finite number of members in the aerospace community and fewer renewals of initial subscribers who utilized the site on an infrequent basis, in 2002.

PartsBase recognizes earned subscription and banner advertising revenue over the life of the subscription, which is typically 12 months. Gross revenue represents total subscription and advertising sales made during the period presented, for which a portion is deferred and recognized as earned. Net revenues represent that portion of gross revenues of all periods that was earned during the current period presented. Sales costs, including commissions, are expensed as incurred, and are included in the cost of revenues. Deferred revenue increased to \$2,251,843 at September 30, 2002 compared to \$2,207,485 at June 30, 2002, \$2,308,109 as of March 31, 2002, \$2,231,076 at December 31, 2001 and \$2,412,787 at September 30, 2001.

The following table sets forth gross revenue by product line for the last five quarters, as well as operating data and sequential quarter-to-quarter revenue growth (decline) percentages for the same period.

13

PartsBase, Inc.					
Revenue Detail by Quarter (000's)					
	09/30/01	12/31/01	03/31/02	06/30/02	09/30/02
	-----	-----	-----	-----	-----
New Subscriptions	\$ 492	\$ 381	\$ 451	\$ 298	\$ 357
Renewal Subscriptions	591	833	772	682	805
Advertising	27	26	31	46	33
Other	15	2	5	9	17
	-----	-----	-----	-----	-----
Total Gross Revenue	\$ 1,125	\$ 1,242	\$ 1,259	\$ 1,035	\$ 1,212
	=====	=====	=====	=====	=====
Sequential Gross Rev. Growth	-7%	10%	1%	-18%	17%
	=====	=====	=====	=====	=====
Total Net Revenue	\$ 1,344	\$ 1,224	\$ 1,158	\$ 1,088	\$ 1,107
	=====	=====	=====	=====	=====

## Edgar Filing: PARTSBASE INC - Form 10-Q

Sequential Net Rev. Growth	-1%	-9%	-5%	-6%	2%
	=====	=====	=====	=====	=====
Salesperson Compensation	\$ 398	\$ 422	\$ 441	\$ 394	\$ 399
	=====	=====	=====	=====	=====
Sales Comp/Gross Revenue	35%	34%	35%	38%	33%
	=====	=====	=====	=====	=====
Deferred Revenue Balance	\$ 2,413	\$ 2,231	\$ 2,308	\$ 2,207	\$ 2,252
	=====	=====	=====	=====	=====

### Cost of Revenues

Cost of revenues consists of compensation for sales and marketing personnel, telephone expenses, amortization and maintenance of web site development costs, contract payments to a third party for procurement data functionality and a proportion of rent and office expenses. Compensation costs for sales and marketing personnel are incurred in the month paid while the revenue is pro-rated over the related subscription period, generally a 12-month period. Therefore, during quarters with negative gross revenue growth, gross margins will be positively impacted due to the effect of a smaller pool of sales commissions being expensed in their entirety during the quarter, whereas sales from prior quarters with larger gross revenues are being amortized over the subscription term. Costs of revenues, exclusive of depreciation and amortization, were \$686,788 and \$2,144,512 for the third quarter and first nine months of 2002, respectively, compared to \$835,919 and \$3,308,926 for the same periods in 2001. As a percent of net revenues, costs of revenues were 62% and 64% for the third quarter and first nine months of 2002, respectively, compared to 62% and 77% for the same periods in 2001. Salesperson compensation in the third quarter and first nine months of 2002 as a percentage of gross revenue was 33% and 35%, respectively. This compares to 35% and 40%, respectively, in the third quarter and first nine months of 2001. Salesperson compensation as a percentage of gross revenue is continuing to trend back downwards, as renewals, for which the commission rate is substantially lower than new subscriptions, comprise a greater portion of gross revenues.

At September 30, 2002, PartsBase employed 43 persons in sales and customer service, compared to 83 persons at September 30, 2001. Additionally, included in cost of revenues in the third quarter and first nine months of 2002 was \$180,000 and \$549,050, respectively, for contract payments to a third party for government procurement data as opposed to \$180,000 and \$749,083 for the same periods of 2001.

### General and Administrative Expenses

For the third quarter and nine months ended September 30, 2002, respectively, aviation e-commerce general and administrative expenses, excluding stock-based compensation expense (\$0 and \$1,090 in the third quarter and first nine months of 2002 and \$98,610 and \$276,614 for the same periods in 2001), depreciation and amortization (of \$61,111 and \$184,114 in the third quarter and first nine months of 2002 and \$147,918 and \$453,340 for the same periods in 2001) and unallocated corporate general and administrative expenses (\$245,449 and \$663,723 in the third quarter and first nine months of 2002 and \$0 during both periods in 2001) were \$379,915 and \$1,339,165 in 2002 as compared to \$1,293,289 and \$5,302,434 in 2001, respectively; a decrease of 71% and \$913,374 from the third quarter of 2001 and 75% and \$3,963,269 from the first nine months of 2001.

General and administrative expenses were 34% of net revenues, for the third quarter of 2002, and 96% of net revenues, for the third quarter of 2001, respectively, exclusive of stock based compensation expense, depreciation and amortization and unallocated corporate general and administrative expenses.



## Edgar Filing: PARTSBASE INC - Form 10-Q

14

General and administrative expenses consisted primarily of personnel costs of \$308,127 and \$765,832, rent expense of \$5,795 and \$150,519, bad debt expense of \$7,831 and \$123,560, and other costs totaling \$58,162 and \$253,378 consisting of professional fees, utilities, supplies and other related administrative costs, for the third quarter of 2002 and 2001, respectively.

General and administrative expenses were 40% of net revenues, for the first nine months of 2002, and 123% of net revenues, for the first nine months of 2001, respectively, exclusive of stock based compensation expense, depreciation and amortization and unallocated corporate general and administrative expenses. General and administrative expenses consisted primarily of personnel costs of \$1,058,338 and \$3,339,450, rent expense of \$46,222 and \$529,876 advertising costs of \$17,939 and \$96,843, bad debt expense of \$44,968 and \$674,805 and other costs totaling \$171,698 and \$661,460 consisting of professional fees, utilities, supplies and other related administrative costs, for the first nine months of 2002 and 2001, respectively.

The Company made significant personnel reductions during 2001 and 2002. In addition, depending on salary level, all remaining salaried personnel took a pay reduction, ranging from 5%-30% during the second quarter of 2001. The Company expects that its personnel costs will continue to decrease during 2002 but at a smaller rate. The decrease in bad debt expense compared to the same period of the prior year relates to the Company's former policy of paying sales commissions upon signing a Company sales order, rather than upon cash receipt, which increased the possibility that sales orders of lesser quality would be submitted. Although the Company can recover commissions paid to sales representatives if the customer does not pay, the Company's high turnover has made it difficult to collect on a portion of subscriptions sold. During the third quarter of 2001, the Company significantly tightened its deal verification processes, thereby causing its bad debt expense to decrease in 2002.

