COGNITRONICS CORP
Form 10-K
April 02, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000,

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
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.20 per share	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 1, 2001:

Common Stock, par value $0.20 per share -- $38,113,000

The number of shares outstanding of each of the issuer's classes of common stock as of March 1, 2001:

Common Stock, par value $0.20 per share --5,519,378 shares

Documents incorporated by reference: Portions of the Proxy Statement for the annual meeting of stockholders to be held on May 17, 2001 are incorporated by reference into Part III.

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PART I

McIAS is a trademark of Cognitronics Corporation.
UNIX is a registered trademark of Santa Cruz Operation, Inc.

PART I

Item 1. Business

(a) Cognitronics Corporation (the "Company") was incorporated in January 1962 under the laws of the State of New York. The Company designs, manufactures and markets voice processing systems.

(b) The Company operates in two segments of the voice processing industry. In the United States, the Company designs, manufactures and sells equipment for use in telephone central offices. In Europe, the Company distributes equipment for use on customers' premises.

(c) (i) A description of the fields of voice processing in which the Company operates and its products are as follows:

Domestic Operations. These products are sold directly to telecommunication service providers or through switch manufacturers who distribute the Company's products.

Intelligent Announcers. The Company's McIAS(TM) 16xx product family has been primarily used by Incumbent Local Exchange Carriers (ILECs) and Competitive Local Exchange Carriers (CLECs) to provide voice announcements in connection with custom calling features (CLASS), such as selective call forwarding and caller originator trace. Number change intercept is another important feature provided.

The 16xx is available in two versions: a lower cost configuration which provides network announcement functionality, is available as a 1607/68 (1 T-1 span capacity) and a 1610/68 (3 T-1 span capacity). The second version of this series is a UNIX(R)-based platform which utilizes many of the same components as the /68 series and is known as McIAS 16xx/IP. "IP" designates an Intelligent Peripheral, indicating the ability to serve as a voice peripheral to any manufacturer's switch and delivering multiple application capability.

The McIAS 16xx/IP is available as a 1607/IP, a 1610/IP, and a 1623/IP. Features include an open architecture, scalable processing power and disk drives, and centralized administration. Application examples include number change with call completion, automated attendant, voice mail and time and temperature announcements.

A new product line, the CX Series, was announced and sales began in 1999. This family of products provides greater capacity and increased functionality to meet telecommunication service providers' network needs in Advanced Intelligent Network ("AIN") and packet switched environments. Included in the CX capabilities are a new MultiResource Line Card and support for several key AIN protocols such as SS7, SR-3511, GR-1129-CORE and ISDN-PRI. The CX is also designed and planned to be IP Telephony and ATM ready by providing key packet switched network support such as MGCP, MEGACO, RTP/RTCP, H. 323, SIP and others.

Passive Announcers. These announcers are used by the ILECs and CLECs to inform callers about network conditions or procedures to invoke the use of a service. The Company has been a major supplier to the industry of passive announcers and incorporates these features in products such as the Model 688 Automatic Number Announcer, McIAS 950, and the McIAS 16xx product family.

Call Processors. The Company's McIAS 950 is also an automated attendant and audiotext system with the flexibility to offer the caller various choices (dial an extension, revert to an operator, etc.). The system also offers a wide variety of menu-selected information to callers. The McIAS 950 is designed for use in both telephone network environments and the commercial business market.

European Distributorship Operations. Dacon Electronics Plc., based in Hertfordshire, England, distributes call management and voice processing products, including products manufactured by the Company, in Europe.

(ii) Status of publicly announced new products or industry segments requiring material investment. Inapplicable.

(iii) The Company has adequate sources for obtaining raw materials, components and supplies to meet production requirements and did not experience difficulty during 2000 in obtaining such materials, supplies and components.

(iv) The Company relies on technological expertise, responsiveness to users' needs and innovations and believes that these are of greater significance in its industry than patent protection. There can be no assurance that patents owned or controlled by others will not be encountered and asserted against the Company's voice processing products or that licenses or other rights under such patents would be available, if needed. The Company has registered trademarks and names which the Company considers important in promoting the business of the Company and its products.

(v) Seasonality. Inapplicable.

(vi) The discussion of liquidity and sources of capital as set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations is included in Item 7 of this Annual Report on Form 10-K and is incorporated herein by reference.

(vii) In 2000, revenues included sales of $12.6 million to Siemens Carrier Networks LLC. and $2.8 million to Nortel Inc. The Company's U.K. operations had sales of $3.7 million to British Telecommunications Plc in 2000. Over the past several years, a major portion of the revenues of the domestic operations has come from two or three large customers, and a significant portion of the revenues of the UK operations has come from one customer. Accordingly, the loss of any of these customers could have a material adverse impact on the Company's results of operations.

(viii) The dollar amount of orders believed by the Company to be firm as of December 31, 2000 and 1999, amounted to $1.1 million and $.5 million, respectively. Substantially all of the orders as of December 31, 2000, can reasonably be expected to be filled during 2001.

(ix) Business subject to renegotiation. Inapplicable.

(x) The Company competes, and expects to compete, in fields noted for rapid technological advances and the frequent introduction of new products and services. The Company's products are similar to those manufactured, or capable of being manufactured, by a number of companies, some of which are well-established corporations with financial, personnel and technical resources substantially larger than those of the Company. The Company's ability to compete in the future depends on its ability to maintain the technological and performance advantages of its current products and to introduce new products and applications that achieve market acceptance. Future research and development expenditures will be based, in part, on future results of operations. There are

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no assurances that the Company will be able to successfully develop and market new products and applications.

(xi) Expenditures for research and development activities, as determined in accordance with generally accepted accounting principles, amounted to $2.4 million in 2000, $2.1 million in 1999 and $2.0 million in 1998. In addition, the estimated dollar amount spent on the improvement of existing products or techniques was $.2 million in each of the years.

(xii) Material effects of compliance with Federal, State or local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. Inapplicable.

(xiii) At December 31, 2000, the Company and its subsidiaries employed 103 people.

(d) Sales to foreign customers primarily represent sales of Dacon Electronics Plc. (incorporated in the United Kingdom) of $7.3 million in 2000, $7.2 million in 1999 and $8.3 million in 1998. Additional information about foreign operations is included in Note K to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K and is incorporated herein by reference.

Further, there were export-type sales (primarily North America) of approximately $.2 million in 2000, $3.5 million in 1999 and $2.4 million in 1998. Export sales do not involve any greater business risks than do sales to domestic customers and, in certain instances, the Company obtains an irrevocable letter of credit or payment prior to shipment of products to the customer. Selling prices and gross profit margins on export-type sales are comparable to sales to domestic customers.

