COGNITRONICS CORP
Form 10-Q
May 15, 2002

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CONFORMED

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

FORM 10-Q

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

For the period ended March 31, 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 0-3035

COGNITRONICS CORPORATION
(Exact name of registrant as specified in its charter)

NEW YORK	13-1953544
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3 Corporate Drive, Danbury, Connecticut	06810-4130
(Address of principal executive offices)	(Zip Code)

(203) 830-3400
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for at least the past 90 days. Yes x No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 2001.

Common Stock, par value $0.20 per share -- 5,415,793 shares
Part I, Item 1.

COGNITRONICS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	March 31, 2002 (Unaudited)	December 31, 2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 8,050	$ 7,731
Marketable securities	5,900	6,400
Accounts receivable, net	2,157	2,035
Inventories	5,368	5,682
Deferred income taxes	1,115	1,110
Other current assets including loans to officers of $1,566 and $1,516	2,642	2,431
TOTAL CURRENT ASSETS	25,232	25,389
PROPERTY, PLANT AND EQUIPMENT, NET	1,616	1,514
GOODWILL, NET	319	319
DEFERRED INCOME TAXES	811	812
OTHER ASSETS	483	539
	$28,461	$28,573
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,115	$ 871
Accrued compensation and benefits	1,167	1,109
Income taxes payable	379	290
Current maturities of debt	46	46
Other accrued expenses	592	319
TOTAL CURRENT LIABILITIES	3,299	2,635
LONG-TERM DEBT	14	26
OTHER NON-CURRENT LIABILITIES	2,327	2,314
STOCKHOLDERS' EQUITY		
Common Stock, par value $.20 a share, authorized 10,000,000 shares; issued 5,863,229 shares	1,173	1,173
Additional paid-in capital	13,322	13,322
Retained earnings	12,600	13,413
Cumulative other comprehensive loss	(277)	(260)
Unearned compensation	(448)	(506)
	26,370	27,142
Less cost of 447,436 and 445,936 common shares in treasury	(3,549)	(3,544)
TOTAL STOCKHOLDERS' EQUITY	22,821	23,598
	$28,461	$28,573

See Note to Condensed Consolidated Financial Statements.

COGNITRONICS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME(LOSS) (UNAUDITED)
(dollars in thousands except per share amounts)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
SALES	$ 3,142	$4,939
COST AND EXPENSES:		
Cost of products sold	1,939	2,623
Research and development	858	704
Selling, general and administrative	1,644	1,735
Amortization of goodwill		83
Other (income)expense, net	(49)	(169)
	4,392	4,976
Income(loss) before income taxes	(1,250)	(37)
PROVISION(BENEFIT) FOR INCOME TAXES	(437)	(14)
NET INCOME(LOSS)	(813)	(23)
Currency translation adjustment	(17)	
COMPREHENSIVE INCOME(LOSS)	$ (830)	$ (23)
NET INCOME(LOSS) PER SHARE:		
Basic	$(.15)	$.00
Diluted	$(.15)	$.00
Weighted average number of shares outstanding:		
Basic	5,411,890	5,508,111
Diluted	5,411,890	5,508,111

See Note to Condensed Consolidated Financial Statements.

COGNITRONICS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

	Three Months Ended March 31, 2002	2001
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 125	$3,919
INVESTING ACTIVITIES		
Purchase of marketable securities	(1,600)	(1,200)
Sales of marketable securities	2,100	2,400
Loans to employees	(34)	(331)
Additions to property, plant and equipment, net	(253)	(138)
NET CASH PROVIDED BY INVESTING ACTIVITIES	213	731
FINANCING ACTIVITIES		
Repurchase of 1,500 and 167,750 shares for treasury	(5)	(1,225)
Issuance of debt		34
Principal payments on debt	(12)	(13)
Common stock issued pursuant to employee stock plans, 900 shares		6
NET CASH PROVIDED(USED) BY FINANCING ACTIVITIES	(17)	(1,198)
EFFECT OF EXCHANGE RATE DIFFERENCES	(2)	
INCREASE IN CASH AND CASH EQUIVALENTS	319	3,452
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	7,731	3,499
CASH AND CASH EQUIVALENTS - END OF PERIOD	$8,050	$6,951
INCOME TAXES PAID	$ 3	$ 144
INTEREST PAID	$ 10	$ 4

See Note to Condensed Consolidated Financial Statements.

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NOTE TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2002

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date. For further information, refer to the consolidated financial statements and footnotes thereto and the quarterly financial data included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Inventories (in thousands):

	March 31, 2002	December 31, 2001
Finished and in process	$3,484	$3,455
Materials and purchased parts	1,884	2,227
	$5,368	$5,682

Other Non-Current Liabilities (in thousands):

	March 31, 2002	December 31, 2001
Accrued supplemental pension plan	$ 501	$ 511
Accrued deferred compensation	269	274
Deferred directors' fees	289	269
Accrued pension expense	665	658
Accrued post-retirement benefit	844	843
	2,568	2,555
Less current portion	241	241
	$2,327	$2,314

Income Per Share

In computing basic earnings per share, the dilutive effect of stock options and warrants are excluded, whereas for dilutive earnings per share they are included.