The Company was comprised of one business segment until October 1, 2001 with the commencement of operations of RNpartners, Inc. into the nurse staffing business. As a result, there was no corporate component prior to such time. For the quarter ended and nine months ended September 30, 2002 unallocated corporate general and administrative expenses, excluding stock-based compensation of \$0 and \$1,090, respectively, were \$245,448 and \$663,723. Corporate general and administrative expenses for the quarter ended and nine months ended September 30, 2002 consisted primarily of executive compensation of \$126,796 and \$376,324, professional and directors' fees of \$69,015 and \$176,176 and directors' and officers' liability insurance premiums of \$26,375 and \$67,414.

At September 30, 2002, we employed 17 persons in administrative, information technology and executive management positions (inclusive of corporate positions) as compared to 28 persons at September 30, 2001.

### Depreciation and Amortization

Depreciation and amortization expenses for the quarter and nine months ended September 30, 2002 totaled \$170,173 and \$512,856, respectively, as compared to \$197,224 and \$594,440 for the similar 2001 periods. The decrease in the 2002 periods primarily results from the depreciation and amortization recorded in 2001 associated with furniture, fixtures and trailing technology computer equipment and software abandoned during the corporate relocation in 2002.

### Corporate Relocation Expenses and Abandonment Costs

## Edgar Filing: PARTSBASE INC - Form 10-Q

As a result of the Company's former sublessor filing for bankruptcy protection in December 2001, the Company's sublease for 35,668 square feet of office space in Boca Raton was vacated by the bankruptcy court. In January 2002, the Company entered into a new sublease agreement with another unaffiliated third party for 6,600 square feet of general office space in Boca Raton. In conjunction with the move to the new and smaller office space in February 2002, the Company incurred moving expenses totaling \$30,408 and abandoned furniture, fixtures and trailing technology computer equipment and software with a net book value of \$251,498. Rent savings will be approximately \$700,000 per annum. No additional costs were incurred during the third quarter of 2002.

### Stock-Based Compensation Expense

In connection with the issuance of employee stock options issued prior to our IPO, stock-based compensation expense of \$0 and \$98,610 was recognized in

15

the third quarter 2002 and 2001, respectively, and \$1,090 and \$276,614 during the first nine months of 2002 and 2001, respectively. There are no remaining charges to be recognized in future periods related to pre-IPO grants as there are no non-vested options outstanding whose exercise price are below the market price on the date of grant.

### Litigation and Other Related Costs

Litigation and other related costs of \$150,000 and \$457,500 for the nine months September 30, 2002 and 2001, respectively, consist of a provision for \$150,000 to cover expected retention costs associated with class action lawsuits the Company is party to in conjunction with a proposed "going private" transaction during the 2002 period. The 2001 expense consisted of a provision for \$200,000 to cover retention costs associated with class action lawsuits the Company is party to in conjunction with the Company's March 2000 registration statement as well as \$257,500 during the first six months of 2001 to settle or accrue for litigation and other related costs. The class action lawsuit relating to the Company's March 2000 registration statement has been settled pending final approval by the court. There were no litigation and related costs incurred during the quarters ended September 30, 2002 and 2001, respectively.

### Privatization Expenses

During the quarter ended June 30, 2002, the Company received three offers from three separate groups, one headed by the Company's Chairman and the other two offers from unrelated parties, to take the Company private. The Company's Board of Directors ("Board") formed a Special Committee to evaluate these offers consisting of three independent members of the Board. The Special Committee retained legal and financial advisors to assist it with the evaluation of the respective offers. The Special Committee has incurred \$236,092 during the quarter ended September 30, 2002 and \$506,092 for the nine months ended September 30, 2002, consisting primarily of professional fees and a Board approved stipend for each member of the Special Committee.

### Other Income

Other income, net, consisting primarily of interest and dividend income, was \$94,052 and \$336,958 for the third quarter and nine months ended September 30, 2002, respectively, compared to \$303,522 and \$1,100,622 for the third quarter and nine months ended September 30, 2001, respectively. The decrease in other income, net for the current periods compared to the comparable periods of

## Edgar Filing: PARTSBASE INC - Form 10-Q

the prior year is attributable to lower cash balances and interest rates on the Company's cash equivalents.

### Net Loss

As a result of the foregoing, the net loss decreased to \$517,431 and \$1,909,471 for the third quarter and first nine months of 2002, compared to \$777,871 and \$4,542,577 for same periods in 2001.

### The Nurse Staffing Business

#### Results of Operations

#### Comparison of Three and Nine Months Ended September 30, 2002

#### Net Revenues

We commenced our nurse staffing operations on October 1, 2001. During the quarter and nine months ended September 30, 2002, we earned \$1,422,560 and \$3,325,672 in net revenues from the placement of our registered nurse employees working as supplemental nursing staff in hospitals in Miami-Dade County, Palm Beach County, Broward County, Hillsborough County and Orange County Florida. Approximately 55% of these revenues for the respective periods were derived from four clients. As of September 30, 2002 we provided supplemental nurse staffing services to 39 clients; none of the remaining 35 clients individually comprised in excess of 9% of the total revenues for the nine months ended September 30, 2002.

16

#### Cost of Revenues

Cost of revenues consists of compensation for our registered nurse employees, uniforms and costs incurred in the recruitment of qualified professional healthcare professionals. For the three months ended and nine months ended September 30, 2002 our total cost of revenues totaled \$1,258,411 and \$3,085,514, respectively, or 88% and 93% of net revenues. Registered nurse compensation as a percentage of cost of revenues totaled 97% and 96% for the three months and nine months ended September 30, 2002. As of September 30, 2002, 103 registered nurses, affiliated with us, had worked at least one shift for the week then ended.

#### General and Administrative Expenses

For the quarter and nine months ended September 30, 2002, general and administrative expenses totaled \$578,765 and \$1,526,781 respectively. General and administrative expenses for the quarter ended and nine months ended September 30, 2002 consisted primarily of personnel costs of \$419,564 and \$1,053,140 rent of \$31,502 and \$88,141 and other costs totaling \$127,699 and \$385,500 consisting of marketing expenses, bad debts, depreciation, phone and utilities, supplies and other related administrative costs, respectively. At September 30, 2002, we employed 51 persons in administrative, and executive management positions in our nurse staffing operations.

#### Operating Loss

As a result of the foregoing, the operating loss incurred during the quarter and nine months ended September 30, 2002 totaled \$414,616 and \$1,286,623.

## Edgar Filing: PARTSBASE INC - Form 10-Q

### Liquidity and Capital Resources

#### Financial Condition

As of September 30, 2002, the Company had \$22,594,237 of cash and cash equivalents and restricted cash totaling \$480,000. At September 30, 2002, the Company had \$20,791,955 of working capital.

The Company currently anticipates that its operating expenses will be a material use of its cash resources. Additionally, the Company will continue to evaluate possible acquisitions of, or investments in, businesses, products, and technologies, which may require the use of cash. The Company believes that its existing cash and cash equivalents and marketable debt securities will be sufficient to meet its anticipated cash needs for working capital and capital expenditures for at least the next twelve months.