Item 2. Properties

The facilities of the Company and its subsidiaries are located as follows:

LOCATION	DESCRIPTION	FEET	DATE
Danbury, Connecticut: 3 Corporate Drive	Office, engineering, production and service facility	40,000	10/31/03
Hemel Hempstead Hertfordshire, United Kingdom 1 Enterprise Way	Office, distribution and service facility	12,000	7/31/01

The Company considers each of these facilities to be in good condition and adequate for the Company's business.

Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

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

Inapplicable.

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Executive Officers of the Company

The executive officers of the Company, their positions with the Company and ages as of March 1, 2001 are as follows:

NAME	POSITION(S) AND OFFICE(S)	AGE
Brian J. Kelley	President and Chief Executive Officer; Director	49

Kenneth G. Brix	Vice President	54
Harold F. Mayer	Secretary	71
Michael N. Keefe	Vice President	45
Roy A. Strutt	Vice President; Director	44
Garrett Sullivan	Treasurer and Chief Financial Officer	55
Emmanuel A. Zizzo	Vice President	60

No family relationships exist between the executive officers of the Company. Each of the executive officers was elected to serve until the next annual meeting of the Board of Directors or until his successor shall have been elected and qualified.

Mr. Kelley has been President and Chief Executive Officer of the Company since 1994. Prior to that he held senior management positions with TIE/Communications, Inc. from 1986 to 1994.

Mr. Brix has been a Vice President of the Company since 1994 with responsibility for U.S. sales and marketing. Prior to that he held senior management positions from 1987 to 1994.

Mr. Mayer has been Secretary of the Company since 1975. He was Treasurer from 1974 to 1989 and a Vice President of the Company from 1986 to 1996.

Mr. Keefe has been a Vice President of the Company since 1993 with responsibility for engineering, prior to which he was Manager of Software Planning and Development from 1992 until 1993 and senior engineer for more than five years. He has been employed by the Company since 1980.

Mr. Strutt has been a Vice President of the Company since 1994 with responsibility for European operations. Since 1992, he has been Managing Director of Dacon Electronics Plc, which was acquired by the Company in 1992, and Director of Sales and Operations from 1990 to 1992. Prior to that he was Managing Director of Automatic Answering Ltd. for four years.

Mr. Sullivan has been Treasurer and Chief Financial Officer of the Company since 1989. Prior to that he was Treasurer and Chief Financial Officer of Fundsnet, Inc., an electronic funds transfer company, from 1986 until 1989. He was employed by The Singer Co. from 1977 to 1986, where his most recent position was Vice President-Finance, Asia Division.

Mr. Zizzo has been a Vice President of the Company since 1995 with responsibility for operations, primarily manufacturing, purchasing and physical facilities, prior to which he had been Director of Operations since 1994. He was an independent consultant from 1993 to 1994. Prior to that he held senior management positions with TIE/Communications, Inc.for more than five years.

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PART II

Item 5. Market for Company's Common Equity and Related Stockholder Matters

(a) and (b) Cognitronics' Common Stock is traded on the American Stock Exchange under the symbol CGN. On March 1, 2001, there were 711 stockholders of record; the Company estimates that the total number of beneficial owners was approximately 3,200. Information on quarterly stock prices is set forth in Item 8 of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) The Company has never paid a cash dividend on its Common Stock and has used its cash for the development of its business. In 1998, 2000 and 2001, the Company announced its intention to repurchase up to 300,000, 200,000 and 500,000 shares, respectively, of its Common Stock. The Company repurchased 150 shares of its Common Stock in 1998, 105,750 in 1999 and 331,000 in 2000. The Company has no present intention of paying a cash dividend, and payment of any future dividends will depend upon the Company's earnings, financial condition and other relevant factors.

Item 6. Selected Financial Data

	Year ended December 31, (in thousands except per share data)				
OPERATING RESULTS	2000	1999	1998	1997	1996
Revenues	$31,836	$31,693	$28,917	$29,521	$17,343
Net income	4,530	5,346	4,689	3,622	1,099
Net income per share:					
Basic	$.79	$.94	$.85	$.69	$.22
Diluted	.74	.88	.78	.62	.20
Weighted average number of basic shares outstanding	5,754	5,670	5,543	5,233	5,074
Weighted average number of diluted shares outstanding	6,092	6,048	5,993	5,840	5,378
FINANCIAL POSITION					
Working capital	$25,830	$24,130	$18,281	$13,112	$ 8,745
Total assets	32,998	35,102	27,080	23,123	17,511
Stockholders' equity	26,988	25,729	20,033	15,014	10,612
Stockholders' equity per share	$4.85	$4.40	$3.58	$2.73	$2.04
Cash dividends paid	None	None	None	None	None

Included in 1997 is $956,000 (net of tax $598,000 or $.11 per basic share and $.10 per diluted share) of settlement costs and legal fees related to class action litigation.

The above Selected Financial Data should be read in conjunction with the Consolidated Financial Statements of the Company, including the notes thereto, and the unaudited quarterly financial data included in Item 8 of this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company reported net income of $4.5 million, $5.3 million and $4.7 million for 2000, 1999 and 1998, respectively.

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In 2000, sales value of the Company's domestic operations and its UK distributorship operations were essentially the same as 1999. The unit volume in the domestic operations increased approximately 20% while the sales value increased only $.1 million. This was due to unfavorable distribution channel mix and a volume discount given for a large purchase of McIAS 1623/IPs ($5.9 million) in the fourth quarter of 2000. The increased sales due to this large purchase were offset by lack of sales to Mexico in 2000 ($2.9 million in 1999) and lower shipments to CLEC's. The Company's backlog at December 31, 2000 was $1.1 million versus $.5 million in 1999. Recently, there have been reductions in telecommunication infrastructure buildout, as reported by major telecommunication equipment suppliers, and this is reflected in the Company's sales order flow. In both 2000 and 1999, a major portion of the Company's domestic revenue came from one customer and a significant portion of its UK distributorship revenue came from one customer. The loss of either of these customers would have a material adverse impact on the Company.

Consolidated gross margin decreased 4% to 52% in 2000 from 56% in 1999 primarily due to a decrease of 4% in the domestic operation's gross margin attributable to channel mix and a discount given on a large purchase.

In 1999, sales increased 10% to $31.7 million due to increased sales of $3.9 million (19%) by the Company's domestic operations, offset by decreased sales of $1.1 million (13%) in its UK distributorship operations. The increased sales in the U.S. operations were due to increased direct sales of $3.0 million and $.9 million of indirect sales. The increase in direct sales was primarily attributable to two customers and the increase in indirect sales was attributable to increased sales of $5.7 million to three customers, offset by a decrease of $4.9 million sales to another customer. In 1999, primarily in the third quarter, the Company sold $2.9 million to Alcatel Indetel Industria de Telecomunicacion S.A. de C.V., up from $2.0 million in the fourth quarter of 1998. This completed the project which began in the fourth quarter of 1998. The decreased sales in UK distributorship operations were due to decreased demand from its primary customer, reflecting increased competition faced by this customer and obsolescence of certain products distributed by the Company.

