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COGNITRONICS CORP
Form 10-Q
August 14, 2001

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 June 30, 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 June 30, 2001.

Common Stock, par value \$0.20 per share 5,433,429 shares

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Part I, Item 1.

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

	June 30, 2001 ----- (Unaudited)	December 31, 2000 -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,495	\$ 3,499
Marketable securities	8,200	9,400
Accounts receivable, net	3,170	7,760
Inventories	6,542	6,557
Deferred income taxes	727	746
Other current assets including loans to officers of \$1,445 and \$1,062	2,161	1,783
	-----	-----
TOTAL CURRENT ASSETS	27,295	29,745
 PROPERTY, PLANT AND EQUIPMENT, NET	 1,384	 1,373
GOODWILL, NET	485	651
DEFERRED INCOME TAXES	782	762
OTHER ASSETS	572	467
	-----	-----
	\$30,518	\$32,998
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,055	\$ 1,560
Accrued compensation and benefits	751	1,128
Income taxes payable	15	532
Current maturities of debt	35	43
Other accrued expenses	1,000	652
	-----	-----
TOTAL CURRENT LIABILITIES	2,856	3,915
 LONG-TERM DEBT	 29	 47
OTHER NON-CURRENT LIABILITIES	2,023	2,048
 STOCKHOLDERS' EQUITY		
Common Stock, par value \$.20 a share, authorized 10,000,000 shares; issued 5,863,229 and 5,863,229	1,173	1,173
Additional paid-in capital	13,837	14,123
Retained earnings	15,253	15,218
Cumulative other comprehensive loss	(222)	(182)
Unearned compensation	(638)	(332)
	-----	-----
	29,403	30,000
Less cost of 429,800 and 300,550 common shares in treasury	(3,793)	(3,012)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	25,610	26,988
	-----	-----
	\$30,518	\$32,998
	=====	=====

See Note to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
NET SALES	\$5,848	\$8,437	\$10,787	\$14,362
COST AND EXPENSES:				
Cost of products sold	2,981	3,610	5,604	6,452
Research and development	915	604	1,619	1,189
Selling, general and administrative	1,923	1,842	3,658	3,603
Amortization of goodwill	83	83	166	166
Other (income), net	(141)	(134)	(310)	(235)
	5,761	6,005	10,737	11,175
Income before income taxes	87	2,432	50	3,187
PROVISION FOR INCOME TAXES	29	916	15	1,196
NET INCOME	58	1,516	35	1,991
Currency translation adjustment	(40)	(116)	(40)	(174)
COMPREHENSIVE INCOME (LOSS)	\$ 18	\$1,400	\$ (5)	\$ 1,817
NET INCOME PER SHARE:				
Basic	\$.01	\$.26	\$.01	\$.34
Diluted	\$.01	\$.25	\$.01	\$.32
Weighted average number of outstanding shares:				
Basic	5,365,157	5,814,685	5,442,719	5,829,322
Diluted	5,502,900	6,106,288	5,613,941	6,182,278

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)

	Six Months Ended June 30,	
	2001	2000
	----	----
NET CASH PROVIDED BY OPERATIONS	\$4,124	\$ 63
INVESTING ACTIVITIES		
Purchases of marketable securities	(1,200)	
Sales of marketable securities	2,400	2,000
Loans to employees	(383)	(638)
Additions to property, plant and equipment, net	(247)	(241)
Purchase of software licenses	(192)	
	-----	-----
NET CASH PROVIDED BY INVESTING ACTIVITIES	378	1,121
	-----	-----
FINANCING ACTIVITIES		
Repurchase of 206,650 and 128,200 shares for treasury	(1,461)	(1,235)
Principal payment of debt	(46)	(24)
Common stock issued pursuant to employee stock plans, 900 and 25,026 shares	6	96
	-----	-----
NET CASH USED BY FINANCING ACTIVITIES	(1,501)	(1,163)
	-----	-----
EFFECT OF EXCHANGE RATE DIFFERENCES	(5)	(19)
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	2,996	2
CASH AND CASH EQUIVALENTS- BEGINNING OF PERIOD	3,499	3,992
	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$6,495	\$3,994
	=====	=====
INCOME TAXES PAID	\$ 536	\$1,385
	=====	=====
INTEREST PAID	\$ 13	\$ 12
	=====	=====

See Note to Condensed Consolidated Financial Statements.

NOTE TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2001

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The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ended June 30, 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):

	June 30, 2001 ----	December 31, 2000 ----
Finished and in process	\$4,180	\$4,320
Materials and purchased parts	2,362	2,237
	----- \$6,542 =====	----- \$6,557 =====

Other Non-Current Liabilities (in thousands):

	June 30, 2001 ----	December 31, 2000 ----
Accrued supplemental pension plan	\$ 534	\$ 553
Accrued deferred compensation	282	291
Accrued pension	577	568
Accrued post-retirement benefit	831	825
	----- 2,224	----- 2,237
Less current portion	201	189
	----- \$2,023 =====	----- \$2,048 =====

Common Stock

During the three months ended June 30, 2001 and June 30, 2000, the company granted 76,500 and 26,000 shares of common stock under the Restricted Stock Plan and recorded \$382,500 and \$236,000 of unearned compensation expense, respectively. For the six months ended June 30, 2001 and 2000, 900 and 25,026 stock options were exercised.

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.