#### Cash Flows

Net cash used in operating activities totaled \$2,565,855 for the nine months ended September 30, 2002 compared to net cash used in operating activities of \$2,804,809 for the comparable period of the prior year. The current period decrease in cash used in operations as compared to the same period of last year reflects a decrease in the loss for the period of \$1,346,483 offset by an increase in accounts receivable of \$846,663, primarily the result of the operations of RNpartners. These items are offset by an increase of \$617,911 in accounts payable primarily as a result of a significant paydown of accounts payable during the first nine months of 2001.

Net cash provided by investing activities totaled \$1,309,677 for the nine months ended September 30, 2002 compared to net cash used by investing activities of \$11,544,652 for the comparable period of the prior year. The current period increase of \$12,854,329 in cash provided from investing activities as compared to last year is primarily the result of a decrease in purchases of marketable debt securities totaling \$13,872,550 during the prior year period as opposed to the redemption of a certificate of deposit-restricted cash of \$590,000 during the first nine months of 2002.

Net cash used in financing activities totaled \$1,178 for the nine months ended September 30, 2002, compared to net cash used financing activities totaling \$616,618 for the comparable period of 2001. The decrease of \$615,440 in cash used during the current period as compared to last year is primarily because during the nine months ended September 30, 2002, the Company repurchased 538,120 shares of its common stock at a cost of \$795,544 whereas the Company

17

repurchased 25,700 shares of its common stock for \$22,838 during the nine months ended September 30, 2002.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to the impact of interest rate changes.

##### Interest Rate Risk

The primary objective of investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. At September 30, 2002, PartsBase's portfolio consisted of investments in

## Edgar Filing: PARTSBASE INC - Form 10-Q

institutional money market funds. PartsBase's investment policy is focused on ensuring that PartsBase has liquid cash balances available to meet its day-to-day operating cash needs. The policy establishes guidelines for the investment of surplus cash balances that will maximize return with minimum credit and liquidity risk. All investments are held in U.S. dollars. Specific instruments approved for inclusion in the portfolio are limited to: obligations issued by the U.S. Treasury and U.S. Federal Agencies, obligations of U.S. commercial banks such as bankers' acceptances and certificates of deposit and obligations of major corporations and bank holding companies such as direct issue commercial paper, medium term notes and investment grade bond funds.

The Company intends to hold its investments until maturity; however, it is exposed to the impact of interest rate changes. Investments in both fixed rate and floating rate interest earning instruments carries a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, the Company's future investment income may fall short of expectations due to changes in interest rates.

### Foreign Exchange Risk

The Company has minimal exposure to foreign exchange risk as all of its sales to customers outside of the United States are collected in U.S. dollars.

### Item 4. Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date the Chairman of the Board and Chief Financial Officer completed their evaluation.

## PART II---OTHER INFORMATION

### Item 1. Legal Proceedings

In September 2000 the Company sued a third party financial institution because such financial institution paid a check in the amount of \$161,000 despite a stop payment order duly issued by the Company. The payee cashed the check, along with a replacement check. Before the Company learned that the payee had cashed both checks, the Company entered into a binding settlement with the payee ending the Company's business relationship with the payee. The payee refused to return the amounts and the financial institution failed to credit the Company's account. The Company filed suit, and discovery has commenced. The financial institution joined the payee as a defendant in the matter. The payee countersued the Company claiming the financial institution's action breached a settlement agreement between the payee and the Company and that the Company must indemnify the payee for any losses that may be sustained in the matter. The claims against the Company in this matter are the financial institution's demand

for legal fees if the financial institution prevails and the payee's claims for indemnity and legal fees. This matter is scheduled for trial in January 2003.

In April and May 2001, the Company received notice of, or had been served with, four purported class action lawsuits (Foderaro vs. PartsBase.com, Inc. et al, Case No.: 01-8319 CIV- FERGUSON; IKCYBERINVESTMENTS vs. PartsBase.com, Inc. et al, Case No.: 01-8368 CIV-SEITZ; and Webb vs. PartsBase, et.al. Case No. 01-8376 CIV- GRAHAM and Jesus Martin vs. PartsBase.com, Inc. et al, Case No. 01-8526-CIV-UNGARO-BENAGES). These cases were consolidated into one action entitled, In re: PartsBase.com, Inc. Securities Litigation, Case No. 01-8319-CIV-UNGARO-BENAGES/BROWN. The consolidated lawsuit named as defendants the Company, certain of its current and former officers and directors, and the underwriters of its initial public offering of securities. The consolidated lawsuit alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and alleged the Company's March 2000 registration statement misrepresented and failed to disclose matters related to the Company's business operations and membership sales. The complaint alleged damages of nearly \$42 million. The Court certified a class consisting of purchasers of the Company's common stock in the offering during the period from March 22, 2000 through April 25, 2000. The Company maintained a director and officer's liability insurance policy that provides \$3 million of coverage, with a retention of \$200,000. As of September 30, 2002, the Company had incurred and previously charged the retention of \$200,000 to expense. In May 2002, the Company reached an agreement in principle for the settlement of the consolidated class action. The plaintiffs in the case and the defendants, entered into a Memorandum of Understanding outlining the general terms of the proposed settlement. The Memorandum of Understanding provided for, among other things, a settlement amount of \$1.5 million in cash, plus interest, payable to the class under an insurance policy and for the plaintiffs' dismissal of the class action with prejudice as well as a broad form of release in favor of PartsBase and the other defendants in the class action which, among other things, will have the effect of barring all claims by the plaintiffs and the members of the class other than those who opt out, arising out of the purchase and sale of the Company's common stock in the Company's initial public offering of securities.

In September 2002, the matter was settled and final judgment was entered by the U.S. District Court for the Southern District of Florida dismissing the case with prejudice and otherwise confirming the settlement terms contained in the Memorandum of Understanding. The settlement releases the directors, management personnel, underwriters and securities firms named as defendants in the litigation from further liability relating to the IPO; however, stockholders of 119,000 shares of PRTS opted out of the settlement, and one such stockholder has filed a lawsuit in California State Court. The Company believes that the allegations contained in this lawsuit are without merit and intends to vigorously defend this action. The Company believes the resolution of this matter will not have a material impact upon the Company's consolidated financial statements, results of operations or cash flows.

In July 2001, the Company was served with a lawsuit filed by an information technology vendor claiming damages resulting from the Company's alleged breach of a software sales and service contract in the amount of \$126,631 plus interest, cost and fees. The Company intends to vigorously defend the allegations contained in this lawsuit. In July 2001, the Company sued the manufacturer of such software for damages totaling \$220,000 as a result of software malfunction. The cases have been consolidated in the Southern District of Florida; however, a tentative trial date of September 2002 has been continued and no new trial date has been set. The consolidated matter was scheduled for

## Edgar Filing: PARTSBASE INC - Form 10-Q

court ordered mediation amongst the three parties in September 2002 but was canceled by the plaintiff. A new mediation date is expected to be rescheduled. The Company believes the resolution of this matter will not have a material impact upon the Company's consolidated financial statements, results of operations or cash flows.