In 1999, consolidated gross margin percentage improved 1% to 56% from 55% in 1998, primarily due to an increase of 2.7% in the domestic operations' gross margin attributable to improved product mix and higher volume. This was offset, in part, by a 3.5% decrease in the UK distributorship's gross margin due to unfavorable product mix and exchange rates.

In 2000 and 1999, research and development increased $.3 million (15%) and $.1 million (7%), respectively, in each year versus the prior year due to higher personnel costs. The Company anticipates an acceleration in the rate of increase in spending for research and development.

Selling, general and administrative expenses for 2000 was approximately the same as the prior year. In 1999, these costs increased $.9 million (13%) due to an increase of $.7 million (20%) in the domestic operations and $.1 million (5%) in the UK distributorship operations. The increase in the domestic operations was due to higher sales commissions and bonuses.

Other income of $.6 million in 2000 and $.4 million in 1999 and 1998 is primarily interest income. The increase in 2000 from 1999 is due to higher interest rates and higher balances of cash and marketable securities.

The Company's effective tax rate for 2000 was 34% versus 36% for 1999 and

1998. The reduction in the effective rate in 2000 from 1999 is attributable to a reversal of a $156,000 tax reserve. The provision for income taxes is discussed in Note G to Consolidated Financial Statements. Under Financial Accounting Standards Board ("FASB") Statement No. 109, the Company has recognized future tax benefits that management believes will be realized. In order to realize these benefits, the Company, exclusive of the results of Dacon Electronics Plc, will have to generate pretax income of $4.1 million. The current deferred tax benefit of $.7 million is primarily attributable to inventory provisions, the recognition of such loss, for tax purposes, is, in large measure, within the control of the Company. The non-current tax benefit, $.8 million, primarily relates to deferred compensation and benefit plans and, as such, would be recognized over a long period of time. The Company's U.S. pretax income was $7.4 million, $8.4 million and $6.0 million in 2000, 1999 and 1998, respectively. Based on this, management anticipates that the Company will generate sufficient taxable income in the future to realize these benefits.

The effect of inflation has not had a major impact on the operating results of the Company over the past few years. Technological advances and productivity improvements are continually being applied to reduce costs, thus reducing inflationary pressures on the operating results of the Company.

Exchange rate changes will impact the reported dollar sales and cost of sales of the Company's UK distributorship operations. In addition, at December 31, 2000, the Company's UK distributorship operations had net assets of $1.9 million, which would be impacted by changes in foreign exchange rates. However, the impact of such rate change would be reflected in the translation adjustment recorded in the equity section of the balance sheet. The Company does not hedge this foreign currency net asset exposure.

Liquidity and Sources of Capital

Net cash provided by operations was $3.5 million, $3.0 million and $3.7 million in 2000, 1999 and 1998, respectively, primarily due to the results of operations. In 2000, cash provided by operating activities increased from 1999 due to a smaller net increase in working capital accounts. In 1999, cash provided by operating activities decreased from 1998 due to increased accounts receivable, inventories and tax payments, offset, in part, by increases in accounts payable. Cash used by investing activities was $.7 million, $6.1 million and $1 million in 2000, 1999 and 1998, respectively. Cash used for investing activities included additions to property, plant and equipment of $.5 million in all years. Also included in 2000 were loans to officers of $.7 million. The Company had net sales of marketable securities of $.6 million in 2000 and net purchases of $5.6 million and $.5 million in 1999 and 1998, respectively. Cash used by financing activities of $3.2 million in 2000 primarily relates to the repurchase of the Company's common stock. Cash provided by financing activities was $.1 million in 1999 and 1998.

Working capital increased to $25.8 million at December 31, 2000 from $24.1 million at December 31, 1999 and $18.3 million at December 31, 1998. The ratio of current assets to current liabilities was 7.6:1 at December 31, 2000 versus 4.4:1 at December 31, 1999 and 4.9:1 at December 31, 1998. The increase in 2000 is due to the results of operations and the reduction in accounts payable, offset, in part, by the repurchase of Company shares and reduction in inventory levels. The decrease in 1999 was due to a volume purchase of inventory items at a favorable price occurring in the last quarter of 1999.

The Company anticipates making capital expenditures of approximately $1 million, incurring increased research and development expenditures and the

repurchase of up to 563,100 shares of its Common Stock in 2001. Management believes that the cash and cash equivalents at December 31, 2000 and the cash flow from operations in 2001 will be sufficient to meet its 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-K) 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:

Product demand fluctuations in the timing and volume of customer requests for our products.

Telecommunication systems industry and general economic conditions.

Competitive pressure on selling prices.

Market acceptance of our products and our customer's products.

Costs associated with possible litigation or settlement, including those related to the use of ownership of intellectual property.

Loss of a major customer. A few customers account for a major portion of the Company sales. A loss of such a customer would have a major adverse impact on the Company's results.

Third party suppliers increase the risk that we may not have adequate supply to meet demand.

Introduction of new products. Our markets are subject to technological change, so our success depends on our ability to develop and introduce new products.

The markets in which we compete are highly competitive. Some of our competitors have significantly greater financial and other resources than us.

Our future success is dependent on our ability to attract and retain our key design engineering, sales and executive personnel. There is intense competition for qualified personnel, in particular, design engineers, and we may not be able to attract and train engineers and other qualified personnel necessary for the development and introduction of new products or to replace engineers or other qualified personnel that may leave our employ.

Our expense levels, in the short term, are fixed. Sales variances from quarter to quarter would have a significant effect on the results of operations.

Other risk factors detailed in this Annual Report on Form 10-K and in the Company's other Securities and Exchange Commission Filings.

Item 7.a Market Risk

The Company does not use derivative financial instruments. The Company is exposed to changes in interest rates. The Company's marketable securities consist of short-term and/or variable rate instruments and therefore a change in interest rates would not have a material impact on the value of these securities.

