

Edgar Filing: COGNITRONICS CORP - Form 10-Q

COGNITRONICS CORP  
Form 10-Q  
May 15, 2002

1

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, 2002

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the Transition Period from to

Commission file number 0-3035

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

|   |   |
|---|---|
| NEW YORK  | 13-1953544                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>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 ☒ No

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

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

# Edgar Filing: COGNITRONICS CORP - Form 10-Q

2

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

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

See Note to Condensed Consolidated Financial Statements.

3

# Edgar Filing: COGNITRONICS CORP - Form 10-Q

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

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

See Note to Condensed Consolidated Financial Statements.

# Edgar Filing: COGNITRONICS CORP - Form 10-Q

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

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

See Note to Condensed Consolidated Financial Statements.

5

NOTE TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2002

## Edgar Filing: COGNITRONICS CORP - Form 10-Q

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

### Inventories (in thousands):

|                               | March 31,<br>2002 | December 31,<br>2001 |
|-------------------------------|-------------------|----------------------|
|                               | ----              | ----                 |
| Finished and in process       | \$3,484           | \$3,455              |
| Materials and purchased parts | 1,884             | 2,227                |
|                               | -----             | -----                |
|                               | \$5,368           | \$5,682              |
|                               | =====             | =====                |

### Other Non-Current Liabilities (in thousands):

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

### Income Per Share

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

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

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

6  
as follows (dollars in thousands):

|               | As Reported | Adjustment | Pro Forma |
|---------------|-------------|------------|-----------|
| Pretax Income | \$(37)      | \$83       | \$46      |
|               | =====       | ===        | ===       |

## Edgar Filing: COGNITRONICS CORP - Form 10-Q

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

### Operations by Industry Segments and Geographic Areas:

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

### Item 2.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF

#### FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Results of Operations

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

7

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

## Edgar Filing: COGNITRONICS CORP - Form 10-Q

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

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

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

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

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

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

### Liquidity and Sources of Capital

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

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

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

### Certain Factors That May Affect Future Results

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

8

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.

## Edgar Filing: COGNITRONICS CORP - Form 10-Q

### Item 3. Market Risk

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

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

### Part II

### Item 6. Exhibits and Reports on Form 8-K

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

### SIGNATURE

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

COGNITRONICS CORPORATION  
Registrant

Date: May 15, 2002

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