In March 2001 the Company received notice from counsel to the Business Software Alliance (the "BSA"), an industry watchdog group representing software manufacturers, in connection with the BSA's investigation of possible illegal duplication of certain software companies' proprietary software products by the Company. Through subsequent correspondence from the BSA, the BSA has alleged that the Company has installed unauthorized copies of BSA member software products on Company computers. The correspondence from the BSA provides that the Company's potential exposure in this matter could be over \$1,950,000 if willful copyright infringement is shown. The Company is currently in negotiations with the BSA in an attempt to resolve the matter. To date the Company is not aware of any legal proceedings initiated by BSA in this matter. The Company believes that the resolution of this matter will not have a material impact upon the Company's consolidated financial position, results of operations and cash flows.

19

During May 2000 the Company entered into a sublease agreement with an unaffiliated third party for 35,668 square feet of general office space. The sublease agreement was to expire on October 31, 2006. In December 2001, the sublessor filed for bankruptcy protection and as a result, the sublease was voided by the bankruptcy court. The Company continued to occupy the premises until February 2002, at which time, the Company moved to new subleased 6,600 square feet office space in Boca Raton from an unaffiliated party. On March 26, 2002, the lessor of the former property filed a complaint for damages in the amount of \$92,910 plus interest, costs and fees, representing the value of the time the Company occupied the premises from the date the sublease was voided by the bankruptcy court through the date the Company vacated the premises in accordance with rent provisions of the voided sublease. The lessor subsequently amended the complaint and the Company filed a motion to dismiss the complaint. The motion to dismiss the complaint was heard in November 2002, at which time the Court granted the plaintiff additional time to amend the complaint. The Company believes the resolution of this matter will not have a material impact upon the Company's consolidated financial statements, results of operations or cash flows.

On April 8, 2002, the Company received a proposal from the Company's Chairman of the Board, President, CEO and majority stockholder (the "Company's Chairman") and a limited partnership controlled by the Company's Chairman to acquire the remaining shares of the Company's common stock, approximately 5,000,000 shares or approximately 36% of the shares currently outstanding that the Company's Chairman does not own or control (the "Non-Chairman's Shares"). On August 26, 2002, the Company and the entities controlled by the Company's Chairman entered into a definitive merger agreement, providing for, among other things, entities controlled by the Company's Chairman to acquire the Non-Chairman Shares at a price of \$1.41 per share. The merger agreement and the consummation of the transactions contemplated thereunder are subject to, among other things, approval of the shareholders of PartsBase, Inc. In November 2002, the Company filed a Preliminary Proxy Statement and related Transaction Statement with the Securities and Exchange Commission relating to the contemplated transaction.

On April 16 and 17, May 8 and June 11, 2002, the Company received notices of, or had been served with, four purported class action lawsuits, two of which were filed in the Circuit Court in and for Palm Beach County, Florida and the other two which was filed in the Court of Chancery of the State of Delaware (

## Edgar Filing: PARTSBASE INC - Form 10-Q

Cliff Gordon vs. PartsBase, Inc. et.al, Case No. 024277, Hughes Rousseau vs. PartsBase, Inc. et.al Case No. 0205368 in Palm Beach County, Florida and Key Equity Investors vs. PartsBase, Inc., et.al. C.A. 19546 and Paul Berger vs. PartsBase, Inc. et.al, C.A. 19693 in Delaware). The lawsuits name as defendants the Company and certain of its current officers and directors. The lawsuits allege the directors have breached their fiduciary duty to the plaintiffs and the purported class and seek to enjoin the Company from entering into a proposed going-private transaction by the Company's Chairman and a related limited partnership and to recover unspecified damages resulting from the alleged breach of fiduciary duty. The Company intends to vigorously defend these actions. Nevertheless, an unfavorable resolution of these lawsuits could have a material adverse effect on the Company in one or more future periods. The Company maintains a director and officer's liability insurance policy that provides \$3 million of coverage, with a retention of \$150,000. The Company fully expects its legal expenses to exceed the retention amount. Therefore at June 30, 2002, the Company recorded a litigation reserve for \$150,000 to cover the expected retention. This reserve has been classified as a litigation and other related costs in the statement of operations for the nine months ended September 30, 2002.

The two lawsuits filed in Delaware have been informally stayed pending the resolution of the lawsuits filed in Florida. In October 2002, the Florida Court approved consolidation of the two lawsuits filed in Florida as a single action. In October 2002, the parties to the Florida lawsuits entered into a Memorandum of Understanding, which provides for an agreement-in-principle to settle the class action lawsuits. The Memorandum of Understanding provides for the parties to enter a joint stipulation and such other documentation as may be required to obtain final approval of the Florida Court. The Company believes the resolution of this matter will not have a material impact upon the Company's consolidated financial statements, results of operations or cash flows.

In September 2002, the Company received notice that a complaint had been filed in the United States District Court for the Western District of Tennessee by a subsidiary of a competitor of the Company. The complaint alleges that the Company violated the Computer Fraud and Abuse Act and various related torts. The Company's counsel has filed a motion to dismiss the complaint and to transfer venue to Florida. The Company intends to vigorously defend the allegations contained in this lawsuit. The Company believes the resolution of this matter will not have a material impact upon the Company's consolidated financial statements, results of operations or cash flows.

20

The Company is not currently aware of any other legal proceedings or claims that the Company believes are likely to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

### Item 2. Changes in Securities

During the nine months ended September 30, 2002, the Company repurchased 25,700 shares of its common stock in the open market at an aggregate purchase price of \$22,838, inclusive of brokerage fees. All of these shares were retired as of March 15, 2002.

In June 2002, a former officer of the Company exercised fully vested options to purchase 34,382 shares of the Company's common stock at a purchase price of \$21,660.

### Item 3. Defaults Upon Senior Securities



Edgar Filing: PARTSBASE INC - Form 10-Q

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(1) Exhibits

- (a) Exhibit 99.1-Safe Harbor Compliance Statement
- (b) Exhibit 99.2-Certification by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

21

Signatures

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 14, 2002

/s/ Robert A. Hammond  
-----

ROBERT A. HAMMOND, JR.  
President, Chief Executive Officer,  
And Chairman  
(Principal Executive Officer)

Date: November 14, 2002

/s/ Mark Weicher  
-----

MARK WEICHER  
Chief Financial Officer  
(Principal Financial Accounting Officer)

22

Certifications Pursuant to  
Section 302 of  
the Sarbanes-Oxley Act of 2002

I, Robert A. Hammond, Jr. certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of PartsBase, Inc.;

## Edgar Filing: PARTSBASE INC - Form 10-Q

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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

Date: November 14, 2002

/s/Robert A. Hammond, Jr.

-----  
Robert A. Hammond, Jr.  
Chief Executive Officer, President

## Edgar Filing: PARTSBASE INC - Form 10-Q

### CERTIFICATION

I, Mark Weicher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PartsBase, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Mark Weicher

-----

Edgar Filing: PARTSBASE INC - Form 10-Q

Mark Weicher  
Chief Financial Officer

24

PARTSBASE, INC.

Index to Exhibits

Title	Exhibit No.
Safe Harbor Compliance Statement	99.1
Certification by Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002	99.2

1

Exhibit 99.1

SAFE HARBOR COMPLIANCE STATEMENT

The Company believes that the following risks could cause the Company's actual results to differ materially.

