

Edgar Filing: COGNITRONICS CORP - Form 10-Q

COGNITRONICS CORP
Form 10-Q
May 15, 2003

CONFORMED

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 period ended March 31, 2003

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, 2003.

Common Stock, par value \$0.20 per share -- 5,564,241 shares
Part I, Item 1.

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

	March 31, 2003 ---- (Unaudited)	December 31, 2002 ----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,198	\$ 2,732
Marketable securities	7,707	8,387
Accounts receivable, net	2,080	2,038
Inventories	3,899	3,687
Tax recoverable	2,028	2,028
Other current assets including loans to officers of \$1,910 and \$1,906	2,073	1,982
	-----	-----
TOTAL CURRENT ASSETS	19,985	20,854
PROPERTY, PLANT AND EQUIPMENT, NET	1,233	1,315
GOODWILL, NET	319	319
OTHER ASSETS	285	324
	-----	-----
	\$21,822	\$22,812
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,115	\$ 952
Accrued compensation and benefits	1,274	1,252
Income taxes payable	440	441
Current maturities of debt	3	26
Other accrued expenses	540	394
	-----	-----
TOTAL CURRENT LIABILITIES	3,372	3,065
NON-CURRENT LIABILITIES	2,365	2,413
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	12,374	12,374
Retained earnings	5,644	6,969
Cumulative other comprehensive loss	(281)	(298)
Unearned compensation	(453)	(512)
	-----	-----
	18,457	19,706
Less cost of 298,988 common shares in treasury	(2,372)	(2,372)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	16,085	17,334
	-----	-----
	\$21,822	\$22,812
	=====	=====

See Note to Condensed Consolidated Financial Statements.

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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,	
	2003 ----	2002 ----
SALES	\$ 2,496	\$ 3,142
	-----	-----
COST AND EXPENSES:		
Cost of products sold	1,578	1,939
Research and development	673	858
Selling, general and administrative	1,609	1,644
Other (income) expense, net	(39)	(49)
	-----	-----
	3,821	4,392
	-----	-----
Loss before income taxes	(1,325)	(1,250)
BENEFIT FOR INCOME TAXES		(437)
	-----	-----
NET LOSS	(1,325)	(813)
Currency translation adjustment	17	(17)
	-----	-----
COMPREHENSIVE LOSS	\$ (1,308)	\$ (830)
	=====	=====
NET LOSS PER SHARE:		
Basic	\$ (.23)	\$ (.15)
	=====	=====
Diluted	\$ (.23)	\$ (.15)
	=====	=====
Weighted average number of shares outstanding:		
Basic	5,654,494	5,411,890
	=====	=====
Diluted	5,654,494	5,411,890
	=====	=====

See Note to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2003	2002
NET CASH PROVIDED (USED) BY		
OPERATING ACTIVITIES	\$ (1,129)	\$ 125
INVESTING ACTIVITIES		
Purchase of marketable securities	(800)	(1,600)
Sales of marketable securities	1,433	2,100
Loans to employees		(34)
Additions to property, plant and equipment, net	(19)	(253)
NET CASH PROVIDED BY INVESTING ACTIVITIES	614	213
FINANCING ACTIVITIES		
Repurchase of 1,500 shares for treasury		(5)
Principal payments on debt	(23)	(12)
NET CASH USED BY FINANCING ACTIVITIES	(23)	(17)
EFFECT OF EXCHANGE RATE DIFFERENCES	4	(2)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(534)	319
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	2,732	7,731
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$2,198	\$8,050
INCOME TAXES PAID	\$ 0	\$ 3
INTEREST PAID	\$ 4	\$ 10

See Note to Condensed Consolidated Financial Statements.

NOTE TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2003

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The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The balance sheet at December 31, 2002 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, 2002.

Inventories (in thousands):

	March 31, 2003 ----	December 31, 2002 ----
Finished and in process	\$2,682	\$2,273
Materials and purchased parts	1,217	1,414
	-----	-----
	\$3,899	\$3,687
	=====	=====

Non-Current Liabilities (in thousands):

	March 31, 2003 ----	December 31, 2002 ----
Accrued supplemental pension plan	\$ 455	\$ 466
Accrued deferred compensation	250	254
Deferred directors' fees	351	332
Accrued pension expense	741	777
Accrued post-retirement benefit	856	856
	-----	-----
	2,653	2,685
Less current portion	288	272
	-----	-----
	\$2,365	\$2,413
	=====	=====

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.

Stock Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value at the date of grant. The

Company accounts for stock option grants in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and therefore recognizes no compensation expense for stock options granted.

