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COGNITRONICS CORP
Form 10-Q
May 14, 2001

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, 2001

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
(State or other jurisdiction of
incorporation or organization)

13-1953544
(I.R.S. Employer
Identification No.)

3 Corporate Drive, Danbury, Connecticut
(Address of principal executive offices)

06810-4130
(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 ☒ 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 -- 5,395,829 shares

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Part I, Item 1.

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

	March 31, 2001 (Unaudited) -----	December 31, 2000 -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,951	\$ 3,499
Marketable securities	8,200	9,400
Accounts receivable, net	3,385	7,760
Inventories	7,161	6,557
Deferred income taxes	724	746
Other current assets including loans to officers of \$1,192 and \$1,062	1,985	1,783
	-----	-----
TOTAL CURRENT ASSETS	28,406	29,745
PROPERTY, PLANT AND EQUIPMENT, NET	1,400	1,373
GOODWILL, NET	568	651
DEFERRED INCOME TAXES	783	762
OTHER ASSETS	424	467
	-----	-----
	\$31,581	\$32,998
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,764	\$ 1,560
Accrued compensation and benefits	722	1,128
Income taxes payable	373	532
Current maturities of debt	50	43
Other accrued expenses	790	652
	-----	-----
TOTAL CURRENT LIABILITIES	3,699	3,915
LONG-TERM DEBT	61	47
OTHER NON-CURRENT LIABILITIES	2,038	2,048
STOCKHOLDERS' EQUITY		
Common Stock, par value \$.20 a share, authorized 10,000,000 shares; issued 5,863,229 and 5,863,829	1,173	1,173
Additional paid-in capital	14,115	14,123
Retained earnings	15,195	15,218
Cumulative other comprehensive loss	(182)	(182)
Unearned compensation	(293)	(332)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	30,008	30,000
Less cost of 467,400 and 300,550 common shares in treasury	(4,225)	(3,012)
	-----	-----
	25,783	26,988
	-----	-----
	\$31,581	\$32,998
	=====	=====

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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,	
	2001	2000
	----	----
SALES	\$4,939	\$5,925
	-----	-----
COST AND EXPENSES:		
Cost of products sold	2,623	2,842
Research and development	704	585
Selling, general and administrative	1,735	1,761
Amortization of goodwill	83	83
Other (income) expense, net	(169)	(101)
	-----	-----
	4,976	5,170
	-----	-----
Income(loss) before income taxes	(37)	755
PROVISION(BENEFIT) FOR INCOME TAXES	(14)	280
	-----	-----
NET INCOME (LOSS)	(23)	475
Currency translation adjustment		(58)
	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ (23)	\$ 417
	=====	=====
NET INCOME PER SHARE:		
Basic	\$.00	\$.08
	=====	=====
Diluted	\$.00	\$.08
	=====	=====
Weighted average number of shares outstanding:		
Basic	5,508,111	5,853,751
	=====	=====
Diluted	5,508,111	6,265,123
	=====	=====

See Note to Condensed Consolidated Financial Statements.

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COGNITRONICS CORPORATION AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2001	2000
	----	----
NET CASH PROVIDED BY		
OPERATING ACTIVITIES	\$3,919	\$ 218
	-----	-----
INVESTING ACTIVITIES		
Purchase of marketable securities	(1,200)	
Sales of marketable securities	2,400	2,000
Loans to employees	(331)	
Additions to property, plant and equipment, net	(138)	(175)
	-----	-----
NET CASH PROVIDED BY		
INVESTING ACTIVITIES	731	1,825
	-----	-----
FINANCING ACTIVITIES		
Repurchase of 167,750 shares for treasury	(1,225)	
Issuance of debt	34	
Principal payments on debt	(13)	(12)
Common stock issued pursuant to employee stock plans, 900 and 21,226 shares	6	70
	-----	-----
NET CASH PROVIDED (USED) BY		
FINANCING ACTIVITIES	(1,198)	58
	-----	-----
EFFECT OF EXCHANGE RATE DIFFERENCES		(58)
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	3,452	2,043
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	3,499	3,992
	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$6,951	\$6,035
	=====	=====
INCOME TAXES PAID	\$ 144	\$ 177
	=====	=====
INTEREST PAID	\$ 4	\$ 7
	=====	=====

See Note to Condensed Consolidated Financial Statements.

NOTE TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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March 31, 2001

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, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. The balance sheet at December 31, 2000 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, 2000.

Inventories (in thousands):

	March 31, 2001	December 31, 2000
	-----	-----
Finished and in process	\$4,633	\$4,320
Materials and purchased parts	2,528	2,237
	-----	-----
	\$7,161	\$6,557
	=====	=====

Other Non-Current Liabilities (in thousands):

	March 31, 2001	December 31, 2000
	-----	-----
Accrued supplemental pension plan	\$ 544	\$ 553
Accrued deferred compensation	287	291
Accrued pension expense	573	568
Accrued post-retirement benefit	827	825
	-----	-----
	2,231	2,237
Less current portion	193	189
	-----	-----
	\$2,038	\$2,048
	=====	=====

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.

Operations by Industry Segments and Geographic Areas:

	Three Months Ended
	March 31,
2001	2000

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Net Sales		
United States:		
Unaffiliated Customers		
(North America)	\$ 3,099	\$ 3,721
Intercompany transfers		
	3,099	3,721
Europe	1,840	2,204
Intercompany eliminations		
	\$ 4,939	\$ 5,925
Operating Profit(loss)		
United States	\$ 83	\$ 842
Europe	(10)	124
Intercompany eliminations	3	
	76	966
General corporate expense	282	312
Other (income)expense	(169)	(101)
Income(loss) before income taxes	\$ (37)	\$ 755
Total Assets		
United States	\$27,718	\$28,229
Europe	3,904	4,182
Intercompany eliminations	(41)	(62)
	\$31,581	\$32,349

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

For the quarter ended March 31, 2001, the Company reported a loss of \$23 thousand (\$.00 per diluted share), versus income of \$.5 million (\$.08 per diluted share) in the comparable 2000 quarter.

Consolidated sales for the first quarter of 2001 decreased \$1 million, or 17%, from the prior year period. Sales of domestic operations decreased \$.6 million, or 17%, due to the reduction in infrastructure buildout, particularly by CLEC's, as previously noted by the Company. The UK distributorship operations sales for the quarter ended March 31, 2001 decreased \$.4 million (17%) 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 47% in the 2001 quarter versus 52% in the prior year. This decrease is attributable to decrease in the sales volume and unfavorable channel mix of the domestic operations.

Research and development expense increased 20% from the same period in 2000 primarily due to higher expenses related to certification testing and personnel related expenses.

Other (income) expense increased due to interest earned on higher available

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cash balances and marketable securities.

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, 2001 was \$3.9 million versus \$.2 million in 2000; this increase in cash flow is attributable to the reduction of accounts receivable. The decrease in cash provided by investing activities of \$.7 million in 2001 versus \$1.8 million in 2000 reflects a lower net decrease in marketable securities and increased loans to officers. The net cash used for financing activities in 2001 primarily reflects the repurchase of shares for treasury.

Working capital and the ratio of current assets to current liabilities was \$24.7 million and 7.7:1 at March 31, 2001 compared to \$25.8 million and 7.6:1 at December 31, 2000. The decrease in working capital in the three

months ended March 31, 2001 is primarily due to the repurchase of common stock.

During the remainder of 2001, the Company may repurchase up to an additional 395,650 shares of its common stock and anticipates purchasing \$1 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 2001 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, 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, 2001, the UK distributorship operations had net assets of \$2.0 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 14, 2001

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