The Aviation E-commerce Business

We have never been profitable, anticipate continued losses and cannot guarantee profitability in the future. We have never been profitable and expect to continue to incur operating losses until at least the end of fiscal 2002. We may be unable to ever achieve profitability in the future. We have incurred net consolidated losses in each accounting period since we began operations in April 1996, including net losses attributable to common shareholders of \$3,196,094, \$5,612,233, \$13,453,981, \$7,815,409 (\$5,913,034 before consideration of the value of a preferred stock beneficial conversion feature) during the first nine months of 2002 and for calendar years 2001, 2000 and 1999, respectively. Although revenues have grown in recent periods, we cannot assure you that we will achieve sufficient revenues for profitability. Even if we do achieve profitability, we cannot assure you that we can sustain or increase profitability on a quarterly or annual basis in the future. If revenues grow slower than we anticipate, or if operating expenses exceed expectations or cannot be adjusted accordingly, our business, results of operations and financial condition will be materially and adversely affected.

We cannot predict our success because our business model is unproven and we have operated our business for only a short period of time. Our business model is new to the aviation industry and our ability to generate revenues or profits is unproven. We have a limited operating history, which will make it difficult to evaluate our performance. Our prospects will be dependent upon our ability to

## Edgar Filing: PARTSBASE INC - Form 10-Q

effectively implement our business model and adapt to changes in the business-to-business e-commerce market. If our business model is not viable or if we are unable to identify and address changes in our markets, we will not be able to grow our business, compete effectively or achieve profitability. These factors could cause our stock price to fall significantly.

We primarily rely on revenue from subscriptions and we may not be able to successfully expand our membership base or establish additional revenue sources. We currently generate revenues from e-commerce customers in the aviation industry who subscribe to our service. Our success will be dependent on our ability to expand our membership base within the aviation industry. We have experienced decreases in our subscriber base. In addition, our success will depend on our ability to generate additional revenues through the introduction of a new functionality and/or the expansion into new markets and industries. We cannot assure you that we will be successful in any efforts to generate additional revenues.

We receive substantially all of our revenue from participants in the aviation industry, so a downturn in the aviation industry could damage our business. We receive substantially all of our revenue from members associated with the aviation industry, and we expect these revenues will account for substantially all of our revenues for the foreseeable future. Our dependence on members associated with the aviation industry makes us vulnerable to downturns in that industry. A downturn could lead our members to reduce their level of activity on our e-marketplace and cause some to cancel their subscription.

Intense competitive pressures in the business-to-business e-commerce market may impede our ability to establish a substantial market share that would allow us to be profitable. The business-to-business e-commerce market is new, rapidly evolving, and intensely competitive, and we expect competition to further intensify in the future. Barriers to entry are minimal, and competitors may develop and offer services similar to ours in the future. Recent entrants into the business-to-business aviation parts market include an alliance of prominent aircraft parts manufacturers and aviation industry participants that have superior capital resources and established reputations in the industry. In addition, we expect that additional companies will offer competing e-commerce solutions in the future, and our business could be severely harmed if we are not able to compete successfully against current or future competitors. In addition, our members and partners may become competitors in the future. Increased competition is likely to result in price reductions, reduced gross margins and/or loss of market share, any of which could harm our business. Our actual and potential competitors vary in size and in the scope and breadth of the services they offer.

1

Quarterly Operating Results are Subject to Significant Fluctuations. Our revenues and operating results may vary significantly from quarter to quarter due to a number of factors, not all of which are in our control. These factors include:

- o Subscriber and advertiser demand for our solutions;
- o User traffic levels and activity on our e-marketplace;
- o Seasonal fluctuations in Internet usage;
- o Changes in the growth rate of Internet usage;
- o The commitment of e-commerce customers in the aviation industry who subscribe to our service;
- o The timing and amount of costs relating to the expansion of our operations;
- o Changes in our pricing policies or those of our competitors;
- o The introduction of new solutions by us or our competitors;

## Edgar Filing: PARTSBASE INC - Form 10-Q

- o Costs related to acquisitions of technology or businesses;
- o General economic and market conditions; and
- o Effects of terrorist activities upon the aviation industry.

Our revenues for the foreseeable future will remain dependent on user traffic levels and the commitment of e-commerce customers in the aviation industry who subscribe to our service. Such future revenues are difficult to forecast. In addition, we may significantly increase our operating expenses to increase our sales and marketing operations, to continue our expansion, to upgrade and enhance our technology, and to market and support our solutions. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. If we have a shortfall in revenues in relation to our expenses, then our business, results of operations and financial condition would be materially and adversely affected. Such a result would likely affect the market price of our common stock in a manner that may be unrelated to our long-term operating performance.

Due to all of the foregoing factors and the other risks discussed in this section, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. It is possible that, in some future periods, our results of operations may be below the expectations of public market analysts and investors. In this event, the price of our common stock may fall.

If we fail to effectively manage our operations and the use of our services, we may lose members or incur significant expenses. Our success depends on effective planning and growth management. We will need to continue to improve our financial and managerial controls, reporting systems, and procedures, and we will need to continue to expand, train and manage our workforce. We continue to increase the scope of our operations and our growth has placed, and will continue to place, a significant strain on our management and operational systems and resources. If we do not successfully implement and integrate these new systems or if we fail to scale these systems to our growth, the performance of our Web site may suffer which would cause us to lose members. In addition, any failure could make us unable to operate with adequate, accurate and timely financial and operational information, which could result in us incurring unnecessary and possibly damaging expenses.

Because our revenue is derived from providing e-marketplace access to subscribers for an annual subscription fee, the cancellation or non-renewal of these subscriptions would hurt our business. We have generated substantially all of our revenues to date through member subscription fees for access to our e-marketplace. Generally, our subscription fees are paid on an annual basis, and these subscriptions may be terminated on short-term notice. We have expended significant financial and personnel resources and have expanded our operations on the assumption that our subscribers will renew these annual subscriptions. We do not have a sufficiently long history of operations to be able to predict renewal rates of our members. If our members fail to continuously renew, or if they terminate their subscriptions, our revenues would be significantly reduced and our business could suffer dramatically.

There are a finite number of potential subscribers and we may be unable to develop other means of generating revenue, so our growth may be limited. A major element of our growth strategy is the expansion of our subscriber base. The number of participants in the aviation market limits our potential subscriber base. Additionally, the barriers to entry, which exist in the aviation market, may limit the entry of additional subscribers into our e-marketplace. Accordingly, the number of potential subscribers to our e-marketplace is likely finite, in which case our revenues may be similarly limited if we cannot generate revenue through other means.

## Edgar Filing: PARTSBASE INC - Form 10-Q

If our sellers do not provide timely, professional and lawful delivery of products to our buyers, our membership may decrease and we may have liability. We rely on our sellers to deliver purchased parts and products to our buyers in a professional, safe and timely manner. If our sellers do not deliver the parts and products to our buyers in a professional, safe and timely manner, then our service will not meet customer expectations and our reputation and brand will be damaged. In addition, deliveries that are nonconforming, late or are not accompanied by information required by applicable laws or regulations, could expose us to liability or result in decreased adoption and use of our solution, which could have a negative effect on our business, results of operations and financial condition.