If the Company had elected to recognize compensation expense for the 1990

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Stock Option Plan and the 1967 Stock Purchase Plan based on the fair value at the grant date, consistent with the method presented by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation", the pro forma net income (loss) and net income (loss) per share would be as follows (in thousands except per share information):

			Three Months Ended March 31,	
			----- 2003	2002 -----
Net loss	As reported		\$ (1,325)	\$ (813)
			=====	=====
	Pro forma		\$ (1,435)	\$ (923)
			=====	=====
Net loss per share	As reported	Basic	\$ (.23)	\$ (.15)
		Diluted	\$ (.23)	\$ (.15)
			=====	=====
	Pro forma	Basic	\$ (.25)	\$ (.17)
Diluted		\$ (.25)	\$ (.17)	
			=====	=====

Operations by Industry Segments and Geographic Areas:

		Three Months Ended March 31,	
		----- 2003	2002 -----
Net Sales			
	United States	\$ 680	\$ 1,557
	Europe	1,816	1,585
		-----	-----
		\$ 2,496	\$ 3,142
		=====	=====
Operating Profit(loss)			
	United States	\$ (1,210)	\$ (967)
	Europe	189	14
	Intercompany eliminations		3
		-----	-----
		(1,021)	(950)
	General corporate expense	343	349
	Other (income) expense	(39)	(49)
		-----	-----
	Income(loss) before income taxes	\$ (1,325)	\$ (1,250)
		=====	=====
Total Assets			
	United States	\$18,907	\$25,780
	Europe	2,922	2,703
	Intercompany eliminations	(7)	(22)
		-----	-----
		\$21,822	\$28,461
		=====	=====

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

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For the quarter ended March 31, 2003, the Company reported a loss of \$1.3 million (\$.23 per diluted share), versus a loss of \$.8 million (\$.15 per diluted share) in the comparable 2002 quarter.

Consolidated sales for the first quarter of 2003 decreased \$.6 million, or 21%, from the prior year period. Sales of domestic operations decreased \$.9 million, or 56%, due to the continuing reduction in capital expenditures by the major telecommunications service providers as previously noted by the Company. This reduction was offset, in part, by a \$.2 million (15%) increase from the prior year in UK distributorship operation sales. This increase is primarily attributable to foreign exchange rates.

The gross margin percentage was approximately 37% in the 2003 quarter versus 38% in the prior year. This decrease is attributable to decrease in the sales volume of the domestic operations, offset, in part, by improved product mix in the UK distributorship operations.

Research and development expense decreased \$.2 million (22%) from the same period in 2002 primarily due to lower personnel costs attributable to lower headcount expenses and lower contract engineering services expenses.

Selling, general and administrative expense decreased \$35,000, or 2%, due to lower expenses at the Company's domestic operations due to lower personnel and related expenses, offset, in part, by higher expenses at the UK distributorship operations. The increase in the UK distributorship expenses is primarily due to exchange rates.

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

No tax benefit was provided for the losses incurred in 2003 since the Company cannot determine that the realization of net deferred tax asset is more likely than not.

Liquidity and Sources of Capital

Net cash used from operations for the three months ended March 31, 2003 was \$1.1 million versus cash provided of \$.1 million in 2002; this decrease in cash flow is attributable to the higher loss. The increase in cash provided by investing activities of \$.6 million in 2003 versus \$.2 million in 2002 reflects higher net sales of marketable securities and lower capital expenditures in 2003.

Working capital and the ratio of current assets to current liabilities was \$16.6 million and 5.9:1 at March 31, 2003 compared to \$17.8 million and 6.8:1 at December 31, 2002.

During the remainder of 2003, the Company may repurchase up to an additional 253,792 shares of its common stock and anticipates purchasing \$.3 million of equipment. Management believes that its cash and cash equivalents and marketable securities will be sufficient to meet these needs in 2003.

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

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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 operations and the net assets of the Company's UK distributorship operations. At March 31, 2003, the UK distributorship operations had net assets of \$1.5 million.

Item 4. Controls and Procedures

Cognitronics Corporation'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. Based on that evaluation, the Chief Executive Officer and 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 factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

Part II

Item 6. Exhibits and Reports on Form 8-K

99.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(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.

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COGNITRONICS CORPORATION
Registrant

Date: May 14, 2003

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

CERTIFICATION

I, Brian J. Kelley certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cognitronics Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash

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flows of the registrant as of, and for, the periods presented in this quarterly report;

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

Date: May 14, 2003

/s/ Brian J. Kelley
Brian J. Kelley
Chief Executive Officer

CERTIFICATION

I, Garrett Sullivan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cognitronics Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

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

Date: May 14, 2003

/s/ Garrett Sullivan
Garrett Sullivan
Chief Financial Officer