Item 8. Financial Statements and Supplementary Data

QUARTERLY FINANCIAL DATA (UNAUDITED)
(in thousands except per share amounts)

2000	FIRST	SECOND	THIRD	FOURTH
Sales	$5,925	$8,437	$8,404	$9,070
Gross profit	3,083	4,827	4,630	3,876
Net income	475	1,516	1,505	1,034
Net income per share:				
Basic	$.08	$.26	$.26	$.18

Diluted	$.08	$.25	$.25	$.18
Common Stock price range:				
High	$27.25	$15.00	$15.50	$11.51
Low	11.13	8.63	10.75	8.00

1999	FIRST	SECOND	THIRD	FOURTH
Sales	$7,804	$8,334	$9,662	$5,893
Gross profit	4,401	4,738	5,560	3,095
Net income	1,283	1,512	1,873	678
Net income per share:				
Basic	$.23	$.27	$.33	$.12
Diluted	$.22	$.25	$.31	$.11
Common Stock price range:				
High	$6.20	$12.17	$14.38	$18.63
Low	4.88	5.42	9.38	9.75

The gross margin percentage in the fourth quarter of 2000 was 43% versus 55% for the nine months ended September 30, 2000 and 53% in the fourth quarter of 1999 primarily due to channel mix and a discount given on a large purchase.

The effective tax rates for the fourth quarter of 2000 and 1999 were 24.5% and 25.2%, respectively, versus the estimated effective rates of 36.7% and 37.3% for the first nine months of 2000 and 1999, respectively.

The above financial information should be read in conjunction with the Consolidated Financial Statements, including the notes thereto.

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Report of Independent Auditors

Stockholders and Board of Directors
Cognitronics Corporation

We have audited the accompanying consolidated balance sheets of Cognitronics Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cognitronics Corporation and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Stamford, Connecticut
March 2, 2001

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

	December 31, 2000	December 31, 1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,499	$ 3,992
Marketable securities	9,400	10,000
Accounts receivable, less allowances of $53 and $37	7,760	6,752
Inventories	6,557	9,079
Deferred income taxes	746	889
Other current assets including loans to officers of $1,062 and $377	1,783	591
TOTAL CURRENT ASSETS	29,745	31,303
PROPERTY, PLANT AND EQUIPMENT, net	1,373	1,370
GOODWILL, less amortization of $2,726 and $2,394	651	983
DEFERRED INCOME TAXES	762	685
OTHER ASSETS, less amortization of $148 and $11	467	761
	$32,998	$35,102
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,560	$ 4,312
Accrued compensation and benefits	1,128	1,176
Income taxes payable	532	734
Current maturities of debt	43	49
Other accrued expenses	652	902
TOTAL CURRENT LIABILITIES	3,915	7,173
LONG-TERM DEBT	47	90
OTHER NON-CURRENT LIABILITIES	2,048	2,110
COMMITMENTS AND CONTINGENCIES (Note I)		
STOCKHOLDERS' EQUITY		
Common Stock, par value $.20 a share; authorized 10,000,000 shares; issued 5,863,829 and 5,841,153 shares	1,173	1,168
Additional paid-in capital	14,123	14,050
Retained earnings	15,218	10,688
Cumulative other comprehensive income/(loss)	(182)	66
Unearned compensation	(332)	(243)
	30,000	25,729
Less cost of 300,550 common shares in treasury in 2000	(3,012)	

TOTAL STOCKHOLDERS' EQUITY	26,988	25,729
	$32,998	$35,102

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

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
COGNITRONICS CORPORATION AND SUBSIDIARIES
(in thousands except per share data)

	Year ended December 31, 2000	1999	1998
SALES	$31,836	$31,693	$28,917
COSTS AND EXPENSES			
Cost of products sold	15,420	13,899	13,083
Research and development	2,445	2,132	1,997
Selling, general and administrative	7,351	7,422	6,564
Amortization of goodwill	332	333	332
Other (income) expense, net	(619)	(441)	(404)
	24,929	23,345	21,572
Income before income taxes	6,907	8,348	7,345
PROVISION FOR INCOME TAXES	2,377	3,002	2,656
NET INCOME	4,530	5,346	4,689
Currency translation adjustment	(248)	(100)	142
COMPREHENSIVE INCOME/(LOSS)	$ 4,282	$ 5,246	$ 4,831
NET INCOME PER SHARE:			
Basic	$.79	$.94	$.85
Diluted	$.74	$.88	$.78

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 1998, 1999 and 2000
(dollars in thousands)

	Common Stock Shares Issued	Amount	Additional Paid-In Capital	Retained Earnings	Compre-hensive Income	Unearned Compens tion
Balance at January 1, 1998	5,500,861	$1,100	$13,209	$ 700	$ 24	$ (1
Shares issued pursuant to employee stock plans	48,501	10	369	(3)		(26
Shares returned to pay statutory withholding tax	(5,800)	(1)	(29)	(23)		
Repurchase of common shares						
Exercise of Warrants	54,307	11	79	(4)		
Currency translation adjustment					142	
Net income				4,689		4
Balance at December 31, 1998	5,597,869	1,120	13,628	5,359	166	(23
Shares issued pursuant to employee stock plans	243,284	48	422	(17)		(18
Repurchase of common shares						
Currency translation adjustment					(100)	
Net income				5,346		18
Balance at December 31, 1999	5,841,153	1,168	14,050	10,688	66	(24

Shares issued pursuant to employee stock plans	22,676	5	73			(23
Repurchase of common shares						
Currency translation adjustment					(248)	
Net income				4,530		14
Balance at December 31, 2000	5,863,829	$1,173	$14,123	$15,218	$(182)	$(33

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
COGNITRONICS CORPORATION AND SUBSIDIARIES
(in thousands)

	Year ended December 31, 2000	1999	1998
OPERATING ACTIVITIES			
Net income	$4,530	$5,346	$4,689
Adjustments to reconcile net income to net cash provided by operating activities:			
Income tax expense	2,377	3,002	2,656
Depreciation and amortization	943	802	769
(Gain) loss on disposition of assets	(5)	(15)	6
Shares issued as compensation	146	185	40
Net (increase) decrease in:			
Accounts receivable	(1,108)	(1,820)	(605)
Inventories	2,363	(4,111)	(569)
Other assets	215	(169)	284
Net increase (decrease) in:			
Accounts payable	(2,698)	2,738	(802)
Accrued compensation and benefits	(107)	34	(60)
Other accrued expenses	(217)	(62)	(793)
	6,439	5,930	5,615
Income taxes paid	(2,971)	(2,760)	(1,956)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,468	3,170	3,659
INVESTING ACTIVITIES			
Purchase of marketable securities	(2,800)	(11,200)	(3,700)
Sale of marketable securities	3,400	5,600	3,200
Loans to officers	(712)	(127)	
Proceeds from disposition of assets	20	10	24
Additions to property, plant and equipment	(534)	(483)	(539)
Purchase of software licenses	(50)		
NET CASH USED BY INVESTING ACTIVITIES	(676)	(6,200)	(1,015)
FINANCING ACTIVITIES			
Principal payments on debt	(49)	(111)	(174)
Issuance of debt			196
Shares issued pursuant to employee stock plans	107	783	22
Shares issued pursuant to warrants			86
Shares repurchased for treasury,331,000, 105,750 and 150	(3,306)	(588)	(1)
Shares returned to pay statutory withholding tax upon vesting of restricted stock			(53)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(3,248)	84	76

EFFECT OF EXCHANGE RATE DIFFERENCES	(37)	(53)	83
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(493)	(2,999)	2,803
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,992	6,991	4,188
CASH AND CASH EQUIVALENTS - END OF YEAR	$3,499	$3,992	$6,991

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
COGNITRONICS CORPORATION AND SUBSIDIARIES

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. The Company designs, manufactures and markets voice processing products in the United States and, through a subsidiary, distributes call management and voice processing equipment in Europe.