We cannot guard against harm to our business from the activities of third parties on our web site. Our future success will depend largely upon the reliability of our sellers in delivering and accurately representing their listed products and buyers paying the agreed purchase price. We do not take responsibility for the delivery of payment or goods to any member. We have received in the past, and anticipate that we will receive in the future, communications from members who did not receive the purchase price or the products that were to be exchanged. While we can suspend the privileges of members who fail to fulfill their delivery or payment obligations, we do not currently have the ability to require sellers to deliver products or buyers to make payments. We do not compensate members who believe they have been defrauded by other members. Any negative publicity generated as a result of fraudulent or deceptive conduct by members of our e-marketplace could damage our reputation and diminish the value of our brand name. We may in the future receive requests from members for reimbursement or threats of legal action against us if no reimbursement is made. Any resulting litigation could be costly for us, divert management attention, result in increased costs of doing business, lead to adverse judgments, or otherwise harm our business.

If we are unable to implement adequate measures to maintain the value of our intellectual property and internet domain name, our ability to compete may be severely harmed. As an Internet company, our current and future copyrights, service marks, trademarks, patents, trade secrets, domain name and similar intellectual property, if any, are especially vital to our success. Despite our precautions, unauthorized third parties may infringe or misappropriate our intellectual property; copy portions of our services or reverse engineer or obtain and use information that we regard as proprietary. Any infringement or misappropriation of our intellectual property or proprietary information could make it difficult for us to compete. In addition, we currently hold various Internet Web addresses relating to our network, including the domain name "PARTSBASE.COM." If we are not able to prevent third parties from acquiring Web addresses that are similar to our addresses, third parties could acquire similar domain names that could create confusion that diverts traffic away from our e-marketplace to other competing Web sites.

Other parties may assert claims against us that we are infringing upon their intellectual property rights, which could harm our financial condition and ability to compete. We cannot be certain that our services do not infringe upon the intellectual property rights of others. Because patent applications in the United States are not publicly disclosed until the patent is issued, applications may have been filed which relate to services similar to those offered by us. We may be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of the trademarks and other intellectual property rights of third parties. If our services violate third-party proprietary rights, we cannot assure you that we would be able to obtain licenses to continue offering such services on commercially reasonable terms, or at all. Any claims against us relating to the infringement of third-party proprietary rights, even if not

## Edgar Filing: PARTSBASE INC - Form 10-Q

meritorious, could result in the expenditure of significant financial and managerial resources and for injunctions preventing us from distributing these services. Such claims could severely harm our financial condition and ability to compete.

If we are unable to license third-party technologies or effectively integrate them, we may experience delays in development or expansion of our business. The e-commerce market is rapidly evolving and we have and will depend on third-party software and other technology for the effective operation of our Web site and business. We may not be able to license or renew the license for these technologies on terms favorable to us or at all. Our inability to obtain necessary third-party licenses could delay the continued development of our business and services, which could result in a loss of members, slow our growth and severely harm our business. In addition, even if we are able to license needed technology, we may not be able to successfully integrate such technology into our operations, which could also result in a loss of members, slow our growth and severely harm our business.

3

### Risks Related to the Internet and e-Commerce Industries

Our growth may be impaired if the Internet is unable to accommodate growth in e-commerce. Our success depends on the widespread use of and growth in the use of the Internet for retrieving, sharing and transferring information among buyers and sellers in the aviation parts market. If the Internet cannot accommodate growth in e-commerce or experiences periods of poor performance, the growth of our business may suffer. Our ability to sustain and improve our services is limited, in part, by the speed and reliability of the networks operated by third parties. Consequently, the emergence and growth of the market for our services is dependent on improvements being made to the Internet infrastructure to alleviate overloading and congestion. Additionally, the possible slow adoption of the Internet as a means of commerce by businesses may harm our prospects. Even if the Internet is widely adopted as a means of commerce, the adoption of our network for procurement, particularly by companies that have relied on traditional means of procurement, will require broad acceptance of e-commerce and online purchasing. In addition, companies that have already invested substantial resources in traditional methods of procurement, or in-house e-commerce solutions, may be reluctant to adopt our e-commerce solution, thus impairing the growth of our member base and revenue potential.

The security risks related to e-commerce may cause members to reduce the use of our service, and attempting to guard against these risks may cause us to incur significant costs and expenses. A fundamental requirement to conduct business-to-business e-commerce is the secure transmission of information over public networks. If our members are not confident in the security of e-commerce, they may not effect transactions on our e-marketplace or renew their subscriptions, which would severely harm our business. There can be no guarantee that advances in computer capabilities, new discoveries in the field of cryptography, or other developments will not result in the compromise or breach of the algorithms that we use to protect content and transactions on our e-marketplace or proprietary information in our databases. We may be required to incur significant costs to protect against security breaches or to alleviate problems caused by breaches. Further, a well-publicized compromise of security could deter people from using the Internet to conduct transactions that involve transmitting confidential information. Our failure to prevent security breaches, or well-publicized security breaches affecting the Internet in general, could adversely affect the willingness of our members to use our services.



## Edgar Filing: PARTSBASE INC - Form 10-Q

If our sellers fail to provide timely and accurate information, our membership base and potential revenue may decline. Our members use our service in large part because of the comprehensive breadth and accuracy of our databases. It is our responsibility to load seller product information into our database and categorize the information for search purposes. However, we are dependent on our sellers to provide us in a timely manner with accurate, complete, and current information regarding their product inventory. If our timely loading of this information is impaired, this could result in member dissatisfaction and a loss of members.

We may not be able to keep up with technological advancements, which could result in a loss of members and harm our ability to compete. The market for Internet commerce is characterized by rapid change, evolving industry standards and the frequent introduction of new technological products and services. The introduction of new technology, products, services or standards may prove to be too difficult, costly or simply impossible to integrate into our existing systems. Moreover, innovations could render obsolete our existing or any future products and services. Our ability to remain competitive will also depend heavily upon our ability to maintain and upgrade our technology products and services. We must continue to add hardware and enhance software to accommodate any increased content and use of our Web site. If we are unable to increase the data storage and processing capacity of our systems at least in pace with the growth in demand, our Web site may fail to operate at an optimal level for unknown periods of time. As a relatively small company in the market for Internet commerce, we will be in a position of responding to technological changes rather than establishing them. Any difficulty keeping pace with technological advancements could hurt our ability to retain members and effectively compete.