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Operations by Industry Segments and Geographic Areas:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net Sales				
United States:				
Unaffiliated Customers (North America)	\$4,144	\$6,980	\$ 7,243	\$10,701
Intercompany transfers		55		55
	4,144	7,035	7,243	10,756
Europe	1,704	1,457	3,544	3,661
Intercompany eliminations		(55)		(55)
	\$5,848	\$8,437	\$10,787	\$14,362
Operating Profit				
United States	\$ 447	\$2,901	\$ 530	\$ 3,743
Europe	(177)	(238)	(187)	(114)
Intercompany eliminations	3	(42)	6	(42)
	273	2,621	349	3,587
General Corporate Expense	327	323	609	635
Other (income), net	(141)	(134)	(310)	(235)
Income before income taxes	\$ 87	\$2,432	\$ 50	\$ 3,187
	=====	=====	=====	=====
Total Assets				
United States			\$27,327	\$28,230
Europe			3,229	3,943
Intercompany eliminations			(38)	(65)
			\$30,518	\$32,108
			=====	=====

Item 2.

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

Results of Operations

Net income was \$58,000 and \$35,000, respectively, for the three and six-month periods ended June 30, 2001 versus \$1,516,000 and \$1,991,000, respectively, in the prior year periods.

Consolidated sales for the quarter ended June 30, 2001 decreased \$2.6 million (31%) to \$5.8 million due to sales decreases by domestic operations of \$2.8 million offset, in part, by higher sales volume by the UK distributorship operations. The domestic sales were adversely affected by a general slowdown in capital expenditures in the telecommunications industry.

Sales of the Company's UK distributorship operations increased \$.2 million due to higher sales of the Transcend product line offset, in part, by lower volume to its largest customer and an unfavorable exchange rate.

Consolidated sales for the six months ended June 30, 2001 decreased \$3.6 million (25%) due to a sales decrease in the domestic operations.

Gross margin percentage was 49% for the three months and 48% for the six months ended June 30, 2001 and 57% and 55%, respectively, in the comparable

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2000 periods. The decrease in the three and six-month periods ended June 30, 2001 versus the prior year periods is due to lower sales and the concomitant lower absorption of fixed costs in the US operations and an unfavorable product mix in the UK distributorship operations.

Research and development expenses increased \$311,000 (51%) and \$430,000 (36%) in the three and six-month periods ended June 30, 2001 primarily due to higher headcount and an increase in wage rates for technical staff, consultancy expenses and higher purchased material.

Other (income) increased due to interest earned on higher available cash balances and marketable securities.

The Company's effective tax rate for the three and six-month periods ended June 30, 2001 were 33% and 30%, respectively, versus 38% for each of the 2000 periods. This decrease is due to the higher proportion of pretax income attributable to tax advantaged interest income.

Liquidity and Sources of Capital

Net cash flow from operations for the six months ended June 30, 2001 was \$4.1 million versus \$.1 million in 2000. In 2000, cash flow from operations was adversely impacted by a reduction of \$3.2 million in accounts payable. The increase in cash provided by investing activities reflects the net decrease in marketable securities offset by an increase in employee loans and purchase of software licenses. The net cash used for financing activities in both periods presented primarily reflects the repurchase of shares for treasury.

Working capital and the ratio of current assets to current liabilities were \$24.4 million and 9.6:1 at June 30, 2001 compared to \$25.8 million and 7.6:1 at December 31, 2000. The decrease in working capital in 2001 is mainly due to the repurchase of treasury shares.

During the remainder of 2001, the Company may repurchase up to an additional 356,350 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 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, variability of sales volume quarter to quarter, product demand, pricing, market acceptance, litigation, risk of dependence on significant customers and third party suppliers, intellectual property rights, risks in product and technology development and other risk factors detailed in this Quarterly Report on Form 10-Q and in the Company's other Securities and Exchange Commission filings.

Item 3. Market Risk

The Company does not use derivative financial instruments. The Company has Marketable Securities, which are exposed to changes in interest rates. Due

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to the term of these securities and/or their variable rate provisions, a change in interest rates would not have a material impact on their value.

Exchange rate fluctuations will impact the results of operations and the net assets of the Company's UK distributorship operations. At June 30, 2001, the UK distributorship operations had net assets of \$1.9 million. During 2001, the UK pound depreciated versus the US dollar. The impact of this rate change was reflected in the currency translation adjustment. The Company does not hedge this foreign currency net asset exposure.

PART II

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

(a) The Registrant's Annual Meeting of Stockholders was held on May 17, 2001.

(c) The following matters were voted upon by stockholders:

	For	Withheld or Against	Abstain	Broker Non-votes
1. Election of seven Directors -				
John T. Connors	4,539,316	230,730		179,514
Edward S. Davis	4,540,661	229,385		179,514
Brian J. Kelley	4,428,657	341,389		179,514
Jack Meehan	4,540,561	229,485		179,514
William A. Merritt	4,542,056	227,990		179,514
William J. Stuart	4,546,168	223,878		179,514
2. To approve a proposal to amend the Company's 1990 Stock Option Plan	4,378,546	372,958	18,542	179,514
3. To approve a proposal to amend the Company's Restricted Stock Plan	4,369,479	380,205	20,362	179,514
4. To approve a proposal to amend the Company's Directors' Stock Option Plan	4,399,473	352,535	18,038	179,514
5. To approve the selection of Ernst & Young LLP as independent auditors	4,737,190	24,531	8,325	179,514

Item 6. Exhibits and reports on Form 8-K

(a) Index to Exhibits

Exhibit

10.1 1990 Stock Option Plan, as amended (attached as Exhibit 10.1 to this Quarterly Report on Form 10-Q).

10.2 Cognitronics Corporation Restricted Stock Plan, as

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amended (attached as Exhibit 10.2 to this Quarterly Report on Form 10-Q).

- 10.3 The Directors' Stock Option Plan, as amended (attached as Exhibit 10.3 to this Quarterly Report on Form 10-Q).

(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: August 14, 2001

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