Risks and Uncertainties. A major portion of the Company's domestic revenues is generated by sales to two customers, and a significant portion of its European distributorship revenue comes from one customer. The loss of any of these customers would have a material adverse impact on the Company. The Company's receivables are primarily from major, well-established companies in the telecommunications industry, and at December 31, 2000, one such company accounted for 75% of the Company's accounts receivable. The Company's markets are subject to rapid technological change and frequent introduction of new products. The Company's products are similar to those manufactured, or capable of being manufactured, by a number of companies, some of which are well established with financial, personnel and technical resources substantially larger than those of the Company. The Company's ability to compete in the future depends on its ability to maintain the technological and performance advantages of its current products and to introduce new products and applications that achieve market acceptance.

Principles of Consolidation. The financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Intercompany accounts and transactions have been eliminated in consolidation.

Revenue. Revenue is recognized when earned. The Company generally recognizes revenue from product sales upon shipment and in certain instances upon acceptance by the customer.

Use of Estimates. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value of Financial Instruments. The carrying amounts of the Company's financial instruments (trade receivables/payables and other short-term and long-term debt) due to their terms and maturities approximate fair value.

Cash and Cash Equivalents. The Company considers financial instruments with a maturity of three months or less from the date of purchase to be cash equivalents. At December 31, 2000, essentially all of the Company's cash and cash equivalent balances were with two financial institutions.

Marketable Securities. Marketable securities are classified as available for sale and are reported at cost. Due to their short maturities and/or reset provisions, their carrying value approximates fair value.

Inventories. Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment. Property, plant and equipment is carried at cost less allowances for depreciation, computed in accordance with the straight-line method based on estimated useful lives. The estimated lives for machinery and equipment are 5 to 12 years and for furniture and fixtures are 4 to 10 years. Repairs and maintenance are expensed when incurred.

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Foreign Exchange. Results of operations for the Company's foreign subsidiary were translated into U.S. dollars using average exchange rates during the period, while assets and liabilities were translated using current rates at the end of the period.

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.

Income Per Share. In computing basic earnings per share, the dilutive effect of stock options and warrants are excluded, whereas for diluted earnings per share they are included. The shares used in the basic earnings per share calculations were 5,753,734, 5,670,023 and 5,542,804 and in the diluted earnings per share were 6,091,964, 6,047,636 and 5,993,077 for 2000, 1999 and 1998, respectively.

Goodwill. The Company has classified as goodwill the cost in excess of fair value of the net assets of companies acquired in purchase transactions. Goodwill is amortized using the straight-line method over its estimated useful life (10 years). Goodwill in excess of associated expected operating cash flows is considered to be impaired and is written down to fair value.

Stock Split. All share and per share amounts have been restated to give retroactive effect to a 3 for 2 split in the form of a dividend declared in July 1999. The par value of the additional shares of common stock issued in connection with the stock split was credited to common stock and charged to retained earnings.

NOTE B. VALUATION AND QUALIFYING ACCOUNTS

The allowance for doubtful accounts was increased by $16,000, $10,000 and $24,000 in 2000, 1999 and 1998, respectively, by charges to costs and expenses. The Company wrote off uncollectible accounts, net of recoveries, of $10,000 and $18,000 in 1999 and 1998, respectively.

NOTE C. INVENTORIES (IN THOUSANDS):

	2000	1999
Finished and in process	$4,320	$3,947
Materials and purchased parts	2,237	5,132
	$6,557	$9,079

NOTE D. PROPERTY, PLANT AND EQUIPMENT (IN THOUSANDS):

	2000	1999
Machinery and equipment	$1,995	$1,768
Furniture and fixtures	2,110	2,100

	4,105	3,868
Less allowances for depreciation	2,732	2,498
	$1,373	$1,370

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NOTE E. OTHER NON-CURRENT LIABILITIES (IN THOUSANDS):

	2000	1999
Accrued officers' supplemental pension	$ 553	$ 593
Accrued deferred compensation	291	305
Accrued pension	568	607
Accrued postretirement benefit	825	800
	2,237	2,305
Less current portion	189	195
	$2,048	$2,110

NOTE F. DEBT AND CREDIT ARRANGEMENTS

Dacon Electronics Plc has a bank line of credit of $145,000 expiring in 2001. During 2000 and 1999, no amounts were borrowed under this facility.

Long term debt (in thousands):

	2000	1999
Installment finance agreements, interest at 8% to 12% per annum expiring through 2003	$90	$139
Less current maturities of debt	43	49
	$47	$ 90

Payments on the installment finance agreements in each of the three years in the period ending December 31, 2003 are $43,000, $35,000 and $12,000, respectively.

Interest of $31,000, $30,000 and $42,000 was paid in 2000, 1999 and 1998, respectively.

NOTE G. INCOME TAXES

At December 31, 2000, consolidated retained earnings included approximately $1.1 million of retained earnings applicable to Dacon Electronics Plc, a foreign subsidiary. If the undistributed earnings were remitted, any resulting federal tax would be substantially reduced by foreign tax credits.

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The components of the provision (benefit) for income taxes for the years ended December 31 are as follows (in thousands):

	2000	1999	1998
Current:			
Federal	$1,989	$2,428	$1,565
Foreign	(24)	62	377
State	346	419	370
Total current	2,311	2,909	2,312
Deferred:			

Federal	55	84	344
State	11	9	
Total deferred	66	93	344
	$2,377	$3,002	$2,656

Not reflected in the 2000, 1999 and 1998 tax provisions are $29,000, $73,000 and $94,000, respectively, of income tax benefits related to employee stock plans; such amounts were credited to additional paid-in capital. The provision for 2000 reflects the reversal of a $156,000 tax reserve.