Because we do not maintain a redundant system, any system failure could delay or interrupt our service, which could severely harm our business and result in a loss of members. Our ability to successfully maintain an e-commerce marketplace and provide acceptable levels of customer service depends largely on the efficient and uninterrupted operation of our computer and communications hardware and network systems. Any interruptions could severely harm our business and result in a loss of members. Our computer and communications systems are located in Boca Raton, Florida. Although we periodically back up our databases to tapes and store the backup tapes offsite, we have not maintained a redundant

4

site. As a result, our systems and operations are particularly vulnerable to damage or interruption from human error, sabotage, fire, flood, hurricane, power loss, telecommunications or equipment failure, and similar events. We cannot assure you that we will not experience system failures in the future. Moreover, we have experienced delays and interruptions in our telephone and Internet access that have prevented members from accessing our e-marketplace and customer service department. Furthermore, we do not have a formal disaster recovery plan and do not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any system failure, and therefore the occurrence of any system failure or similar event could harm our business dramatically.

Defects in the complex software on which our services depend could cause service interruptions that could damage our reputation and harm our business. Unlike many traditional suppliers and distributors of aviation parts, we are wholly dependent on the error-free functioning of our Web site and its associated software. Our e-marketplace depends on complex software developed internally and by third parties. Moreover, we are relying on third-party

## Edgar Filing: PARTSBASE INC - Form 10-Q

software to implement our transaction-based model, which software has not yet been integrated into our system. Software often contains defects, particularly when first introduced or when new versions are released. Our testing procedures may not discover software defects that affect our new or current services or enhancements until after they are deployed. These defects could cause service interruptions, which could damage our reputation or increase our service costs, cause us to lose revenue, delay market acceptance, or divert our development resources, any of which could severely harm our business, financial condition, and results of operations.

We could face liability for information retrieved from or transmitted over the internet and liability for aircraft products sold over the Internet. We could be exposed to liability with respect to third-party information that may be accessible through our Web site. If any third-party content information provided on our Web site contains errors, consumers potentially could make claims against us for losses incurred in reliance on that information. In addition, because defective aviation products can result in substantial losses of property or life, we have a relatively greater risk of being exposed to product liability claims arising out of or relating to aviation parts and products sold through our Web site, which could result in us incurring substantial defense costs and, if successful, liability, either of which could severely harm our business. We currently carry no policies, which would insure us against product liability claims.

### Risks Related to the Nurse Staffing Business

We can not predict our success as we have operated our business for a short period of time. We have a limited operating history, which will make it difficult for you to evaluate our performance. Our prospects will be dependent upon our ability to effectively implement our business model and adapt to changes in the nurse staffing business. If our business model is not viable or if we are unable to identify and address changes in our markets, we will not be able to grow our business, compete effectively or achieve profitability. These factors could cause our stock price to fall significantly.

If we are unable to attract qualified registered nurses for our supplemental nurse staffing business at reasonable costs, it could increase our operating costs and negatively impact our business. We rely significantly on our ability to attract and retain registered nurses who possess the skills, experience and licenses necessary to meet the requirements of our hospital and healthcare facility clients. We compete for registered nurses with other temporary healthcare staffing companies and with hospitals and healthcare facilities. We must continually evaluate and expand our registered nurse network to keep pace with our hospital and healthcare facility clients' needs. Currently, there is a shortage of qualified nurses in most areas of the United States, competition for nursing personnel is increasing, and salaries and benefits have risen. We may be unable to continue to increase the number of registered nurses that we recruit, decreasing the potential for growth of our business. Our ability to attract and retain registered nurses depends on several factors, including our ability to provide registered nurses with assignments that they view as attractive and to provide them with competitive benefits and wages. We cannot assure you that we will be successful in any of these areas. The cost of attracting registered nurses and providing them with attractive benefit packages may be higher than we anticipate and, as a result, if we are unable to pass these costs on to our hospital clients, our profitability could decline. Moreover, if we are unable to attract and retain registered nurses the quality of our services to our hospital clients may decline and, as a result, we could lose clients.

We operate in a highly competitive market and our success depends on our ability to remain competitive in obtaining and retaining hospital clients and

## Edgar Filing: PARTSBASE INC - Form 10-Q

registered nurses. The supplemental nurse staffing business is highly

5

competitive. We compete in regional and local markets with full-service staffing companies and with specialized temporary staffing agencies. Some of our competitors in the supplemental nurse staffing sector include American Mobile Nurse, Interim Healthcare Services and Nursefinders. Some of these companies may have greater marketing and financial resources than we do. We believe that the primary competitive factors in obtaining and retaining hospital clients are identifying qualified healthcare professionals for specific job requirements, providing qualified employees in a timely manner, pricing services competitively and effectively monitoring employees' job performance. We compete for registered nurses based on the quantity, diversity and quality of assignments offered, compensation packages and the benefits that we provide. Competition for hospital clients and registered nurses may increase in the future and, as a result, we may not be able to remain competitive. To the extent competitors seek to gain or retain market share by reducing prices or increasing marketing expenditures, we could lose revenues or hospital clients and our margins could decline, which could seriously harm our operating results and cause the price of our stock to decline. In addition, the development of alternative recruitment channels could lead our hospital clients to bypass our services, which would also cause our revenues and margins to decline.

Our business depends upon our ability to secure and fill new orders from our hospital clients because we do not have long-term agreements or exclusive contracts with them. We do not have long-term agreements or exclusive guaranteed order contracts with our hospital clients. The success of our business is dependent upon our ability to continually secure new orders from hospitals and to fill those orders with our registered nurse employees. Our hospital clients are free to place orders with our competitors and choose to use temporary healthcare professionals that our competitors offer them. Therefore, we must maintain positive relationships with our hospital clients. If we fail to maintain positive relationships with our hospital clients, we may be unable to generate new supplemental healthcare professional orders and our business may be adversely affected.

Fluctuations in patient occupancy at the hospital of our clients may adversely affect the demand for our services and therefore the profitability of our business. Demand for our supplemental healthcare staffing services is significantly affected by the general level of patient occupancy at our hospital clients' facilities. When occupancy increases, supplemental employees are often added before full-time employees are hired. As occupancy decreases, hospital clients typically will reduce their use of temporary employees before undertaking layoffs of their regular employees. In addition, we may experience more competitive pricing pressure during periods of occupancy downturn. Occupancy at our hospital clients' facilities also fluctuates due to the seasonality of some elective procedures. We are unable to predict the level of patient occupancy at any particular time and its effect on our revenues and earnings.

Healthcare reform could negatively impact our business opportunities, revenues and margins. The U.S. government has undertaken efforts to control growing healthcare costs through legislation, regulation and voluntary agreements with medical care providers and drug companies. In the recent past, the U.S. Congress has considered several comprehensive healthcare reform proposals. The proposals were generally intended to expand healthcare coverage for the uninsured and reduce the growth of total healthcare expenditures. While the U.S. Congress did not adopt any comprehensive reform proposals, members of Congress may raise similar proposals in the future. If any of these proposals

## Edgar Filing: PARTSBASE INC - Form 10-Q

are approved, hospitals and other healthcare facilities may react by spending less on healthcare staffing, including nurses. If this were to occur, we would have fewer business opportunities, which could have a material adverse effect on our business. State governments have also attempted to control the growth of healthcare costs. For example, the state of Massachusetts has recently implemented a regulation that limits the hourly rate paid to temporary nursing agencies for registered nurses, licensed practical nurses and certified nurses aides. While the current regulation does not apply to us, if similar regulations were to be applied in Florida, our revenues and margins could decrease. Furthermore, third party payors, such as health maintenance organizations, increasingly challenge the prices charged for medical care. Failure by hospitals to obtain full reimbursement from those third party payors could reduce the demand or the price paid for our services.