Adoption of Financial Accounting Standard 142 ("FAS 142")

Effective January 1, 2002, the Company adopted FAS No. 142. Under FAS 142, goodwill is no longer amortized, rather it is subject to a periodic impairment test based on its fair value. If FAS 142 was effective as of January 1, 2001, then the pro forma results of operations would have been

as follows (dollars in thousands):

	As Reported	Adjustment	Pro Forma
Pretax Income	$(37)	$83	$46

Net Income	$(23)	$76	$53
	====	===	===
Earnings per share:			
Basic	$.00		$.01
	====		====
Diluted	$.00		$.01
	====		====

Operations by Industry Segments and Geographic Areas:

	Three Months Ended March 31,	
	2002	2001
Net Sales		
United States	$ 1,557	$ 3,099
Europe	1,585	1,840
Intercompany eliminations		
	$ 3,142	$ 4,939
Operating Profit(loss)		
United States	$ (967)	$ 83
Europe	14	(10)
Intercompany eliminations	3	3
	(950)	76
General corporate expense	349	282
Other (income)expense	(49)	(169)
Income(loss) before income taxes	$(1,250)	$ (37)
Total Assets		
United States	$25,780	$27,718
Europe	2,703	3,904
Intercompany eliminations	(22)	(41)
	$28,461	$31,581

Item 2.

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

Results of Operations

For the quarter ended March 31, 2002, the Company reported a loss of $813 thousand ($.15 per diluted share), versus a loss of $23 thousand ($.00 per diluted share) in the comparable 2001 quarter.

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Consolidated sales for the first quarter of 2002 decreased $1.8 million, or 36%, from the prior year period. Sales of domestic operations decreased $1.5 million, or 50%, due to the reduction in infrastructure buildout, particularly by CLEC's, and capex reduction by the major telecommunication service providers as previously noted by the Company. The UK distributorship operations sales for the quarter ended March 31, 2002 decreased $.3 million (14%) from the prior year period. This is attributable to decreased sales volume to its largest customer and unfavorable foreign exchange variation.

The gross margin percentage was approximately 38% in the 2002 quarter versus 47% in the prior year. This decrease is attributable to decrease in the sales volume of the domestic operations.

Research and development expense increased 22% from the same period in 2001 primarily due to higher salaries attributable to higher headcount expenses and higher contract engineering services expenses. The Company's increased research and development efforts reflect work on next generation equipment.

Selling, general and administrative expense decreased $91,000, or 5%, due to lower expenses at the Company's UK distributorship operations due to lower personnel and related expenses.

Other (income) expense decreased due to lower interest earned on cash balances and marketable securities, reflecting lower interest rates.

The Company's effective tax benefit rate decreased to 35% in 2002 from 38% in 2001. This reduction reflects lower tax-free income, offset, in part, by lower goodwill expense.

Under Statement of Financial Accounting Standards No. 109, the Company has recognized future tax benefits that management believes will be realized.

Liquidity and Sources of Capital

Net cash flow from operations for the three months ended March 31, 2002 was $.1 million versus $3.9 million in 2001; this decrease in cash flow is attributable to higher loss. The decrease in cash provided by investing activities of $.2 million in 2002 versus $.7 million in 2001 reflects lower net sales of marketable securities in 2002.

Working capital and the ratio of current assets to current liabilities was $21.9 million and 7.6:1 at March 31, 2002 compared to $22.8 million and 9.6:1 at December 31, 2001. The decrease in working capital in the three months ended March 31, 2002 is primarily due to the results of operations.

During the remainder of 2002, the Company may repurchase up to an additional 253,792 shares of its common stock and anticipates purchasing $.5 million of equipment and incurring increased research and development expenditures. Management believes that its cash and cash equivalents, marketable securities and the cash flow from operations in 2002 will be sufficient to meet these needs.

Certain Factors That May Affect Future Results

From time to time, information provided by the Company, statements made by its employees or information included in its filings with the Securities and Exchange Commission (including this Form 10-Q) may contain statements which are not historical facts, so-called "forward-looking statements". These forward-looking statements are made pursuant to the safe harbor provisions

of the Private Securities Litigation Reform Act of 1995. The Company's actual future results may differ significantly from those stated in any forward-looking statements. Forward-looking statements involve a number of risks and uncertainties, including, but not limited to, variability of sales volume from quarter to quarter, product demand, pricing, market acceptance, litigation, risk of dependence on significant customers and third party suppliers, intellectual property rights, risks in product and technology development and other risk factors detailed in this Quarterly Report on Form 10-Q and in the Company's other Securities and Exchange Commission filings.

Item 3. Market Risk

The Company does not use derivative financial instruments. The Company has Marketable Securities, which are exposed to changes in interest rates. Due to the term of these securities and/or their variable rate provisions, a change in interest rates would not have a material impact on their value.

Exchange rate fluctuations will impact the results of operation and the net assets of the Company's UK distributorship operations. At March 31, 2002, the UK distributorship operations had net assets of $1.3 million.

Part II

Item 6. Exhibits and Reports on Form 8-K

(b) No reports on Form 8-K were filed during the current quarter.

SIGNATURE

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

COGNITRONICS CORPORATION
Registrant

Date: May 15, 2002

By /s/ Garrett Sullivan
Garrett Sullivan, Treasurer
and Chief Financial Officer