Domestic and foreign pretax income (loss) for the years ended December 31 are as follows (in thousands):

	2000	1999	1998
Domestic operations	$7,439	$8,484	$6,357
Foreign Operations	(532)	(136)	988
	$6,907	$8,348	$7,345

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2000 and 1999 are as follows (in thousands):

	2000	1999
Deferred tax liabilities	$ 187	$ 238
Deferred tax assets:		
Inventory valuation	504	701
Accrued liabilities and employee benefits	445	380
Accrued deferred compensation	309	333
Other postretirement benefits	312	304
Separate return federal operating loss carryforwards expiring in 2008 and 2009	445	445
Other	125	94
Total deferred tax assets	2,140	2,257
Valuation allowance	(445)	(445)
	1,695	1,812
Net deferred tax assets	$1,508	$1,574

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No amounts have been credited or charged to tax expense for the valuation allowance in 2000 or 1999.

A reconciliation of the statutory federal income tax rate to the effective tax rate on income for the years ended December 31, is as follows:

	2000	1999	1998
Statutory federal income tax rate	34.0%	34.0%	34.0%
State income taxes, net of federal tax benefit	3.4	3.4	3.6
Lower foreign tax rate		(0.1)	(1.0)
Research & Development Credit	(0.3)	(1.0)	(1.6)
Nontaxable interest income	(1.7)	(1.2)	(0.7)
Goodwill amortization	1.2	1.0	1.5

Other	(2.2)	(.1)	0.4
	34.4%	36.0%	36.2%

NOTE H. OTHER (INCOME) EXPENSE, NET (IN THOUSANDS):

	Year Ended December 31, 2000	1999	1998
Interest expense	$ 50	$ 49	$ 73
Interest income	(669)	(490)	(477)
	$(619)	$(441)	$(404)

NOTE I. COMMITMENTS

Leases. Total rental expense amounted to $500,000 in 2000, $532,000 in 1999 and $465,000 in 1998. Future annual payments for long-term noncancellable leases for each of the five years in the period ending December 31, 2006 are approximately $424,000, $327,000,$253,000, $4,000 and $0, respectively, and no amounts thereafter.

Pension Plan. The Company and its domestic subsidiaries have a defined benefit pension plan covering substantially all employees. The benefits are based on years of service and the employee's compensation. No additional service cost benefits were earned subsequent to June 30, 1994. The Company's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Company may determine to be appropriate from time to time.

The components of net cost of the plan for the years ended December 31 are as follows (in thousands):

	2000	1999	1998
Interest cost on projected benefit obligation	$116	$117	$115
Actual (return)/loss on plan assets	25	(50)	(120)
Net amortization and deferral	(123)	(44)	31
Net periodic pension cost	$ 18	$ 23	$ 26

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The following table sets forth the plan's funded status and the accrued pension liability recognized in the Company's Consolidated Balance Sheets at December 31 (in thousands):

	2000	1999
Projected benefit obligation for services rendered to date		
Beginning of year	$1,586	$1,773
Gain due to change in estimates	(33)	(152)
Interest cost	116	116
Less benefits paid	(102)	(151)
End of year	1,567	1,586
Plan assets at fair value		
Beginning of year	1,220	1,258
Actual return on plan assets	(25)	50
Contribution	56	63
Less benefits paid	(102)	(151)

End of year	1,149	1,220
Plan assets less than projected benefit obligation	(418)	(366)
Unrecognized net asset, less accumulated amortization of $172 and $164	(8)	(17)
Unrecognized net gain	(142)	(224)
Accrued pension liability (included in other non-current liabilities)	$ (568)	$ (607)

The discount rates used in determining the projected benefit obligation were 7.5 % in 2000 and 7.75% in 1999. The expected long-term rate of return on plan assets used in determining the net periodic pension cost was 7% for all years presented.

The plan assets at December 31, 2000 and 1999 were principally invested in corporate debt and equity securities.

401(k) Retirement Plan. The Company has a defined contribution plan covering substantially all domestic employees. The Company's contribution is based upon the participants' contributions. The expense was $54,000, $53,000 and $52,000 in 2000, 1999 and 1998, respectively.

Officers' Supplemental Pension Plan. The Company has an unfunded, noncontributory defined benefit pension plan covering certain retired officers.

The components of net pension cost of the plan for the years ended December 31 are as follows (in thousands):

	2000	1999	1998
Interest cost on projected benefit obligation	$32	$34	$35
Amortization of actuarial gains	(3)	(2)	(3)
Net periodic pension cost	$29	$32	$32

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The following table sets forth the plan's status and the accrued pension liability recognized in the Company's Consolidated Balance Sheets at December 31 (in thousands):

	2000	1999
Projected benefit obligations		
Balance at beginning of period	$508	$543
Interest expense	32	34
Less benefits paid	(68)	(69)
Balance at end of period	472	508
Unrecognized net gain	81	85
Accrued pension liability (included in other non-current liabilities)	$553	$593

The discount rate used in determining the projected benefit obligation was 6.75% for all three years presented. All participants are retired and receiving benefits under the Plan and therefore future increases in compensation are not applicable.

Other Postretirement Benefit Plans. In addition to the Company's pension plans, the Company has a contributory, unfunded defined benefit plan providing certain health care benefits for domestic employees who retired prior to

March 31, 1996. The participants' contributions are adjusted periodically and are based on age and length of service at time of retirement. The assumed rate of increase in the per capita cost of covered benefits used for 1999 was 9% decreasing to 5% after 8 years and for 2000 was 10% decreasing to 5% after 10 years. Increasing the health care cost trend rate by one percentage point each year would increase the accumulated postretirement benefit obligation by $83,000 at December 31, 2000 and the aggregate service and interest cost component of net periodic postretirement benefit cost for 2000 by $6,000. The corresponding impact for a 1% decrease are $73,000 and $5,000, respectively. The weighted average discount rates used in determining the net periodic postretirement benefit cost and accumulated benefit obligation were 7.5% and 7.75% for 2000 and 1999, respectively.

The following sets forth the plan's status and accrued postretirement benefit liability recognized in the Company's Consolidated Balance Sheets at December 31 (in thousands):

	2000	1999
Actuarial present value of accumulated postretirement benefit obligation:	$834	$733
Unrecognized net gain/(loss)	(9)	67
Accrued postretirement benefit liability (included in other non-current liabilities)	$825	$800

The components of postretirement benefit cost for the years ended December 31, are as follows (in thousands):

	2000	1999	1998
Interest cost	$61	$53	$42
Net amortization			(8)
Net periodic cost	$61	$53	$34

Deferred Compensation. At December 31, 2000 and 1999, the liability relating to a deferred compensation arrangement between the Company and a director and former officer of the Company was $291,000 and $305,000, respectively.