We operate in a regulated industry and changes in regulations or violations of regulations may result in increased costs or sanctions that could reduce our revenues and profitability. The healthcare industry is subject to extensive and complex federal and state laws and regulations related to professional licensure, conduct of operations, payment for services and payment for referrals. If we fail to comply with the laws and regulations that are directly applicable to our business, we could suffer civil and/or criminal penalties or be subject to injunctions or cease and desist orders. Our business is generally not subject to the extensive and complex laws that apply to our hospital clients, including laws related to Medicare, Medicaid and other federal and state healthcare programs. However, these laws and regulations could indirectly affect the demand or the prices paid for our services. For example, our hospital clients could suffer civil and/or criminal penalties and/or be excluded from

6

participating in Medicare, Medicaid and other healthcare programs if they fail to comply with the laws and regulations applicable to their businesses. In addition, our hospital clients could receive reduced reimbursements or be excluded from coverage, because of a change in the rates or conditions set by federal or state governments. In turn, violations of or changes to these laws and regulations that adversely affect our hospital clients could also adversely affect the prices that these clients are willing or able to pay for our services.

Significant legal actions could subject us to substantial liabilities. In recent years, our hospital clients have become subject to an increasing number of legal actions alleging malpractice or related legal theories. Because our registered nurses provide medical care, claims may be brought against our registered nurses and us relating to the quality of medical care provided by our registered nurse employees while on assignment at our hospital clients. We and our registered nurse employees may at times be named in these lawsuits regardless of our contractual obligations or the standard of care provided by our registered nurses. In some instances, we may be required to indemnify hospital clients contractually against some or all of these potential legal actions. Also, because our registered nurses are our employees, we may be subject to various employment claims and contractual disputes regarding the terms of a registered nurse's employment. We have two layers of professional and general liability coverage. The professional and general liability coverage consists of primary coverage with limits of \$1 million per occurrence and \$3 million in the aggregate and an umbrella policy with limits of \$5 million. However, our insurance coverage may not cover all claims against us or continue to be available to us at a reasonable cost. Also, we may not be able to pass on all or any portion of increased insurance costs to our hospital clients. If we are unable to maintain adequate insurance coverage or if any claims are not covered by insurance, we may be exposed to substantial liabilities.

## Edgar Filing: PARTSBASE INC - Form 10-Q

We may be legally liable for damages resulting from our hospital clients' mistreatment of our healthcare personnel. Because we are in the business of placing our registered nurses in the workplaces of other companies, we are subject to possible claims by our registered nurses alleging discrimination, sexual harassment, negligence and other similar activities by our hospital clients. The cost of defending such claims, even if groundless, could be substantial and the associated negative publicity could adversely affect our ability to attract and retain qualified individuals in the future.

Difficulties in developing and maintaining our management information and communications systems may result in increased costs that reduce our profitability. Our ability to deliver our staffing services to our hospital clients and manage our internal systems depends to a large extent upon the performance of our management information and communications systems, currently under development. If these systems do not adequately support our operations, or if we are required to incur significant additional costs to maintain or expand these systems, our business and financial results could be materially adversely affected.

Our operations may deteriorate if we are unable to continue to attract, develop and retain our sales personnel. Our success is dependent upon the performance of our sales personnel, especially client registered nurse sales managers, hospital account coordinators and recruiters. The number of individuals who meet our qualifications for these positions is limited and we may experience difficulty in attracting qualified candidates. In addition, we commit substantial resources to the training, development and support of these individuals. Competition for qualified sales personnel in the line of business in which we operate is strong and there is a risk that we may not be able to retain our sales personnel after we have expended the time and expense to recruit and train them.

### Risks Associated with Potential Acquisitions or Investments

We may acquire or make investments in businesses, products, services or technologies some of which may not be complementary or related to our current businesses. From time to time we may have discussions with companies regarding our acquiring, or investing in, their businesses, products, services or technologies. We cannot assure you that we will be able to identify suitable acquisition or investment candidates. Even if we do identify suitable candidates, we cannot assure you that we will be able to consummate such acquisitions or investments on commercially acceptable terms. If we buy a company, we could have difficulty in assimilating that company's personnel and operations. In addition, the key personnel of the acquired company may decide not to work for us. If we make other types of acquisitions, we could have difficulty in assimilating the acquired products, services or technologies into our operations. These difficulties could disrupt our ongoing business, distract our management and employees, increase our expenses and adversely affect our results of operations due to accounting requirements such as goodwill. Furthermore, we may incur debt or issue equity securities to pay for any future acquisitions. The issuance of equity securities could be dilutive to our

7

existing stockholders. We do not have established criteria for evaluating acquisition or investment opportunities.

Future growth of our operations may make additional capital or financing necessary. We anticipate that we have sufficient working capital to meet our

## Edgar Filing: PARTSBASE INC - Form 10-Q

working capital needs for at least the next 12 months. However, we may need to raise additional funds in the future in order to:

- o Finance unanticipated working capital requirements;
- o Develop or enhance existing services or products;
- o Respond to competitive pressures; and
- o Acquire complementary businesses, technologies, content or products.

We cannot be certain that we will be able to obtain needed funds on favorable terms, if at all. If we decide to raise funds by issuing additional equity securities, investors in our common stock may experience additional dilution.

We may be unable to obtain sufficient funds to effectively operate our business, which could damage our competitive position. In the rapidly evolving and highly competitive e-commerce industry, our future prospects will depend heavily on our ability to take advantage of new business opportunities and respond to technological developments. There can be no assurances that we will have sufficient capital resources to respond to business opportunities, technological advancements and competitive pressures. A lack of capital resources could seriously damage our competitive position and prospects.

You may experience significant volatility in the market value of our shares and may be unable to sell our stock on terms favorable to you. Because we have no history of profitability, it will be difficult for investors in the public market to determine the intrinsic value of our shares. In addition, our market capitalization and public float is small relative to other public companies in the business-to-business e-commerce or other sectors. As a result, the price at which our common stock trades may be more volatile than those of other public companies and, as a result, it may be more difficult for you to sell our stock on terms favorable to you. In addition, any significant volatility in the market price of our common stock could result in the initiation of securities class action litigation, which could divert our management and financial resources from more productive uses.

8

Exhibit 99.2

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, subsections (a) and (b) of Section 1350, Chapter 63 of Title 18 of the United States Code, each of the undersigned officers of PartsBase, Inc. (the "Company") does hereby certify, to such officer's knowledge that:

(1) The Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in this Report fairly presents in all material respects, the financial condition and results of operations of the Company.

Edgar Filing: PARTSBASE INC - Form 10-Q

/s/Robert A. Hammond, Jr.  
-----

Robert A. Hammond, Jr.  
Chief Executive Officer  
November 14, 2002

/s/Mark Weicher  
-----

Mark Weicher  
Chief Financial Officer  
November 14, 2002