NOTE J. STOCK PLANS

At December 31, 2000, the Company has reserved 176,575 shares of its common stock for grant to key employees under the 1990 Stock Option Plan. The plan provides for the grant, at fair market value on the date of grant, of nonqualified stock options and incentive stock options. Options generally become exercisable in three equal annual installments on a cumulative basis commencing six months from the date of grant and expire five years (ten years for awards granted after 1999) after the date granted.

The Company also has the 1967 Employee Stock Purchase Plan under which 52,478 shares were reserved for grant at December 31, 2000 The purchase price is 85% of the fair market value of the stock on the date offered. Generally, rights to purchase shares under this plan expire 12 months (maximum 27 months) after the date of grant.

The Company also has a time accelerated restricted stock plan ("Restricted Stock Plan") under which 14,687 shares are available for grant. The plan provides for the award of shares to key employees; generally, the awards vest in five equal annual installments commencing two years after the date of the award. Vesting may be accelerated based on the achievement of certain financial performance goals.

Share information pertaining to these plans is as follows:

	Option Plan	Purchase Plan	Restricted Stock Plan
Outstanding at January 1, 1998	521,826	0	22,950
Granted	175,725	28,603	39,000
Cancelled or expired	(2,000)		
Vested			(20,550)
Exercised	(9,501)		
Outstanding at December 31, 1998	686,050	28,603	41,400
Granted	142,875		21,000
Cancelled or expired	(4,101)	(913)	
Vested			(12,480)
Exercised	(300,497)	(27,690)	
Outstanding at December 31, 1999	524,327	0	49,920
Granted	202,900		26,000
Cancelled or expired	(5,225)		(600)
Vested			(8,280)
Exercised	(27,126)		
Outstanding at December 31, 2000	694,876	0	67,040

The exercise price for options granted in 1998 was $6.67, for options granted in 1999 was $9.00 and for options granted in 2000 ranged from $9.06 to $9.70.

The weighted average exercise price for the 694,876 options outstanding under the Option Plan is $6.73 with expiration dates ranging from 2001 to 2010. Options were exercised under the Option Plan at weighted average exercise prices of $1.98, $2.08 and $3.95 in 1998, 1999 and 2000, respectively. Shares exercisable under the Option Plan at December 31, 1998, 1999 and 2000 were 419,577, 316,027 and 457,943, respectively.

Rights were granted under the Purchase Plan at an exercise price of $5.67 in 1998. Shares were exercised under the Purchase Plan at a weighted average price of $5.67 in 1999.

Under the Restricted Stock Plan compensation expense was $146,000, $184,000 and $30,000 in 2000, 1999 and 1998, respectively.

During 1998, the Company established a stock option plan for non-employee directors and officers. The plan provided for an initial grant of options to purchase 3,000 shares to each participant (18,000 in total) at $5.50, the fair market value on the date of grant, and additional grants of 1,500 shares for each participant on August 1st of subsequent years at the then fair market value. Effective August 1, 1999, an additional 1,500 shares were granted to each participant (9,000 in all) at an exercise price of $11.17. In 2000, an additional grant of 3,000 shares (18,000 in all) was awarded at an exercise price of $12.63. Through December 31, 2000, no grants under this plan have been exercised. At December 31, 2000, the Company has reserved 7,500 shares of its Common Stock for grant.

The Company has elected to follow APB No. 25 and related interpretations in accounting for its stock option plans, and has adopted the disclosure-only provisions of SFAS No. 123. If the Company had elected to recognize compensation expense for the 1990 Stock Option Plan and the 1967 Stock Purchase Plan based on the fair value at the grant date , consistent with the method presented by SFAS No. 123, the pro forma net income and net income per share would be as follows (in thousands except per share information):

			2000	1999	1998
Net income	As reported		$4,530	$5,346	$4,689
	Pro forma		$3,928	$4,859	$4,442
Net income per share	As reported	Basic	$.79	$.94	$.85
		Diluted	$.74	$.88	$.78
	Pro forma	Basic	$.68	$.86	$.80
		Diluted	$.65	$.81	$.75

The estimated weighted average fair value per share of stock options granted were $4.82, $5.16 and $3.21 for 2000, 1999 and 1998, respectively. The fair value for the stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2000, 1999 and 1998, respectively: risk-free interest rates of 5.1%, 5.5% and 4.5%; no dividend yields; volatility factors of the expected market price of the Company's common stock of .74 in 2000, .61 in 1999 and .64 in

1998; and a weighted average expected life of the option of 3.8 in all years, and 5 years for the Directors and Officers Plan.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

In 1998, warrants to purchase 54,307 shares of common stock at $1.58 per share were exercised and 20,693 expired.

NOTE K. OPERATIONS BY INDUSTRY SEGMENT AND GEOGRAPHIC AREAS

The Company operates in two segments of the voice processing industry. In the United States, the Company designs, manufactures and sells equipment for use in telephone central offices. In Europe (United Kingdom), the Company distributes equipment for use in customers' premises. Information about the Company's operations by segment and geographic area for the years ended December 31, is as follows (in thousands):

	2000	1999	1998
Net sales			
United States:			
Unaffiliated customers (North America)	$24,511	$24,462	$20,603
Intercompany transfers	55	194	98

	24,566	24,656	20,701
Europe	7,325	7,231	8,314
Eliminations	(55)	(194)	(98)
	$31,836	$31,693	$28,917
Operating profit			
United States	$ 8,139	$ 9,433	$ 7,247
Europe	(529)	(138)	878
Intercompany eliminations	8	(10)	18
	7,618	9,285	8,143
General corporate expenses	1,330	1,378	1,202
Other (income) expense, net	(619)	(441)	(404)
Income before income taxes	$ 6,907	$ 8,348	$ 7,345
Total assets			
United States	$29,262	$31,238	$21,461
Europe	3,779	3,919	5,670
Intercompany eliminations	(43)	(55)	(51)
	$32,998	$35,102	$27,080
Long-lived assets			
United States	$ 1,545	$ 1,718	$ 1,531
Europe	973	1,432	1,757
Intercompany eliminations	(27)	(36)	(16)
	$ 2,491	$ 3,114	$ 3,272
Expenditures for long-lived assets			
United States	$ 486	$ 300	$ 384
Europe	98	246	155
Intercompany eliminations	0	(63)	0
	$ 584	$ 483	$ 539
Depreciation and amortization			
United States	$ 452	$ 279	$ 261
Europe	494	540	525
Intercompany eliminations	(3)	(17)	(17)
	$ 943	$ 802	$ 769

Gross profit margin on intercompany transfers are comparable to sales to third parties. The United States operations had net sales of $2.8 million, $1.9 million and $6.8 million in 2000, 1999 and 1998, respectively, to one major customer; sales of $12.6 million, $7.3 million and $5.2 million in 2000, 1999 and 1998, respectively, to another major customer; sales of $2.9 million in 1999 to another customer and export sales of $2.9 million and $2.0 million in 1999 and 1998, respectively, to another customer. The European operations had sales of $3.7 million, $4.6 and $5.2 million in 2000, 1999 and 1998, respectively, to one customer.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

1. (a) The identification of the directors of the Company as of March 1, 2001 and persons nominated to become directors set forth under the caption Information Concerning Nominees in the Proxy Statement for the annual meeting of stockholders to be held on May 17, 2001 is incorporated herein by reference.

(b) The identification of the executive officers of the Company and their positions with the Company and ages as of March 1, 2001 is set forth under the caption Executive Officers of the Company in Part I of this Annual Report on Form 10-K.

2. The information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 set forth under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement for the annual meeting of stockholders to be held on May 17, 2001 is incorporated herein by reference.

Item 11. Executive Compensation

The information on executive compensation set forth under the caption Executive Compensation in the Proxy Statement for the annual meeting of stockholders to be held on May 17, 2001 is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

(a) and (b) Security ownership of certain beneficial owners and management set forth under the caption Security Ownership in the Proxy Statement for the annual meeting of stockholders to be held on May 17, 2001 is incorporated herein by reference.

(c) Changes in Control. None.

Item 13. Certain Relationships and Related Transactions

The information on certain relationships and related transactions set forth under the caption Certain Relationships and Related Transactions in the Proxy Statement for the annual meeting of stockholders to be held on May 17, 2001 is incorporated herein by reference.

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PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) and (2) and (d) The response to this portion of Item 14 is submitted as a separate section beginning on page 26 of this Annual Report on Form 10-K.

(a)(3) and (c) The response to this portion of Item 14 is submitted as a separate section beginning on page 27 of this Annual Report on Form 10-K.

(b) There were no reports filed on Form 8-K during the fourth quarter of 2000.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 23, 2001.

COGNITRONICS CORPORATION

Registrant
by /s/ Garrett Sullivan

Garrett Sullivan
Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 23, 2001.

Signature	Title
Chief Executive Officer:	
/s/ Brian J. Kelley -------------------- Brian J. Kelley	President and Chief Executive Officer
Chief Financial and Accounting Officer:	
/s/ Garrett Sullivan -------------------- Garrett Sullivan	Treasurer
A Majority of the Board of Directors:	
/s/ John T. Connor ------------------ John T. Connor	Director
/s/ Edward S. Davis ------------------- Edward S. Davis	Director
/s/ William A. Merritt ---------------------- William A. Merritt	Director
/s/ Timothy P. Murphy --------------------- Timothy P. Murphy	Director
/s/ David H. Shepard --------------------- David H. Shepard	Director

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Form 10-K -- Item 14 (a) (1) and (2) and (d)

(a) (1) Financial Statements

The following financial statements of the Company are included in Item 8.

(2) and (d) Financial Statement Schedules

Schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or the information has been included in the Company's financial statements. and, therefore, have been omitted.

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Item 14(a)(3) and (c)

INDEX TO EXHIBITS

Exhibit	
3.1	Certificate of Incorporation as filed on January 2, 1962 (Exhibit 3-1-A to Form S-1 Registration Statement No. 2-27439 and incorporated herein by reference).
3.2	Amendment, dated June 28, 1965 (Exhibit 3-1-B to Form S-1 Registration Statement No. 2-27439 and incorporated herein by reference).
3.3	Amendment, dated October 3, 1966 (Exhibit 3-1-C to Form S-1 Registration Statement No. 2-27439 and incorporated herein by reference).
3.4	Amendment, dated October 30, 1967 (Exhibit 3-1-D to Form S-1 Registration Statement No. 2-27439 and incorporated herein by reference).
3.5	Amendment, dated July 27, 1981 (Exhibit 3.5 to Annual Report on Form 10-K for the fiscal year ended December 31, 1983 and incorporated herein by reference).
3.6	Amendment, dated September 27, 1984 (Exhibit 3.6 to Annual Report on Form 10-K for the fiscal year ended December 31, 1984 and incorporated herein by reference).
3.7	Amendment dated June 13, 1988 (Exhibit 3.7 to Annual Report on Form 10-K for the fiscal year ended December 31, 1988 and incorporated herein by reference).
3.8	Amendment dated November 3, 1994 (Exhibit 3.8 to Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).
3.9	Amendment, dated July 25, 2000 (Exhibit 3.1 to Quarterly Report on Form 10-Q for the period ended June 30, 2000 and incorporated herein by reference)
3.10	By-laws of the Company (Exhibit 3.9 to Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).
4.	Specimen Certificate for Common Stock (Exhibit 4-1 to Form S-1 Registration Statement No. 2-27439 and incorporated herein by reference).

10.1	1990 Stock Option Plan, as amended (Exhibit 10.1 to Quarterly Report on Form 10-Q for the period ended June 30, 2000 and incorporated herein by reference).
10.2	Lease, dated April 30, 1993, between Seymour R. Powers and The Danbury Industrial Corporation, landlord, and Cognitronics Corporation, tenant (Exhibit 10.3 to Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).

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EXHIBIT

10.3	Form of Indemnity Agreement, dated October 27, 1986, between each Director (with equivalent form for each Officer) and Cognitronics Corporation (Exhibit 10.7 to Annual Report on Form 10-K for the year ended December 31, 1986 and incorporated herein by reference).
10.4	Supplemental Pension Plan for Officers, as amended November 2, 1993 (Exhibit 10.6 to Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).
10.5	2000 Executive Bonus Plan (attached as Exhibit 10.5 to this Annual Report on Form 10-K).
10.6	Cognitronics Corporation Restricted Stock Plan (Exhibit 10.2 to Quarterly Report on Form 10-Q for the period ended June 30, 2000 and incorporated herein by reference).
10.7	Form of Executive Severance Agreement between certain officers and Cognitronics Corporation (Exhibit 10.8 to Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
10.8	Addendum to Executive Severance Agreement between certain officers and Cognitronics Corporation (Exhibit 10.8 to Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.9	The Directors' Stock Option Plan, as amended (attached as Exhibit 10.3 to Quarterly Report on Form 10-Q for the period ended June 30, 2000 and incorporated herein by reference).
22.	List of subsidiaries of the Company as of December 31, 2000 (attached as Exhibit 22 to this Annual Report on Form 10-K).
23.	Consent of Independent Auditors, dated April 2, 2001 (attached as Exhibit 23 to this Annual Report on Form 10-K).

Copies of the Exhibits to this Annual Report on Form 10-K are available upon written request to the Secretary of the Company at 3 Corporate Drive, Danbury, CT 06810-4130 and payment of $35.00 for a complete set of the Exhibits or $.25 per page for any part thereof (minimum $5.00).